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Taming the High Cost of a College Education

"Education costs money, but then so does ignorance."
- Sir Claus Moser

Diane Murphy, a high school senior, was accepted to her dream school, a small private college with an excellent reputation. And after days of soul-searching, number crunching, and seeking advice on Reddit, she turned *down* her #1 pick. The reason? According to a April 28 Yahoo! Finance article, the decision "came down to the money."

Diane's dream school was listed as one of Money.CNN.com's 2015 top ten priciest colleges in America. The tuition alone is over $50k. Add on another estimated $13,700 for room, board, and other expenses, and the bill for one year of undergrad education tops $64k.

Murphy was offered a relatively generous financial aid package, including an $18k scholarship and a $5k grant. She could also count on her parents for $10k per year. But the gap between her available financial resources and costs was simply too large. She'd rack up $41k in debt her first year alone, and that number could increase each year.

Evaluating whether it would truly be worth $100k more to get her degree from the private college than her second choice school (where she did not qualify for financial aid, but costs were much lower), Murphy decided she was not willing to shoulder the financial burden of a pricey private school. She also considered that her history major degree wasn't likely to help her land a high-paying job, and graduate school, which she intended to pursue, would only add to her total college debt. Content with her decision, she registered for her #2 choice - a state school.

The Student Debt Crisis

Perhaps more students should evaluate the impact of future college debt. According to MarketWatch.com, approximately 40 million Americans owe about 1.2 trillion dollars in student loans. That's the equivalent of about 1/14th of the US GDP!

As reported in a June 11, 2016 article on US Today.com, this year's graduating class has set a new record for debt. The average student is now gradating with just over $37k in student debt, says Mark Kantrowitz, publisher of Cappex.com, a college resource website.

Perhaps more alarming than the volume of debt is the default rate. An April 7, 2016 WSJ.com article title sums it up: "More Than 40% of Student Borrowers Aren't Making Payments." The number is actually closer to 43%, which includes borrowers who are behind as well as those who have sought deferrals due to temporary financial emergencies, such as unemployment. One in six has not made a payment for a year or more.

How Much Will That Degree Cost!?

As reported by collegedata.com, a recent survey of by the College Board found that "moderate" college budgets for the 2015–2016 academic year averaged $24,061 for an in-state public college and $47,831 for a private college. These budgets included tuition, room and board, books, supplies, and additional costs such as local transportation, school fees and personal expenses.

But before you multiply those figures by 4, be aware that college tuition tends to inflate at about 6-9% annually, according to finaid.org. So just when you think you have a handle on college costs, they rise. And keep in mind that a mere 19% of students are graduating in 4 years, according to a 2014 research report aptly titled, "The Four Year Myth." Of the other 81%, some drop out, the rest take an average of 6 years to graduate, due to school transfers, changed majors, and breaks for work, travel, and more.

And we've only mentioned the costs undergraduate degrees so far. In "The Four Year Plan," a humorous short video emphasizing the need for better college planning, the student makes this post-graduation prediction to his parents: "But then I'll realize there's no way I can pay off the debt with the major I've chosen, so I'll hide out in graduate school for a few years... and that's where I'll *really* rack up the debt!"

How Much is College Worth?

The data shows, based on analysis of Labor Department statistics by the Economic Policy Institute in Washington, that "Americans with four-year college degrees made 98 percent more an hour on average in 2013 than people without a degree." In dollar figures, this translates to earnings of approximately of $1.19 million, essentially twice the earnings of those with no college, and about 40% more than those with 2-year degrees.

In other words, the average person with a bachelor degree graduate earns multiple 6-figures more over a lifetime. This puts the $37k average student debt in perspective.
And the pay gap is growing between the "have" degrees and the "have not" degrees. One of the conclusions of The Hamilton Project's research was, "College degrees may not be a guarantee of higher income, but they come closer than just about any other investment one can make."

7 Ways to Reduce the Burden

Many families feel they have no option but to sink themselves deep into debt. However, with some strategizing and perhaps a bit of compromise, you can beat the statistics. Here are 7 ways to spend less on college!

1. Get a head start.

AP (Advanced Placement) programs are offered in many high schools that can help high school students earn college credit before they graduate, and/or test out of required courses by demonstrating

proficiency, thus reducing the college credits needed.
Even when all credits are not as transferable as hoped (they might be accepted as elective credits but not for core classes at some universities), students reported that the AP classes helped them be better prepared for college.

2. Begin at a community college.

Starting a college career at a community college can make a lot of sense. Credits transfer easily to four-year institutions where the student can then focus on their areas of interest, with math, writing, and other requirements out of the way. Some community colleges are beginning to offer 4-year degrees at remarkably affordable prices.

