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Financial Briefs

JANUARY 2017

Is It Time to Rethink College?

College costs can seem staggering. For the 2016–17 school year, the average annual total cost was $49,320 for a four-year private university and $24,610 for a four-year public university (Source: *Trends in College Pricing*, 2016). It's no wonder students and parents alike wonder whether college is really necessary.

To help find the answer, consider the median earnings by level of education for 2011 (most recent year available):

Professional degree	$102,200
Doctoral degree	91,000
Master's degree	70,000
Bachelor's degree	56,500
Associate degree	44,800
Some college, no degree	40,400
High school graduate	35,400
Not a high school graduate	25,100

(Source: *Education Pays*, 2013)

It is estimated that college graduates will earn approximately 65% more over their working lives than high school graduates. In terms of paying back college costs, the College Board estimates the typical college graduate who started college at age 18 will earn enough to compensate for tuition and fees at the average four-year public university as well as for foregone earnings during those college years by age 36 (Source: *Education Pays*, 2013).

While that doesn't sound like a bad trade-off — break even by age 36 and then earn substantially more for the rest of your life — keep in mind that those figures only include the cost of tuition and fees at a public university. Room and board adds another $10,440 annually to the cost. And if your student goes to a private university, the costs are typically double what you would pay at a public university.

Those figures also don't consider how you pay for that education. If you pay primarily with student loans, it could take a lot longer than age 36 to break even.

That doesn't mean your child shouldn't go to college, just that you may need to reevaluate how much you want to spend on that education. Consider these strategies to reduce the cost of a college education:

- **Look for scholarships that are not based on need.** Generous merit scholarships are often available to students with outstanding high school grades and above-average entrance exam scores. Scholarships may also be available for athletes and for those with strong music backgrounds. If your student has qualities that a college is looking

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Financing Your Graduate Degree

Research Employer-Sponsored Tuition Reimbursement

If you're employed full-time, check with your human resources department to determine whether any tuition reimbursement benefits are applicable to your chosen postbaccalaureate degree. Depending on your long-term goals, you might even consider pursuing a degree that qualifies for reimbursement, which can cover 50% or more of your tuition. Or, if you're currently searching for a new job and know that you ultimately have plans to return to school, make tuition reimbursement benefits a priority as you research companies.

Take Out Student Loans

Student loans such as the Graduate-Plus or Stafford can be an ideal way to pay for your higher-education degree, assuming that your opportunities and salary will increase enough to manage the debt once you graduate. It may be wise to plan ahead of time and estimate your future salary to determine the difference in your current and postgraduate income so you have a strong

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Is It Time to Rethink?

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for, that college may be more willing to offer scholarships to attract him/her.

- **Apply to several different colleges.** Don't make the mistake of thinking that aid packages will be the same at all universities. You may be surprised at how wide the differences can be. Even if your child is set on one school, it is generally wise to apply to several different colleges. This is especially true in these economic times when more students are applying for aid and colleges have less aid available.
- **Talk to the university.** If the financial aid package is not sufficient, talk to the financial aid officers at the university. By explaining extenuating circumstances or showing the college offers from other universities, you may be able to increase your financial aid package.
- **Don't overlook state public universities.** Costs of public universities, especially in your state, are typically much more affordable than private universities.
- **Decide whether it makes sense to go to an expensive private college.** First, you need to evaluate how much financial aid your student would be entitled to, since many private universities offer substantial aid packages. If you are still left funding much of the cost yourself, consider whether your child's intended career makes it a good investment. If your child intends to pursue a career with limited salary potential, you may not want to send him/her to an expensive college.
- **Consider starting at a two-year college.** Two-year colleges are often much cheaper than four-year colleges, especially when you consider that most students live at home while attending. For instance, for the 2016–17 school year, the average cost of tuition and fees at a public two-year college is $3,520 compared to $9,650 at a public four-year college and $33,480 at a private four-year college (Source: *Trends in College Pricing*, 2016). Before starting, however, your child should determine to which four-year college he/she will transfer and make sure all credits from the community college will transfer to the four-year college.
- **Send more than one child to the same university.** Many universities offer discounts on tuition if more than one child attends at the same time.
- **Accelerate your child's studies.** You can save a significant amount of money if your child can complete a four-year degree in three years. Another alternative is to have your child take summer courses at a local community college. High school students may be able to take courses at a community college, which will then transfer as college credits. Advanced placement courses may also count as college credit.

Please call if you'd like to discuss this topic in more detail.

