Paying for college:
Strategies to afford higher education today

A college degree is often the key to jumpstarting a career. And data from the U.S. Bureau of Labor Statistics (BLS) consistently show that workers who have a college degree earn more than workers who don't.

Not surprisingly, a college education is increasingly popular. For example, according to the U.S. Department of Education National Center for Education Statistics (NCES), postsecondary enrollment at all levels grew between fall 1980 and fall 2010—from about 12 million to 21 million students. Those students were less than half of the college-age population in 1980 but about 70 percent in 2010, according to the U.S. Census Bureau.

The cost of attending college rose during that time as well. NCES data also show that between academic years 1980–81 and 2010–11, the cost of college, adjusted for inflation, more than doubled at both public and private institutions. (See chart below.)

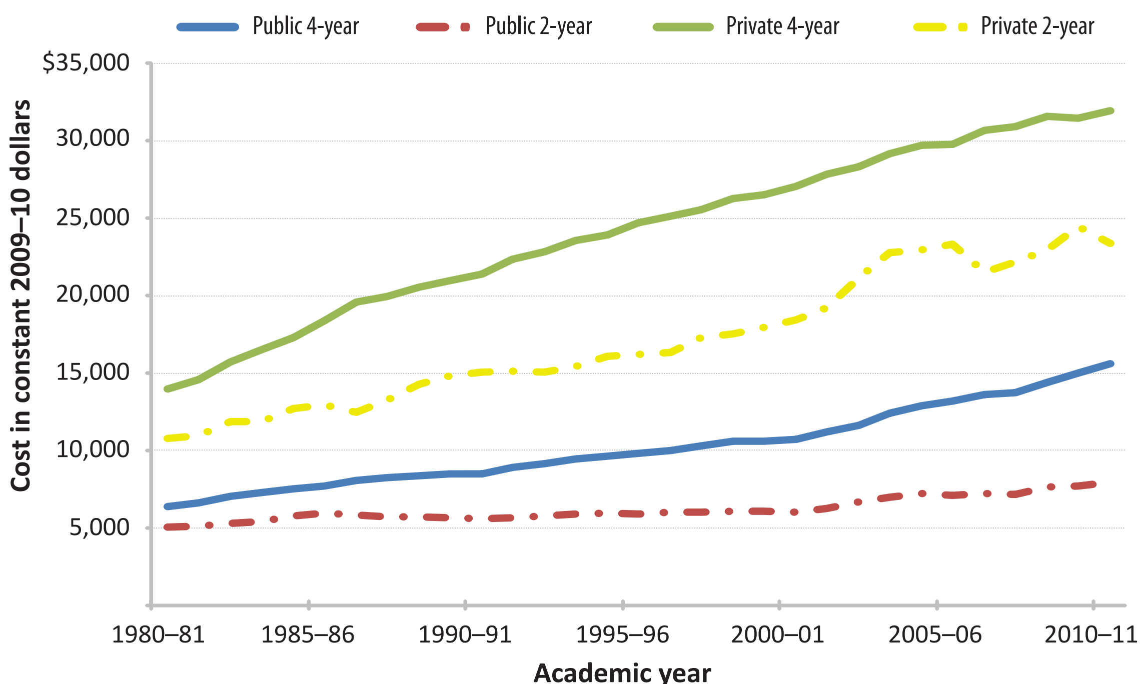
But sources of money to help students pay for college haven't kept pace. And some types of financial assistance, such as state-funded aid, have shrunk. "The result is that, today, student debt is largely unavoidable," says Mark Kantrowitz, publisher of financial aid websites Fastweb and FinAid.

This article is a guide to affording higher education. The first section describes ways to plan for college expenses before enrolling. The second section explains how to finance higher education. The third section offers tips for money management before, during, and after college. Resources for more information are listed at the end of the article.

Strategies described in this article focus primarily on attendance at 4-year colleges and universities. However, the information is broadly applicable to different levels of higher education. Also, keep in mind that some financial aid details, such interest rates and tax incentives, may change. (Check to see if rates and rules have changed since this article was published.)

Many students enroll in 2- or 4-year colleges immediately after high school.

Total costs for full-time undergraduate students at public and private 4- and 2-year colleges, by academic year, in constant 2009–10 dollars



Source: National Center for Education Statistics

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But older students also attend these colleges to improve their skill sets and prepare for higher level careers. The box on page 16 outlines some alternatives for students who are unsure whether enrolling in college right after high school is the best strategy for them.

Planning for college costs

Some of the most important strategies for making higher education affordable begin before it's time to enroll in college. Strategies such as saving money and earning college credits are most effective the earlier students start. Others, including choosing schools and applying for college admission and financial aid, may require waiting until the final year of high school.

Save money, earn money

In the long run, it's cheaper to pay for college by saving money than by borrowing it. That's because savers earn interest, whereas borrowers pay it. And the earlier students start saving, the better—but it's never too late to start.

529 Plans. One of the best ways to save money for future college expenses is to open a college savings plan. Commonly known as 529 Plans, after Section 529 of the Internal Revenue Service code that created them, these accounts permit investors to save money for college or prepay college tuition without being taxed on the earnings used to pay for education.

