FREEDOM FROM STUDENT DEBT

Congratulations Class of 2014! Now, the bad news – you are the most indebted class in history, owing, on average, about $33,000. And, you have lots of company, with over 70% of this year's bachelor's degree recipients leaving school with some amount of student loans. Nationally, this is a full-fledged ticking time bomb, with federal student loan debt of over $1.2 trillion dollars, up more than five-fold since 2009. Student loan debt exceeds credit card and auto-loan debt.

The standard repayment plan on federal student loans is 10 years with a fixed rate, but the still-struggling economy and weak job market has impacted the ability of borrowers to keep up with their payments. One recent study noted that 45% of recent college graduates were "underemployed," either unemployed or working in jobs that did not require a four-year college degree.

Of course, the sharp rise in college tuition is a big reason for this escalating debt and economists point out that the federal government is a big contributor to that tuition rise, because of these loan programs and financial aid.

Borrowers who are currently struggling with repayments have a number of options and alternatives to consider. Note that these options apply to federal loans and may not be available on a private loan.

Standard Repayment Plan

As mentioned above, the standard repayment plan is for a 10 year period, which begins after graduation and has a fixed interest rate. However, you can often refinance the loans to a lower rate or consolidate them into a single loan with one interest rate. But, some loans should not be consolidated, such as federal and private loans, because this would result in the loss of the alternative federal repayment options.

Deferment and Forbearance

With deferment, your payments are temporarily postponed and during this period you are also not accruing interest on any subsidized loans. With forbearance, payments may also be postponed or reduced, but interest will continue accruing on both subsidized and unsubsidized loans.

Graduated and Extended Repayment Plans

With a Graduated Plan, you still have a 10-year payment term, but your payments are lower at first and then increase. This might be helpful to someone who is starting in a job with a low salary but with expectations of a rising future salary. With an Extended Plan, payments could be fixed or graduated and the payment term can be extended up to 30 years. While this can certainly help on cash flow, don't forget that extending the payment term also means you end up paying a lot more interest over the term of the loan.

Income-Based Repayment Plans

These plans limit your maximum payment to 15% of your “discretionary” income, which is defined as the difference between your “adjusted gross income” and 150% of the federal poverty guideline for your family size and state of residence. The payment term can extend to 25 years, with any balance remaining after 25 years being forgiven. If you work in the public sector, the loan can be forgiven after just 10 years. Public-sector employees (but not private) do not have to pay income tax on the loan forgiveness benefit.

Pay as You Earn Plan

Under this plan, your maximum payment is just 10% of your discretionary income, with a payment term of up to 20 years. After 20 years, any remaining balance on the loan can be forgiven, with public-sector employees receiving tax-free forgiveness after 10 years. Until recently, this plan was only available to people who borrowed after 9/30/2007, but President Obama’s executive order will now open this up for those who borrowed prior to that date.

Even as the government is expanding and easing the repayment burden on student loans, we need to remember that government policies have fueled this fire and whatever break borrowers are receiving will ultimately have to be paid for by all taxpayers, including those who never borrowed to begin with.

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