

How Should I Budget Around Student Loan Forgiveness?

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Are student loans holding you back? For those burdened with student loans, it's no secret how difficult it can be to save for the future while trying to manage the financial strain of paying down your debt. Lately, the debate around student loan forgiveness has been heating up, with various proposals being put forth and then shot down. While there is newfound potential with the Biden-Harris Administration's proposal, it's important to keep in mind that nothing is set in stone. Unless a proposal is passed and signed into law, you shouldn't plan around it.

What's The Update on Student Loan Forgiveness?

We can only plan around what we know today. As of right now, interest rates and loan repayment have been suspended as Americans wait for the Supreme Court's decision. Payments and interest accrual will resume 60 days after the litigation is resolved, or 60 days after June 30th if the court has not yet decided.

While this means you currently have one less monthly expense, it's important to resist the temptation to use the extra cash as spending money. If you become accustomed to living without this expense, you will one day wake up to a loan payment that you can't afford.

It's crucial to remember that the proposed student loan forgiveness will only wipe out a maximum of \$10,000 (\$20,000 in certain circumstances) of your federal loans and your eligibility is based on your annual income and filing status. The average federal student loan debt balance is around \$40,000, which means many Americans will still have some debt left to pay off even if the proposal passes.

What Should I Do During the Student Loan Pause?

Our primary recommendation is to save the same amount of your monthly student loan payment into a high-yield savings account of your choosing. This allows you to receive interest payments on the cash you save while also avoiding the risk of living beyond your means. When the student loan pause is lifted, the cash accumulated can be used to pay down the remaining debt or put towards other goals. The important part is you've become accustomed to a set monthly expense and can continue that without disruption when you must resume making payments.

If you know that you will use the money rather than save it, you may want to consider another option. For those with more federal loan debt than the proposal will forgive, it may be in your best interest to keep paying down your loans even during the pause. Doing so will help you maintain healthy saving habits and be prepared when you must start making payments again. Borrowers who have less than \$10,000 in federal student loans **should not** consider this option as they may have the entire amount forgiven, meaning paying off their loans earlier would be a waste of money. Ultimately, the decision between placing money in a high-yield savings account or continuing to pay off student loans lies in your personal spending and saving habits.

The Bottom Line

While we can't answer if student loan forgiveness will happen or not, we can help you prepare for when the pause on payments comes to an end. The most effective way to prepare is to imagine that the expense never disappeared in the first place. Instead, use this time to build up your savings and maintain healthy budgeting habits.