

Parental Loans and Paying for College

Do you believe the market has reached its bottom?
If so, why?

ARE DIRECT PLUS LOANS THE RIGHT CHOICE FOR PARENTS?

It's no secret that student loan debt has been on the rise in the United States – but what is surprising is who is taking on that debt. According to a 2020 study by Fidelity, baby boomers increased the amount of student debt they owe by 33% – more than any other generation – largely to secure Direct PLUS loans on behalf of their children attending college. But is that the best strategy to meet their – and their kids' – long-term financial goals? Before agreeing to take on student debt for your child, here's what you should know about Direct PLUS loans, co-signing debt and potential college funding alternatives.

THE PERILS OF PARENT PLUS

Many parents plan on contributing to their children's education – according to

Sallie Mae, parent income and savings covered 44% of the total cost of higher education in 2020. One significant source of that financial support comes through the federal parent PLUS loan program, also known as Direct PLUS loans, which let parents take out student loans on behalf of their kids. While this loan program does provide parents with options and financial flexibility, it also has drawbacks you need to be aware of:

BY THE NUMBERS

83%

That's the percentage of parents who paid for a portion of their child's education out-of-pocket in the 2019–2020 school year, according to a study by Sallie Mae. In 2018–2019, that figure was only 66%.

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- *Direct PLUS loans are often more expensive than other forms of student loans.* Not only do Direct PLUS loans typically have higher interest rates, but they also have an origination fee greater than 4% and require a hard credit check.
- *The parent is 100% responsible for the debt.* Unlike loans taken out in the student's name, if a parent takes out a Direct PLUS loan, they are responsible for repaying the entirety of the loan, regardless of what educational and career choices the student makes.
- *There are no forgiveness policies.* Direct PLUS Loans are currently not forgiven under the Federal Teacher Student Loan Forgiveness Program or Public Service Loan Forgiveness Program.
- *There are fewer repayment plan options.* The federal government offers four different income-driven repayment plans for student loans. Direct PLUS loans are eligible for just one of these plans, and only after the debt has been consolidated into a federal direct consolidation loan.

BE WARY OF COSIGNING OR ASSUMING STUDENT LOANS

Beyond Direct PLUS loans, parents might choose to cosign a student loan for their child or assume payment altogether. While the amount of financial help parents should give their kids will vary from family to family, understand that you are offering your good credit on these loans – and you will ultimately be on the hook for repayment. (Keep in mind that if a lending institution is requiring a cosign, it is because they believe the applicant is too great a default risk without one.)

You should use extra caution if you have other priorities you are funding as well, like retirement. Students have multiple options when it comes to college funding, including student aid, scholarships and grants, part-time jobs, work study programs, or even deferring college while they save money and build their work history. There are no Stafford loans or Pell grants for retirement, and the closer you get to leaving the workforce, the less time you have to make up lost income.

SO WHAT ARE YOUR OPTIONS?

In many ways, the advice we give parents financing their children's education is similar to the advice we offer the students themselves.

BY THE NUMBERS

71%

That's the percentage of families who filed the FAFSA in the 2019–2020 school year, a decrease from 83% two years ago.

- Make sure your child fills out the Free Application for Student Aid (FAFSA) every year, even if you don't think they will qualify for aid. At most colleges, the FAFSA is a prerequisite for receiving merit-based aid, such as scholarships and grants. In many cases, aid is awarded on a first-come, first-served basis, so the sooner you apply, the better.
- Prioritize aid that does not need to be paid back. Beyond scholarships and grants, this might include savings, support from family and friends, and earnings from part-time work during college. The less you or your child has to repay (with interest) upon graduation, the better.
- Some employers offer programs that help employees pay off student loan debt – something both working parents and children considering post-graduate employment should investigate. 2019's Employer Participation in Repayment Act lets employers give tax-free student loan assistance up to \$5,250 per year, per employee. The number of companies that provide this benefit has doubled over the past year, from 4% to 8%, according to the Society for Human Resource Management's 2019 Employee Benefits Report. Both federal and private loans are eligible.
- If you have taken out a student loan, as a student or a parent, remember that the CARES Act provision that paused federal student loan payments (and interest accrual) ends on December 31. It's unclear if this provision will be renewed in the future.

Please reach out if you or anyone you know would benefit from discussing this topic further.

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