

paying off student loans

**PERSONAL
FINANCE**



Student loans are a national crisis impacting millions of people.

The class of 2016 borrowed an average of \$37,172 in student loans.*

Total student loan debt has now passed the \$1 trillion mark.* Getting an education is important to many, but managing major debt like this is hard for most. All hope is not lost though. You can get the education you want, and with a few key strategies, pay off your student loans in a timely and effective manner.

Consider following these guidelines for paying off your student loans to help prevent them from dominating your financial life for decades.

*"Student Loan Debt in 2017: A \$1.3 Trillion Crisis" (www.forbes.com, Feb 21, 2017)



1. Create a budget

Many good financial habits can be formed through a budget, and paying off student loans is no exception. A thoughtful and realistic budget can create stability and help you set goals to move your financial life forward. When it comes to student loans, your goal for budgeting is to find margin. **Margin is what's left after all your obligations are taken care of.** Obligations can range from current bills to planning for the future. The gap that (hopefully) remains after your obligations are met is the margin which can be used to aggressively pay off your student loans.

If you don't naturally have margin, how can you create one? The answer lies in your bank statements. Print them off (including any regularly used credit cards) and use the chart on the next page to add up your spending in each category. If you have no margin, audit all categories to find ways to cut costs. If you do have margin, decide how much you'll use toward your loans and set up an automatic payment to keep yourself accountable.

Use the chart to determine your current expenditure in each category and compare it to the “ideal” or best practices percentage. This percentage is a guideline to help you see areas where you can cut costs and increase margin. You will notice that debt is not a category on this budget. The reason is because debt is not “ideal”. There are two ways to deal with debt when filling out the chart. One is to use the Misc. category for debt payments. The second is to pay your debt payments first, specifically your student loan debt, and then budget from your remaining money. Any additional margin can also go toward your debt.

What is your total household take-home pay
(minus taxes and retirement contributions) per month?

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2. Debt payoff strategies

Paying off debt can seem overwhelming, especially when facing a large student loan; however, there are several strategies you can employ to pay off your debts faster and more effectively. But first, let's talk about a strategy that doesn't work. If you have multiple student loans plus other debt, it can be hard to get ahead if you are only paying the minimum on everything.

Often in this situation you may decide to pay a little more than the minimum on a several or all debts. In the moment it makes you feel better, it makes you feel like you are doing something to move yourself forward. Yet "slapping" money at your debts doesn't necessarily generate any movement. Consider momentum. If you can, continue to pay the minimum on every debt you have, but prioritize putting extra money on just one debt. By putting all your extra focus and margin on your lowest balance debt, you should start to see a dent in the balance. And, when it's paid off, it will motivate you to tackle your next lowest balance debt. Use the chart on the next page to map out your debt plan.



3. Prioritizing

When it comes to knowing whether to prioritize putting away money for the future, preparing for retirement, or paying off debt, you may be scratching your head. What should you prioritize first? The answer is simply, retirement. Even though debt can keep you chained to the past, planning for retirement is best done far in advance. Decide what you will contribute toward your future retirement and how you will increase this percentage of income over time, then make your debt payoff plan. Getting out of debt is important, but not at the cost of your future.



4. Consider consolidation

You've likely been inundated with student loan consolidation offers. It's the nature of having student loans. Ads for consolidation tout how easy it will be to get a lower payment. While a lower payment sounds great, all it really does is extend your payment time. The goal of consolidation shouldn't be to make you feel more comfortable with the payment, it should be to help you improve your loan situation. You're looking for better terms, such as a lower interest rate and/or a shorter payoff schedule. There are many benefits to consolidating. As you research options, be careful to keep the focus of paying off your debt in a timely manner in the forefront of your mind.



5. Establish a plan for your own kids

It's an unfortunate paradox to find yourself burdened with your own student loans while trying to prepare for your kids to attend college. Determining what's more important is a difficult task. You may decide preparing for their college expenses isn't feasible or a priority, but be aware that as the cost of college increases, students are quickly capping out the amount of student loans they can take. Meaning, they may not be able to fully fund college on their own. If you do decide to plan for your kid's education, it's important to remember time is your friend. Paying off your student loans is important, but if you spend 10 years solely focused on paying off your own loans, you lose out on 10 years of planning for your kid.

Student loans are often necessary to accomplish your education goals, but they don't have to stop you from meeting your financial goals. An effective student loan payoff plan involves a strategic look at your current finances, creating a debt payoff plan, and evaluating your financial priorities. Once you've gone through and created a plan for these factors, facing your student loan debt isn't nearly as overwhelming. You can make major headway in getting your loans paid off in a timely manner after graduation with just a little preparation and dedication.



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