INVESTOR'S EDGE

Find a way to balance debt and investing

Use student loan forgiveness to build financial strength.

"Education must not simply teach work — it must teach life." — W. E. B. Du Bois

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If you have read my column over the years, you know that I emphasize the power of consistent saving and investing. This is the foundation upon which financial security is built.

Over the last decade or so, I have noticed an increasing number of graduates — in all fields — saddled with large student loan debts. Most often, it seems, paying off student debt comes at the expense of saving and investing during your early career where accumulating assets is exceptionally valuable.

As we all know, two weeks ago, President Biden announced partial federal loan forgiveness that will impact more than 40 million borrowers. The plan will forgive up to $10,000 in federal loans and up to $20,000 for Pell Grant recipients. Individuals eligible for forgiveness must make less than $125,000 per year.

There are a lot of opinions being bandied about concerning the pros and cons of student loan forgiveness. I understand both sides of the issue, so I obviously am not going to get into that here. Rather, I want to focus on helping our younger generation get stronger financially.

While every situation is different, here are some practical ways you can get ahead with both your debt repayment and investment plans.

Generally, the return you will earn over time in the stock market will be higher than the interest rate you pay on your student loan debt. This is especially true the longer you invest and allow your money to compound. Thus, focusing solely on paying off your student loans, and putting off saving and investing, is usually a big mistake.

There are several tools online that can help you determine how much to invest vs. how much to pay in loans each month according to your specific situation and budget. Lending Tree has a great online tool through Student Loan Hero that compares loan repayment vs. investing.

Also, Mint is a very popular personal finance app that helps you track your income, expenses, and build a budget you can stick to.

Regardless, what I recommend for young people — and to new investors in general — is to invest a consistent amount of money each month that they can reasonably afford — also known as "dollar-cost averaging."

Pick a diversified, low-cost index or mutual fund, set an amount to be withdrawn directly from your checking account each month, and, most importantly, keep at it.

Fidelity, Vanguard, Charles Schwab, etc. all offer this sort of feature and are easy to get set up. An example of one with no minimum is the Fidelity Total Market Index Fund (FSKAX).

Other investment vehicles that encourage long-term investing are in company retirement plans, which often offer an employer match — literally free money — and in Roth IRAs. Please take advantage of these, if able.

Now, some graduates not only have large amounts of student debt, but they have multiple loans and payments.

If you have the option, consider refinancing/consolidating your student loans together onto one or as few lines as possible.

Doing this can often offer you more favorable payment terms and potentially lower your monthly payment. This can make your financial life more organized and also free up additional room in your budget for investments.

Another option for borrowers to consider is an income-driven repayment plan.

Income driven repayment plans are offered to federal student loan borrowers and base your monthly payments on income and family size. Enrolling in this type of plan can again help you organize your financial life and free up room in your budget to save and invest.

In my experience, rich and successful people are focused on building their long-term investment assets, while paying down any debts in a steady, prudent manner.

The purpose of this column is to let those with student loan debt know some of their various options, while also encouraging them to strike a balance between their debt repayment and long-term investment plans.

Rather than just paying your lender for your hard-earned education, do what you can to pay yourself first, however modestly. Your future self will thank you.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

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