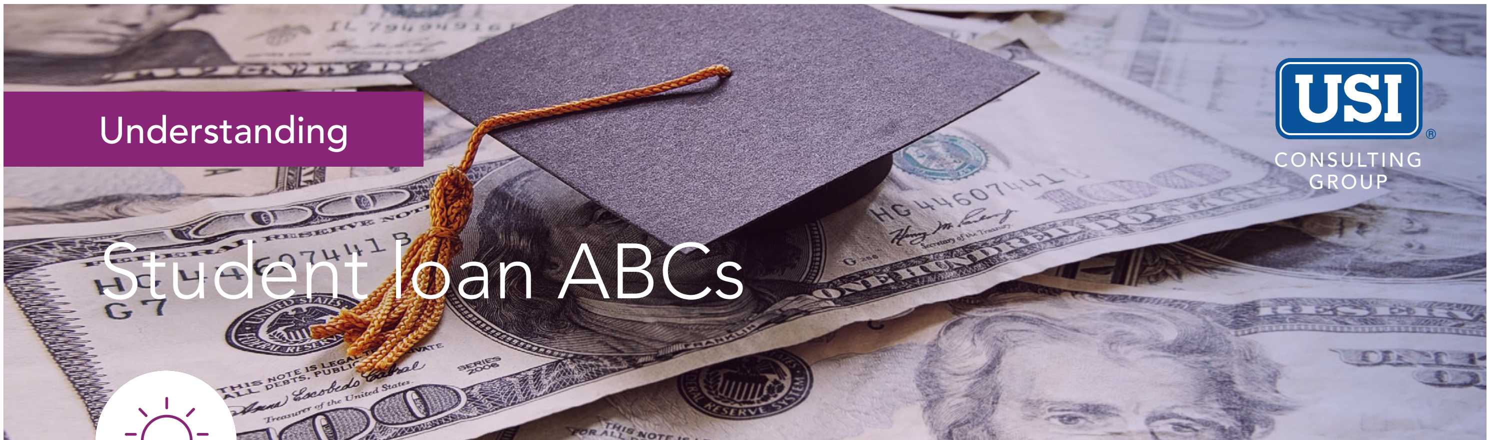

Understanding

Student loan ABCs

The cost of attending college, public or private, places a significant financial burden on most parents and students. According to College Board, the average annual cost of a public four-year college is $11,260 for state residents and $29,150 for out-of-state residents, and $41,540 for a private nonprofit four-year college.[1]

The reality for many parents and students is that college is only attainable by going into debt. However, a high level of student debt can be a burden and limit a graduate's options. Graduates struggling under high student debt levels may be forced to delay pursuing further educational opportunities or defer buying a first home.

These factors make it extremely important that parents and their children fully investigate what's involved in taking on college loans. It's equally important that they determine just how much debt they can assume and that they compare loan terms to find the most advantageous opportunities. **Here are some issues parents and future college students should consider.**

Be aware of the impact student loans can have on your future

According to research by the Federal Reserve, the median amount of education debt per person is between $20,000 and $24,999.[2] The same research found that the typical monthly payment for those who were making payments on their student loans was $200 to $299. Research has highlighted the difficulties students with high levels of education debt face when it comes to saving enough to get on the housing ladder or setting money aside for other goals, such as saving for retirement.

Understand what taking a loan entails

When you sign on the dotted line, you are making a legal commitment to repay what you borrow plus interest. If you fail to repay your loans or are late in making payments, your credit score will be impacted. A bad credit score means you will be charged a higher rate of interest on consumer loans than someone with a good credit score.

If you have a loan from the federal government, you can defer payments if you are unemployed. The government will typically pay the interest on your loan for the time you are unemployed. Some private lenders may also grant forbearance, however they are likely to add interest that was accrued during the forbearance period to the loan principal.

While federal education loans are intended to be paid back over 10 years, a borrower could enroll in an income-based, extended repayment, or pay-as-you-earn plan. These plans can cap monthly payments at a percentage of salary and extend the loan term as far out as 25 years.

Weigh the value of college

College is not for everyone. Many high schoolers can and do make successful lives for themselves in careers that do not require a college degree. High school students who plan on attending college should talk things over with their parents and school counselors to be certain that this is what they really want.

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The reality is that, while attending college can be expensive, data shows that a college degree generally boosts earning power over a lifetime. A student who is academically capable of handling college-level work and possesses a passionate interest in the subject of study is more likely to be successful in college.

Strategies for smart borrowing

Before making any final decisions, step back and look at each financial aid package. First, focus on what is essentially "free" money: grants, scholarships, and other types of financial aid that do not need to be earned or repaid. Next, figure out how much your child will need to borrow. Look first at federal loans since they are generally cheaper and have more flexible repayment terms than private student loans.

Then, calculate repayment scenarios for each loan amount. Borrow only what your child will need – you are trying to minimize the debt burden your child will carry after graduation. If the numbers do not work, your child may have to consider attending a less expensive school or starting out at a two-year college. Check also to see if your child's college of choice offers a tuition installment plan, one that spreads out the annual bill into monthly installments throughout the academic year. A tuition installment plan can help your child avoid taking on excessive long-term debt.

Work with a professional

Deciding where to go to college is both an exciting and stressful decision for young people. Figuring out how to pay for it can cause parents many sleepless nights. That's why it can be helpful to obtain the input of a financial professional well before your child makes his or her choice as to where to attend college. A financial professional may be able to offer unique insights and advice on how parents can afford college for their children.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

[1] Trends in College Pricing and Student Aid, 2023.

[2] Report on the Economic Well-being of U.S. Households in 2022 - May 2023.

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