The Costs of Not Planning Ahead

Between 2010 and 2015, the costs of college tuition increased an average of 11% (Source: College Board, 2016), while the average salary increased approximately 9%, according to the Bureau of Labor Statistics. With college costs now surpassing wage increases, the importance of planning ahead is even more evident, yet only 39% of families currently do so (Source: *How America Saves for College*, Sallie Mae, 2016). When you fail to prepare for the costs of college in advance, you may be putting you and your family's personal finances, life goals, and even emotional well-being at risk.

You Miss Out on Tax-Free Growth — Whether you choose a more traditional investment option, a college savings plan, or both, when you begin to save for college long before your children are ready to enroll, you save and grow college funds over time — and depending on your choice(s) of investment, in a tax-free way. The thousands of dollars you potentially miss out on in earnings alone could cover the costs of one or more years of tuition, not even taking into account your accumulated contributions.

You Risk Jeopardizing Your Retirement or Life Savings — Because of these expensive tuition costs that continue to increase with each passing semester and/or year, it can be very tempting to borrow large sums of money from your retirement funds or emergency savings to foot the bills. However, if you don't have the college funds now, it's unlikely that you'll be able to replace these funds once you've withdrawn the money, either significantly prolonging your retirement date or risking further debt should an emergency surface.

Potential Increases in Debt for You or Your Children — According to Sallie Mae, families who plan ahead for college borrow one-third less in loans than those who do not. The average public college graduate owes over $30,000 in student loans; planning ahead could mean that your son or daughter doesn't have to begin life with a negative net worth (Source: The Institute for College Access and Success, 2015).

Emotional Strain — Beyond the financial ramifications of not planning ahead is the undue emotional stress you could place on yourself and your family during a time that should really be exciting and rewarding. Part of planning ahead means equipping yourself for the future costs of college and taking necessary measures to manage them, such as budgeting for extra savings and focusing on grades and school activities that increase scholarship opportunities.

Please call to discuss your college savings plan.

Your Graduate Degree

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sense of your college debt threshold.

Pay As You Go

If you're trying to avoid student loans, review your current budget and scrutinize your flexible and discretionary expenses to decide what you can do without in exchange for newfound tuition money. Because much of your free time will likely be spent attending class and studying, what you currently spend on entertainment is a good place to start. If you currently have a savings budget, you might also decide to redirect at least a portion of it to your college tuition as well. Make sure you aren't dipping into your emergency funds or putting yourself at financial risk.

Take Advantage of University Opportunities

There are numerous ways to finance your advanced degree right within the very place you'll be earning that degree. Beyond grants and scholarships, inquire if your department offers fellowship and assistantship opportunities that cover tuition in exchange for part-time research or teaching roles. Some even offer stipends to help with living expenses, so it might even make sense to attend graduate school full-time while taking advantage of these perks. Or you might consider working in your chosen career field at the university and taking advantage of the often-generous tuition benefits.

Ask Family Members for Help

Though you probably don't want to negatively impact your parents' retirement plans, if you sit down with them and/or other family members such as grandparents, you might be able to negotiate an early inheritance to help with your college costs. Each family member can gift you up to $14,000 per year without tax implications, which could help them avoid estate taxes later on. Moreover, family members can even make direct tuition payments to your university, which won't count toward their annual gift tax exclusions.

An Investment Plan for College

To meet your goal for funding a child's college education, you typically need to develop an investment plan. One of the more important factors is your child's age:

- **Children age 10 or younger —** With eight or more years until college, you should be able to fund your child's education by setting aside reasonable sums. Since inflation can have a major impact, consider investments with higher return potential. Your long time frame should give you time to overcome any short-term setbacks while keeping ahead of inflation.
- **Children age 11 to 14 —** With four to seven years until college, you may want to select more conservative investments. If you are just starting to save now, you may find the needed amounts quite large. However, start saving so you'll have some funds accumulated by the time your child enters college.
- **Children age 15 to 18 —** At this point, continue switching to more conservative investments as college quickly approaches. If you are just starting to plan for college now, it may be very difficult to save the large sums needed in such a short time. Investigate the financial aid process to see if you'll qualify for aid and research your borrowing options.

