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Questions Families Need to Ask About Paying for College

By Jillian Berman Wall Street Journal   September 21, 2015

When parents and children talk about applying for colleges, they consider all sorts of factors: the school's prestige, the location, even the food in the dormitories.

But often there's one thing that never is on the agenda: How are we going to pay for this?

The reasons for avoiding the subject are as varied as families themselves. Some parents—who are conditioned to want the best for their child—feel guilty implying money considerations might limit the choice of school. Others may simply consider the family's financial situation taboo, even more so than sex.

"It's like the sleeping elephant in the room that parents and kids hardly ever broach," says Andy Lockwood, a college finance and admissions consultant based in Syosset, N.Y.

Yet money should be front and center when choosing a schoo*l. It n*ot only has a big bearing on what school students can or should attend, it could have a huge impact on the family for decades to come. Children might choose a dream school only to discover the family can't afford it when the bills come in. Parents who don't take a hard look at finances might assume mountains of debt they'll have to pay off well into retirement—or saddle their children with decades of loans.

So, how can families take a realistic look at money and college? It comes down to communication, and asking themselves questions that force them to talk about money and schooling in a way they normally don't. Questions such as: How much longer will the parents have to work to cover the costs of a pricey college? And: How much will the child need to earn after graduation to pay off loans in a reasonable time?

Here's a look at some of those questions—and why the answers are crucial.

What does the student want to get out of college?

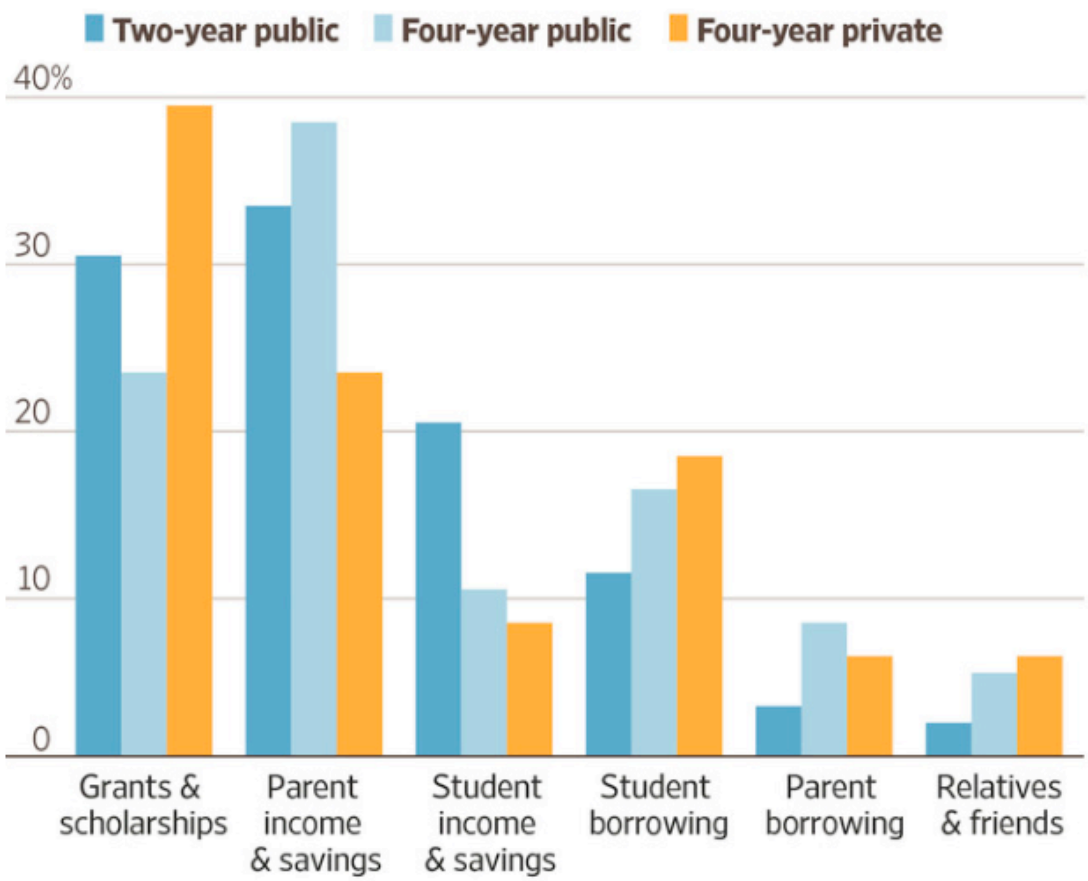
Too often, students focus their search on factors—such as the vibe they get from a campus tour—that are extraneous to their true purpose for attending college, says Kevin Fudge, the manager of government relations and community affairs for American Student Assistance, a nonprofit focused on helping families make informed decisions about college financing and repaying student loans. If students focus on specific academic motivations, they're more likely to find a school that will help them achieve their goals and will feel like a good investment after graduation.

