

With inflation factored in, the average cost to attend a four-year college is double what it was 30 years ago,<sup>1</sup> yet today's real average wage has about the same purchasing power,<sup>2</sup> so it's no wonder families often have to borrow money to pay for college.

In fact, one of the hallmarks of today's college funding crisis is that it's a family affair.

## STUDENT LOAN DEBT NOW A FAMILY AFFAIR

### Overview

A college degree is widely considered the necessary foundation for an upwardly mobile career and ensuing lifestyle. But to pay the considerable tuition, dorm rental, meal plan and campus fees, students, parents, grandparents and even other relatives are applying for loans to help cover the full cost. Unfortunately, this has resulted in student loan debt becoming an increasingly onerous burden for people of all ages.

Graduating with this type of financial burden can seriously impede a young adult's ability to save and invest money, which leaves less time to take advantage of the power of compound interest. For middle-aged parents and retirees, tapping into investments or having to pay off large loans can threaten long-term financial security.

The financial burden is different for young borrowers than it is for older ones. A young adult who takes out a loan for college can reasonably expect to get a decent-paying job after attaining a degree, and over time pay that loan off. Therefore young borrowers can view taking out a loan as an investment that offers a high-yield return.

The same cannot be said for a parent or grandparent who takes on this same burden. Since they're not the ones receiving the college degree, it doesn't enhance their earnings potential and there's no monetary return on their investment. The parents may hope the student will take care of their financial needs should they run out of their own money, but that's not a good plan.

### Co-Signing Loans

Many parents and grandparents are either applying for loans or co-signing their student's loan but this tacks a high balance onto their credit report. In turn, the higher debt tally on longer-duration loans can lower the co-signer's credit score and make it more difficult to qualify for large purchases or lower interest rates.<sup>3</sup>

Given how fluid the job market is these days, co-signers may not realize how common it is for loan payments to fall into their lap. A recent survey revealed 25% of private student loan co-signers age 50 and older had to cover a student loan payment because their child didn't have the money. Nearly half of these 50-plus co-signers ended up making payments just to help out.

Another thing older borrowers may not know is that the repayment periods on student loans are up to 25 years — twice as long as they used to be. This means parents could still be making student loan payments even after they retire. If they default on a loan during retirement, their Social Security benefits could be garnished.<sup>4</sup>

One thing to keep in mind in that a co-signer can be removed from a student loan once the primary borrower has a good credit score and demonstrates a satisfactory record of making payments, usually between one and three years.



## Impact on Mom and Dad

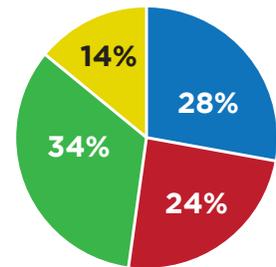
In 1989, only 3.1% of parents age 50 and older took out student loans, and the average balance was \$10,073. By 2016, those numbers had tripled: 9.6% of 50-plus households carried student loan debt that averaged \$33,053.

About a third (32%) of this older demographic experiences at least some difficulty paying off federal parent PLUS loans, and nearly 30% are in default. It gets worse. In 2015, there were 870,000 people over age 65 with student loan debt, and 37% of them were in default.<sup>5</sup>

Although student loan balances have grown across all age groups, older borrowers have seen the highest growth. In aggregate, the student loan balance of older borrowers increased 512% (inflation-adjusted) between 2004 and 2019, ballooning from \$47.3 billion to \$289.5 billion.<sup>6</sup>

## 2017–18 Academic Year: Funding Sources<sup>7</sup>

- Grants & scholarships
- Student loans (parents & students)
- Parent income & savings
- Student income & savings



## 3 Tips For Managing Student Loan Debt<sup>8</sup>

### 1. Research your options

Recognize that the student loan industry is big business. As soon as your child's name gets on academic mailing lists, the marketing solicitations ensue. Don't just take the first viable offer. Be aware there is a wide array of different types of loans and payoff plans, both for students and parents. For example, PLUS borrowers may qualify for an income-contingent repayment (ICR) plan or a public service loan forgiveness program.

Also be aware that while federal student and PLUS loans may reduce monthly payments based on income for eligible borrowers, the companies servicing student loans may not tell you this. In fact, they may focus their communication efforts on how long students can defer payments, since they make more money by allowing interest to accrue and increase the balance owed.

Research the full array of student loans and repayment plans at the government website [studentaid.gov](http://studentaid.gov).

### 2. Avoid debt relief programs

Some companies advertise they can reduce or eliminate your student debt entirely for a fee. According to the Department of Education, these service vendors are often scammers. If you need help, contact an established nonprofit financial counseling group such as the National Foundation for



Credit Counseling or the Institute of Student Loan Advisors.

### 3. Be wary of consolidating

You may receive offers to consolidate your federal loans into a single private loan. Bear in mind a private loan may not feature the same benefits as the federal student loan program, such as income-based repayment plans and the option to discharge a student loan if the borrower suffers a total and permanent disability.

## Final Thoughts

Figuring out how to apply for student loans offered as financial aid is a complex process. Figuring out how to pay off those loans is equally difficult. To help bridge the financial responsibility, many families split the cost between student and parent loans.

Unfortunately, the burden of student loan debt impedes the ability for young adults to save money to buy a home or for retirement. Furthermore, this slow road to adulthood means they may not be able to adequately save for their child's education down the road, creating a perpetual cycle of student loan debt.

By the same token, if parents take on too much debt later in life, they can put their own financial security in peril and end up relying on their children. It takes forethought, research and sound planning to develop a college plan families can afford, so don't hesitate to seek help from an experienced financial planner.

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<sup>1</sup> Lori A. Trawinski, Susanna Montezemolo and Alicia Williams. AARP. May 2019. "The Student Loan Debt Threat: An Intergenerational Problem." <https://www.aarp.org/content/dam/aarp/ppi/2019/05/the-student-loan-debt-threat.doi.10.26419-2Fppi.00064.001.pdf>. Accessed June 7, 2019.

<sup>2</sup> Drew Desilver. Pew Research Center. Aug. 7, 2018. "For most U.S. workers, real wages have barely budged in decades." <https://www.pewresearch.org/fact-tank/2018/08/07/for-most-us-workers-real-wages-have-barely-budged-for-decades/>. Accessed June 11, 2019.

<sup>3</sup> Justin Pritchard. The Balance. July 23, 2018. "Learn How Co-Signing a Loan Can Affect Your Credit." <https://www.thebalance.com/does-co-signing-affect-credit-315368>. Accessed June 11, 2019.

<sup>4</sup> Mikhail Zinshteyn. AARP. May 15, 2019. "Student Loan Debt Soaring Among Adults Over 50, AARP Study Finds" <https://www.aarp.org/money/credit-loans-debt/info-2019/student-loan-debt-report.html>. Accessed June 7, 2019.

<sup>5</sup> Ibid.

<sup>6</sup> Lori A. Trawinski, Susanna Montezemolo and Alicia Williams. AARP. May 2019. "The Student Loan Debt Threat: An Intergenerational Problem." <https://www.aarp.org/content/dam/aarp/ppi/2019/05/the-student-loan-debt-threat.doi.10.26419-2Fppi.00064.001.pdf>. Accessed June 7, 2019.

<sup>7</sup> Ibid.

<sup>8</sup> Helaine Olen. AARP. March 6, 2019. "Student Debt Increasing the Strain on Older Americans." <https://www.aarp.org/money/credit-loans-debt/info-2019/parents-student-loan-debt.html>. Accessed June 7, 2019.

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