For most 529 savings plans, accountholders typically invest savings in one or more mutual funds. The best options, say experts, are usually target-date or index funds. Target-date funds select investments based on when a student is expected to go to college; index funds choose investments that are designed to mirror a particular financial market index.

Some states also offer prepaid tuition plans that allow payment for future tuition at state colleges' and universities' current rates, even if those rates increase over time. But these plans have drawbacks. School selection may be limited, for example, and few states offer unconditional guarantees on the investment—so many prepaid plans may pay out less than expected.

Many states offer tax deductions or credits for savings in a 529 Plan. "It's like getting a discount on tuition," says Kantrowitz.

Anyone can open a 529 Plan for oneself or for someone else, regardless of relationship, at

Families should begin saving for students' college education as early as possible.

any time. Also, 529 Plans do not require state residency to open. Each state has multiple 529 Plans available with different benefits and requirements, so it's important to shop around.

Earn rewards for shopping. Some credit card programs allow participants to make purchases for which they get cash back, and they can then invest the money or use it for college expenses.

For example, UPromise, an online subsidiary of student loan servicer Sallie Mae, partners with retailers that offer cash back on everyday purchases. These cash rewards can be directly deposited into a 529 Plan or other savings account, sent as a check for college expenses, or used to pay down student loans.

All major credit card providers also offer similar, but less formal, college rewards programs. By shopping with an eligible credit card, participants can use accrued cash-back or reward points toward college tuition or loan payments.

But like all credit cards, those that offer rewards can prove hazardous to credit health. Overspending with a credit card and not paying bills on time can lead to a bad credit rating, increase debt burden, and jeopardize future finances. See the section on managing money, beginning on page 12, for more about responsible credit card use.

Earn credits before college

Earning college credit can start as early as high school. Taking Advanced Placement (AP) classes in high school and completing basic courses at less expensive colleges are two ways to save on tuition later, while also getting a jump on credits toward a college degree.

Take AP classes. Students who successfully complete AP classes in high school may be able to apply those credits toward degree requirements or skip some prerequisites, depending on their scores on the AP exam and the policies of the college they attend. By completing degree requirements early, students may graduate earlier and save money on tuition, housing, and other expenses.

Students who take AP classes also demonstrate academic achievement. This often improves a student's chances to qualify for scholarships and to be admitted to his or her school of choice. Most high schools offer a variety of AP classes for free, but students usually must pay a fee (currently $89) to take the standardized AP exam at the end of the course.

Earn credits at another school. Many community colleges offer courses, sometimes at no cost, that are designed for high school students. Students who complete these courses earn college credits that may transfer to other 2- or 4-year schools.

Another option is dual enrollment programs. Offered by some high schools in partnership with a local community college, these programs allow high school students to concurrently earn an associate's degree and a high school diploma by the time they graduate. In many cases, the student's school district pays for the cost of tuition.

In addition, schools often have similar prerequisite and core courses for their associate's or bachelor's degrees. Degree requirements do not specify that all credits be earned from the degree-granting institution. Students can save money by completing some courses at a less expensive school, such as a community college, and then transferring the credits to the college or university in which they enroll.

Students who are considering taking courses for transfer should check with their schools of interest to verify transferability of credit.

Choose and apply to schools

Deciding where to apply differs for each student, but cost should be only part of the school selection process. Students should first evaluate their options, then choose the schools that are most likely to meet their academic, financial, extracurricular, and other needs—and plan to graduate in 4 years or less.

Evaluate options. Prospective college students should ask themselves several questions as they evaluate each college. Does this

Students should research and compare colleges to narrow their options.

school have the programs and features that I want? How likely will I be to graduate in 4 years? What kind of financial aid does it give students? Do graduates of this school find meaningful employment shortly after graduation?

Research should also involve considering future career plans. For example, some colleges might be renowned in the student's field of choice, which could help with getting an entry-level job after graduation. Students should also find out what their future earnings might look like, by studying wage data from sources such as the *Occupational Outlook Handbook*, so they know what type of student loan repayment they can afford.

Those who aspire to a military career may want to look into schools that pay expenses in exchange for service after graduation. For example, the five federal military academies provide students with tuition, room, and board; at four of the academies, students commit to serve in the U.S. military for a specific number of years after graduation. Some states also have public military academies that may pay partial tuition and expenses.

Shop for schools. Prospective students should research schools to find ones that fit them best. Whatever a student's personal criteria, graduating within 4 years should be part of any strategy for cutting back on expenses.

Students can usually find multiple schools that meet their conditions for attending. A list that includes more than one can mean big savings. "Even if you're set on a school, you should look at others," says Megan McClean, managing director of policy and federal relations at the National Association of Student Financial Aid Administrators. "You might be able to get the same education for less somewhere else."

Along with researching more obvious choices, students may want to consider alternatives that offer a unique curriculum, reduced tuition, or both. For example, bachelor's degree-level work colleges have free or low-cost tuition for students who take classes and also work, usually 10 to 15 hours per week, in activities on campus as part of their degree program.

