

Understanding how much student debt you can afford

Students calculate how much they can afford in monthly student loan payments based on what their salary might be after college.

Learning goals

Big idea

Making sure your student loan debt will be affordable once you graduate can help prepare you to manage your money as an adult.

Essential questions

- How much student loan debt can I handle?
- How does the career I choose affect the amount of debt I can successfully manage?

Objectives


- Understand that your career choices may influence your ability to repay student loans
- Determine how much student loan debt you could afford based on a career's starting salary

What students will do

- Calculate the monthly gross income for several entry-level jobs.
- For each career, they'll calculate how much money they can spend on debt repayment each month.
- Determine whether each career would allow them to afford the student loan amount described in the scenario.

KEY INFORMATION

Building block:

 Financial knowledge and decision-making skills

Grade level: High school (11-12)

Age range: 16-19

Topic: Borrow (Getting loans), Spend (Paying for college)

School subject: CTE (Career and technical education), Math, Social studies or history

Teaching strategy: Direct instruction, Personalized instruction

Bloom's Taxonomy level: Understand, Analyze

Activity duration: 45-60 minutes

STANDARDS

Council for Economic Education
Standard IV. Using credit

Jump\$tart Coalition
Credit and debt - Standard 3
Financial decision-making - Standard 2

Preparing for this activity

- Print copies of all student materials, or prepare for students to access them electronically.
- While it's not essential, having students complete activities such as "[Reading about federal financial aid](#)" or "[Learning how federal financial aid can help you pay for higher education](#)" before this one may make it more meaningful.

What you'll need

THIS TEACHER GUIDE

- [Understanding how much student debt you can afford \(guide\)](#)
[cfpb_building_block_activities_understanding-how-much-student-debt-afford_guide.pdf](#)

STUDENT MATERIALS

- [Understanding how much student debt you can afford \(worksheet\)](#)
[cfpb_building_block_activities_understanding-how-much-student-debt-afford_worksheet.pdf](#)

Exploring key financial concepts

When choosing a college or other post-secondary institution, be sure to consider how much debt may follow you after graduation, since you may be paying your loans back for 10 years or more. If you decide how much student debt is too much BEFORE you take out any loans, you'll likely ease your financial burden for years to come. To make this decision, consider both how much your monthly loan payments and your monthly gross income – your total pay before taxes and other deductions are taken out – are likely to be.

A good place to start is to calculate what your monthly payments would be for different loan amounts. One rule to live by is to try to limit your total amount of student loans to a small percentage of what your expected annual salary may be from the first job you get after college. For the purpose of this activity, we'll allocate 10 percent of your gross income for debt repayment. Taking the time to thoughtfully plan can help you make informed borrowing decisions that set you up for a more manageable financial future.

TIP

Because financial aid rules and programs change, students should be encouraged to always look for the most up-to-date information.

Teaching this activity

TIP

Visit CFPB's financial education glossary at consumerfinance.gov/financial-education-glossary/.

Whole-class introduction

- Distribute the “Understanding how much student debt you can afford” worksheet to students.
- Be sure students understand key vocabulary:
 - **Budget:** A plan that outlines what money you expect to earn or receive (your income) and how you will save it or spend it (your expenses) for a given period of time; also called a spending plan.
 - **Federal student loans:** These loans are funded by the federal government and have terms and conditions that are set by law. Federal loans also include benefits that private student loans don't usually offer. These benefits could include lower interest rates, repayment plans based on income, and possible loan forgiveness for people who choose to work for a certain amount of time in government or for certain not-for-profit organizations or teach in a low-income school.
 - **Financial aid:** When money is given in the form of grants, work-study, loans, and scholarships to help pay for post-secondary tuition and fees, as well as related expenses such as room and board, books, supplies, and transportation.
 - **Loan:** Money that needs to be repaid by the borrower, generally with interest. (You'll have to pay interest on student loans.)
 - **Post-secondary education:** Includes all forms of schooling after high school, not just college.
 - **Private student loans:** These loans are from private organizations, such as banks and credit unions, which set their own terms and conditions. Private loans are generally more expensive than federal loans.

Individual and group work

- Ask students to review the “Understanding how much student debt you can afford” worksheet with a partner or a small group and discuss the following questions:
 - Why might it be good to limit how much of your monthly budget will go toward debt repayment?
 - Why is it important to consider your potential salary after graduation when you're determining how much student loan debt you can afford?

- Bring students back together to share their thinking as a class.
- Check to make sure students understand what they're being asked to do in this activity and then give them time to complete the activity.

Wrap-up

- Bring the class back together to share what they have learned.
- Ask them to compare their answers with other groups. If answers differ, have them recalculate problems as needed.
- Wrap up the activity by giving students time to complete the reflection questions.

Suggested next steps

Consider searching for other [CFPB activities](#) that address the topics of borrowing, including getting loans, and spending, including paying for college.

Measuring student learning

Students' responses on the worksheet can give you a sense of their understanding.

Keep in mind that students' answers may vary. The important thing is for students to have reasonable justification for their answers.

This answer guide provides possible answers for the "Understanding how much student debt you can afford" worksheet.

Occupation	Starting annual gross income	Monthly gross income (annual ÷ 12)	Budget allocation (10% of monthly gross income)	Monthly student loan payment	Can you afford this much debt?
Chemical engineer	\$62,230	\$5,185.83	\$518.58	\$279.26	Yes
Graphic designer	\$28,560	\$2,380.00	\$238.00	\$279.26	No
Human resources specialist	\$35,810	\$2,984.17	\$298.42	\$279.26	Yes
Social worker	\$29,560	\$2,463.33	\$246.33	\$279.26	No