

# The Value of Advice

## Going to College: Managing Higher Education Costs

**The steadily rising cost of undergraduate education has not gone unnoticed with news stories highlighting the growing number of students who graduate with significant debt. College costs (adjusted for inflation) have approximately tripled since the 1980s.<sup>1</sup> However, from 2000 to 2014, the median annual earnings of a full-time employee with a bachelor's degree have actually declined after inflation.<sup>2</sup>**

At Forum, we remind investors to focus on what they can control. The same counsel applies when students and their families begin to investigate different colleges. We suggest having a written plan to provide long-term perspective and balance the excitement of campus visits and acceptance letters. The place to start is to compare all associated expenses (not just tuition) as well as how much financial assistance is being offered. We help families address:

1. How to evaluate the costs of higher education relative to a student's goals and aspirations
2. How to intelligently manage and eventually pay off student loan debt

### How Much Student Loan Debt Is Too Much?

Student loan debt has been growing at a breakneck pace since the late 1990s as noted in

an August 2011 article from *The Atlantic*. The article cited data from the New York Federal Reserve, "In the first quarter of 1999, just \$90 billion in student loans were outstanding."<sup>3</sup> Less than two decades later, outstanding student loan debt stood at \$1.26 trillion (as of March 31, 2016).<sup>4</sup>

Author Jonathan Clements includes how much to borrow for college on his list of 10 most important financial decisions. He notes that career choice should be taken into consideration: "Planning to become a journalist or a social worker? The lower your likely lifetime earnings, the less sense it makes to take on a heap of education loans."<sup>5</sup>

It is important for students to understand the amount of debt for which they will be responsible in relation to their earning power. That said, pursuing higher education is a wise decision even when viewed from a purely economic perspective. For example, graduates with a bachelor's degree are both more likely to gain employment and earn an average salary of \$19,900 more than their peers who only graduate from high school.<sup>6</sup>

This is the first level of analysis to consider — that earning a college degree does improve the chances of attaining a higher quality lifestyle. The second level of analysis, however, dives deeper into the economic trade-offs that offset the cost of living during those years and the foregone wages during the years not spent in the workforce.

**If you have questions about how to build a plan for managing college expenses or how to begin evaluating options, please contact your advisor.**

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## Some of These Debts Are Not Like the Others

The first step in debt management is to understand how much is outstanding, the type of debt and the interest rate. With that information, it is easier to develop a plan.

An August 2016 BBC article on student debt explains it this way: “*Look at the big picture.* Having a student loan hanging over your head can feel claustrophobic. But that doesn’t mean you should tackle it aggressively if there are other financial eggs in your basket.”<sup>7</sup>

For example, if you have other debt like a mortgage or credit card debt that have higher interest rates, the best decision may be to pay the minimum amount due on your student loans, so that you can pay down the higher interest rate debt first. Some people can also refinance their student loans over a longer term and take the money saved directly to pay off the higher-interest debts faster.

As a general rule, if the highest interest rate is below 5%, then there may be reason to consider not prepaying the higher education debt and instead contributing to an investment account or paying down other debt.

Another way to pay down debt is to participate in a federal or state student debt forgiveness program such as the Teacher Loan Forgiveness Program. This federal program forgives up to \$17,500 for borrowers with qualifying federal student loans who teach full-time for five consecutive years at a qualifying elementary or secondary school.<sup>8</sup>

## Graduation Day

When so much emphasis is placed on applying to the “right” school, families need to consider how their decisions may shape a student’s life long after graduation. That is why having a plan in place that outlines associated expenses can benefit a student over the long run. However, even with all the financial considerations, the personal fulfillment that comes with obtaining a higher education should not be discounted.

The greatest reward for many students will be realizing the path they want to follow and gaining the confidence to pursue those dreams. As Ralph Waldo Emerson said, “The mind, once stretched by a new idea, never returns to its original dimensions.”

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## Sources

<sup>1</sup> “Tuition and Fees and Room and Board Over Time, 1975–76 to 2015–16, Selected Years.” The College Board. <https://trends.collegeboard.org/college-pricing/figures-tables/tuition-and-fees-and-room-and-board-over-time-1975-76-2015-16-selected-years>

<sup>2</sup> “Annual Earnings of Young Adults.” National Center for Education Statistics, May 2016. [http://nces.ed.gov/programs/coe/indicator\\_cba.asp](http://nces.ed.gov/programs/coe/indicator_cba.asp)

<sup>3</sup> Daniel Indiviglio, “Chart of the Day: Student Loans Have Grown 511% Since 1999.” *The Atlantic*, August 18, 2011. <http://www.theatlantic.com/business/archive/2011/08/chart-of-the-day-student-loans-have-grown-511-since-1999/243821/>

<sup>4</sup> “Quarterly Report on Household Debt and Credit.” Federal Reserve Bank of New York, May 2016. [https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC\\_2016Q1.pdf](https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2016Q1.pdf)

<sup>5</sup> Jonathan Clements, “Your 10 Most Important Financial Decisions.” [jonathanclements.com](http://jonathanclements.com), July 28, 2016.

<sup>6</sup> “Fast Facts: Income of Young Adults.” National Center for Education Statistics. <https://nces.ed.gov/fastfacts/display.asp?id=77>

<sup>7</sup> Kate Ashford, “You Came, You Studied, You Borrowed. Now What?” BBC.com, August 7, 2016. <http://www.bbc.com/capital/story/20160805-you-came-you-studied-you-borrowed-now-what>

<sup>8</sup> “Teacher Loan Forgiveness.” Federal Student Aid, An Office of the U.S. Department of Education. Accessed August 30, 2016. <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/teacher#teacher-loan-forgiveness>

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