Farm Bureau Financial Services

Your Guide to Student Loan Debt

Learn how to steer clear of student loan debt with these tips for saving for college, and for tackling loans you may have.

Student loan debt is on the rise. The average student loan debt among recent graduates in 2019 was $30,000 — an increase of more than 26% since 2009. With a growing number of occupations requiring a higher level of education, experience or training, it makes sense that more people are going to college. And considering the average annual cost of college (including tuition, fees and room and board) clocks in at $30,500 — over $120,000 for a four-year degree — many turn to student loans for help paying for college.

However, graduating from college with student loan debt creates an unstable foundation for your financial future. The average payment a student loan borrower makes each month toward student loan debt is between $200 and $300 — that's money that could be spent saving for retirement, reducing or eliminating other debts, or on large-scale investments like buying a home.

If you're planning to send your kids to college — or if you're preparing for college yourself — there's good news: You have options when it comes to saving and paying for college that can help you reduce or eliminate the burden of student loan debt.

Here, we cover everything you need to know about preparing for the cost of college. This guide is comprehensive. Navigate to the sections most relevant to you via the links below, or download this guide to read at a later time.

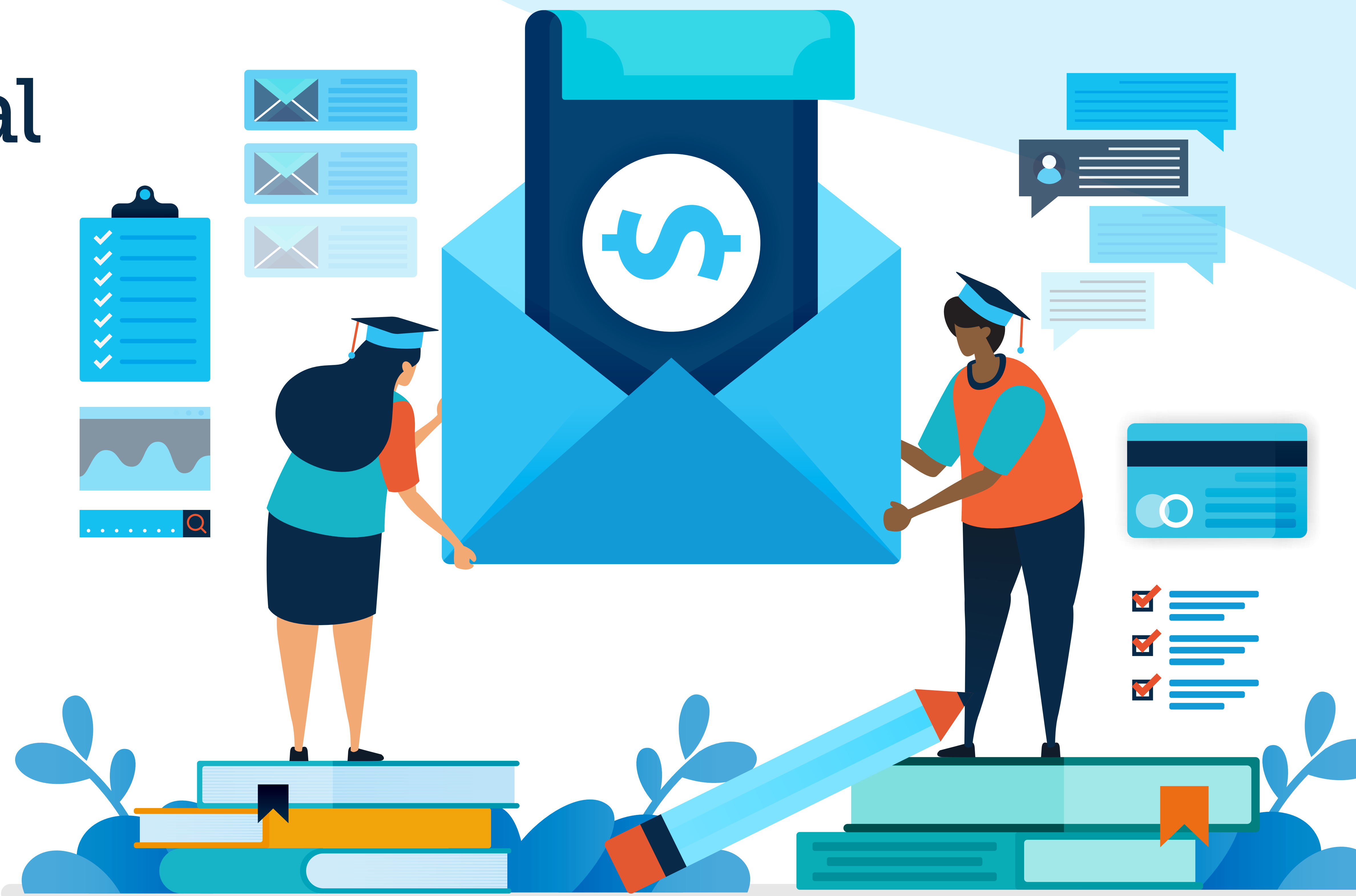
WHAT YOU'LL LEARN

The Total Cost of College

The first step in creating a college savings plan for yourself or your child is knowing how much you need to save. A good place to start is understanding the **total cost of college** — including the average cost of college tuition *and* how much you'll need for additional college expenses like books, fees and room and board.

