Is There a Student Debt Problem?

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Frequently, we hear stories – national, state, local – concerning the absurd expenses of an undergraduate education, about the hundreds-of-thousands of dollars in school debt carried by students upon graduation and entry into the job market.

Such a debt would burden anyone. And, certainly, we should all be concerned about the debt burden carried by students earning a 4-year degree.

The real student debt problem lies not with the students; the real problem lies with the parents!

Statistics show that $18.2 billion or more in student debt is held by individuals aged 65 and older. Further, Social Security payments to over 200,000 retirees have been garnished for repayment of student loan debt. During the 4th quarter of 2015 over $176 million was garnished.

Individuals seeking a 4-year undergraduate degree are limited to a maximum of $31,000 in federal student loans. Other than federal loans, the only option most students have is private funding – an option for which most, if not all, will NOT qualify. Thus, the maximum student loan amount available will not cover the cost-of-attendance (e.g., $110,000 - $120,000) at a typical 4-year public college or university.

So....the question remains...

Is there really a **student** debt problem?

Certainly, many children move on from a 4-year degree in furtherance of their education (e.g., graduate school, law school, and medical school) and assume larger amounts of debt. And, while most parents are concerned about the debt load handled by their children, their concern typically is misplaced.

Parents should be concerned primarily with their particular situations, as many likely will acquire mortgage-sized debt on each college-bound child. When families face this reality, dreams fade and in their place arise a less expensive school and, perhaps, a less valuable degree.

We can agree that $31,000 in student loan debt upon graduation is not unreasonable. Such debt places "skin in the game," and can easily be paid off, with proper planning, in a few years following graduation.

How can families (i.e., parents) address the $80,000 - $90,000 or more in debt they likely will incur on each college-educated child? Steps families can take - -

1. Identify an amount that each child and the parents are willing to OWN throughout the course of the college experience. Determine the maximum amount that the parents will contribute each year on behalf of each child. For example, if the parents comfortably can afford $15,000 each year, then the student should be prepared to attend an institution with an annual cost-of-attendance not much greater than $22,000. Please note, better schools are available; but, differences should be covered by scholarships, other financial aid, and/or a properly designed loan repayment plan.

2. Absolutely have a plan in place to pay off the debt – both parents and students. For parents, 5-7 years following the graduation of the youngest child might be reasonable.

3. Put your family in a position to maximize the amount of "free money" received from the schools as part of the financial aid package. Every school in the country has a different formula. Learn the true cost-of-attendance and take control of the process.

4. Save in the manner best suited for your circumstances. While plans such as 529s, Coverdells, UTMAs, UGMAs, etc. can work well, they do not reduce your portion of the cost-of-attendance. Get the facts. If you have children and you are saving in one or more of these plans, consult with a college planning specialist to determine your cost for saving in this manner. Determine if you should continue saving in such manner or if another manner might be more suitable.

5. Apply to the appropriate number of schools and to those schools' natural competitors. Do you shop for a car at a single dealership? Don't shop for an education at a single school.

6. Don't rule out private schools or out-of-state institutions. While "sticker price" may be high, due to endowments, private schools generally have more money to award making the school much more affordable.

7. Learn how to save by having more than one child in college at the same time. You'll pay the same base price regardless of the number in school, so be sure to pick schools friendly to more than one child in school at the same time, even if at different schools.

8. Be sure your retirement doesn't suffer because you've spent more on college than you should have. 80% of families nationwide overpay for a 4-year education. Don't be in the majority.

For assistance with your family's college planning campaign, contact College Planning Strategies today.