Experts recommend taking time when evaluating each school that is being considered: stay overnight on campus, attend a class, speak to instructors and current students, and visit the financial aid office. "You're buying the equivalent of a really nice car," says

Robert Bardwell, a high school counselor in Monson, Massachusetts. "Test drive the school to make sure it's the right one for you."

Prospective students should compare their chosen schools using information such as costs, financial aid, graduation and employment rates, and the proportion of students whose financial needs are met. Unbiased, third-party sources of information provide the most accurate comparisons. (Suggested resources are at the end of the article.)

In fact, experts caution against relying on schools' self-published information, which is often misleading. For example, a school might claim that its students receive $15,000 in aid but doesn't specify that most or all of the aid is from student loans.

Apply to several schools. Students who plan to attend college right after high school usually complete applications for admission during the first semester of their senior year. Experts advise that students narrow their choices to at least three schools but no more than seven: Fewer than three limits a student's financial aid options (and chances of being accepted at all) but more than seven shows that the student failed to research schools well enough. The selections should be based on a student's research and include at least one "safety" school, an affordable option that would most likely admit the student.

By applying to several schools, students will see multiple financial aid packages that allow them to make an informed decision—and will position themselves to negotiate for more aid from the schools to which they are accepted. "Applying to one school limits your options," says Bardwell. "You might not be accepted, or their financial aid package might not be what you expected."

Usually, the least expensive option for most students is an in-state public school. But students shouldn't dismiss elite schools, such as those in the Ivy League, based solely on price. These schools typically have large endowments from which to provide substantial aid, much of it need-based, allowing them to lower the cost of attendance for individual students. This aid sometimes makes such schools more affordable than public options.

Apply for financial aid

Prospective college students vary in their economic backgrounds and abilities to pay for school, but they all have one thing in common: To get financial aid, they have to apply for it.

Financial aid packages may include any combination of gift aid, such as grants and scholarships; borrowed aid, such as student loans; and self-help aid, such as work study. Students can access most types of financial aid only after completing the Free Application for Federal Student Aid (FAFSA).

But completing the FAFSA does not make students automatically eligible for all forms of gift aid. Students must research and apply separately for scholarships and some grants and waivers.

Complete the FAFSA. According to experts, all prospective college students, regardless of financial status, should complete the FAFSA. This application must be

Completing the FAFSA is the first step in applying for financial aid.

completed annually to determine a student's eligibility for federal financial aid. The student's financial need is greater in one of either two situations, or both: because of the high cost of attendance or the student's (or family's) low income.

Almost all colleges use the FAFSA to evaluate student need when developing financial aid packages. A student's financial need is based on the information that he or she (and his or her parents, if the student is a dependent) provides when completing the FAFSA. Student and family finances are calculated as part of each package.

For example, schools expect the student and his or her family to cover certain expenses, such as housing, food, and books. Families that cannot meet their expected obligation from income may choose to close the gap with private or Federal PLUS loans, which are also available to graduate students. At many schools, the financial aid package may change based on the school's finances and the student's accomplishments, among other factors.

FAFSA forms become available online January 1 for the academic year that spans July 1 of that year to June 30 of the following year. So, for example, the FAFSA for the 2013–14 academic year became available January 1, 2013. Students are advised to complete their applications as soon as possible after forms become available. Certain types of aid, such as grants and work study, are sometimes limited or disbursed on a first-come, first-served basis.

Yet some students postpone until the FAFSA deadline nears or, worse, don't bother to fill out the form at all. That's a mistake, says Chris Greene of the U.S. Department of Education's Office of Federal Student Aid. "Completing the FAFSA is free, easy, and may open up financial aid options, such as state and institutional grants, that you may have not considered," Greene says.

Apply for gift aid. To become eligible for many federal and state grants, prospective students must first complete the FAFSA. But students usually need to apply for other gift aid, such as scholarships and nongovernmental grants, in addition to filling out the FAFSA.

As early as possible, students should apply for any gift aid for which they may be eligible. Application-weary students might be tempted to skip the forms for gift aid, but experts say that those who take the time are often rewarded for their efforts. "Applying for gift aid is hard work, but it pays off," says Tammy Dodson, a high school counselor in Aurora, Colorado.

And if they receive a scholarship or nongovernmental grant, students must inform their school's financial aid office. Depending on the amount of the award, a student's financial aid package might change. For example, a large award might reduce or eliminate a student's proposed need for student loans.

Financing a college education

According to NCES, nearly 80 percent of all full-time undergraduate students received some type of financial aid for the 2007–08 academic year, the most recent year for which complete data are available. On average, these students received $12,700 in aid, mainly in grants and student loans. This was almost enough financial aid to cover the average cost of a public 4-year college during that academic year, but it was far less than the cost of a private one.

