

Money Unscripted: Tackling student loan debt

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How much debt do I have?

Like all things student debt, there's definitely confusion.

So at 18, you're not really thinking about what the implications are of taking out 60, 70, \$80,000 worth of loans.

I feel you. I was you.

So before you know it, you're 26, and you realize that some of your loan debt is growing versus getting paid down.

The first thing you need to do is get organized.

Welcome to Money Unscripted, a podcast from Fidelity Investments. We're talking life and money, the personal side of finance. I'm Ally Donnelly. Thanks for being here.

Even though there's been debt relief for some borrowers, Americans collectively still hold over \$1 trillion in student loans. It can feel unmanageable. But today, we're going to try and help you get a handle on it, with tips on getting organized, what to do if you can't afford the payments, and potential tax implications for future debt relief.

But first, meet Zach Ciampa. He'd been living on his own for years. But he moved back in with his parents to save money. Sound familiar? Even with the move, though, he's struggling to figure out how to pay off a mountain of debt and save for his future.

My name is @SnachwithZach. Let's get into it.

Making TikToks, making music, and moving back in with Mom and Dad. At 26 years old, Zach Ciampa is getting creative to pay off his student loans and save for a home of his own.

So how much debt do you have?

I have \$42,000 in loan debt, total.

You went off to college in 2012. How much did you borrow?

I think the total number is somewhere around \$64,000, give or take.

So you've got your loans, and there's this pause. What happens during the pause? Did you pay some of it? What did you do?

When the pandemic rolled around, everything was in financial turmoil. I got laid off from my restaurant job. What basically happened is everybody went into forbearance.

Forbearance, that temporary postponement of student loan payments. For federal loans, the pause lasted three years.

Private loans were on autopay, as they were. And the federal was small enough that I wasn't, like, oh, this is an extra amount of money that I have. There was a question of whether or not to pay it while it was on forbearance. But I, like a lot of different people, didn't do that.

When the federal loan payments started back up in the fall of 2023, we asked Zach to check out his bill. When it started it was \$27,000. Now it's \$29,000. I was not expecting to find out that my balances have increased for federal. In terms of the private loans, I've definitely made some good progress on those. What I didn't realize is the monthly payments for federal only included the principal and my loans have now started to balloon. After three years of forbearance, it's a shock to find out the amount is still going up.

Zach is now paying about \$750 a month on student loan debt.

What's your plan?

Even with a job in tech, I technically have two side hustles, three total jobs, if you will. I do a lot.

When you initially started doing your side hustles, you weren't necessarily thinking, oh, great way to pay off my student debt.

They were things that I just enjoyed doing. Then, when I realized that I could monetize them, it's at least exciting to be, like, OK, I can do something that I like to do and get a little bit more money. That, at least, neutralizes some of the loan. But it would be nice to use more of that money for something else.

Like that down payment for a house.

So the question is, do I dip into that amount of money and use it to just completely knock out the loans? I'm not really sure how to navigate that yet. And it feels like my goal of home ownership has now been pushed out another couple of years.

What's that weight on you?

It's a lot of extra stress. There's so much now to factor in and get all of these pieces together for your life. That is something that I do think about at night-- and during the day, whenever. It's always in the back of my mind.

Zach is one of millions of student loan borrowers juggling his budget, figuring out numbers and emotions. But there are still a lot of questions folks have. So I want to bring in Amanda Hahnel. Her job here at Fidelity is to be one of our top experts on student debt. So I'm glad to have you here, Amanda. Thanks for having me. I'm excited to be here.

Yeah, of course. So federal student loan payments restarted in October. But I want to just level-set for a minute. Where are borrowers now and how are they feeling?

After three years, federal loan payments resumed, which was stressful for a lot of folks. They had a lot of ambiguity over the past several years about if payments would resume, when they would resume, and how much they would owe. So during that time, they made a lot of life choices. Some of them got new cars, new jobs, new babies, new houses. Their finances changed.

So while some of them may have been prepared for student loan payments to resume, others weren't. So right now, they're just in a period of great anxiety as they're trying to figure out how to bring these payments back into their monthly budgets.

Yeah. I mean, anxiety and confusion, right, on some level.

Absolutely.

They have restarted. But at the same time, there's an onramp, transition period until September. How does that work?

Like all things student debt, there's definitely confusion. Payments have resumed. Interest is accruing. You should be repaying your payments if you can.

But the federal government has realized that might be difficult for some folks. And so they're trying to make it as easy as possible to get back up to speed. So during the next couple of months, if you can't pay or aren't yet paying, they won't be reporting you as delinquent or in default to your credit reporting agency. But they are still charging you interest, which means that your loan balance may be growing, your total payments when you do start paying may be even higher than they are today.

I want to go back to credit for a second. You said missing a payment isn't going to lead to negative credit reporting. But if you're delinquent on a federal or private loan, that could impact your credit, right?

Absolutely. So being delinquent or default, eventually, will absolutely show up and impact your credit. In this interim grace period, if you're missing payments, they're not going to report those or label you as in default to the credit reporting agencies. But they're also not going to actually tell them that you're making payments because you're not.

Right.

They don't have control over what that will do to your credit score. So you still can have negative credit reporting and repercussions, even though no one's going after you for missing payments at this particular time.

Right. OK. So if folks are still struggling to just make those repayments, what options do they have.

So there's a few things that they can do. The first one is to get organized and to look at their budget.

They might look at ways to increase their income. So some folks take on side hustles, additional jobs as they're looking through.

Other folks try to reduce a few of their expenses. So if you look at Zach, he's made some choices, to move in with his parents, and to do some of that. That will help you get kind of a baseline of what exactly you can pay in student loans.

