Tips on financing and earning an affordable, worthwhile college degree.

Obtaining an Affordable College Education

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Introduction

Michael J. Laurence is the pen name of a college instructor with more than twenty years experience teaching at the college and university levels.

This book is meant to be used by students of any age, as well as the parents of potential and current students. It considers the realities of admittance to college, to competitive programs, and to financing the college education. How to be efficient and get the most for your money is also considered.

After these basics are covered, students will know where to turn to discuss their individual needs and circumstances with people who can give them all the ins and outs of their particular institution. Financial aid, for example, can include odd scholarships to a small college where a person with an unusual heritage would be the only eligible recipient. Frankly, you just never know what's possible, so it makes sense to check with the college(s) you've decided you're interested in and can be admitted to. I do not recommend any paid services to locate financial aid.

I will also tell you some things about college life that others gloss over or don't address at all, including the fact that declining educational standards are threatening the ability of young people to make a living because young Americans now compete with every person on the planet, not just their fellow Americans. It's not just sending jobs overseas, it's bringing in better educated and more skilled and productive workers from countries where education is taken more seriously. Failing that, it's moving large portions of companies overseas to take advantage of a better-educated and more productive labor pool.

I provide an overview of financing a college education, leasing or buying an apartment or home (students need to live somewhere), and some practical aspects of getting the most from your college experience. For more details on how to save and invest money, understand and protect FICO scores, use credit wisely, start your own business, understand the basics of insurance, and much more, please see ***Your Money Rules for Financial Freedom*** available at **booklocker.com**. It's current, comprehensive, and the Table of Contents and Index will get you to what you need to know before you make any major financial decisions from car purchases to retirement investing.

Michael J. Laurence

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Section I: Financing College

Economic Facts of Life

In a truly interdependent world where money is worth what the government says it is and what investors are willing to value it at, parents and grandparents need to think about their children (or grandchildren's) future. We live in a world where the children of today are not going to get the kind of government assistance that others have received. If there is even any Social Security left for them, it will be a trifling amount. What Social Security means for children now is a burden they will bear as taxpayers.

Pensions are becoming a thing of the past. The Pension Benefit Guaranty Corporation is in a rocky financial condition and if they need to step in to provide pensions, they usually trim many of the promised benefits. It's another government program, so if they have dire circumstances, it is going to be the taxpayer (your child or grandchild) who foots the bill as usual. Grants, scholarships, even loan money are limited. Generally speaking, tuition, fees, books, and more are growing at a rate greater than inflation. Yet, though a higher education is more costly, it's becoming required.

Americans are competing not just against their fellow citizens for jobs, but with everyone throughout the world. Not only can jobs be sent overseas, but immigrants with superior education or abilities are welcome to come here and be more productive than the typical American graduate can be. If the business can't get them here, they'll move part of their business there. The reduction of educational standards, from grade inflation to removing "tough" degree requirements like many math and science courses, make the average American student less desirable than graduates of quite a few foreign institutions. Because of living conditions in the States, many of those graduates are more than happy to move here to take a well-paying job and industry continues to lobby Congress to allow more such qualified workers in. The economic reality for today's young people is that from the day they are born, those who are responsible for raising them to be quality adults need to consider the economic realities that will face those young Americans.

> The most recent findings from the National Assessment of Adult Literacy revealed distressing declines in literacy, especially among those with the most education. For example, fewer than a third of college graduates — down from 40 percent a decade ago — were deemed "proficient" in terms of literacy as defined by the ability to read and understand lengthy passages placed before them. A small but still alarming percentage of college graduates scored "below basic," meaning that they were incapable of all but the simplest tasks.— "Proof of Learning at College," 26 Feb. 2006, *New York Times*

Because “business leaders keep complaining about the suspect quality of many college graduates from both public and elite colleges” (“Proof of Learning at College”), we have statements such as this: "When we have to look for deep technical talent, not just 10 or 20 people--especially in high technology--the places you can go and know you can hire somebody every day are India and China." That was Vice Chairman Calhoun of General Electric in the 27 March 2006 *U.S. News & World Report* cover story “Can America Keep Up?” In the same story we learn that IBM has 30,000 Indians on its payroll and will add more because their graduates are well-trained, reliable, and less expensive.

It’s time to get real about what children need. In addition to needing standards, discipline, and guidance, they need parents and grandparents who are willing to forgo playing “Santa Claus” so they can feel good about the material things they give their children and help ensure the children will be economically protected. Let’s be honest: infants and very young children can not fully grasp the “gifts” and “stuff” they are surrounded with. Instead of spending large sums of money, typically many times per year, on a wide assortment of stuffed animals, outfits, and room decorations, parents and grandparents need to limit the amount of “stuff” the kids get and put away what they would have spent in an account for the child’s future. A couple of stuffed animals are as good, if not even better, than a dozen for an infant or young child. The hundreds or thousands that would have been spent on the excessive “stuff” over the years should be invested for the child.

