The Millennial Debt Dilemma

Student loans are now the top source of debt for Americans, other than home mortgages, InvestmentNews reported in an August 7, 2016 story, “Financial Advisers Help Clients Graduate from Student Debt.”

Specifically, millennials are finding it difficult to dig themselves out of the student loan hole they’ve been in since graduating from college. As this generation starts to roll into the doors of many financial planning firms, it’s important to understand their mindset and predicament.

Forbes reported in an April 7, 2016 article, “The Scary Truth About Millennials and Student Loan Debt,” that this generation is of the “out of sight, out of mind” mentality when it comes to student loans. Citing data from a recent Citizens Bank survey of millennials, nearly half of those surveyed were clueless about what percentage of their salary goes to paying down student debt, and 15 percent were completely unaware of how much they owed.

Also, many millennials are having a hard time determining how to pay down that debt and don’t exactly know how long it will take them to do so. The Forbes article reported that 59 percent said they didn’t know how long it would take them to be debt-free. Forty-seven percent said they regret how much they borrowed, and more than 30 percent said they may have not gone to college at all had they known how much they would owe.

“Student debt is a huge issue for our generation,” Shawn Tydlaska, CFP®, founder and CEO of Ballast Point Financial Planning, told InvestmentNews. Student loans are causing millennials to put off saving for retirement and purchasing their first home, InvestmentNews reported. And they’re waiting to get married and start families, wrote Maya Pope-Chappell, the education and millennials editor at LinkedIn, in the June 2016 blog post, “Millennials Are Delaying Adulthood Because of Crush- ing Student Loan Debt.”

“We should be very concerned,” Alicia Munnell, director of the Center for Retirement Research at Boston College, told InvestmentNews. “This is not just like having car loans. Student loan debt has a big impact on households and the number of people who will not be able to maintain their standard of living during retirement.”

But it looks like some millennials are already seeking help as the number of advisers who reported helping clients specifically with student loan debt has risen in recent years, reports the site Student Loan Hero in an April 2016 blog post, “The Real-Life Advice Financial Planners Give their Clients about Student Debt.”

In this issue’s cover story, “Chang- ing the Approach to College Funding Advice,” (beginning on page 26), college funding expert Joe Messinger shares the three-step process his firm uses to help clients get “pre-approved” for college funding.
3 Tips to Help Clients Apply for Financial Aid

With recent changes in computing financial aid, your clients should start planning for college funding as early as their child’s high-school sophomore year.

Under the new changes, students who are high-school seniors in fall 2016 were able to apply for financial aid starting in October 2016 for the 2017–2018 school year using their parents’ 2015 tax returns.

So now, instead of using the prior year tax returns, college financial aid eligibility will be based off income from two years prior to when a student enrolls in college, not one year prior as it was previously, reported Forbes in a December 19, 2016 story, “2016 Guide to College Financial Aid, the FAFSA and the CSS Profile.”

Here are some tips to keep in mind for your clients as their college-bound students are gearing up to apply for college aid:

1. Fill out the CSS Profile. If your client’s child is planning to attend an Ivy League school, or any of the 200 colleges that require it, they’ll need to fill out a CSS Profile in addition to the FAFSA (Free Application for Federal Student Aid). The CSS Profile allows universities to get a more comprehensive view of a family’s financial situation and allows them to make a “judgment call” to help students receive the best aid package.

2. Avoid accounts in the child’s name. Avoid Uniform Transfers to Minors Act and Uniform Gifts to Minors Act accounts or savings accounts in the student’s name, because colleges figure a student can contribute 20 percent of whatever is in their savings accounts to their college education. The Chicago Tribune reported that universities would expect a parent could contribute 5.65 percent of the identical savings accounts in their own name.

3. Know that income counts more than assets. According to Forbes, when it comes to calculating a parent’s expected contribution, income gets counted at 47 percent versus assets, which are counted at 5.65 percent.

Stat Bank

$45,370...Average cost of tuition, fees, and room and board at private, non-profit, four-year institutions for the 2016–2017 school year. (The College Board)

$26,100...Average annual net cost at private colleges and universities after grant aid and tax benefits. (The College Board)

16...Number of payments per year clients should make to pay off student loans a little bit faster. That equates to one extra payment every three months. (Forbes)

76...Percentage of respondents who said an employer’s student loan repayment benefit would be a deciding or contributing factor in accepting the job. (American Student Assistance)

20...Percentage of savings accounts in the student’s name that public colleges want a student to contribute to their education under the financial aid formula. (Chicago Tribune)

25...Percentage of savings accounts in the student’s name that private colleges want a student to contribute to their education under the financial aid formula. (Chicago Tribune)

5.65...Percentage of savings accounts in a parent’s name that public colleges want parents to contribute to their child’s education under the financial aid formula. (Chicago Tribune)

$1.3 trillion...Amount of student loan debt that more than 40 million borrowers have. (The Institute for College Access and Success)

$110 billion...Amount that nearly 8 million student loan borrowers who are in default owe. (Consumer Financial Protection Bureau)

270...Number of days of delinquency after which a person’s student loans will go into default. (Consumer Financial Protection Bureau)

11...Number of years that millennials who were surveyed estimated it would take them to get out of debt. (Forbes)

59...Percentage of millennials surveyed who didn’t know how long it would take them to be debt-free. (Forbes)