“I’m going to finish college with a RN degree and next to no debt by attending a community college," celebrated Mark F., as quoted in a Community Action Duluth newsletter. " I pay $4,000 a year when my friends are going up the road to a university and paying $20,000 for the same degree!”

3. Learn where you are planted.

Four-year institutions are more expensive to begin with, but part of what makes college so pricey is that fact that most high schoolers move out to attend college, adding room and board to their tuition expenses. “Our daughter is commuting to a four-year university twice a week, while also attending a local community college twice a week for courses that will transfer to the university. She finished her freshman year debt free by doing this and living at home while she can," said Elizabeth R., commenting on a financial blog that asked readers to share their experiences.

4. Major in scholarships.

Beth's two sons received a total of $18k in scholarships their first year of college, the result of spending two hours every other Sunday afternoon researching and applying for scholarships. Beth's advice to others is to "make scholarship hunting a part-time job... It will work."

Good resources to help you start your scholarship search include:

- Fastweb.com
- Scholarships.com
- Cappex.com

- but don't neglect local organizations and, of course, find out about scholarships offered at the schools you are considering.

5. Work your way through college.

Besides the financial benefits, there's something to be said for encouraging the student to "have skin in the game." People don't tend to value what is given to them as much as the things they have earned. Students are more invested in their success - literally - when they participate in paying for college.
Chris O. shared his tips for graduating debt-free with others on a Facebook page dedicated to reducing debt. “I planned for college ahead of time by joining the military, saving for years before I got out, and getting three well-paid internships. When I finished school, I had no college debt and money in the bank."

6. Make student loans a last resort.

Too often, students take the full amount of loans offered because they can, and also because they don't know they have an option to only borrow what they need. But once it's in their bank account, it's easy to just spend it all.

"My biggest piece of advice is don't borrow for a lifestyle you want, borrow if and when you have to," said Sam C., a financial aid officer in a comment on a financial blog. "Do your homework before moving in on campus. Can you afford it? If not, make other arrangements."

7. Get an "A" in financial aid.

Whether or not you think you or your child will be eligible for financial aid, you should [fill out a FAFSA] ("Free Application for Federal Student Aid") and apply - on time - to every school you are considering. Just because you don't qualify for financial aid at one college doesn't mean another won't offer a grant or scholarship.

Understanding how financial aid offices decide grants and scholarships, you can help you increase your chances of qualifying for more. For instance, many parents do not realize that 529[1] plans and other college saving vehicles may actually *hurt* their student's chance for financial aid! That's because they are counted as college money on the FAFSA application.

Money in IRAs and 401(k)s are not counted as assets, but those are a poor option for college funding. Not only is that money needed for retirement, but you'll pay taxes and penalties to tap those accounts early.[2] However, there IS a place where money can be saved and used for *any* purpose... where it can grow tax-deferred, and be borrowed against without taxation or penalty, and where it won't be considered an asset on the FAFSA application. We're talking about **whole life insurance with living benefits**. Savvy parents are starting whole life policies rather than college savings plans because it gives them the greatest amount of flexibility.[3]

Saving with whole life insurance means you'll never forced to spend the money before a certain age or for only for a certain pre-approved reason. Not only does whole life lock in your gains each year, but the permanent life insurance protection can guarantee that a college education can be funded even if illness or disaster strikes.

Valuing Education

Higher education is a wonderful way to grow our minds as well as our incomes and careers. It's also a strong predictor of success. But that doesn't mean you should pay more for a degree than what is necessary.

Spending more - and especially borrowing more - doesn't necessarily make college more valuable, just more expensive. Look for ways to make education even more valuable by finding ways to get to graduation with less debt. We owe it to ourselves and our children to not let the cost of college become a burden.

[1]A 529 plan is a tax-advantaged savings plan, issued and operated by a state or educational institution that helps families save for college. Investments in 529 plans are not insured by the FDIC or any other government agency and are not deposits or other obligations of any depository institution. Investments are not guaranteed and are subject to investment risks, including loss of the principal amount invested. Tax implications vary significantly from state to state. If you or the designated beneficiary is not a resident of the state offering a 529 plan, you may want to consider, before investing, whether your state or the designated beneficiary's home state offers its residents a plan with state tax advantages or other benefits.
[2]Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.
[3]Whole life insurance is intended to provide death benefit protection for an individual's entire life. Guarantees are based on the claims-paying ability of the issuing insurance company. Dividends are not guaranteed and are declared annually by Guardian's Board of Directors. Any loans or withdrawals reduce the policy's death benefits and cash values, and affect the policy's dividend and guarantees. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59 ½, any taxable withdrawal may also be subject to a 10% federal tax penalty Whole life insurance should be considered for its long term value. Early cash value accumulation and early payment of dividends depend upon policy type and/or policy design, and cash value accumulation is offset by insurance and company expenses.

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