After students have received the financial aid package from schools that accepted them, they need to determine whether each school is affordable. They can calculate the real cost of attendance by adding up likely expenses—such as tuition, fees, housing, food, and books—and subtracting out any federal and state grants awarded in the financial aid package. (The package might also include loans, but because these must be repaid, they will not reduce the true cost of attendance.) Students can then rank their schools based on how much they will have to pay, potentially using one school's aid package as leverage against another to negotiate for more aid.

Students can accept, reject, or appeal all or parts of their financial aid package. To appeal an aid package, students or their parents must write a letter to the school's financial aid office. The letter should explain why the aid package would not fully cover expenses and should include supporting documentation. Students can file an appeal as many times as they like.

The financial aid process, from completion of the FAFSA to acceptance of the financial aid package, repeats every year the student is in school.

Gift aid

Gift aid is any financial aid that a student doesn't need to repay; it's free money for college. The main types of gift aid are grants, waivers, and scholarships.

Grants and waivers. Grants and waivers are similar: They are noncompetitive awards that cover tuition, fees, or both. Grants can be federal, state, or institutional and are often based on financial need. Waivers, however, are not necessarily based on financial need and are generally administered by the school.

Because grants are usually need based, students with greater financial need receive more aid, up to a particular grant's limit. According to the NCES, for the 2007–08 academic year, more than 64 percent of full-time undergraduate students received grant aid, worth an average of $7,100 per student.

Almost all federal and state grants become available upon completing the FAFSA and appear as part of the financial aid package that students receive. The Federal Pell Grant Program, the most common federal grant award, provided up to $5,500 in aid per student for the 2012–13 academic year. It is usually offered to undergraduate students who do not yet have a bachelor's degree.

Many schools offer institutional grants and waivers, but the number and amounts of these awards often depend on the size of the college's endowment. Federal and institutional grants make up the majority of grant aid that students receive. Some waivers are awarded as part of a student's financial aid package, but others require separate application.

Other grants and waivers are offered to students who pursue a particular field of study or who belong to an underrepresented group. For example, some states provide tuition waivers that encourage students to become teachers in high-need fields, such as mathematics and special education. These waivers require recipients to teach in their field of training for a designated number of years after earning their degree.

To receive a grant or waiver, students must meet eligibility requirements. Most federal

Students can gauge a school's affordability by comparing likely expenses minus gift aid awarded in the financial aid package.

grants require students to be U.S. residents in good legal and financial standing. For example, students who have previously defaulted on a student loan are not eligible for federal grants. In addition, many grants are limited to undergraduate students who don't already have a bachelor's degree.

State grants and waivers may have additional requirements. For example, the minimum eligibility requirements for a Pennsylvania State Grant include state residency, at least part-time enrollment at an approved postsecondary school in the state, and satisfactory academic progress. Some states have reciprocity agreements with neighboring states that allow nonresident students from those states to also receive grants.

Scholarships. Any individual, government, or organization may choose to award scholarships for any reason. For example, scholarships can target a particular group, such as minorities, women, or members of an organization. Some scholarships are for merit, such as academic achievement; for training to enter post-graduation military service, such as the Reserve Officers' Training Corps (ROTC); or for study in a specific field, such as engineering or nursing. Others are based on financial need.

Student loans must be repaid with interest. They don't reduce the cost of attending college.

Students can learn about scholarships from many sources, including the college's financial aid office, public library, through the awarding organization, or online. Each scholarship has its own requirements, terms, deadlines, and awards. Many scholarships have websites that explain all of these details. Others might list a phone number or email address of someone to contact for information.

But experts caution students to beware of scholarship scams. One giveaway includes those that require an application fee. "Never pay money to get money," says Kantrowitz, the financial aid website publisher. Students should check every scholarship against third-party sources to ensure its legitimacy.

Borrowed aid

Borrowed aid is any financial aid that a student must repay with interest. There are two types of borrowed aid: federal and private student loans.

Federal student loans. To help make college affordable, the federal government extends educational loans to both students and their parents. According to NCES, during the 2007–08 academic year, nearly half of full-time undergraduate students received federal student loans, for an average amount of $5,400.

Federal student loans offer a fixed, low interest rate; a 180-day grace repayment period after leaving school; and flexible repayment options. Students may also be able to defer or cancel some of their federal student loans under certain conditions.

Students become eligible for federal student loans after they complete the FAFSA. These loans come from the Federal Direct and Federal Perkins loan programs, both of which are administered by the U.S. Department of Education.

Federal Direct offers a variety of options. The most common loans it provides are Stafford Loans, which may be either subsidized or unsubsidized. Subsidized Stafford loans are available for up to a specific amount, currently $5,500 per year, to undergraduate students with financial need. Unsubsidized

Stafford loans, which are for college students at all levels regardless of need, are available to undergraduates for up to $12,500 per year currently. And while a student is in school, the federal government pays the interest that accrues on a subsidized loan—which currently has an interest rate that is half that of an unsubsidized loan.

Federal Direct also offers Federal PLUS loans up to the cost of attendance to the parents of dependent undergraduate students, as well as to graduate students. But Federal PLUS loans have additional fees and the highest interest rate (currently 7.9 percent) of all Federal Direct loans.

