



Paying off your student loan

In April 2004, Statistics Canada released a report entitled *National Graduates Survey: Student Debt*. According to the report, among Canada's class of 2000, the average student graduating from university with a bachelor's degree owed \$20,000 to various sources, including government student loan programs and banks. Approximately 45 per cent of graduating students had loans to repay.*

Following up on the students, the report found that one in five college and bachelor graduates with government student debt had repaid their loans in full within two years of graduating. However, 24 per cent of bachelor graduates and 30% of college graduates reported having difficulties repaying their loans, and one in seven bachelor graduates (about 14 per cent) were saddled with larger-than-average loans (\$25,000 or more).

It's interesting to note, also, that students graduating from bachelor programs in 2000 owed about 30 per cent more than students who graduated in 1995, and a whopping 76 per cent more than those who graduated in 1990 (in 2000 constant dollars). These increases reflect the upward spiral of tuition fees during the 1990s. Average undergraduate tuition (in current dollars) increased from \$1,185 in 1988/89 to \$3,064 in 1998/99, almost tripling in just a decade.*

Of course, that's just the beginning for some students. Those who go on to master's degrees or doctoral studies may continue to rely on student loans, graduating even more deeply in debt.

WHAT TO PAY DOWN FIRST

The good news, of course, is that hopefully your university education led to a job with a salary sufficient to let you repay your loans and still eat.

However, says Jim Rogers, chair of Rogers Group Financial in Vancouver, don't sweat it if you can't

*Source: Statistics Canada. National Graduates Survey: Student Debt. April 26, 2004. www.statcan.ca





manage your loans and RRSP contributions at the same time. It may be smarter to make RRSP contributions now even if it means paying your student loan off more slowly because most of the interest on student loans is tax-deductible.

“Most student loans come with interest rates that are much lower than what you’d be charged for a personal loan – often, just prime plus 2.5 per cent,” says Rogers.

So pay yourself first, says Rogers. “You do best by treating savings as a regular bill. In this case, think of your student loan as a type of reverse savings. Calculate 10 per cent of your gross income and use it to pay down loans and start a savings account.”

The long and short of it is that it’s smarter to pay off non-deductible debts, and higher-interest debts more aggressively than your student loan.

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