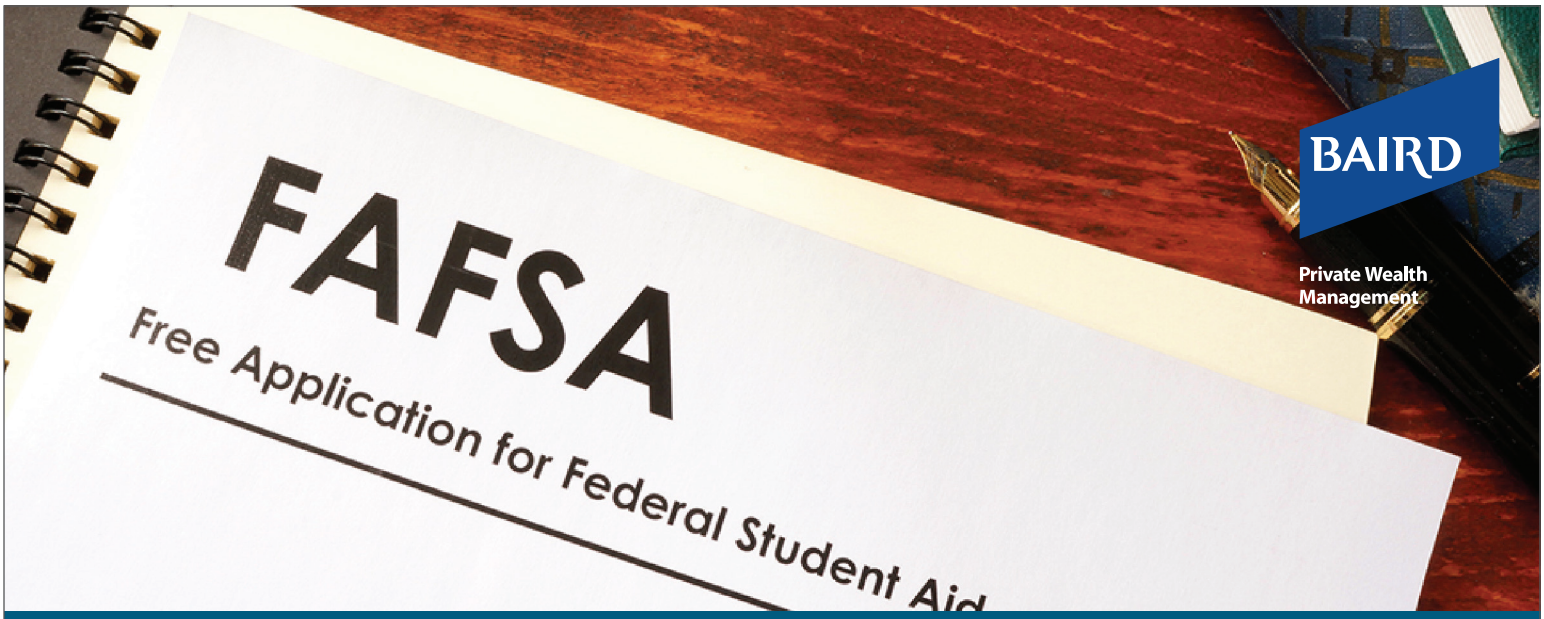


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# The Smart Way to Pay Off Student Loans

If you're anxious about paying off your student loans, you're not alone – there are more than 45 million in the United States in the same boat, including 8.5 million people in default. Here are six tips on how you can keep from sinking.

### TIP ONE: KNOW YOUR DEBT

The first step is making the time and space to take stock of where you are. How much student debt do you have? Do you have private student loans, federal loans or both? If you have one or more federal loan, your first stop should be the National Student Loan Data System, which allows you to look at all of your federal student loans, all in one place.

