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Financial Briefs

JANUARY/FEBRUARY 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 post-baccalaureate 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

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. ■■■

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. ■■■

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. ■■■

Business Data

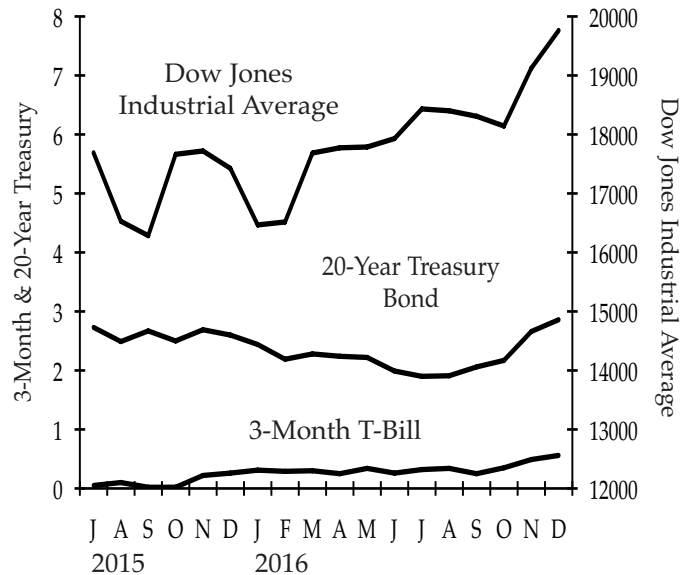


Indicator	Month-end				
	Oct-16	Nov-16	Dec-16	Dec-15	Dec-14
Prime rate	3.50	3.50	3.75	3.50	3.25
3-month T-bill yield	0.35	0.49	0.56	0.26	0.04
10-year T-note yield	1.76	2.26	2.55	2.24	2.14
20-year T-bond yield	2.17	2.66	2.86	2.60	2.47
Dow Jones Corp.	2.76	3.16	3.17	3.43	3.08
GDP (adj. annual rate)#	+0.80	+1.40	+3.50	+1.40	+2.20

Indicator	Month-end			% Change	
	Oct-16	Nov-16	Dec-16	2016	2015
Dow Jones Industrials	18142.42	19123.58	19762.60	13.4%	-2.2%
Standard & Poor's 500	2126.15	2198.81	2238.83	9.5%	-0.7%
Nasdaq Composite	5189.13	5323.68	5383.12	7.5%	5.7%
Gold	1272.00	1178.10	1159.10	9.1%	-11.4%
Unemployment rate@	5.00	4.90	4.60	-8.0%	-13.8%
Consumer price index@	241.40	241.70	241.40	1.7%	0.5%
Index of leading ind.@	124.40	124.60	124.60	0.6%	2.8%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: Barron's, Wall Street Journal
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield July 2015 to December 2016



News and Announcements

Shopping for Value in a College Education

While a college education remains one of the largest investments you and your children will make, there are still bargains out there delivering a valuable credential for less than top dollar. But you need to know how and where to look. Here are some tips:

Take aim at elite, private schools with super-generous financial aid programs. It may surprise you, but some of the priciest elite schools are considered the top bargains in all of U.S. higher education. That's because they're blessed with huge endowments that can run into the billions and have generous financial aid policies that deeply discount their sticker prices of \$50,000+ per year for bright students from moderate- and low-income families. Some even assure that such students won't graduate with a penny's worth of loans to repay. The annual net cost can actually be lower than the full total annual cost of a state university.

Consider top-rated state universities. For residents, state colleges and universities remain the best bargains among four-year schools, with average total costs of \$24,610 before grants and scholarships. For out-of-state residents, however, costs rival the full price of private colleges and universities.

Reach for rock-bottom state school bargains. Do an internet search for cheapest colleges, and you can find lists of the least-expensive public colleges and universities in the country.

Take the community college route. Since the 1990s, enrollments at two-year community colleges have soared. In the last decade, community colleges have not just been for low-income families, students who can't get accepted to a four-year college, or those who just want an associate's degree. Instead, they are being used by affluent families as a deliberate way of holding down the costs of getting a bachelor's degree.

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