College Loan Dependence

Switching the Mindset From Paying to Planning

By Joseph V. Wood

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A growing reliance on college loans is casting a shadow on Hoosier higher education classrooms that threatens to dim Indiana's financial future.

Increased borrowing for college – and the resulting debt burden – directly affects Indiana's economy. Graduates burdened with suffocating loan payments have less disposable income and high school students ill-informed in the college planning process often unknowingly marry their future to debt.

A recent report by The Institute for College Access & Success, a non-profit independent advocacy group, paints a sobering picture. Indiana ranks 11th highest in the nation for average student debt – the state's $27,500 average is $900 above the national average. In addition, 63% of the 2011 graduating class left school with loans.

It doesn't have to be this way.

The institute's report should ring the classroom bell of alarm to begin rethinking how Hoosier students and their families plan for college and reshape the approach of financing a higher education diploma. This will have a long-term benefit of helping to strengthen Indiana's economy.

By the numbers

Less than one-third of Indiana's four-year college students and only 4% of our two-year students graduate on time, according to the Indiana Commission for Higher Education (CHE). Many never achieve a degree. One key factor in this is soaring debt.

The consequences to Indiana's economic health are clear. The commission reports the lifetime earning potential of a student who does not complete higher education is roughly $1 million less than a college degree-holder. To remain competitive nationally and globally, Indiana's workforce must "hit the books."

But how can higher education be financed without growing debt? Switching the collective mindset from paying for college to planning for college is the answer. It sounds simple, but learning these few important steps takes discipline. This discipline will help students, families and all Hoosiers for decades.

The resources exist to plan ahead but too few students and families are aware of or take advantage of them, leading to loans as the main option. A study cited by the *Chronicle of Higher Education* indicates 65% of college-bound seniors this year failed to use any financial planning tool when researching the cost of college.

Student loan debt can be reduced, or even avoided, by making the right moves in a few important areas:

- **Select the appropriate college and field of study.** An online skill profiler can help students identify their interests and skills; with those variables in mind, narrowing the list of colleges (and their affordability) becomes a much easier task. Think long-term success, not short-term gratification.
- **Finding free money.** First on the list should be the Free Application for Federal Student Aid (FAFSA), which is required to be eligible for any state or federal financial aid program. Start planning well before the March 10 deadline. Billions of dollars in grants and scholarships are doled out each year. How to piece together funding makes all the difference.
- **Understanding loan options.** All loans are not the same. Federal money should almost always be first due to the offer of several benefits (including fixed-interest rates and a variety of repayment and loan forgiveness plans) that are not typically found in other loans. A good resource is www.studentaid.ed.gov.

Every generation is vulnerable. *The New York Times* reported recently that the number of borrowers of federal student loans age 60 or older has tripled since 2005, making them the fastest-growing age group for college debt. Parents are becoming indebted while trying to help their children.

Indiana college tuition and fees have outpaced Hoosier earnings growth more than 100 to 1 over the past decade, according to the CHE. The Institute for College Access & Success reports two-thirds of college graduates in 2011 nationwide had loans.

It doesn't have to be this way.

Switching the collective mindset from paying for college to planning for college bodes well for Indiana's long-term economic well-being and lessens Hoosier families' dependence on soaring college debt.

INFORMATION LINK

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