Student Loan Debt: Minimizing What You'll Owe

Five considerations that—along with proper planning and research—could help you limit your student loan debt.

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KEY INSIGHTS

- Seventy-eight percent of parents surveyed think that nearly all students graduate from college with debt.
- There are several sources that can be used to cover college expenses. Educating yourself on your options and planning ahead can help you limit college debt.
- Proper research and open family discussions about the true cost of college and what you can afford can help you choose (and pay for) the right college.

T. Rowe Price's most recent Parents, Kids & Money survey found that 35% of parents with children between the ages of 8 and 14 would be willing to personally take on $50,000 or more of debt to provide their kids with a college education. Additionally, 29% would be willing to let their kids assume this level of debt. Given the cost of college, it's no wonder that most of these parents—78% to be exact—think that nearly all students graduate from college with student loans.

There are several sources that can be used to cover college expenses, including the parents' and students' current incomes and savings earmarked for college costs, as well as grants, scholarships, and loans. If you must take on student debt, educating yourself on these options and being proactive about your plan is incredibly important and can prepare you to better manage—and potentially even limit—any debt incurred. As you think through your strategy, here are five considerations to keep in mind:

1) Strive to limit debt to federal student loans.

For dependent, undergraduate students, federal student loans currently cover up to $27,000 over four years of college according to studentaid.gov. Federal student loans generally have lower interest rates and fees and offer greater repayment flexibility compared with private student loans. Another rule of thumb to consider—which may be more lenient—is to try to limit the student's total debt to an amount that is less than their expected starting annual salary upon graduation. This requires doing a little homework upfront—such as narrowing down a potential career choice—to get a better sense of a target amount. According to the National Center for Education Statistics,[1] the median salary for adults age 25–29 with a bachelor's degree is $50,600. However, consider that the actual starting salary for a recent college grad may be a bit lower than this amount and can vary widely by industry.

2) Understand the true costs of college.

Once you've decided to limit borrowing to federal student loan amounts or less, then consider the actual costs of college. According to the College Board,[2] the average total costs (including tuition, fees, and room and board) for four years at a public, in-state school are about $87,800, while those at a private, nonprofit school are around $199,500. Many colleges may be altering how they provide educational services during this unique environment due to the coronavirus pandemic. This may impact costs, especially those related to room and board.

However, most families don't pay the published, or "sticker," price. Costs may be reduced by institutional grants and/or scholarships depending on your family income level and student merit. Public four-year, in-state costs may be reduced by up to 30%, while private institutions may offer discounts up to 45%, resulting in lower "net" pricing. During your college search, be sure to check out the college's "net price calculator" to get an idea of the true cost for your circumstances.

Our survey found that over half of the parents who said they would be able to pay for some or most of the cost of college expected grants and scholarships to make up the difference. Unfortunately, this isn't the reality in most cases. The following example illustrates the amount parents may need to cover using their savings and income.

3) Start saving for college costs as soon as you can.

Of course, planning to pay for college should start well ahead of freshman orientation, and the best way to curtail your reliance on loans is to start saving right away in a 529 investment plan, which is a plan specifically designed for education savings. Any growth is tax-deferred, and when money is used for qualified education costs, it's tax-free. Having a dedicated account for education costs means you're less likely to tap into it for other kinds of expenses. However, consider that the window of opportunity is shorter when saving for college—unlike retirement, where you may have decades to save. Covering total costs of college through savings alone may take an investment upward of $400 a month per child from birth. That may be tough for many families to achieve. Planning to cover one-third to one-half of your child's costs through savings could be a more achievable goal. Make it a family affair. Most 529 plan providers allow contributions from anyone for the benefit of your child, and they make it very easy and convenient. So even a grandparent, aunt, or uncle can contribute (wink, wink).

College cost parents/students may need to cover from savings and income (cost for four years)

In-state public institution

Published cost of attendance Tuition, fees, room and board	$87,800
Less 30% grant aid and tax benefits	-26,340
Net cost	=61,460
Less the amount to be covered by federal student loans	-27,000
Amount to cover with savings and income	=34,460

Private, nonprofit institution

Published cost of attendance Tuition, fees, room and board	$199,500
Less 45% grant aid and tax benefits	-89,775
Net cost	=109,725
Less the amount to be covered by federal student loans	-27,000
Amount to cover with savings and income	=82,725

Choosing—and paying for—the right college is not only an important decision for your child's future, but also for the financial stability of your family.

4) Get real about what your family can afford.

If you truly want to limit the amount of debt that you and your child may incur when funding their college education, you may have to set expectations and parameters around that college decision. Even limiting a student to borrowing only federal student loans could still result in your child paying $200–$300 a month for 10 years after graduation.

Total college costs mentioned above include tuition, room and board, and other fees. You may have greater influence over these costs than you think. For example:

- You could limit your child's college search to in-state public universities or consider private universities that have a track record of generous grants and scholarships.
- If a college is closer to home, consider the option of having your child commute for all or a couple of years. Room and board can be as much or even more than tuition costs.
- Your child could enroll in community college first and then transfer to a four-year institution. If considering this option, make sure ahead of time that credits will transfer appropriately to your destination university.
- If attending a university or community college close to home, your child could continue working to help share the costs. Have them check to see if their employer might offer tuition assistance.
- Your child could pursue opportunities to earn college credits while still in high school.

There are many other kinds of scholarships available if your child is willing to put in the time and effort to apply. These are usually offered through the community, organizations, businesses, or individuals. There are online resources to help you search for these opportunities. It's also a good idea to check with your child's high school advisor for additional information.

5) Conversations are key.

First, it may sound obvious, but parents need to be on the same page about covering college costs for their children. It's important to come to an agreement, or sometimes a compromise, on your plan of action. Then, involve your children early in the process. If you do have savings earmarked for college and have a budget or parameters set, share these details with them. It's a great way to open the college discussion and set appropriate expectations. Your children really don't want to feel like an unnecessary burden and may be more willing to compromise if they understand the bigger picture.

If you're expecting your children to contribute toward college, be specific about your expectations. Are they only going to be responsible for the cost of books and living expenses, or will they be contributing to their tuition as well? Make sure they understand that some of the money they might be making from a summer or part-time job should be saved up for their college expenses. Have the "student loan talk" and make sure both you and your child understand the future debt they may be taking on and how that debt compares with potential career earnings. They need to keep track of the liabilities being accumulated and understand when and how to pay them back, so they can budget for them.

Choosing—and paying for—the right college is not only an important decision for your child's future, but also for the financial stability of your family. Be sure that you and your child take the time to research and understand possible options and have open discussions along the way. Helping your child graduate with as little debt as possible is the first step toward their financial independence.

[1]https://nces.ed.gov/programs/coe/indicator_sbc.asp.
[2]College Board, Trends in College Pricing, https://trends.collegeboard.org/college-pricing.

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