Jayne Pearl, the author of several books on talking to children about money, suggests the problem starts at the very beginning of the conversation about college. Instead of asking students what specific colleges they want to attend or where in the country they'd like to go to school, she suggests asking students what two or three criteria they require from a college. And then families can look for more affordable schools that fit that bill.

Payment Plan

Parent out-of-pocket spending exceeds scholarships, grants and other sources

How the typical family pays for college



Source: How America Pays for College 2015, conducted by Sallie Mae/Ipsos

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Mr. Lockwood says it may make sense for students interested in going into a lucrative and competitive field where networks play a large role in hiring—like investment banking—to attend a prestigious and pricey school. But many teenagers have multiple interests, don't know their career plans or are interested in a field where a decent education is available at most schools. "I've seen a lot of kids take a look at really expensive private colleges and I say, 'What are you thinking about majoring in?' and then they say, 'Education,' " Mr. Lockwood says. "You could pretty much do the same thing by going to a state school."

In fact, for students who want to go to a competitive graduate school, it may make more sense for them to attend a cheap and less prestigious undergraduate college, where they can excel, improve their chances of getting into their top graduate school and leave their undergraduate studies with relatively low levels of debt or no debt at all, he says.

How much are parents willing to contribute?

Too often, parents feel guilty if their finances limit their child's ability to go to their dream school, which is why they're willing to "beg, borrow and steal" or go into massive debt to help the child get there, says Beth Kobliner, a personal-finance author.

Parents who are feeling this way should take a step back and consider their values, Ms. Pearl says. Does making sure your child gets a good education really require that they attend an expensive college? Can you get that value if your child attends the local public university?

Instead of focusing on stretching their resources to afford their child's school of choice, Mr. Fudge suggests parents think critically about why they're placing so much value on whether they can send their child there. He likes to remind moms and dads that sending their children to college isn't the "capstone project" of their parenting career. "Where your student goes is not a reflection of how well you did as a parent," he says. "The fact that you can't afford a particular school is a market condition."

If parents instead prioritize keeping their children safe, including in their financial lives, they'll avoid saddling them with crippling debt or putting their own financial well-being in danger.

Parents may also need to take special circumstances into account, such as whether they'll need to help a younger sibling finance college. The simplest way for parents to help multiple children is to tell each child they'll do what it takes to help them attend the cheapest school they get into, says Mark Kantrowitz, the publisher of Edvisors, a financial-aid information website. Beyond that, though, each child will have to work or find another way to help contribute if they want to attend a more expensive school.

Cost-Cutting Measures Families Take

Student works while earning degree	70%
Student chose in-state school with lower tuition	69
Student reduced personal spending	60
Student chose school closer to home to trim travel costs	53
Student chose to live at home	48
Parents reduced spending	45
Student works more	42
Tax credits/deductions	37
Student added roommate[1]	35
Student accelerated studies	25
Early loan payments	22
Parents work more	22
Student changed majors	16
Student goes to school part-time	15
Student transferred to less-expensive school[2]	15
Military	4

[1]Among those not living at home [2]Among non-freshman

Source: How America Pays for College 2015, conducted by Sallie Mae/Ipsos

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Parents should also consider what happens if they lose a job or otherwise face financial straits. Mr. Lockwood suggests parents ask themselves whether sending their child to their dream school is worth stretching their resources so much that they put themselves at risk in a financial emergency. Taking stock of the family's resources and monthly spending may also help parents realize they could make some small sacrifices to get their child to their school of choice, such as giving up an annual family vacation or waiting a few years for a new car.

How much longer might parents have to work?

