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How to Get Ahead of Your Student Debt

WHEN COLLEGE ENDS, YOU'RE LEFT WITH A DIPLOMA AND A SENSE OF ACCOMPLISHMENT—but you're also probably left with some pretty hefty debt and subsequent anxiety.

The average member of the class of 2016 had more than $37,000 in student debt, and collectively, all student debt holders in the US carry $1.3 trillion in student loans.[1] Student debt is a heavy burden, to say the least.

Debt can negatively impact mental health

If your debt is a constant source of stress, you're not alone. There are more than 44 million others who are shouldering a piece of this trillion-dollar-plus load.[1]

And if you're saddled by this kind of debt, chances are it's affecting more than just your wallet. One survey of student-loan borrowers reports that more than 70% of participants experience stress-induced headaches from their debt.[2]

Others have admitted to experiencing insomnia, anxiety, and isolation. And the anxiety compounds with the interest. More than 60% of those surveyed have experienced sleeplessness, and more than 50% regularly endure an upset stomach trigged by the mere thought of their student debt.[2] Almost three-quarters of borrowers strain relationships with family and friends because their debt leads them to isolate themselves.[2]

Financial anxiety is common—money is a primary stressor for 62% of Americans of all ages[3]—and it can be a significant roadblock for physical health and emotional well-being. In this type of anxious state, it's easy to lose motivation. How do you keep going when you feel so stuck?

Managing student debt is hard work, but it's possible. There are a number of steps you can take to make a dent in, and eventually overcome, your student debt.

Key Points

- Americans who earn undergraduate degrees finish with more than $37,000 in student debt, on average
- Financial stress and debt can cause negative physical reactions, such as headaches and insomnia
- To overcome your student debt, start by getting organized, and then begin exploring accelerating payments, consolidating, or refinancing loans

[1] Forbes, "Student Loan Debt In 2017: A $1.3 Trillion Crisis," February 21, 2017. Most recent data available.
[2] Student Loan Hero, "The Mental Toll of Student Debt: What Our Survey Shows," September 17, 2017. Most recent data available.
[3] American Psychological Association, "Most Common Sources of Stress," 2017.

Feel like you have it worse than your parents did?
That's because you probably do. The cost of living has risen significantly for Americans between 25 and 34 today versus 1977 (adjusted for inflation).

The average cost of a four-year public college has more than doubled

1977 **$8,000** vs. TODAY **$20,000**

Median income has stayed the same

1977 **$34,000** vs. TODAY **$34,000**

Median debt has more than tripled

1977 **$10,000** vs. TODAY **$33,000**

Source: The Philadelphia Inquirer, "Millennials do have it tougher," July 30, 2018

Step 1: Get Organized

It's easier said than done, but the first step to overcoming a pile, hill, or mountain of student debt is to try to remain calm. Stressing and losing sleep are normal responses, but won't help you diminish your debt any faster.

First things first—take stock of what loans you have. Make a list of your loans, classify them as private or federal, and note the dollar amounts and interest rates of each.

Federal loans have fixed interest rates that tend to be lower than private loans—in some cases, significantly lower. Payments aren't due until after graduation, and there may be a grace period. For example, for federal subsidized and unsubsidized Stafford loans, there is a six-month grace period, while it's nine months for federal Perkins loans.

While federal student loans are generally the most attractive because their interest rates are so low, plenty of debt-bearing graduates didn't qualify for them when applying for college. In this case, you may have opted for private loans from banks, credit unions, state-affiliated organizations, or a combination of any of these. Or perhaps you have a mix of federal and private loans. The interest rates for private loans vary from one institution to the next, as do the terms. They also have varying grace periods, depending on the lender.

Regardless of which type of loans you have, you can't fight your debt if you don't know how much of it you have or how paying it back works, so take the time to create an organized, comprehensive list of loans, lenders, and interest rates.

Step 2: Prioritize your spending

Next, establish priorities. You need to pay down your debt, but not at the expense of everything else. It's best to have some money socked away for a rainy day. An emergency fund of two-to-three months' worth of living expenses can help provide a safety net and peace of mind, even if you still have significant student debt. Create a budget so that you can start building up some savings. Make sure you leave a little bit of (reasonable) room for some fun, too. You don't want your debt to rule your life.

It is also prudent to contribute even a small amount to your retirement savings, if possible. And if your company has a 401(k) with a company match, consider putting away at least enough to take advantage of the matching policy. It's essentially free money, and through the power of compound interest, investing early could have a very meaningful impact later.

Once you've ascertained how much debt you've amassed and prioritized your spending, there are further steps you can take to work toward a student- debt-free life.

