

How to Prepare and Invest in the Right Majors



A college education is a financial equation of two halves: the cost of the investment to attend and the potential income related to the degree earned. In this article, we'll summarize ways to meet the cost and introduce some points to consider when talking with your child about selecting a major.

As reported regularly in the news, student loan debt is climbing to astronomically high levels—an increasing number of graduates leave school in debt each year. In fact, roughly 70 percent of undergrads leave school with an average debt of over \$37,000 according to studentloanhero.com.

Further, there are 42 million Americans—that's 1 in 6 adults—who owe money on student loans. And the total student loan debt is \$1.5 trillion—that's a whopping \$620 billion more than total U.S. credit card debt. And sadly, more than 25 percent of these loans are either in delinquency or default, according to the Consumer Financial Protection Bureau.

RISING COSTS OF COLLEGE

One of the reasons for such high levels of student debt is because of the annual increase in college tuition costs. The average annual increase in the past three years has exceeded three percent, which is well above inflation. Further, since the average cost of attending a private college is approaching \$47,000 per year (*Source: 2017 Trends in College Pricing, The College Board*), the projected total cost for today's newborn is staggering.

If you're already juggling other financial concerns, paying for your child's college education can easily overwhelm you. Yet, the sooner you start saving, the better. The longer you delay, the more difficult it may be to reach your funding goal. Even if you can only afford to put away a small sum, saving on a regular basis will pay off in the long run.

PAYING FOR COLLEGE

Personal savings are especially important as a source of college funds, since they are areas over which you have the most control. While other sources of education funding are also available, it helps to understand how they work before considering them. Here are a few worth noting:



Financial Aid. This usually comes in the form of loans, and rarely covers the total cost of college. Even if your child qualifies for financial aid based on need, there is no guarantee that your chosen college will have funds available to meet their need.



Scholarships. While many scholarships are available, there is no way to predict whether your child will qualify for or receive one.



State-Sponsored Qualified Tuition Programs (529 Plans).

These state-sponsored, tax-advantaged savings plans are widely available and designed to encourage saving for future college costs.



Personal Loans. These are usually easily available, depending on your financial credit, history, and situation; although, they generally prove costly over the long run, due to interest charges. Personal loans also typically require payments to begin and interest to start accruing immediately.

FUTURE PERSONAL INCOME

The best strategy for funding a college education is to start saving as soon as possible. It's unrealistic to expect to cover the cost out of your expected future personal income. If you haven't managed to set aside funds by the time your child is ready for college, how will you fund an entire college education out of your income while he or she is attending school? This may prove especially difficult if you will be nearing retirement age at the same time.

WHAT HAPPENS AFTER COLLEGE? INVESTING IN THE BEST MAJOR

Because college is likely one of the largest financial investments you'll ever make on your child's behalf, it's important to consider the end-goal; namely, what does your child intend to do after graduation? Your family will make a huge investment—between \$100,000 and \$150,000 for a degree from a state university. As with any investment, you should consider what the expected return looks like for the degree. Majors most likely to pay the healthiest “return on your investment” are ones that fall within STEM-related fields—STEM is an acronym for science, technology, engineering and math. According to PayScale.com's 2017 College Report, STEM-related fields dominate the top 100 highest paying Bachelor degrees.

If your student has an interest in or an aptitude for a range of subjects, it's worth including expected salary in your discussion of college major—especially if your child will be responsible for meeting student debt obligations. A double major, or a major and a minor, in math and fine art might serve your student better than just a degree in art.

THERE IS A LOT TO THINK ABOUT

Keep in mind that the decision to attend college and the choice of major are very personal decisions. And how you pay for such decisions has implications you might not be thinking about.

For example, did you know that earnings withdrawn from a 529 plan are treated as income to your child and will show up on the following year's financial aid application? Or that out-of-state plans may have in-state income tax ramifications?

If you are like most parents, your focus will be squarely on making the right decision for your child and your family.

Please call me to discuss your options—paying for college is a very personal decision that can impact your personal financial plan. I look forward to hearing from you soon.