For example, the annual cost of tuition at Iowa State University for the 2019/20 academic year clocks in at just under $10,000 for Iowa residents. Room and board costs nearly as much — doubling the total cost of college for students who need on-campus living accommodations. Add another $3,500 for books, supplies and other expenses, and the total cost of college amounts to almost $22,000 per year.

However, the cost of college can vary widely depending on several factors.



College Cost Factors

Consider these factors to get a better picture of how much you need to save for college.

COMMUNITY COLLEGE IS AN OPTION

Community colleges are two-year schools that provide an affordable pathway to a four-year degree. Students who attend community colleges can receive associate degrees that demonstrate a certain level of knowledge related to a specific field or subject matter. For some occupations, an associate degree is enough to start building a career in that field. In most cases, students transfer to a four-year college after community college to complete the requirements for a bachelor's degree.

If you or your child is planning to obtain a bachelor's degree, you may be wondering: Does it matter whether I attend community college first or go straight to a university if I still need to attend college for four years?

Considering the average cost of tuition and fees to attend community college is $3,660 — compared to $10,230 at a public university — attending community college first can significantly decrease the total amount you need to save, making a big difference to your overall college savings plan.

IN-STATE TUITION IS CHEAPER

Public universities offer a lower tuition rate to state residents, called in-state tuition. Conversely, students who are not state residents pay a higher rate, called out-of-state tuition. Out-of-state tuition is usually more than double the cost of in-state tuition. If you or your child plan on attending an out-of-state public university, you'll need to save more to cover higher tuition costs.

