Degrees of Debt

Financial and life lessons to help your child graduate without a crushing burden of debt

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In its most recent survey of college pricing, the College Board reports that a "moderate" annual budget for a private college for the 2013–2014 academic year averaged $44,750. That translates to an average cost for a private undergraduate degree of $179,000 without factoring in inflation.[1] Not surprisingly, as a result, average student loan debt climbed to $29,400 for borrowers in the class of 2012, with seventy-one percent of 2012 graduates having to take out loans.[2]

Starting out adult life with a considerable debt burden is not only onerous, in can have long-term negative ramifications on both the individual and the economy at large. Young professionals entering the workforce have a finite debt capacity. As more of that capacity is consumed by student loan debt, graduates have less ability to assume the debt associated with home ownership, entrepreneurship, and other economically beneficial endeavors.

Work is not a four-letter word

I grew up in a prototypical middle-class family in Orange County. It was a time well before the current focus on educational savings or the emergence of 529 Plans. In order to save money and avoid a mountain of debt, I opted to go to a University of California school. I received a little bit of financial aid and some help from my dad, but the lion's share of my educational costs were going to be my responsibility.

It wasn't easy, but I worked to help defray my college costs. Three of my four years I was able to secure either on-campus or off-campus jobs, and I worked full-time during the summers when I was home. Not only did it help me to keep my student loan debt modest, it taught me invaluable life lessons about budgeting and living within my means.

As parents, you need to have an open, honest dialogue with your kids about what financial help you plan on providing, and what financial obligation you expect them to assume. Even if you have the wherewithal to assume the full cost of your children's college education, they may be better served if you begin to transfer some of that financial responsibility onto their shoulders. Rather than directly paying their tuition and/or their rent for them, consider sending your child a monthly check to cover as much of their college expenses as you're able to, but put them in charge of physically paying those bills. Not only will it help them to better appreciate the cost of things, it will also teach them the vital art of managing a monthly budget.

Investing for and saving during college

Volumes have been written about the importance of starting early to save for college. Although not perfect, 529 Plans are clearly the best educational savings vehicle available – allowing your assets to grow tax-free until needed for higher education expenses. They're wonderful tools not just for parents, but for grandparents as well. And if you're children are still young, and you're diligent in putting a little money away each month, you'll be pleasantly surprised when college eventually rolls around.

But college also provides an often overlooked opportunity to teach your kids about financial independence and begin preparing them to become lifetime investors. If you kids do have a part-time job during college (or even high school) encourage them to begin investing in a Roth IRA. Most people typically don't associate Roth IRAs with young adults, but that's precisely the age where a Roth can be most effective.

Although Roth contributions are made with after-tax dollars, the vast majority of college students don't make enough money to pay much, if anything, in taxes. So contributions to a Roth IRA have little to no tax impact on a student, yet unlike a traditional IRA their savings grow tax-free rather than tax-deferred. Even if it's just $50 a month, it's a great way to help get your college student on the road to financial independence.

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[1] *"Trends in College Pricing," The College Board, December 2013.*

[2] *"Student Debt and the Class of 2012," The Institute for College Access and Success, December 2013.*