The Federal Perkins Loan Program offers low-interest loans to college students with exceptional financial need. Undergraduate students may borrow up to a specific amount, currently $5,500 a year, but there are limits to the total amount a student may borrow. Not all schools participate in the Perkins loan program.

Private student loans. Private student loans come from lenders such as banks, schools, and employers. Federal student loans almost always provide better terms, but the most competitive private loans offer terms similar to Federal PLUS loans.

Each private student loan has its own requirements and terms, which are determined by the lender. Private loans are usually available only to borrowers who have good credit, and they sometimes require someone else, such as a parent, to cosign.

Students may have difficulty finding and comparing private student loans because there are so many different lenders. A few websites host databases to help with making these comparisons.

Self-help aid

A student's financial aid package may include self-help aid, such as monetary contributions that are expected from students and their families. Students may also earn some of that money by working while they attend school.

Some students qualify for work-study jobs as part of their financial aid package. Students may also choose to work in jobs that are not part of a work-study program. They may work during the academic term, during school breaks, or year round. Others work for service organizations and earn monetary benefits to defray education expenses.

Work study. Most schools have work-study programs that pay students' wages in part-time jobs. The federal government funds most of these programs, but a few schools fund their own. According to NCES, during the 2007–08 academic year, more than 13 percent of full-time undergraduate students received work-study awards, for an average of $2,300 per student.

Some students work part-time to contribute to the costs of their education expenses.

Work study is available to students based on financial need, but funding may be limited. Students can work on or off campus with eligible employers, such as nonprofit organizations, public agencies, or the school itself. Employers who hire work-study students cover a portion of the students' wages, and the work-study program pays the rest. Programs may set rules, such as the number of hours per week students are allowed to work or a grade-point average that students must maintain to participate.

Work-study students earn at least the federal minimum wage, but their total amount of wages cannot exceed their work-study award. For example, a student who is eligible for $1,000 in work-study aid can earn no more than that in a work-study job. After reaching that threshold, he or she could continue working in the job only if the employer pays the full wage because the student would no longer be a work-study participant.

Other work during school. Many students work while they attend school, not as part of a work-study program. A common practice is to do one full time and the other part time. For example, a student might work full time during the day and attend classes in the evening, or vice versa. But self-discipline is important because the constraints on free time and added stress can be challenging: Experts say that students who work full-time while in school are less likely to graduate than students who work fewer hours.

Students who work and study might be able to use their experience to boost their resume and expand their skill set while they pursue a degree. And doing so could give them an advantage in the job market after graduation.

Students can find work on or off campus through a school's student employment office, job boards, or on their own. But students should plan to apply for jobs as soon as possible when they get to campus, says high school counselor Bardwell: "There are a lot of students looking for a limited number of entry-level jobs."

Earn service benefits. Some service organizations, such as City Year and AmeriCorps, have educational benefits for people who work in certain assignments.

During the time they serve in the organization, participants receive a small stipend. These organizations also typically offer scholarships, reduced tuition, or opportunities for students to earn college credit at participating schools.

Students who complete their service assignments may also qualify for deferment, forbearance, or partial cancellation of their student loans. A deferment allows borrowers to stop making loan payments during their service with the organization, but interest continues to accrue on subsidized loans. Similarly, forbearance suspends a borrower's obligation to make payments even as interest still accrues for both subsidized and unsubsidized loans. Partial cancellation excuses qualified borrowers from paying principal and interest on a portion of a loan.

Managing money

As the previous sections discussed, affording college involves more than paying tuition and related expenses. Making college affordable requires planning and finding sources of educational funding.

Taking charge of personal finances before, during, and after college makes paying for it less challenging. And knowing how to manage student loans and repayment can help borrowers become debt free more quickly and avoid defaulting.

Personal financial management

No matter their financial circumstances, students benefit from keeping their own finances under control. Learning about personal finance strategies, limiting their expenses, and borrowing responsibly are three ways that students help themselves to keep college costs in check.

Learn personal finance. Learning personal finance can help students to manage their money and control their expenses.

Learning personal finance can help students with budgeting, managing debt, and limiting their expenses.

Personal finance gives students the tools they need to manage money on their own.

Free personal finance lessons are available online; some schools also offer courses. Topics covered usually include budgeting, saving, and investing, as well as managing debt (such as from student loans and credit cards).

But students can learn by doing before heading to college. Managing money begins with learning how to budget cash that comes in through an allowance or from paychecks for a part-time or summer job.

Limit expenses. While attending college, students will realize that everyday living expenses add up quickly. These expenses can increase the overall cost of college, especially if students fail to curb their discretionary spending. Discretionary spending is for anything that is optional, such as dining out or taking vacations.

Some students use credit cards to pay their expenses but are unable to pay the bill in full when those charges are due. The mounting debt can spell disaster for cash-strapped students. Their best strategy for avoiding credit card debt is to live within their means and to use a credit card only for expenses they could pay in full at the time of purchase.