Other items to keep in mind when developing an investment strategy include:

- **Start investing as soon as possible.** This can have a huge impact on the amount you need to save on an annual basis. For instance, assume you intend to send your newborn to a public college that currently costs $24,610 per year, the average cost of a public university (Source: *Trends in College Pricing*, 2016), with expected increases of 3% per year. After 18 years, you would need $168,000 to pay for four years at a public university. If you start saving now, you'll need to save $4,486 per year to reach that goal in 18 years. Waiting until your child is age five increases your annual savings amount to $7,816 for 13 years. Start saving when your child is 10 and you'll need to save $15,794 a year for eight years, while the amount grows to $51,750 a year for three years if you wait until your child is age 15. *(These figures assume an after-tax rate of return of 8%. This example is for illustrative purposes only and is not intended to project the performance of any specific investment.)*
- **Look for tax-advantaged ways to invest.** If your earnings are tax deferred or tax free, you could end up with a much larger balance than if you had to pay taxes on earnings over the years. Take a look at Section 529 plans and Coverdell education savings accounts, both of which allow tax-free distributions as long as the proceeds are used for qualified educational expenses. Investigate these options thoroughly, however, since various qualifications and restrictions apply.
- **Adjust your investment mix over time.** As your child gets closer to college age, start moving investments from more aggressive ones with higher return potential to more conservative ones that will help protect your principal. This can help protect your investments from a major downturn that may occur right before your child enters college.
- **Review your progress annually.** That way, you can make any necessary adjustments. You may decide to change investments or increase the amount you are saving.

Please call if you'd like help with your investment plan for your child's college education.

News and Announcements

From the Alexander Household

"Approach the New Year with resolve to find the opportunities hidden in each new day." ~Michael Josephson

At the end of each year, I set aside time to review the previous year and look ahead. For my personal annual review, I've narrowed the process to just a few questions: What went well this year? What didn't? What am I working toward?

In addition to my annual review, I update our family balance sheet every December 31. This simple practice enables us to track progress in building assets and retiring debt. It is helpful to look back over more than two decades and see the improvement. Another spreadsheet tracks the amount we have given to charities and the types of causes we have supported. We want to make certain that what we have given aligns with our values.

While I find great value in tracking the numbers, I also like to keep the numbers in perspective. Do you know how much your family needs to be wealthier than half of the world's population? For 2016, it is a net worth of $2,220 (add your bank deposits, financial investments, and property holdings and subtract your debts). A net worth of $71,560 or more puts you in the top 10%. These statistics always remind me how fortunate we are.

Carol Ringrose Alexander,
CFP®, AIF®, CDFA™

From the Flinton Household

"Gratitude is the sign of noble souls." ~Aesop

With Thanksgiving and Christmas far in the rearview mirror, I am once again reminded of how fast life can fly by if we let it. So many of us make a concerted effort to slow down, control the things in life that we can, and fully appreciate the precious few moments we are given on the spinning rock we call Earth. However, even the longest life is relatively short.

I am continually reminded of this each year as I go through the exercise of reviewing the previous 12 months. I am also reminded of the beauty of the time we do have together, and it is something that I cherish dearly.

I, for one, must be deliberate and diligent in this exercise, as both of my daughters and my wife all share the same love language: time. I am grateful for each moment we share and realize that it is my choice how I spend my short allotment of days together. I am endlessly thankful for all of the families we are privileged to work with and appreciative of the continued referrals, confidence, and trust that our clients place with us. I am also grateful to work alongside an incredible group of professionals and mentors who perpetually stretch my capabilities and help to create a synergy where the whole is greater than the sum of its parts.

From family and friends to colleagues and clients, I truly swell with gratitude when I reflect on the past year. So to each of you in my life, thank you for adding purpose, meaning, and direction to my days. I hope you enjoy a wonderful 2017.

Andrew Flinton, CFP®

From the Bolander Household

"Oh, magic hour, when a child first knows she can read printed words!"

~Betty Smith, *A Tree Grows in Brooklyn*

Our granddaughter, Stella, is in kindergarten and learning to sound out words. We enjoy "reading" her books together, and she received several new ones for Christmas. The antics of "Junie B. Jones" seems to have captured her interest, and Stella often pipes up with something Junie B. might have said. I'm not too sure if that's good or bad, but at least she enjoys books. Our grandson, Luke, is nine months old and enjoys reading time and books, too; but he mostly wants to chew on them! It's a phase, I remind my daughter.

Recently, in a discussion with my husband, John, I said, "I'll have to just trust you on that." However, he heard, "I **dis-**trust you on that." You can imagine there were a few tense moments before we realized what had happened! It goes to show that no matter how simple the communication may be, it is easy to hear something completely different than what was intended.

So whether it's mastering a new skill or improving on the current ones, I hope you have a prosperous and blessed new year!

Brenda C. Bolander,
CFP®, CPA/PFS