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Student Debt Crisis Continues to Cloud Graduation Celebrations

Financial Principles Advisors Offer Tips for Paying Off and Reducing Loan Burdens

Fairfield, NJ (May 28, 2014) — With high school and college graduation season under way, it's time to consider how to get a handle on student debt – a phrase that has become tantamount to "higher education."

College costs have been rising faster than inflation for years and two-thirds of recent bachelor's degree recipients now have outstanding student loans according to a Pew Research Center report, with an average debt of about $29,400 reports the Institute for College Access and Success. That is about $1.1 trillion in American student loan debt, causing concern for not just graduates, but for the overall economy, as well.

"Whether your student is graduating this year or just heading off to college, student debt is a reality for today's families," says Brad Bofford and Mike Flower, managing partners of Financial Principles in Fairfield, NJ.

Due to accruing interest, Bofford warns that loans often end up larger than expected making it in a borrower's best interest to pay them off quickly. "Time is not your friend when it comes to debt, so the sooner you pay, the less you pay in the long run," Bofford advises. "But of course, if you can find a way to pay for college without taking out any loans, you'll be that much further ahead of the game at graduation."

After College: Get a Plan to Pay off Debt Fast

The average federal student loan takes around 10 years to pay off after graduation, according to the Consumer Financial Protection Bureau. "That can seriously hamper a graduates ability to buy a house or save for retirement," says Bofford.

Although most lenders give students a six-month grace period following graduation before they must make their first payment, Bofford urges graduates to prepare to repay loans early by doing the following:

- Determine who owns your loan and exactly how much you owe them.
  There are basically two types of student loans; federal and private. To get all the details about your federal loans visit the National Student Loan Data System, the Department of Education's database for student aid which collects data from schools, guaranty agencies, the Direct Loan program, and other Department programs.

"Student can typically find information about their loans on their credit report," explains Bofford. "The AnnualCreditReport.com is good place to start your search."

- Start repayment early and pay on time.
  Most student loans offer a six-month grace period after graduation before payments must begin. However, there isn't always a grace period on accrued interest, so if payments can begin earlier, then the overall loan bill will be lower. The amount of the monthly payment also impacts total costs.

  "If you have multiple loans, determine which one has the highest interest rate and get that paid off first," says Bofford.

  Making payments on time each month have the added benefit of helping establish good credit scores, improving eligibility for future home or car loans, and possibly lowering interest rates.

  "But most importantly, do not ignore the situation and risk defaulting on your loan," warns Bofford. "Your wages can be garnished, tax refunds and Social Security benefits can be withheld, your credit score will crash making it very difficult to buy a house and your ability to secure a new job could even be impacted."

- Participate in retirement savings when appropriate.
  While paying off student loan debt is priority number one, graduates fortunate enough to secure a job after school that offers a 401k or a similar retirement savings plan should consider participating – especially if there is an employer matching program. "Employer contributions are essentially free money which shouldn't be left on the table," says Bofford.

  Bofford first recommends reviewing income and expenses then choosing an affordable amount to set aside each month for direct deposit into a retirement savings account. "Even if you can only afford $25.00 per month at first, you'll have established a good saving habit and can more easily increase that amount over time."

Before College: Lessen the Loan Burden

Since college costs can lead to financial strain well past graduation, Flower stresses the importance of preparing early in order to reduce the amount of loan costs needed in the first place. He offers the following planning tips:

- Save Early and Often
  Parents and grandparents have several college savings options to help their student, including State 529 Plans, Coverdell Education Savings Accounts, and traditional and Roth IRAs. "Many offer tax advantages, however not all plans are equal, even among the state 529 plans, so read the terms carefully and compare your options," says Flower.

  Families anxious to help their student are advised not to forgo their own retirement savings in order to provide college tuition. "Student loans may not be ideal, but remember, no one is going to give you a loan to retire," says Flower.

  "Talk with your high school students about how much you can afford and how much they will be responsible to carry in the form of scholarship, their own savings or loans," urges Flower. "Don't spring it on them after they have their heart set on a particular school." Online research and conversations with a school counselor can help narrow the search to qualifying scholarships and more affordable schools.

Students can put some skin in the game. Working throughout high school and college not only helps save for education costs, it often opens doors to additional funding options such as employer-based scholarships and other scholarships designed specifically for working students.

- Thoroughly Research Financial Aid and Loan Options
  Parents are advised to investigate their children's merit and needs-based financial-aid prospects well in advance of selecting a school. Merit aid eligibility increases when students keep their grades up and take academically challenging courses.

  Stafford, PLUS and Perkins are student loans commonly offered through school financial aid packages. Federal student loans usually offer fixed interest rates and repayment plans based on income. Some don't begin accruing interest until the student graduates and interest on federal loans are often tax deductible, which can save some money down the road. To be considered for a federal loan, start by completing the Free Application for Federal Student Aid (FAFSA).

  Because the terms of various loans can vary greatly, the Loan Comparison Calculator at Finaid.org is available for a comparison of loan options.

  "Keep in mind that if your school aid package includes a loan with disagreeable terms such as a very high interest rate, you are free to decline that portion of the package," explains Flower. "And don't stop investigating scholarships once you begin school. There are many available to current students throughout their college career."

- Make fiscally responsible decisions when selecting a school.
  Staying in state – even for just a year – or returning home for graduate school, can greatly improve bottom line costs. "Many students attend two-year community college while living at home in order to save," offers Flower. "Just be sure the credits will transfer when you continue on to a four-year university."

  Earlier this year, the Obama administration proposed a new federal college ratings system based on how well schools perform in such areas as affordability, graduation rates and post-graduation job placement. Although the proposed system is currently being debated, this kind of system could impact the amount of financial aid certain schools have available to offer their students in the future.

"One of the best strategies for achieving financial security is to live debt free," says Flower. "So don't wait. Plan, save and repay any loans as early as possible."

About Financial Principles, LLC

Financial Principles understands the importance of planning – whether it's for retirement, saving for college or protecting your estate and legacy. Two senior partners, Bradley H. Bofford, CLU, ChFC, CFP® and Michael A. Flower, CFP® bring a combined 40+ years of financial services experience to their clientele. Both are recognized as qualifying life members of the prestigious Million Dollar Round Table, "The Premier Association for Financial Professionals®". Bofford and Flower have contributed to articles in several leading trade publications including *Investment News*, *Financial Advisor*, and *Research* magazine, as well as consumer outlets such as *BusinessWeek*, *Money* and *New Jersey Business* magazine. Learn more at www.financialprinciples.com.

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