Step 3: Accelerate payments (if possible)

The most straightforward way to pay off your loans faster is to pay more than is due. Even contributing a small amount of the principal additionally each month can add up to big savings in the long run. If you're only paying the minimum, you may not feel like you're making much progress despite consistent payments, which can be frustrating and disheartening.

However, if you're struggling to maintain an emergency fund or make ends meet as it is, this may not be the most practical option for you. If you can't afford to put a few extra dollars toward your payments each month on a regular basis, consider contributing a nice little chunk of cash if you come into any sort of windfall, such as a raise, bonus, a returned security deposit, inheritance, or even extra cash from a side job.

Side gigs aren't the only way work can help you tackle your student debt, either. Some professions offer federal student loan forgiveness. Certain public service jobs or some teaching roles at public schools, for example, may help you pay off some federal student debt after some time of service. These types of arrangements typically come with specific stipulations, so if you're taking a role that qualifies your for federal loan forgiveness, make sure you are comfortable with the commitment required to reap the benefits.

Private employers may now be able to help with student debt, too. The IRS recently issued a ruling that may allow plan sponsors of employee retirement funds to match employee contributions to 401(k) plans based on employees' student debt. So, your company could contribute to your 401(k) the same amount you're paying monthly toward your student loans (up to a certain limit). This is a novel concept that's just beginning to take off, but it may be a benefit to look out for when you're searching for your next job.

Step 4: Consider consolidating your loans

If you've got student loans, the word "consolidate" is going to come up. So will "refinance." But, what's the difference? Consolidating loans typically refers to federal student loans. It's the process of combining multiple federal student loans into one by extending the term. You'll get one monthly bill, and while your monthly dollar amount due may decrease because you've extended the term, the interest rate will not decrease.

Consolidating federal student loans does not take into account your credit history, it's free through the Department of Education, and can be done online. Steer clear of any service providers that offer to consolidate your federal student loans for a fee.

When you consolidate your federal loans, you'll get a new term for the loan, which will range from 10 to 30 years. You'll still have a fixed interest rate, but your new interest rate will be a weighted average of your current interest rates on your federal loans.[4]

Consolidating federal student loans may be the right choice if you:

- Are required to consolidate your loans to be eligible for certain profession-based loan repayment programs
- Do not need a significantly lower interest rate, but would like to make lower monthly payments

Consolidating federal student loans may not be the right choice if you:

- Have mostly or entirely private loans
- Need a significantly lower interest rate

Step 5: Consider refinancing your loans

Refinancing loans (aka private student loan consolidation) generally refers to the process by which a private lender (e.g., a bank, credit union, or state-affiliated organization) combines multiple private loans into one loan. If you have a mix of federal and private loans, it is possible to have all of them, federal included, refinanced into one.

Refinancing loans does not impact loan repayment for public service work, teaching jobs, and the like, but can be very beneficial. Terms of refinancing vary from lender to lender, but, in general, lenders lower your interest rates to save you money in the long run. While interest rates after refinancing may vary based on income, credit, and the lender, the average borrower can save more than $18,600 by refinancing private student loans.[5]

Private lenders who offer refinancing will take into consideration your credit score, education, and job history to provide you with a new interest rate. Like consolidated loans, refinanced loans are paid in a single monthly bill.

Refinancing your loans might be right for you if:

- You have good credit
- You have a well-paying job
- You have a co-signer that has good credit and/or a well-paying job

Refinancing your loans might not be the right decision if you:

- Have poor credit
- Lack stable income
- Don't have access to a co-signer who meets either of those criteria.

[4] Nerd Wallet, "How to Consolidate and Refinance Your Student Loans," 2018.

[5] CNBC, "This student debt strategy can save you more than $18,600," June 7, 2017. Most recent data available.

With refinancing private loans, especially, it's critically important that you do your due diligence. Because each financial institution or program offers different rates and refinancing options, before you commit to one, be sure to do your research to make sure you're getting the best rate for you to get ahead.

Additional Resources

There are a number of online resources, like studentloanhero.com, that can help you understand your debt better. You can also consult The National Foundation for Credit Counseling or American Student Assistance for advice on how to tackle your debt. These two nonprofit organizations can provide online or in-person help. You could also consult a financial advisor to help you evaluate your personal finances and explore all your options.

Student debt is overwhelming. It may be easier to shelve it in your mind than think about it and spiral into anxious despair. Debt-induced stress can quite literally make you unwell. But don't panic. You will find a repayment plan that works for you. It will take time and effort to evaluate your loans, your financial needs, and your options, but if you're willing to put in the work, even the biggest mountain of student debt can be climbed.

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