### TIP TWO: UNDERSTAND YOUR REPAYMENT OPTIONS

Once you have a firm grasp on the kind and amount of debt you have, you can begin to figure out which repayment plan is best for you. There are basically four types of federal loan repayment plans:

A standard repayment plan, where your loan servicing company divides how much you owe into 120 monthly payments. You pay the same amount every month, and after 10 years, your loans are paid off. If you don't choose a plan, this is the one you will be placed into by default after your grace period expires.

An extended repayment plan, where you pay a lower amount but over a longer period of time. The lower monthly payment is often more realistic for new college grads, but you end up paying more in overall interest for up to 25 years.

A graduated repayment plan, where you still pay off your debt in 10 years, but you start with low payments that increase every two years. This option's beginning payments are lower than what you'd pay in the standard plan, but as time goes on, the payments increase gradually until they become higher than the standard plan's.

An income-driven repayment plan, where your monthly payments are based on what you can afford to pay. This option has two major benefits: (1) affordable monthly payments based on your income instead ▶

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of your loan balance, and (2) a loan forgiveness feature after 20 or 25 years, depending on the particulars of your plan. Note that for this plan, you have to certify your income every year or risk falling out and losing its benefits.

In addition to these four plans, there is a program called Public Service Loan Forgiveness where applicants who are employed by a federal, state, local or tribal government or nonprofit organization can be eligible for loan forgiveness after 10 years. Be careful, though: There have been many instances where people who thought they were in the PSLF program found out they were not, many years and thousands of dollars later. Submitting an employment certification form signals to the loan servicer and the Department of Education that you're intending to pursue this program, and you will be sent a letter if for some reason you risk falling out of compliance. PSLF applicants should resubmit this form yearly and any time they change jobs.

### TIP THREE: BE YOUR OWN ADVOCATE

While your loan servicer is an important point of contact, understand that they are serving as your loan institution's advocate, not yours. Do your own research and ask for confirmation in writing that you're in the right plan and the right program.

A good example of this dynamic can be seen in what is known as forbearance. If you are struggling to make your payments and call your loan servicer about your options, they might want to place you in forbearance, which allows you to skip payments for a few months. While that might seem like a helpful option, it carries with it several disadvantages: Not only is it easy to let three months turn into six or 12 (pushing you that much farther away from paying off your debt or achieving debt forgiveness), but when forbearance ends, you often have a higher interest rate, monthly payments and total debt than you had before accepting forbearance. That's why it's important to do your own research and understand your repayment options.

### TIP FOUR: KEEP YOUR CONTACT INFORMATION CURRENT

Ten, 20, 25 years can be a long time, and a lot can happen while you're paying back your student loans – you might move, change jobs, get married or change phone numbers. In the hustle and bustle of daily life, it's easy to forget to keep your loan providers up to date with your most recent contact information. Many people become unaware of problems with their loans simply because their loan providers' warnings are delivered to old addresses and phone numbers.

### TIP FIVE: MAINTAIN YOUR BUDGET

When you're talking about thousands or tens of thousands of dollars of debt, you might be tempted to throw your budget out the window – when actually you need your budget now more than ever. Keeping a realistic budget lets you make smart financial decisions on how much to spend, how much to save in an emergency fund, how much to put in a 401(k) or IRA and how much to put toward your loans. It can also help you establish a strategy to paying down debt in a way that works for you, without resorting to credit cards.

### TIP SIX: CAREFULLY WEIGH THE PROS AND CONS OF DEBT CONSOLIDATION AND REFINANCING

Whether you're rolling up multiple federal loans into one federal loan (consolidation) or into a private loan at a lower interest rate (refinancing), there can be significant risks and benefits to combining your student debt. Perhaps the biggest danger to consolidating or refinancing is that you may lose some of the protections and benefits that you get with your original loans, such as eligibility into the PSLF program or an income-driven repayment plan.

One final word of advice: Watch out for scammers. You might get approached by seemingly legitimate companies offering you better terms and convenience if you send your loan payments directly to them. If you're looking for help navigating your payments and ensuring you're making smart decisions regarding your student loans, your Baird Financial Advisor is a great place to start.

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