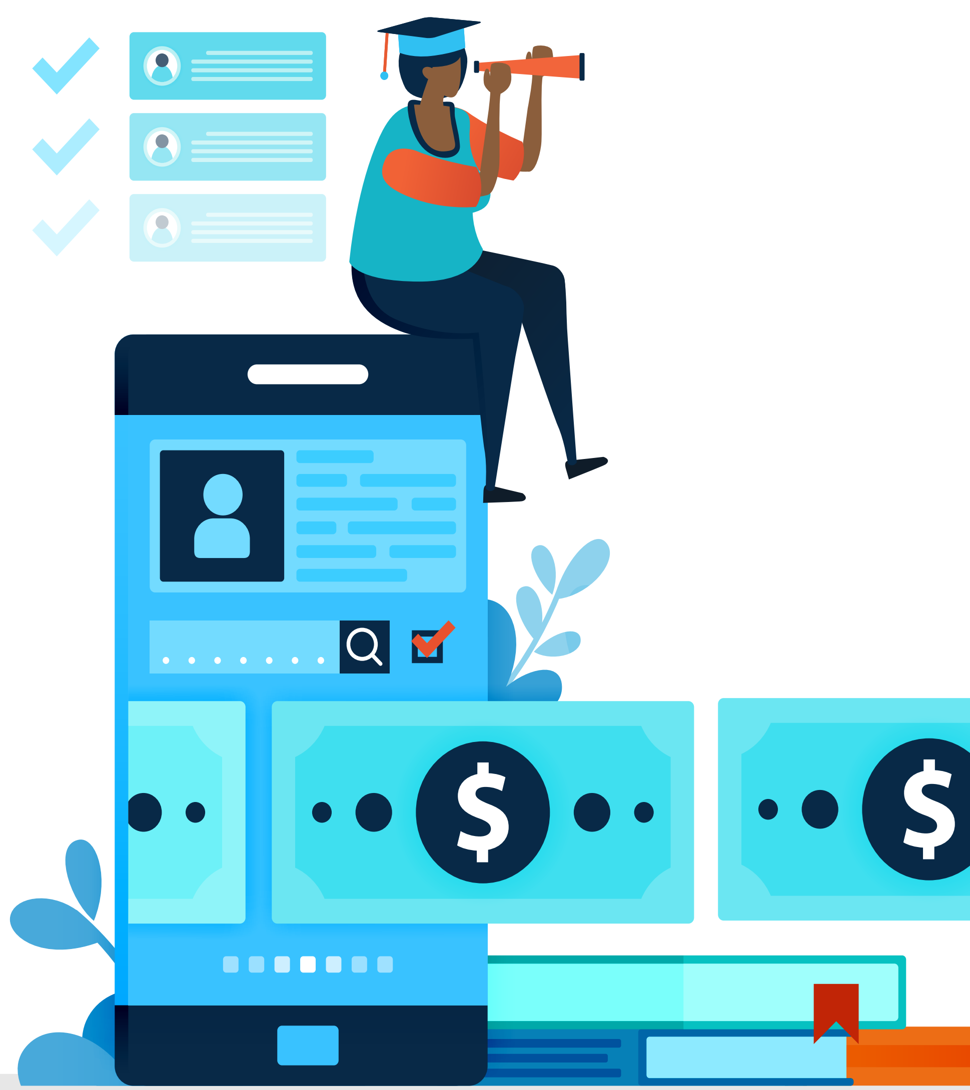
PRIVATE UNIVERSITIES COST MORE

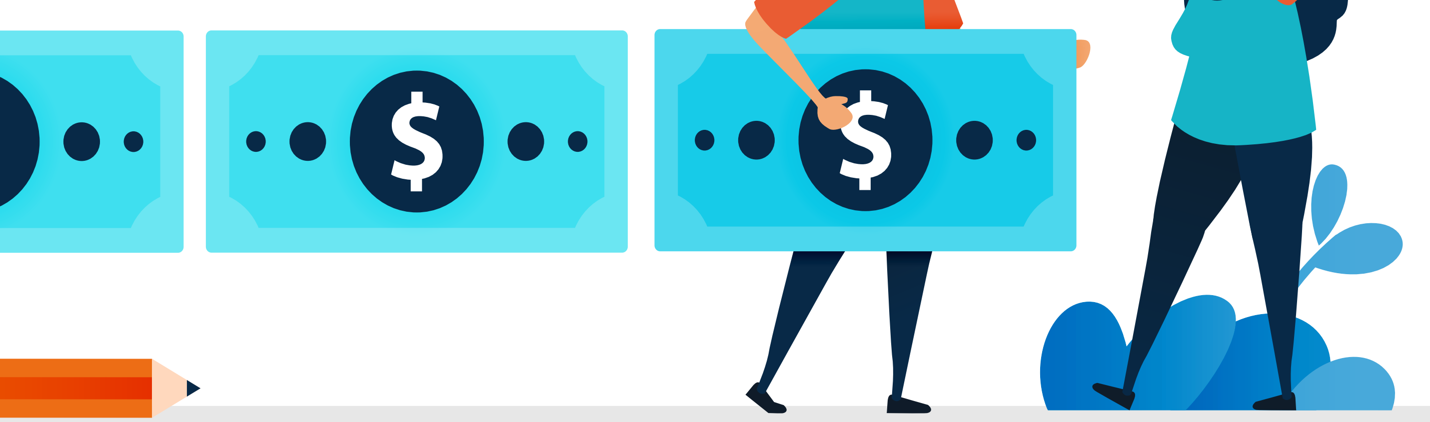
Private universities are not funded by state government, which means the college relies more heavily on tuition for funding. For students, that means higher tuition rates — by as much as three times the cost of a public university. The average cost of tuition and fees alone at a private university is $36,880 — more than the total cost of college at an in-state public university. However, private universities do not charge higher tuition for non-resident students, which means a private university could be a comparable option if your plans include attending college in a different state.

LIVING ACCOMMODATIONS ARE COSTLY

On-campus housing at a university costs nearly the same amount as tuition, which means the amount you need to save for college will double if room and board is needed. Plus, you'll likely need to factor in additional costs, like a meal plan and parking. If you're a parent saving for your child's college tuition, you may be able to remove this cost if you plan to let your child live at home while attending college.

If you're still not sure how much money you should save for college, our college savings calculator can help.





Investing in a College Savings Plan

Now that you have an idea of how much you need to save to cover for the cost of college, it's time to start saving! When saving for college, there are enormous benefits to opening a tax-advantaged college savings plan. There are two available plans to help you save for higher education: the 529 plan and the Coverdell Education Savings Account (ESA). These plans are specifically designed to help families save for college and can be used to cover tuition, fees, books and other college expenses. They can also be used for room and board for students enrolled at least part time.

