

Wading through student debt

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Anything written on financial planning and debt among university students is likely to be riddled with sound bites that seem to be common sense, as though students intelligent enough to enter a post-secondary institution should be able to budget and manage their money wisely and need only intermittent reminders.

Alas, as studies conducted by various prominent Canadian institutions point out, an assortment of factors conspire to complicate how students pay for their education and stay on track throughout their first four (or five, or six) years of university. And now, with the average debt accrued upon graduation rising to nearly \$20,000 among Canadian students according to the latest figures by Statistics Canada, more than ever it is important for students to seriously examine their finances.

That's not to say that all students share a perspective on this – many are lucky enough to have had their parents save money for their education or help them along the way with some or all of the cost burden. In fact, a full 56 per cent of students in Canada polled by a BMO Financial Group survey this summer said they relied on parental contributions to largely fund their education. Regardless, awareness of the true financial toll of university education is lacking according to some.

“Financial literacy is always a problem with first year students,” said Sean Madden, the VP of university affairs for the Wilfrid Laurier University Students' Union (WLUSU) and president of the Ontario Undergraduate Students' Association (OUSA). “I know I experienced that.”

Students progressing through their university careers need to maintain a level of awareness of all facets of their financial situation, and those responsible for funding their own education and unable to fall back on parental support face the most pressure.

“Students don't tend to have an idea of what they're facing,” said Perry Quinton, vice president of marketing at Investor Education Fund. “Tuition is the tip of the iceberg, there are a lot of other costs involved.”

On average, a year of undergraduate education in Ontario carries a \$6,500 price tag for tuition alone according to a study by the Canadian Centre for Policy Alternatives (CCPA). Consider all the other costs students encounter, including rising ancillary fees, rent, food, phone and entertainment and it's not difficult to see how some manage to incur up to \$50,000 in debt of one kind or another over

the course of a bachelor's degree if they are dependent entirely upon student loans.

Working during university is one option, but in many of cases it can become a balancing act between schoolwork and part-time jobs for students who take this route. As well, OSAP will "claw back" any earnings students make while they are in school beyond roughly 10 hours a week at minimum wage by decreasing the available loan. "When you have a part-time job and you're on OSAP, the job is a complement, it can't supplement you financially," WLUSU president Nick Gibson said.

Based on a \$24,000 average debt load upon graduation, Quinton said that the stakes are higher than some students realize. "It's either people with zero debt who have been able to save or had their parents fund their education or the other extreme is \$48,000," she said. "When you graduate with that kind of debt you're looking at decades before you'll be able to pay that off."

Costs of education in this province have not risen proportionately with income levels, according to the same CCPA study. While from 1990 to 2011 the average after-tax income for middle-class families in Ontario has risen only 12.5 per cent to \$54,000, in the same time undergraduate tuition levels jumped from \$2,500 annually to \$6,500 – an increase of 260 per cent.

The result is that while in the past a student may have been able to feasibly pay for their education through a combination of reasonable parental contributions and savings or work, disproportionate cost increases make it more likely that students will struggle financially or accumulate greater debt.

For some, debt is unavoidable in light of the realities of paying for education. However, mitigating the amount of debt incurred and having plans to repay the accumulated total upon graduating are the two things students need to keep in mind.

Budgeting is key, said Brian Smith, a finance professor in the School of Business and Economics at Wilfrid Laurier University. "Obviously it's pretty common sense but students need to budget ahead of time," he said. "They should also be aware of contingency planning, thinking a little bit about planning for additional spending."

Madden agreed. "Budgeting is probably the most important exercise we can stress for first year students," he said.

"It's important to have that plan on paper so you know what's coming," Quinton said. "Anything you can pay for now and not go into debt for, you will thank yourself 20 years down the road," she said, imploring students to keep tabs on spending in relation to their budget and adjust accordingly.

The number of students who have actually sat down and budgeted out their semester or year, however, is questionable, especially when they seem assured of the reality of their financial situation. Only 20 per cent of students polled by RBC said that they plan and adhere to a monthly budget.

As students enter first year, with their bank accounts plump from summer savings or freshly acquired OSAP loans, it is all too easy to have an overly optimistic view of the situation. “In my mind I was in pretty good financial shape, but after first year it kind of went downhill,” said WLUSU president Nick Gibson when asked to look back on his degree so far. “Whether you’re in a good spot or not, you need to realize in a couple of months that could change.”

“There can be a big learning curve, even in the first few months of school that can have a dramatic impact on finances for years to come,” Quinton added. Many students seem to have come to terms with the realities of debt, as indicated by this year’s RBC Student Spending and Savings Poll. A third of first year students approached said that they expect to have significant debt when they graduate.

How readily those graduates will be able to recover from that debt is questionable in some cases, Smith explained. “The second part of the challenge to affordability is the capacity of students to repay any debt and that’s dependent on the job opportunities,” he said. “Students have to recognize that if they’re going to get a degree with a lower employment rate post-graduation, that’s going to challenge them financially.”

This fact should impact how students monitor and allocate spending during that degree, he added. “Sadly students have to ... have a lifestyle that’s consistent with the kind of income they can expect when they graduate.” Asked if this wouldn’t just be common sense among students, he replied, “If you have a strong sense of entitlement, you kind of throw common sense out the window.”

Madden said the perception among students is often that they’re more than likely to find a well-paying job upon graduation from certain programs, and therefore they worry less about the prospects of repaying loans. “I think they did a survey of BBA students that said ‘we’re willing to pay more because we’re going to be making \$100k when we get out of here’, it’s not necessarily the case but a culture has grown around these programs.”

If there’s any lesson to be learned from this, it’s that that OSAP cheque should not be cashed lightly, especially if you have no plans for applying that degree to a real job after university.

“Something like OSAP has its advantages, but at the same time it’s still debt and you still need to pay it someday,” Quinton said. “While I wouldn’t advocate going cold turkey and not having any fun while you’re at school, there has to be moderation.”

“I remember what it’s like, it’s not hard to rack up a \$500 bar bill on a weekly basis,” Quinton said. “There’s a lot of challenges when you’re first getting into it.” A convenient option presented to students for such bar bills, and less exciting things like haircuts, are the credit cards that are thrown like candy at students in hopes that they’ll keep the same cards in their wallet once they enter the working world.

What students need to remember – and if there is one thing each of the people interviewed for this article mentioned (including WLUSU policy researcher Chris Hyde, who slid a note onto Madden’s desk during the interview) – is that credit cards can be very unforgiving if not used carefully.

“Students these days have a much easier time getting credit cards than their parents did,” Smith said. “That gives them an ability to borrow money that wasn’t there before and that’s where they get into trouble.”

Quinton noted that the banks and credit card companies target students – she noticed them in droves at the Ontario Universities’ Fair last fall. “It’s a pretty easy decision to use a credit card and what constitutes an emergency is a bit of a gray area,” she said. “What starts out as an emergency plan can quickly turn into debt spiraling out of control.”

Beyond budgeting, finding savings, generally being responsible with your money during university and not blindly relying on loans or other forms of debt by submitting to deal with the repercussions “one day”, there’s not a whole lot else students can do to prepare and cope with the costs of post-secondary education today.

Awareness is the one thing that Quinton said students need to have most, since being responsible for one’s finances for the first time often lends itself more to blind ignorance than active planning. “I think it’s so important to get ahead of the game,” she said.

“Because I meet so many people that wish they knew then what they know now.”