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Analysis

Student Debt: Heavier Burdens, Narrower Career Choices

By LYNN ASINOF, The Fiscal Times on Jul 30, 2010

How do you pay off $25,000, $50,000 or $100,000 of school debt? That's a question many college graduates are facing these days. The answer often depends on the job market in general, career choices, and the starting salaries in a given industry. In today's struggling economy, with lots of young people out of work, the challenge is greater than ever. Poets and artists were never expected to strike it rich, but an artist with a masters in fine arts could easily be carrying $60,000 in college debt—an IOU that could dog them for most of their lives.

Choosing a career path that can pay off can stifle dreams. Unless a student plans on entering academia, however, it can be hard to craft a career that's built around a degree in philosophy or French literature, much less cover the loan payments.

"I am very concerned that more and more students are graduating with excessive debt that is no longer in sync with starting salaries," says Mark Kantrowitz, a financial aid expert who publishes two websites--FinAid.org and FastWeb.com. With students now opting for 20- and 30-year repayment schedules, he says, many will still be paying off their student loan debt when their children are heading to college.

His rule of thumb: Never borrow more than you expect to earn with your starting salary. But with many private colleges charging more than $50,000 a year for an undergraduate education, that guideline can be tough to follow. And the cost of graduate school can be even steeper. A year of law school, for example, can cost close to $70,000 at a private school, and state schools often aren't much cheaper. The tab for tuition, fees, living expenses and miscellaneous expenses is over $60,000 a year at the University of Virginia School of Law—even for an in-state student.

The federal government puts limits on the amount it will lend. Students can always take out private loans, but the rates are typically higher and the loans don't offer the same forgiveness and repayment options. The total maximum available through the government's popular Stafford loans is $31,000 for a dependent undergraduate, $138,500 for a graduate or professional student and a whopping $224,000 for a medical student. These limits reflect the expanded earning potential that comes with advanced education, but they don't necessarily account for the huge variation in salary based on career choice.

"A lot of students have an inflated idea of how much money they are going to make when they get out of college," says Kalman Chany, a Manhattan-based financial aid consultant, noting that finding a job in today's market may itself be a challenge. "They expect to make $100,000 and plan to be a teacher."

Narrowing Choices

Want to be an elementary school teacher, social worker or journalist? For those with undergraduate degrees, these jobs have starting salaries of about $30,000, according to the National Association of Colleges and Employers. Borrow that amount, and the monthly tab based on a standard 10-year repayment schedule will be $345 a month or roughly 17% of take-home pay. That's do-able, says fee-only financial planner Dana Levit of Paragon Financial Advisors, Newton, Mass., but with less than $2,100 a month in earnings after paying federal taxes, it will leave little to spend on anything else and virtually eliminate all savings.

Tuition ROI

Career/Degree	Average Starting Salary	Average Total Debt	Debt as % of Starting Salary	Average Annual Loan Payment (1)	Loan Payment as % of Starting Salary	Loan Payment as % of Discretionary Income (2)
Elementary School Teacher/Bachelors	$31,080	$24,016	77.3%	$276	10.7%	22.4%
Journalist/Bachelors	$34,027	$22,569	66.3%	$260	9.2%	17.5%
Elementary School Teacher/Masters	$38,148	$35,946	94.2%	$414	13.0%	22.7%
Geologist/Bachelors	$39,317	$21,469	54.6%	$247	7.5%	12.9%
Accountant/Bachelors	$48,691	$25,036	51.4%	$288	7.1%	10.7%
Chemical Engineer/Bachelors	$65,628	$21,933	33.4%	$252	4.6%	6.1%
Pediatrician/MD	$140,000	$156,456	111.8%	$1,801	15.4%	17.5%
Orthopedic Surgeon/MD	$322,500	$156,456	48.5%	$1,801	6.7%	7.1%

Source: Mark Kantrowitz, Publisher of FinAid.org and Fastweb.com
(1) Loan payment assumes a 6.8% interest over 10 years. (2) Discretionary income is any amount above 150% of the federal poverty line.

A basic budget for that $30,000-a-year earner would be tight. With a $345 monthly loan payment, there would be just $626 a month for housing, $292 a month for food and $146 a month for household costs, which would include everything from laundry to Internet service. "You are sort of signing yourself up for no fun," says Levit.

Increase earnings and life looks a little better. A geologist with an undergraduate degree has a starting salary of about $40,000, a first-year actuary earns $54,000 and a chemical engineer can expect to start at just over $65,000, according to NACE statistics. Apply Kantrowitz's rule of thumb to these salaries, and there's a bit more budgetary wiggle room. A $50,000 borrower with $50,000 in pre-tax income, for example, would have monthly loan payments of $575 a month but enough income to cover close to $1,000 in monthly housing costs.

Of course, it's possible to reduce monthly payments by stretching them beyond the standard 10-year repayment term, but that dramatically increases the cost of borrowing. Repay a $50,000 Stafford loan at 6.8% interest over 10 years and the total principle and interest cost will be $69,000. Stretch it to 25 years, and that number jumps to nearly $105,000.

Those with advanced degrees face their own set of loan repayment problems. A doctor, for example, may need $200,000 in school loans to get an MD. But starting compensation for a pediatrician who has completed residency is $140,000, according to the latest American Medical Group Association survey. That means roughly 27% of take home pay will go to pay off debt under a 10-year repayment schedule. However, as a doctor's income grows, they have the option of paying off their loans earlier without penalty. Compare that to an orthopedic surgeon, whose starting compensation is $322,500, dropping debt payments just over 12% of after-tax income.

Doctors can certainly pay off their debt more rapidly if their income goes up quickly enough. But doctors make far less than starting salary during their residency training, where annual earnings are only about $50,000. That means many don't make full payments until they are out of their residencies, which last between three and seven years depending on the area of specialty. As a result, their debt is typically even higher by the time they get that starting salary.

Debt Forgiveness

New federal legislation is making it easier for those in lower-paying jobs to pay off their school debt, says Edie Irons, communications director for the Institute for College Access and Success, Oakland, Calif. Income-based repayment, which became available in 2009, allows those with federal student loans to cap monthly payments at a percentage of discretionary income. After 25 years, any outstanding debt is forgiven.

For those who choose public service jobs like school guidance counselor or public defender or non-profit health care, a separate program offers federal loan forgiveness after only 10-years. "This is a very important program for the people who qualify for it, especially if they have gone to graduate school and taken on a lot of debt to become a social worker or a teacher," Irons says.

Aware that debt worries are keeping some students away from lower-paying professions, Scripps College in Claremont, Calif. has taken steps to limit loan amounts in its financial aid packages. It has put an annual $3,500 cap on lending, limiting students to $14,000 over their undergraduate careers. "We were concerned that students were mortgaging their futures to get college degrees, and we didn't want that to happen," says David Levy, director of financial aid. "We wanted students to be able to follow their passions."

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