529 SAVINGS PLAN

A 529 plan is a state-sponsored plan that offers tax-advantaged investments to cover the cost of higher education. Each state offers at least one 529 plan, and the costs of plans and their investment selections differ from state to state. Each 529 plan establishes its own contribution limits, and the maximum contributions can be as high as $300,000 per student.

COVERDELL ESA

The ESA college saving plan is another tax-advantaged investment used to fund education. Contrary to a 529 plan, ESA account withdrawals can be used for qualified elementary and secondary school expenses in addition to college expenses. The maximum contribution for an ESA is always $2,000 per year per child, from birth to age 18.

USING AN IRA TO PAY FOR COLLEGE

In addition to designated college savings plans, you can use an IRA for college expenses for your child.

Unlike a 529 plan or an ESA, which can only be used to cover qualified education expenses, an IRA can be used for both college expenses and retirement income. That means if your child doesn't go to college or if they receive scholarships to pay for their college education, then the funds could still be used for retirement.

If you plan to use your IRA to pay for college for your child, keep these IRA education withdrawal rules in mind.

1. **The distribution must be used for qualifying expenses.**
2. **Roth IRAs and traditional IRAs follow different guidelines.**
3. **You can roll a 401(k) into an IRA to pay for education expenses.**
4. **An IRA withdrawal might affect financial aid.**
5. **You need to file taxes on distributions.**

Alternative Ways to Pay for College

Even if you don't have enough — or any — money saved for college, don't get discouraged. There are many ways to **pay for college on your own**, including options that come at no cost to you. Of course, with so many **financial aid options**, it can be hard to decide how to proceed. Here are just a few examples.

Scholarships
A scholarship is financial aid awarded to someone based on their merits or financial need — and sometimes for **reasons you may not expect**. Unlike loans, scholarships don't need to be repaid. There are thousands of scholarships available to college applicants, but you'll need to do your research to find out which scholarships are available, which you qualify for and what the deadlines and application requirements are.

Grants
A grant is need-based financial aid that, like a scholarship, doesn't need to be repaid. You'll need to submit the **Free Application for Federal Student Aid** (FAFSA) to help determine your eligibility for need-based financial aid.

Tuition Reimbursement
Several businesses offer tuition reimbursement programs, which are ideal for students who want to earn a degree while working.

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Saving Money in College

You may not be able to save enough to cover the total cost of college for your child or yourself — and that's okay! By learning how to budget in college you can cover the gaps in your savings so you don't have to rely on student loans. Get started saving money in college with these **college student budgeting** tips.

1. **Create a Budget**
   Creating a personal budget helps map out your monthly expenses. When you put your expenses — like food, rent, gas, insurance and other costs — down on paper (or in an **app**), you can identify opportunities to cut back on spending, which means more money for college.

2. **Cut Costs**
   Every penny counts when it comes to saving money in college. Cut back on costs by cooking and making coffee at home, splitting the cost of rent with roommates and using **coupon apps** to stretch your funds.

3. **Increase Your Income**
   Getting a part-time job is great way to create income while you're in college. But if you're worried that taking on a job could harm your studies, there are other options to generate income. Consider selling gently used clothes or other items, like old textbooks.

4. **Avoid Credit Cards**
   It's tempting to use credit cards when funds are tight. But if you're not able to pay the balance each month, you'll end up paying interest on your purchases and, thus, spending more than you need to.

5. **Ditch the Car**
   If you're staying on or near campus, you may not need a car to get around. Consider parking your car to reduce expenses like gas, vehicle maintenance and repairs. Plus, no car means no additional fees for parking on campus.

Paying off Student Loans

Paying cash for college is the best option — if you can. But most people aren't able to cover the steep cost of college without the help of student loans. If you do need student loans for college, make sure you **borrow only what you need**. And when you graduate and secure a job (congrats!), get to work paying off your student loans as soon as possible with one of several **student loan repayment options**.

Here's **how to pay off student loans** using three different strategies.

1. **Start With Your Smallest Student Loan**
   If you're feeling overwhelmed and discouraged by the number of loans you have, knocking out your smallest loan can help you feel like you are making progress toward your overall goal, faster.

2. **Start With Your Highest Interest Rate Loan**
   By starting with your highest interest rate loan, you pay less interest over time. And because you're paying less interest, you're able to allocate those funds toward paying off another loan or put them toward long-term savings.

3. **Start With Unsubsidized Loans**
   Unsubsidized loans start gathering interest as soon as you borrow them. It makes sense, then, to work on paying off these loans first.

HELP AT EVERY STAGE
Whether you're ready to start saving for college for your child, you're paying for college as you go or you're paying off your student loan debt, Farm Bureau can help. Contact your **local Farm Bureau wealth management advisor** to get the support you need to get your college savings plan on track.

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