

# Student Debt Is Deeper Than You Think

## Planning Is Key to Success

Every generation bemoans the fact that things today are far more expensive than they were 20 years ago. In 1940, the median home value in the U.S. was just under \$3,000. Sixty years later, the median home price was just under \$120,000.<sup>1</sup> But most of that increase has nothing to do with inflation. In fact, accounting for inflation, the median home price from 1940 would be about \$54,000.

But home prices aren't the only expense skyrocketing. The cost of college has risen at an alarming rate, to the point of putting college out of reach for many, especially if they don't plan ahead.

## Rising Cost of College

The College Board's Trends in College Planning 2018 Report documented the changes in college expenses over the last few decades and the results are staggering. The report found that:

- Students at public four-year institutions paid an average of \$3,360 in tuition for the 1988-1989 school year, with prices adjusted to reflect 2017 dollars.
- Thirty years later, that average has risen to \$10,230 for the 2018-2019 school year.
- That's a 205 percent increase.

The difference is stark at private schools as well:

- In 1989, the average tuition for a private nonprofit four-year institution was \$17,010, in 2018 dollars.
- For the 2018-2019 school year, it's \$35,830.
- That's a 111 percent increase.

## The Result is Worse Than You Think

It's difficult to comprehend the collective \$1.6 trillion of America's student loan debt.<sup>2</sup> That's the second largest consumer debt, behind only our collective mortgage debt. And while sometimes a college education can cost as much as a mortgage, the repercussions are much higher if you run into trouble repaying your student loans.

If that \$1.6 trillion isn't bad enough, a new report from Brookings Institute suggests that the default rate on student loans is much higher than previously reported.<sup>3</sup>

The Brookings research concludes that most past research arrived at default rates between 10 and 12 percent. But Brookings used data from longer time periods and found that default rates could rise by 40 percent by 2023. That should be considered a crisis by all of us.

## It's Worth It

Don't let the high cost of education and related fees discourage your child from attending the top school of their choice. Saving to pay for college is worth it. The median income for a person with a bachelor's degree in 2018 (the most recent data available) was \$62,300.

That's \$24,000 more than the median income for a high school graduate, according to the Bureau of Labor Statistics.<sup>4</sup> In addition, the unemployment rate for college graduates is significantly lower than that of high school graduates. With these averages, it doesn't take too many years to recoup the cost of education.

## Planning is Key

It's never too early to begin your child's college funding plan. However, as with other types of financial planning, bear in mind that your child's college funding plan requires a disciplined approach consistent with your objectives.

Here is where planning comes in: working with a financial advisor to establish a goal and determining how much you need to (and can) save for your child's tuition. More than simple saving, this means creating an investment plan, a strategy, and the right vehicle so that you can increase growth potential and steadily accumulate more for college.

Your biggest advantage for saving for college outweighs even your paycheck's size: time. The sooner you start saving, the more time you have to grow your college fund through long-term compounding. Even the smallest contributions make a difference over many years.

For example, let's say you still have 15 years to save for your child to attend four years at a private college. Targeting a goal of \$150,000 and figuring a conservative return rate of four percent annually, with such a lengthy time to save you need to put away about \$610 a month. But in addition to planning to start early, remember that selecting the right investing vehicle is also significant.

## Financial Advisors Matter

Again, it's never too early to begin your child's college funding plan. Call me to set up a time so that we can begin building a personalized financial plan that is consistent with your overall goals and objectives.

<sup>1</sup> <https://www.census.gov/hhes/www/housing/census/historic/values.html>

<sup>2</sup> [https://www.federalreserve.gov/releases/g19/HIST/cc\\_hist\\_memo\\_levels.html](https://www.federalreserve.gov/releases/g19/HIST/cc_hist_memo_levels.html)

<sup>3</sup> <https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/>

<sup>4</sup> <https://www.bls.gov/emp/chart-unemployment-earnings-education.html>