Even if a person is not savvy about investing, there are easy ways to invest that will produce amazingly safe returns. With the power of compound interest, a very substantial sum of money will be available to the child when he becomes an adult legally. In fact, “diversifying” investments for the child makes sense. Without going into great detail, things that should be considered range from the incredibly conservative use of good CD (Certificate of Deposit) rates, to government bonds, to index funds that reflect overall U.S. stock performance. We could well have another stock market crash. However, even the great crash of 1929 did not wipe out all the companies. Funds that are going to be held for decades at a time can afford to crash; they will “come back” before the child needs them. (I am talking about *index funds*, not the stock of one company which could indeed go bankrupt and have no value.) Investing in real estate is another possibility; or a business.

Token gifts, or better yet, homemade ones that take some effort, can be provided to children even as they grow older and the money that would have been spent on mass produced stuff could go into the account for the child. Besides having that money work for the child (and compound interest is an amazing thing), you can teach the child not to be overly materialistic, encourage his creative side (he should start giving gifts at some stage in his young life), and to appreciate the thought and effort that gifts should represent. There simply is no downside to this approach for anyone.

If the child chooses not to go to college, but is mature enough to handle the funds, he should be given what was saved for him for all those years. He could start his own business (doesn't require a college degree); he could learn a trade (electricians, plumbers, and carpenters, for example, are typically not poor); he could join the military service (though they are likely to put him through college); or he could work in one of the jobs that does not require a college degree. He might choose to buy a home, possibly free and clear, depending on how much people were able to set aside for him. That is the major expense most people face in life. If he's not burdened by a monthly mortgage, even a lower income will go a long way toward allowing savings for retirement, health care, and a good quality of life. If, however, the young adult decides to go to college, he could do so and probably not be saddled with the burdens of student loans. He could likely choose what he wants to pursue without worrying he won't be able to finance it. This is better than 18 years of stuff he likely won't still have or particularly appreciate.

If the child or children in your life are already older, you can still set money aside from them. With wise investing, it can appreciate decently in a few years. Perhaps in the case of someone who is already 12 or older, you should quietly start saving and let him get his college education (or alternative plan) as inexpensively as possible and then when he is 18 or has his degree (possibly with a student loan that is due), you can present him with the funds you've saved so he can retire that debt. He will have had the experience of appreciating money as he had to be careful with what he spent, and he will have the gift of being given a tremendous boost in life. In other words, it's never too late to start.

I would encourage people who will do this to *not* tell the child that this is being done for him, or at least not how much is being saved, because the child needs to grow into an adult who will be responsible and self-sufficient. If he believes he will never have to produce, you may reap the undesirable consequence of turning him into a slacker with an entitlement attitude. Frankly, as a teen, when he's old enough to get a job, he should. If he's an academically-gifted person with a career path in mind, then his studies could be his "job." However, too many teens get three months to bum around and do nothing every year and this is not a good thing for anyone. (Remember the original reason for the school year we have was so that the students could help with the family farm. *They were not in school then because they were working.*) I'd rather see young people understand they need to be productive, work hard, and if they want, retire early. Now we've got parents holding two jobs, which make it impossible to spend as much family time as they should with their children, so that they can pay the bills and finance an ever more costly education. This is not sensible and it's not working well. A more frugal lifestyle with the message that people count for more than things and that we all need to be self-sufficient is a better message to send to impressionable children.

529 and College Savings Plans

If you have kids you want to send to college, check out the 529 plans. These are tax-free, growth investments of funds that you are setting aside for educational expenses. There are two basic kinds: prepaid programs and savings programs.

Plan Administration and Control

Someone else, such as an officer at a financial institution, must administer the plan so all the parent (or custodian) must do is enroll and make the contributions to the plan. However, you will typically retain control of the funds in the account. So if you encounter financial problems and you need to give the funds to someone else or use them yourself, withdrawals can be made. You decide when to withdraw and the purpose for which the money will be used.

If you take the money out for your own use, there will be a 10 percent penalty tax, and the nonqualified withdrawal will be subject to income tax. However, you are permitted to set up a plan for yourself for continuing your own education, so withdrawal of funds for that purpose would be an exception. You can also open a 529 for someone other than your child or yourself, in which case you become the custodian of the plan.

Plans can be transferred from one financial institution to another and from one person to another. The U.S. Department of Education states that, when considering 529s and financial aid, the money in the plan is treated as an asset of the parent or custodian. Without such a plan in place, the department normally requires a parent to contribute 35 percent per year of the child's educational expenses. But if you have a 529 plan, the requirement is just 5.6 percent.

For Further Information

As with anything that the government is involved in, there are variations among state laws, as well as exceptions, potential rule changes, and other complications.

Two good sources of information for 529 plans are
http://www.collegesavings.org/ and http://www.savingforcollege.com/.

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