Parents have to understand that paying for college could end up forcing them to make a huge sacrifice: Work more years than they planned. Consider that a couple earning $100,000 annually who shells out $120,000 over four years of college will need to spend an 12 extra years working to recoup those funds.

One way out of the trap is for parents to give up the idea of maintaining their current lifestyle while spending thousands of dollars on tuition, says Stuart Ritter, a senior financial planner at T. Rowe Price. It would take three years for a family earning $100,000 per year to recoup a $30,000 contribution—or slightly less than the average cost of tuition and fees for one year at a four-year private school, according to the College Board—assuming they devote 10% of their monthly income, or $833.33, to the task, according to calculations from Mr. Kantrowitz. If parents can find another way to get that $833.33 a month by cutting back on other expenses, then they can avoid working an extra three years past the time they originally planned to retire.

Even if parents are comfortable with the idea of postponing their retirement, they could fall ill, lose their job or face other unforeseen circumstances that would prevent them from continuing to work after they've already taken on the debt.

Once parents have determined how much they are willing to contribute and borrow, they should figure out how their resources stack up to the cost of the colleges their student is considering, says Mr. Kantrowitz. To do this, parents should first add up their college savings, how much they're willing to contribute from their income each year and how much they're willing and able to take on in loans. Then they should use a net-price calculator, which colleges and universities are required by law to have on their websites, to estimate the net price of attendance.

Next, they should subtract their resources from the colleges' net prices and rank the schools according to the gap between them, Mr. Kantrowitz says. This will give them a realistic starting point for having the numbers talk with their child.

Should the student help out by working?

Determining the financial feasibility of a school also means figuring out what a student can contribute—by working, for instance.

If students do decide they want to take on a job, they probably won't struggle to find one. Work-study jobs, offered to eligible students as part of their financial-aid packages, are generally pretty "recession resistant," says Mr. Kantrowitz. Even the jobs students find on the free market are typically safe from economic downswings because companies surrounding a college tend to exist in a bubble buoyed by the school, he says.

Decisions, Decisions

Factors that were very important for students in deciding to go to college

To be able to get a better job	86.1%
To learn more about things that interest me	82.2
To get training for a specific career	77.1
To be able to make more money	72.8
To gain a general education and appreciation of ideas	70.6
To prepare myself for graduate or professional school	59.7
To make me a more cultured person	46.6

Before committing to a job, though, students should assess whether they can work and stay on track to graduate on time. “You’re going to make more money over time if you graduate in four years instead of coming back for a fifth year because you were working,” says Phil Schuman, the director of financial literacy at Indiana University.

Too much work can also hurt a student’s grades. First-year students at four-year colleges who work more than 20 hours per week had an average GPA of 2.95, according to a paper published in the Journal of Population Economics in 2010, compared with 3.13 for those who work one to 20 hours per week and 3.04 for those who don’t work at all.

What’s more, students working for pay outside of a work-study arrangement should be careful: Any earnings a student makes above about $6,000 could ding their eligibility for financial aid, Mr. Kantrowitz says.

How much debt should the student take on?

Though parents’ first inclination may be to shield their children from going into debt by taking on loans themselves, in many cases it makes sense for students to shoulder most of the burden because they have a chance to reap the investment of the degree and they have more time to pay off the debt, says Mr. Fudge.

Financial-aid counselors say that the total amount of loans a student takes over four years shouldn’t exceed what the student expects to earn in his or her first year out of college. Otherwise, they’ll struggle to pay it back in 10 years, the standard repayment term for a federal loan.

■ Factors that were very important to students in picking a particular school

College has a very good academic reputation	65.4%
College's graduates get good jobs	53.4
I was offered financial assistance	46.9
The cost of attending	44.9
College has a good reputation for its social activities	42.8
A visit to the campus	42.4
Wanted to go to a school about the size of this college	36.6
College's graduates gain admission to top graduate/professional schools	32.9
Percentage of students who graduate from school	31.1
I wanted to live near home	20.7
Information from a website	18.8
Rankings in national magazines	18.0
My parents wanted me to come here	17.2
Was admitted through an early-action/early-decision program	15.7
Could not afford first-choice school	14.1
Not offered aid by first-choice school	10.6
High-school counselor advised me	10.4
Recruited by athletic department	9.1
My relatives wanted me to come here	8.0
Attracted by the religious affiliation/orientation of college	7.3
My teacher advised me	7.2
Private college counselor advised me	4.6
Ability to take online courses	4.1

Source: The American Freshman: National Norms Fall 2014 survey, conducted by the Cooperative Institutional Research Program at the Higher Education Research Institute at UCLA, based on 153,015 first-time, full-time students who entered 227 four-year U.S. colleges and universities of varying selectivity and type.