By minimizing their expenses, students can also reduce their need for student loans. For example, they can live with roommates, commute from their family home, attend a nearby school, and limit discretionary spending. “Live like a student while you study,” says Kantrowitz, “so you don’t have to live like one after you graduate.”

Borrow responsibly. When educational funding is limited, colleges are more likely to offer financial aid packages that favor student loans over grants, waivers, and scholarships. To avoid accumulating excessive debt while in school, students should appeal their financial aid package to get more gift aid and less borrowed aid.

Experts usually recommend that students limit their overall college borrowing to the amount they expect to earn in a first-year salary after graduation. Excessive borrowing can lead to higher default rates. According to the Federal Reserve Bank of New York, the percentage of student loan balances that were “seriously delinquent” as of September 30, 2012, was higher than the rates for any other type of household debt—including, for the first time, credit card debt.

In addition, experts advise students to exhaust all gift and federal aid options before considering private student loans. Private loans are generally less flexible and more expensive than federal loans. For example, many private loans have variable interest rates up to 18 percent and may require students to make payments while still in school. “It’s far better for a parent to take out a Federal PLUS Loan than for a student to take a private loan,” says the U.S. Department of Education’s Greene.

Students should be cautious about borrowing money, especially when it's for school. Generally, student loans cannot be discharged when filing for bankruptcy, so students need to borrow responsibly. "Before you sign something, make sure you fully understand what you're committing to," Greene says. "Ask questions, talk to your financial aid officer, and compare aid offers from other schools."

Government resources can help people understand student loans. For example, students who take out a federal student loan must complete a brief counseling program twice: when they borrow for the first time and just before they leave school. The first program explains the details of the loan, and the second covers repayment options.

Take tax incentives. The Internal Revenue Service (IRS) provides a variety of tax incentives for higher education. Each incentive has its own eligibility requirements and benefits, but all can lower a student's, or his or her parent's, overall income tax bill. The most common types of incentives are tax credits and deductions.

Tax credits directly reduce the amount of income tax that students or their families pay. The American Opportunity Tax Credit offers an annual credit per student, currently up to $2,500, for the first 4 years of higher education. The Lifetime Learning Tax Credit also offers an annual credit per taxpayer, currently up to $2,000, but it is available for an unlimited number of college years. These tax credits have income restrictions, however, and each student can use only one in a tax year.

Tax deductions indirectly reduce taxes by lowering the amount of income that is subject to taxation. Students or their families can deduct from their income for tuition and fees paid (currently up to $4,000) and for student loan interest paid (currently up to $2,500). Both federal and private student loans are eligible for these deductions. However, some income restrictions apply.

The IRS also provides other tax benefits related to higher education. For example, earnings in 529 Plans are tax-deferred, many scholarships are tax-free, and employer-

Students should borrow responsibly. Government resources can help people understand student loans.

provided aid up to a certain amount (currently $5,250) can be excluded from income.

Managing loans and repayment

Like every other phase of preparing for and going to college, repaying borrowed money requires planning. Strategies for managing student loans and their repayment include choosing a good repayment plan, paying loans wisely, not skipping payments, taking advantage of lenders' incentives, and considering a public service job after graduation.

Choose a repayment plan. Most lenders offer more than one repayment option to borrowers. By learning about the repayment plans available from their loan servicer, borrowers can choose the best plan for their budget.

Federal student loans have a variety of repayment options. The most common is the standard repayment plan, which requires borrowers to make fixed, monthly payments for up to 10 years. Loans repaid through this plan accrue the least interest of all federal repayment options.

Borrowers worried about making payments early in their careers can choose the graduated repayment plan, which starts with lower monthly payments that increase every 2 years for up to 10 years. This repayment plan offers financial flexibility, which is often helpful for workers just starting out, but loans accrue more interest than those under the standard plan.

Not all borrowers are able to pay off their student loans in 10 years. Several options allow these borrowers to extend their loan repayments for up to 25 years, with interest continuing to accrue for the life of the loan. Some of these plans have fixed, monthly payments, but others vary with income levels. Oftentimes, the best choice for borrowers who can prove financial hardship is the income-based repayment plan that caps payments at 15 percent of discretionary income. After 25 years of monthly payments, any remaining debt is forgiven.

A new version of income-based repayment, called Pay as You Earn, became available in December 2012 to borrowers who have at least one federal student loan disbursed on or after October 1, 2011, and no loans prior to October 1, 2007. The monthly payment is 10 percent of discretionary income, and the remaining balance is forgiven after 20 years in repayment.

Repayment plans for private student loans vary by lender. Borrowers should discuss payment options with the lender.

Repay loans wisely. Student loan repayment schedules set the minimum amount borrowers must pay each month. But borrowers can save a lot of money by repaying loans ahead of schedule or repaying loans that have higher interest rates first.

To repay loans ahead of schedule, borrowers can pay extra each month, pay biweekly instead of monthly, or make extra half payments during months in which they receive three paychecks. The last two strategies have the same result: Borrowers make an extra monthly payment each year.

To repay loans with higher interest rates first, borrowers must have more than one loan.