If that's still not exactly what you can actually afford when you look at your budget, you can also look at different types of repayment programs that federal loan providers may offer, like income driven repayments. Those may be helpful in the short term in terms of looking at what you can do month to month, but they can increase the total amount that you pay and the amount of time that you pay over your lifetime, which can be stressful.

Are there any other options?

Yeah. So one of the most exciting things that's happened recently is employers are really leaning in to help. So they're starting to offer benefits to either pay down loans or to help you with other financial goals if you have student loans.

There's relatively new legislation, SECURE 2.0, and that could help even more employers get invested in helping their employees, right?

Absolutely. So we're particularly excited about this legislation that just went into effect in January. It allows employers to actually make retirement matches on student loan payments that folks are making. So we often talk about student loans as a now problem.

But it's also a future problem, what are you going to do in retirement, how do you save up. So this legislation really makes it easy and available for employers to say you're going to pay your student loans now. We're going to help save for retirement in the future.

Yeah, interesting. I mean, I also wonder, as people are looking for new jobs, if that could be a factor.

Absolutely. We see a lot of people looking at student loan benefits as a primary source that's going to help sway them from one job to another. So really looking at benefits that impact their financial situation, what their needs right now, is becoming more and more prevalent in the job market.

Yeah, I imagine. We talk about student loans kind of broadly. I think people share big numbers, you know, \$40,000, \$50,000, \$20,000, \$14,000. But what is the average monthly payment?

The average monthly payment is about the size of a new car payment. So you're talking \$400. But it depends on your life situation and kind of where you are. So folks who are just graduating, maybe a little bit less. But a lot more of them have it. As you go to grad school, you're taking out more.

If you're a parent and you have a couple of kids, you could be owing a lot. And folks have a lot of loans they're juggling. So you're talking about 8 to 15 loans, sometimes with multiple providers. It's confusing and difficult to manage.

Yeah. I get that. According to the US Department of Education, the government has now given away more than \$100 billion in debt relief for more than about 3.5 million borrowers. So if loans are forgiven, is that considered income? And are there tax implications?

It's a great question. Right now, no. We believe there will be, in 2025, when certain legislation that makes it tax free expires. But it will always depend on the kind of loan forgiveness that you're getting and the exact details of that program. So if you are lucky enough to be getting some loan forgiveness, you should definitely make sure that you're preparing for any possible taxes, and you're looking at all of the repercussions for it.

OK. This is a question from Zach. I think, though, lots of student loan borrowers could be navigating this now. So as he thinks about his new priorities with the buying a first home, A: how do you prioritize, you said, 8 to 15 loans? That blows my mind. So how do you prioritize which loan to tackle first and then just savings versus debt in general?

Zach and many have a great question here. Because the first thing you need to do is get organized. So Fidelity can help with that. If you go to [Fidelity.com/studentdebthelp](https://www.Fidelity.com/studentdebthelp), we have a variety of tools where you can actually put in all of your loans.

It will help you understand your interest rate per loan and different strategies to repay. So whether you want to pay your highest interest loan first or your lowest balance loan first so you have fewer things to manage will depend on you. But you can help look at that and make that decision.

The second piece is you're going to have to look at your financial priorities against one another, which is what Zach is looking at, right? If you're making your payments on your loans, do you want to move to your next financial priority and juggle them between the two? You absolutely can, right?

Do you want to put a little bit more into your student loans and repay faster? That makes sense for some folks, to be a little bit less stressed. Right? But there's going to be trade offs either way here for you in terms of how you're juggling your finances. So having a tool that can help you look more holistically at your financial picture is going to help.

Great, OK. As you're looking at the debt, if you're only paying your minimum every month, how does that impact the interest on it?

It's going to depend on your loans And the kind of repayment plan that you're on. So if you're paying your minimum and you're on a standard repayment plan that they kind of put you on after graduation, you're probably going to be fine. If you're on an income driven repayment plan, you could actually see your balances go up, although recent government action has tried to put a cap on that so that way you're at least maintaining your loan balance, and you could be paying for longer.

Private loans run the gamut, depending on the actual type of repayment plan you're on and what you may have dealt with with your borrower. So putting more of your information in, actually seeing what your payment plan will do in terms of your age at pay off, the total amount that you pay will be really helpful for most folks in terms of making the plan about what they actually need to do. But they'll need to know those details, what kind of repayment plan is going to be a big factor in understanding the answer to that question.

It's just so much, right? I mean, it's a lot. So what do you want to leave people with?

It might seem like a life sentence right now. But you can make a plan, and you can actually look at how it's going to work with your finances and start managing towards better, broader financial futures.

Right?

Well, I mean, that's the rub, right? So for many people, just like any kind of debt or any kind of big financial issue, it can really be overwhelming to some people. So I think some people do have that kind of reaction of just ah, go away, or we'll deal with this later. What do you say to them?

I feel you. I was you. No, really, student debt is hard, and it is confusing. The variety of student loan types, payments, actors can be really hard to navigate. So use help. Go out and actually spend some

time putting it down. I promise it may be stressful, but it will make you feel way better when you get out of it if you use some of those resources.

Keep your eyes on what's happening, right? There will be things that change within the broader ecosystem. But it's not going to change tomorrow. So you do still need to figure out a pathway forward right now to try to alleviate some of that stress that you feel and to move forward with your life so you're not stuck.

[MUSIC PLAYING]

Amanda, thank you so much.

Thank you for having me.

If you want more help managing your student loan debt, head to Fidelity.com/MoneyUnscripted. You'll find tools and strategies to help you tackle your situation. Be sure to like, follow, subscribe, and we'll see you next time on Money Unscripted. It's your life. Get your money's worth.

Footnotes and disclosures

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