

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 graduating from college or another post-secondary institution.

Learning goals

Big idea

Making sure your student loan debt will be affordable once you graduate can help prepare you to manage your money in the future.

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

NOTE

Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

KEY INFORMATION

Building block:

 Financial knowledge and decision-making skills

Grade level: High school (11-12)

Age range: 16-19

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

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

National Standards for Personal Financial Education, 2021

Earning income: 8-3, 8-4, 12-3, 12-4, 12-5

Managing credit: 8-6, 12-4, 12-5

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

What students will do

- Calculate the monthly gross income for entry-level jobs in different careers.
- 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.

Preparing for this activity

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

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 you need to borrow, since you may be paying your loans back for 10 years or more after you graduate. 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 how much both your monthly loan payments and your monthly gross income – your total pay before taxes and other deductions are taken out – are likely to be.

TIP

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

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 example, you could decide that your monthly loan payment should be no more than 10 percent of your gross income. Taking the time to thoughtfully plan can help you make informed borrowing decisions that set you up for a more manageable financial future.

Teaching this activity

Whole-class introduction

- Ask students if they would consider getting student loans to help pay for college or other post-secondary education.
- Ask students to share some things they might need to do to be sure they can pay back the loans.
 - Answers may include avoiding borrowing too much or making sure they can earn enough money to pay back the loans.
- Read the “Exploring key financial concepts” section 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:** Money 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.
 - **Gross income:** Total pay before taxes and other deductions are taken out.
 - **Loan:** Money that needs to be repaid by the borrower, generally with interest. (You’ll have to pay interest on student loans.)

TIP

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

- **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

- Distribute the “Understanding how much student debt you can afford” worksheet to students.
- Have students work in pairs or small groups to review the worksheet 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?
- The pairs or groups will then complete the calculations on the worksheet.
- Be sure students understand that the loan amount, monthly payment, and salaries on the worksheet are examples only.
- Explain that while the worksheet scenario limits monthly loan payments to 10 percent of monthly gross income, people should choose an amount that works for their circumstances. The important thing is to try not to accumulate more total student debt than you expect to earn as a starting annual salary when you leave school.
- Students will then complete the reflection questions on their own.

Wrap-up

- Ask the pairs or groups to share their answers to the calculations.
- Ask them to compare their answers with other groups. If answers differ, have them recalculate problems as needed.
- Ask volunteers to share their answers to the reflection questions.

Suggested next steps

Consider searching for other [CFPB activities](#) that address the topics of spending, including paying for college, and borrowing, including getting loans. Suggested activities include [“Using a student loan calculator”](#) and [“Choosing a student loan that’s right for you”](#).

Measuring student learning

Students’ answers on their worksheets and during discussion can give you a sense of their understanding.

This answer guide provides possible answers for the “Understanding how much student debt you can afford” worksheet. **Keep in mind that students’ answers may vary.** The important thing is for students to have reasonable justification for their answers.

Answer guide

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