(Continued on page 17)

If repaying loans ahead of schedule, start with those that charge the highest interest rate.

Alternatives to attending college

For some people, college isn't the best choice—at least, not right now. It might cost too much, take too long to finish, or lack options of interest. But there are alternatives for those who want to delay or forego getting a bachelor's degree.

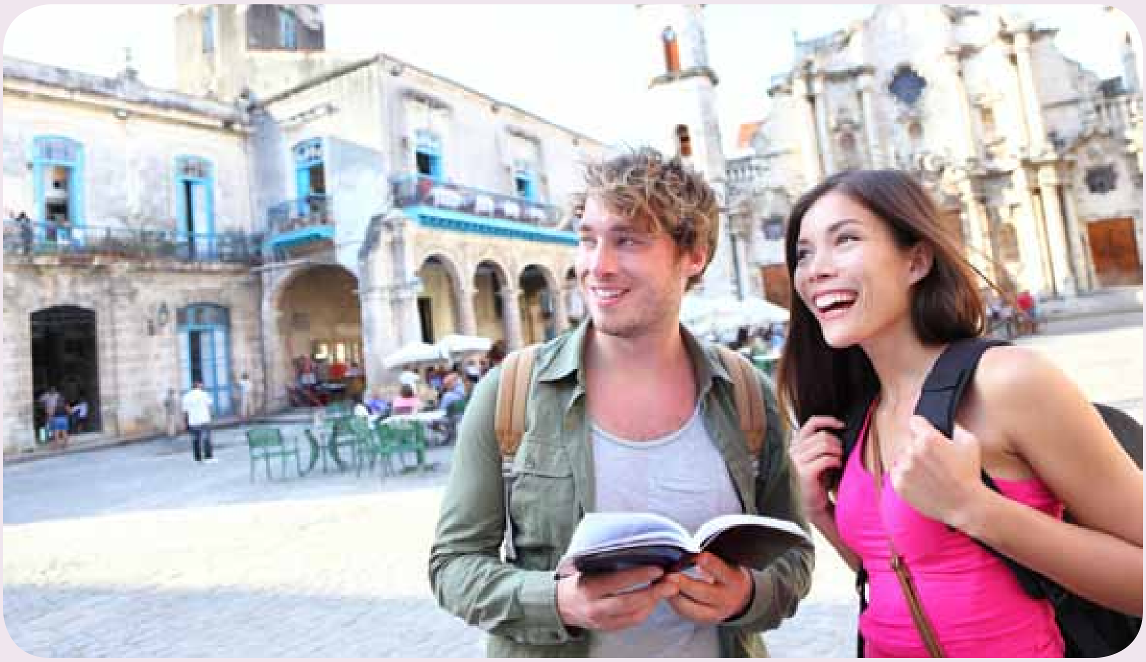
Career school. Career schools—also known as vocational, technical, or trade schools—teach job-specific skills in programs that usually last 2 years or less. Unlike community colleges and 4-year colleges or universities, these schools do not offer degrees. Instead, students typically earn a diploma or a certificate. Some programs help students prepare for state licensing exams, which are required to work in certain occupations. Others offer skilled-trade apprenticeship or journey-level studies.

Students attend career schools to train for a variety of occupations, including those in construction, culinary arts, and fashion. Training in these programs generally involves both taking classes and gaining hands-on experience. For more information, see "Certificates: A fast track to careers," in the winter 2012–13 issue of the *Quarterly*, online at **www.bls.gov/ooq/2012/winter/art01.pdf**.

Gap year. A gap year—which may be longer or shorter than a year—is the term for taking time off, often before starting college. Gap years include working, traveling abroad, or volunteering, to name a few possibilities. People save money, learn skills, and experience personal growth that better prepares them for attending college. "It takes courage to delay college," says high school counselor Robert Bardwell, "but colleges often prefer these students because of the skills and maturity they acquire."

A gap year that is carefully thought out has the best chance for successfully bridging the transition to college. Learn more in the fall 2009 *Quarterly* article "Gap year: Time off, with a plan," available at **www.bls.gov/ooq/2009/fall/art04.pdf**.

Other options. Not every occupation requires a college degree, of course, and not every worker has one. A recent *Quarterly* article focuses on occupations that don't typically require a bachelor's degree but still offer rewarding careers. See "High wages after high school—without a bachelor's degree" in the summer 2012 *Quarterly*, available at **www.bls.gov/ooq/2012/summer/art03.pdf**.



Borrowers who have trouble repaying their student loans should contact their lender to explore options.

(Continued from page 15)

Lenders typically split monthly payments proportionally across all of the borrower's loans, so borrowers should ask that extra payments be used to pay down a specific loan. By making payments to the higher interest loan first, borrowers save money on the additional interest that accrues more quickly on those with a higher rate.

Don't miss payments. Student loans, unlike other forms of consumer debt, are almost never forgiven if the borrower declares bankruptcy. If borrowers stop making payments, they can get into trouble. One day after missing a payment, the borrower becomes delinquent. After 90 days, lenders report the borrower's delinquency to all major credit bureaus. After 270 days (about 9 months), lenders consider the borrower in default.

