

Student Loan Game Plan Methodology

Some experts say students' future student loan payments should be no more than 8% to 12% of their monthly salary at the time they begin making payments. Mathematically, this translates to borrowing no more than the equivalent of one year's salary, which is a simple guideline for students to remember. Supplementing federal student loans with private student loans, which tend to have higher interest rates and longer repayment terms, can make it difficult to stay within this range.

Student Loan Game PlanSM focuses on borrowing levels that result in future student loan payments of no more than 8% to 12% of students' estimated monthly earnings at the time they begin making payments.

Note: Except where noted, the methodology statements below apply to all versions of Student Loan Game Plan.

Knowing How Much to Borrow

The default example assumes borrowing \$7,250 per year for four years. Adding up tuition, fees, room and board plus entertainment expenses for four years using the numbers below totals \$77,752. Therefore, the example assumes a student will borrow 37.4% of these expenses. This proportion is applied to the calculations for the "Time to graduation" slider tool.

Slider tools:

▶ Time to graduation

- Four years (default): Assumes \$25,400, included in the example amount as described above
- 4.5 years: Adds \$3,450 to assumed \$25,400
- 5 years: Adds \$6,900 to assumed \$25,400

Assumptions: College Board Trends in College Pricing 2014 (<http://trends.collegeboard.org/sites/default/files/2014-trends-in-college-pricing-final-web.pdf>) for 2014–2015 public four-year in-state tuition and fees (\$9,139) and room and board (\$9,804) for a total of \$18,493 per year.

▶ Money from a portion of earnings while in school

- \$0 (default): Subtracts \$0 from the example amount
- \$2,600 (average): Subtracts \$2,600 times number of years in "Time to graduation" slider tool
- \$3,900 (1.5 times average): Subtracts \$3,900 times number of years in "Time to graduation" slider tool

Assumptions: Federal minimum wage is \$7.25 and the average undergraduate student works 20 hours per week (<http://www.nber.org/papers/w17744.pdf>) for 30 weeks of the academic term (\$4,350) with assumed taxes of 20% for earnings of \$3,480. Also assumes the student applies 75% of earnings directly to tuition, fees, room and board and entertainment expenses.

▶ **Where you live**

- Dorm (default): Subtracts \$0 from the example amount
- Off-campus: Subtracts \$2,174 times number of years in the “Time to graduate” slider tool (\$7,630 per year [10 months]; \$538 per month rent [Midwest housing divided by 2.4 (based on BLS consumer units) divided by 12]; \$225 per month in food [http://www.bls.gov/regions/Midwest/data/consumerexpenditures_selectedareas_table.htm; Midwest food divided by 2.4 (based on BLS consumer units) divided by 12])
- Fraternity/sorority: Subtracts \$2,404 times the number of years in the “Time to graduate” slider tool (\$3,700 per semester [<http://www.greek.iastate.edu/housing/costs/>])

▶ **Eating out, gourmet coffee and entertainment**

- \$90 (default): Contributes \$900 times the number of years in the “Time to graduate” slider tool
- \$135: Contributes \$1,350 (1.5 times average) times the number of years in the “Time to graduate” slider tool
- \$180: Contributes \$1,800 (2 times average) times the number of years in the “Time to graduate” slider tool

Assumptions: Average of \$90 per month for 10 months based on 2015 Bureau of Labor Statistics for respondents born in 1981 or later (<http://www.bls.gov/cex/csxresearchtables.htm> [entertainment divided by 2.5 (based on BLS consumer units) divided by 12])

Finding Your Future Salary

Salary information is based on the most recently available U.S. Census Bureau’s annual American Community Survey Public Use Microdata Sample File 1-Year Estimates. These files are released in September for the previous calendar year. It refers to actual earnings reported by bachelor’s degree recipients of majors in 15 categories.

Estimated starting salaries are based on 25th percentile salary information (inflation-adjusted dollars for the year of the PUMS data release) for U.S. civilians with a highest academic degree of a bachelor’s degree, age 18 – 64 (inclusive), who work full-time and full-year.

Understanding Your Student Loan Amounts (For Users Not Enrolled in College)

Estimated student loan payments assume:

- ▶ The first \$27,000 borrowed is federal student loans, with 50% of the loans subsidized and 50% unsubsidized.
- ▶ A fixed 5.00% interest rate and a 10-year repayment period for federal student loans.
- ▶ The remainder of debt in private student loans.
- ▶ A fixed 6.00% interest rate and a 15-year repayment term for private student loans.
- ▶ The borrower is in school for four years.
- ▶ In-school interest accrual is assumed to begin at loan origination and continue through a grace period (51 total months for first-year loans, 39 months for second-year loans, 27 months for third-year loans and 15 months for fourth-year loans), capitalizing once at the beginning of repayment.
- ▶ Origination fees are not factored into this example.