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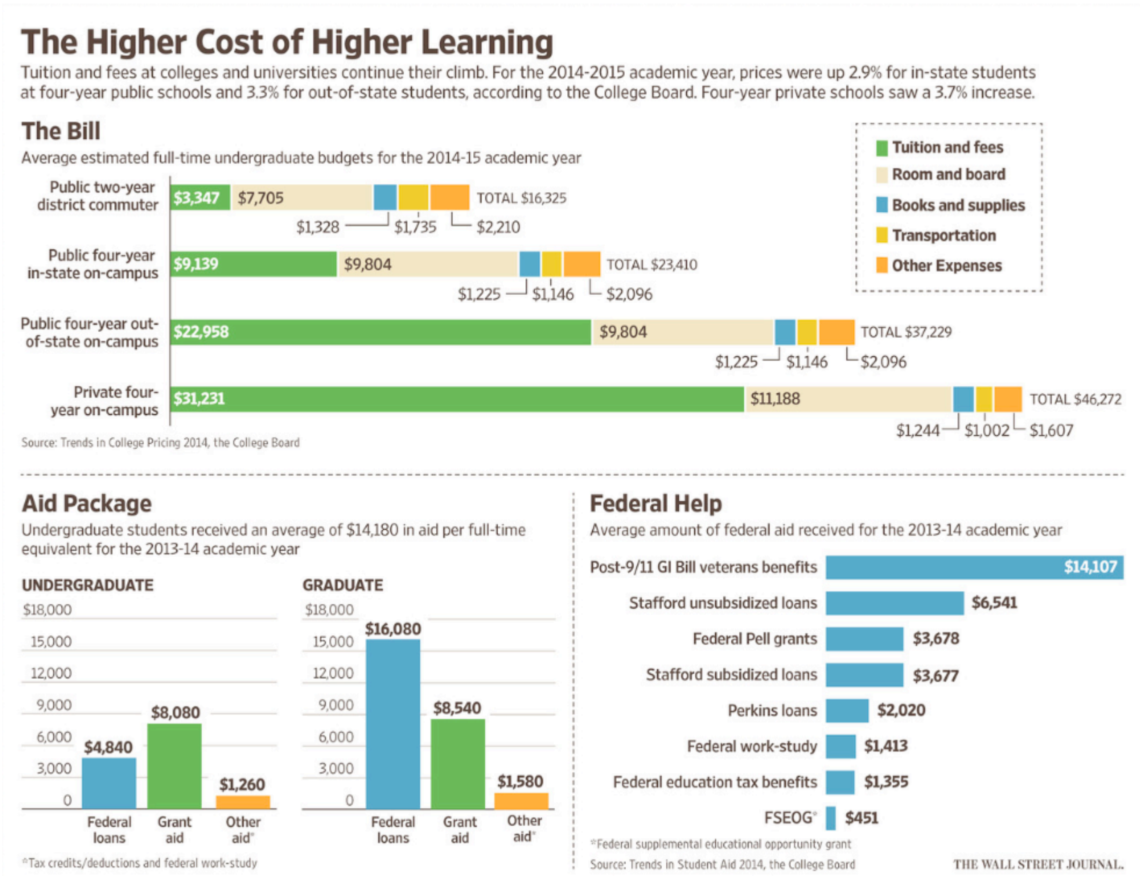
A student who plans to make $35,000 per year and takes out $35,000 in loans will need to devote about 12.3% of her monthly income to pay off the loan in 10 years—assuming a 4.29% interest rate, the rate on federal undergraduate loans for the 2015-2016 academic year—according to calculations by Mr. Kantrowitz. If that same student took out $40,000 in loans, she'd need to devote 14.1% of her income to pay back the loan in 10 years, assuming her income remains at $35,000. If she took out $57,500, the federal limit for undergraduate borrowers who are independent of their parents, she'd need to devote 20.2%.