When a borrower enters default, the full unpaid balance is due immediately, deferment and forbearance options become unavailable, and court and collection fees may be tacked on atop the loan. "Defaulting on student loans is incredibly bad. You won't be able to get federal student aid again, your credit rating will take a large hit, and your paychecks might be garnished," says Megan McClean, of the National Association of Student Financial Aid Administrators. "There are ways to regain aid eligibility if you resume repayment, but it will take investments of time, effort, and funds."

Borrowers who have trouble making payments should contact their lender immediately. The lender may defer payments on the loan due to economic hardship or may change the repayment plan. "With all the options available," says Greene, "there's just no reason for you to default."

Take lenders' incentives. Both federal and private student loan lenders offer repayment incentives. But the type and amount of incentive vary by lender.

The most common incentives are discounts to either the loan's principal or interest rate. For example, the Federal Direct Loan Program currently awards a 0.25-percent reduction for setting up automatic payments.

Other lenders award discounts to borrowers at graduation and to borrowers who already have a relationship with the bank, such as having a savings account.

Consider public service. To encourage students to enter public service, the federal government forgives any outstanding Federal

Some public service organizations, such as the Peace Corps, offer educational benefits to participants who complete a tour of duty.

Photo courtesy of Peace Corps/Morocco

Direct Loans, tax free, after 10 years of service. Public servants include federal and state employees, firefighters, teachers, tax-exempt nonprofit workers, and doctors and lawyers who work in low-income communities.

To qualify, borrowers must make their minimum monthly loan payments on time for 10 years while working full-time at an eligible public service organization. Only payments made after October 1, 2007, on specific types of repayment plans qualify.

In addition, some service organizations—including Teach for America, the National Guard, and the Peace Corps—offer loan repayment, cancellation, or other benefits to people who complete a tour of duty. For example, Teach for America members who complete their service are eligible for an education award that may be used to repay student loans. The National Guard offers a monthly educational stipend, tuition assistance, and student loan repayment. And Peace Corps volunteers may have a portion of their student loans cancelled based on the length of their service.

For more information

The *Occupational Outlook Handbook* (*OOH*) has detailed profiles on hundreds of occupations. These profiles have information about each occupation's education and training, along with its job duties, wages, employment outlook, and more. Students can study career options to learn, for example, whether a specific occupation typically requires a college degree and whether its wages would likely cover student loan payments. The *OOH* is available online at **www.bls.gov/ooh**.

BLS data from the Occupational Employment Statistics program have even more detailed information about wage estimates by occupation. See **www.bls.gov/oes**.

For most prospective college students, the information in this article requires further research. To compare 529 Plans, for example, visit the College Savings Plans Network's online comparison tool at **www.collegesavings.org/planComparison.aspx**. To learn more about work colleges, visit the Work College Consortium at **www.workcolleges.org**. And for a complete list of the 74 colleges with favorable financial aid policies for low-income students, allowing them to graduate with little or no debt, visit **www.finaid.org/noloans**.

The U.S. Department of Education National Center for Educational Statistics provides a wealth of data related to education, including information about school costs, student enrollment and graduation rates, and financial aid. It also hosts College Navigator, a college comparison tool that can help students find the right school. Visit online at **www.nces.ed.gov/collegenavigator**. (College Navigator and other college comparison tools are featured in the Grab bag item “Online tools for comparing colleges,” in the winter 2012–13 issue of the *Quarterly*, online at **www.bls.gov/ooq/2012/winter/grabbag.htm**.)

The U.S. Department of Education also hosts a website with comprehensive information about federal student aid. Topics covered include the Free Application for Federal Student Aid (FAFSA), types of financial aid, choosing and applying to schools, and repaying student loans. Visit online at **www.studentaid.ed.gov** or call toll free at 1 (800) 4-FED-AID (433-3243).

The U.S. Department of Labor hosts a scholarship search tool at **www.careerinfonet.org/scholarshipsearch/default.asp?nodeid=22**.

For more information about the educational benefits of public service, read “Serving, learning, and earning: An overview of three organizations” in the summer 2011 *Quarterly*, available at **www.bls.gov/ooq/2011/summer/art01.pdf**.

For more information about federal tax incentives for higher education, visit the Internal Revenue Service’s online resource at **www.irs.gov/uac/Tax-Benefits-for-Education:-Information-Center**.

The federal government isn’t the only provider of unbiased resources on college-related topics. For example, FinAid online covers financial aid and offers tools to calculate the true cost of a college education, future loan payments, how much a student can safely borrow, and more. Visit **www.finaid.org**. To use its assessment of comparison websites for private loans, visit **www.finaid.org/loans/loancomparisonsites.phtml**.

And Fastweb, a sister website to FinAid, describes the college process in its entirety, from filling out applications to repaying loans. Topics include choosing the right college, finding scholarships, planning a career, and creating a budget. Experts offer advice on subjects such as personal finance, student loans, and interview etiquette. Visit online at **www.fastweb.com**.