The “Reducing your payments” slider tool assumes all of the above plus the following:

- ▶ Interest payments are a fixed amount per month throughout the in-school period.
- ▶ To simplify calculations, interest payments are applied only to federal student loans.
- ▶ Interest payments are applied before interest capitalization occurs at the beginning of the repayment period.

Estimated payment amounts with interest are the estimated monthly payment shown times the months remaining in the term of the loan.

These estimates are for illustrative purposes only and may not reflect the actual terms of a user’s loans. Actual student loan interest rates, future student loan amounts and payments made while in school affect future monthly payment amounts.

Understanding Your Student Loan Payments (For Users Already Accepted into a College and Private Student Loan Applicants)

Estimated student loan payments assume:

- ▶ The user-supplied amounts for previously borrowed amounts, amounts the user plans to borrow in the current year and amounts the user plans to borrow in the future to complete the undergraduate degree.
- ▶ Fixed interest rates and terms for federal and private student loans as noted on the screen.
- ▶ The noted distribution of subsidized and unsubsidized federal student loans.
- ▶ The borrower is in school for four years.
- ▶ In-school interest is based on past plus present loan amounts amortized over the remaining years, including a six-month grace period.

- ▶ In-school interest is assumed to begin at loan origination, capitalizing once at the beginning of repayment.
- ▶ Origination fees are not factored into this example.

The making payments while you're in school tools assume all of the above plus the following:

- ▶ Interest payments are a fixed amount per month throughout the in-school period.
- ▶ Interest payments are applied before interest capitalization occurs at the beginning of the repayment period.

Estimated payment amounts with interest are the rounded estimated monthly payment shown times the months remaining in the term of the loan.

These estimates are for illustrative purposes only and may not reflect the actual terms of a user's loans. Actual student loan interest rates, future student loan amounts and payments made while in school affect future monthly payment amounts.

Planning a Budget

Income and deduction amounts used in the projected budget are calculated based on the earnings of graduates from the major selected by the user, as described above. Other expenses are based on 2015 Bureau of Labor Statistics for respondents born in 1981 or later (<http://www.bls.gov/cex/csxresearchtables.htm> [divided by 2.5 (based on BLS consumer units) divided by 12]).

Expenses	Description
Taxes and withholding	20% of gross monthly earnings
Insurance	\$100 (Includes a basic medical plan for an individual)
Retirement	3% of gross monthly earnings
Housing and utilities	\$725 (Includes rent/mortgage and utilities)
Food	\$330 (Includes groceries and dining out)
Transportation	\$350 (Includes a car payment, gas, insurance, registration and maintenance)
Other	\$150 (Includes Internet service, cell phone plan and other miscellaneous purchases)

Taking Action

Estimated savings are for illustrative purposes only and are based on approximate costs and earnings. Geographic location, lifestyle and personal choices affect the amount of savings. Savings shown are estimates per month.

Action	Estimated Savings
Buying discounted items	\$58 (Based on claims by Wal-Mart that shoppers can save \$700 per year)
Help from relatives	\$50
Part-time job earnings	\$464 (working 20 hours per week, four weeks per month, at \$7.25 per hour — federal minimum wage — after taxes, assumed to be 20%)
Coffee savings	\$36 (\$3.65 for a grande caffe latte at Starbucks vs. \$0.60 per cup to brew Starbucks at home, three days a week, four weeks per month)
Skipping fast food	\$24 (\$6 per meal, four meals per month)
Renting inexpensive movies	\$28 (\$9 for a movie ticket vs. \$2 for rental, four times per month)
Basic cell phone plan	\$40 (Highest individual plan vs. lowest at http://cell-phone-providers-review.toptenreviews.com/)
Rent or buy used books	\$60 (Assumes saving 50% on the College Board average of \$1,200 a year, divided over 10 months)
Using meal plan	\$156 (Assumes \$6 for each meal, three meals per week, four weeks per month, plus average cost of \$7 for the missed meal on a meal plan)
Using free Wi-Fi	\$40 (Based on Internet connection costs from https://static.newamerica.org/attachments/3916-the-cost-of-connectivity-2013/The_Cost_of_Connectivity_2013_Data_Release.32a58f47c2344c1d98174887d7ada4e4.pdf [PDF].)