Students with federal loans who earn too little to manage their monthly payments can use income-driven repayment programs, which cap payments at a percentage of a borrower's discretionary income. But that will extend the lifetime of the loan, meaning borrowers could spend decades paying down the debt.

For example, if a student makes $35,000 out of school and devotes 10% of her monthly income to paying back the debt, she'll spend 13 years and one month making payments, assuming the 4.29% interest rate and that she borrows $35,000, according to Mr. Kantrowitz's calculations. If that same student chose a more-expensive school and needed to borrow $40,000, she'd spend 15.7 years paying it off. If she chose an even more-expensive school, took out $57,500 and devoted 10% of her income to paying off the loans, it would take 28.5 years to pay them back.

But even these numbers can seem abstract to teenagers who have never had to deal with a nonnegotiable bill. "It's like trying to describe to a 12-year-old what it’s like to be in love,” says Susan Engel, a senior lecturer in psychology at Williams College.

So they need to have a sense of how a monthly loan payment could affect their day-to-day life. Parents need to ask students what sacrifices they’re willing to make later on to cover their loan payments. This could mean taking on a less-desirable but higher-paying job, forgoing vacations or moving back home with Mom and Dad after graduation.

Mr. Ritter advises clients to take their children to see two apartments whose monthly rent differs by the same amount as their loan payments at different schools. That way, students can see the amenities they could afford post-college if they opt for the less-expensive school.

Will the student be able to pay back the debt?

Too often, students divorce career and salary goals from their choice of school, when it should be a crucial **con**sideration. For instance, the difference in lifetime earnings between a bachelor’s degree in petroleum engineering and one in early childhood education—the highest- and lowest-paying majors, respectively—is $3.4 million, according to a report from the Georgetown University Center on Education and the Workforce. That’s larger than the difference in lifetime earnings between Americans with a college degree and those with just a high-school diploma.

Anthony Carnevale, director of the Georgetown center and co-author of the report, says he often finds himself talking with students about their majors and “when they say classics and rhetoric and stuff like that, there’s a little bell that goes off in my head that says, ‘Unemployed.’ ”

Of course, this doesn’t mean a student should necessarily avoid pursuing a less-lucrative major, Ms. Kobliner says, but parents should talk with students to help prepare them for post-college reality. She does caution parents against dictating to their students “because it’s likely not to work.” Instead, she says parents should ask them questions that crystallize their priorities: Does the pricey school where they want to pursue their less lucrative degree offer something extraordinary that they can’t get anywhere else, such as access to a community of artists for pursuing a bachelor’s in fine arts?

What does financial aid look like for all four years?

Families often focus on how they’re going to finance the first year of school instead of calculating the total cost of the degree, says Kal Chany, president New York-based Campus Consultants Inc. But if a student is forced to transfer after the first year because of expenses, then the efforts to finance that first year will be a wash. That’s because the family shells out for one year at an expensive college, but the student won’t reap the benefit of graduating from it. It’s also not uncommon for schools to front-load grants, so students receive more gift aid their freshman year than in the following years, Mr. Kantrowitz says.

Financial-aid offers can also change from year to year. Jodi Okun, founder of College Financial Aid Advisers and Discover Student Loans brand ambassador, says she recently got a call from a parent whose son lost the aid he'd received during his first two years of school. The school considered the family's situation a special financial circumstance for the first two years because the parents had recently lost their jobs. Then the financial-aid office informed the family that they couldn't fulfill the special-circumstance request for a third year. The son had to take on a loan to cover the difference.

Mr. Chany also suggests families look carefully at the academic requirements for any merit-based scholarships the student receives to make sure the student can reasonably maintain eligibility.

Should students consider a community college?

Students who have the credentials to get into a four-year school are often wary of considering community college, says Mr. Lockwood, but starting off at a two-year school and transferring to a more selective college could be a great way to save money. Last academic year, the average cost of tuition and fees for one year at a two-year public college was $5,792 less than that of an in-state resident at a public four-year college, according to the College Board.

Parents should try to "shift the goalposts" for their children, Mr. Fudge says. Many students view attending their dream school as the reward for working hard in high school. Instead, parents should portray financial independence in their mid-20s—a goal that's more easily achieved by saving money in college—as the sweetest reward.

He also advises parents to tell students that choosing an expensive school may not leave any money for other options, such as attending graduate school or studying abroad. "You're giving yourself flexibility and choice along the way," he says.

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