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Education: Costs vs. Rewards

I refuse to sacrifice for you and then resent you for it.

—ORSON BEAN

In a television appearance on *The Merv Griffin Show* in the early 1970s, the actor Orson Bean—during what he now refers to as his "hippie-actor-eccentric-adventures period"—was asked if he was saving money to send his children to college. His answer was no. He said he had told his kids that he was using the money now and that when the time came for them to go to college, he'd be happy to give them whatever money he had at the time. If he had none, he continued, they would have to fend for their own education.

In a 1977 op-ed article in the *New York Times* titled "Ready to Face Tomorrow," Bean explained his stance: "We've used all the money we have lovingly put away for the kids' college education. If we have enough when they are ready for college . . . years from now, we will happily give it to them. If we don't, they can get a scholarship or work their way through. Or not go at all—I'm not dedicated to the proposition that everyone has to go to college anyway." He continued: "I am dedicated to giving my kids the memory of happy parents. So I spend a lot of time with them. We really know each other. If they should decide later on that they hate me, at least they'll know who they're hating."

In a 2004 interview for this book, Bean, who is now seventy-six, reflected on his past comments and stood by them. "What I was saying about my kids on the *Griffin* show was this: I refuse to sacrifice for you and then resent you for it," he declared. His two sons and two daughters eventually all went to college, and with his help. "I had the dough when the time came," he said. "I just hadn't put it away. I didn't in the least strap myself for a long period of time to pay for their education, to send them to schools they may not have wanted to go to or that they may not have been able to get into."

Spending the money he had saved for college expenses was the result of a period of life reassessment he went through in the late 1960s and early 1970s. "We took off and went to Australia for a year and a half," he explained. "I gave up my career and then came back and resumed it in a half-assed way. That's when I bought a van and began dragging my poor long-suffering family around the country."

He also canceled his life insurance. "To me, life is a gamble," he said. "I decided a long time ago to gamble on the positive side. I decided to gamble that I wouldn't get sick and die but live well and happy into my hundreds."

He has no regrets. "I'm having a wonderful time. I made the discovery that it's always now. It's now, and three seconds from now is still now. The now that I mentioned three seconds ago is what we call the past. When I realized that, I said I'm not putting any money aside for this nonexistent future, which is just a figment of our imagination. People say to me, 'What if?' Well, the other side of 'What if?' is that on my seventy-fifth birthday I took twenty people—my extended family—to Club Med in Mexico for a week. I started my seventy-fifth birthday standing in warm Mexican water with a piña colada in one hand, a grandchild in the other. I wouldn't have been able to do that if I'd been worrying about saving for college or paying off those college bills. Anyway, I have a long-standing suspicion of intellectuals. I hope my grandkids don't go to college. I'd rather give them money to spend a couple of years traveling around the world."

DON'T SACRIFICE FUTURE SECURITY

While Orson Bean's unconventional approach to higher education and paying for it might not be for everyone, there is a lesson to be learned from his approach: many people stretch themselves too thin financially in order to send their children to expensive and prestigious schools where costs, including room and board, can run more than $40,000 a year. The expense, and the havoc it can wreak on parents' future security, may not always be worth it.

In a *Los Angeles Times* financial advice column written in 2004, Liz Pulliam Weston featured a letter from a reader asking if there was anything wrong with using IRA money to pay for his children's college if the money were replaced once the children graduated. Weston warned the reader against the idea: "Your kids can get through school with loans, part-time jobs, and perhaps some financial aid. Would you rather try to borrow to get through retirement?"

Peter Wall is a financial adviser and a senior vice president at Chase Investment Services. The group he heads at Chase advises clients on comprehensive financial planning, including providing for their children's education. Wall said that people usually have to juggle several financial priorities, and for his clients these priorities tend to be, in order of importance: saving for retirement, saving for children's education, and helping provide for their parents. They also have to cope with higher college costs and with their parents living longer, "plus, they have fewer defined-benefit pension plans, and many haven't saved enough," he added. "They're making more money than their parents ever dreamed, yet they're finding themselves in situations where they are overextended by these three priorities. I think mortgaging your future and endangering your retirement to send a child to a fancy, expensive school is a terribly unfair position to put yourself in, or to put your kids in. No one wants to be in a situation later in life when you're retired and living on really limited means. Or wind up with your children having to support you if you have overextended yourself."

Wall and his colleagues at Chase estimate that the average cost of tuition, fees, and room and board at a four-year private college is $26,854; for a public university, it's $10,636. They assume increases of 5 percent a year. These are, of course, only averages. Many top-flight private schools run much more than that. In July 2004, the Associated Press reported that the members of the National Association of Independent Colleges and Universities would increase tuition alone by an average of 6 percent for the 2004–5 school year, to just over $18,000. Private institutions account for about half of American colleges and educate about 20 percent of four-year college students, according to the AP.

Many students save money by attending a community college for two years and then finishing at a four-year college. The savings can be hefty: according to the College Board, the average annual community college tuition for the 2003–4 school years was $1,905. In addition, community college students usually save additional money by living at home.

The high prices of some colleges and universities can, Wall contends, result in unfair pressure on a child to come out of college and find a position that will justify all the money that was spent. "A colleague of mine sends his son to a school that costs more than thirty-five thousand dollars a year," he said. "His son has elected to major in history and go into high school teaching, which he loves. The ripple through the family when he declared his major was pretty significant. The response was: 'Why are you going to such an expensive school to become a teacher? You could have gone to a cheaper school because you're never going to justify the investment we're making.' Now this boy is reconsidering what he should do for a career. He could end up in a career in which he is unhappy. Unfortunately, they put the cart before the horse. You can't really blame the boy; he made a choice on what he wants to do, but he was at a school that was costing his parents more than they could really afford. So there was a lot of pressure on him because of that. That can make for some unhappy lives. It's tough to ask kids to make decisions so early about what they want to do with their lives."

The pressure to attend this kind of school ultimately comes from the parents. "There can be a lot of peer pressure among kids, but that also comes from the parents who see sending their kids to a top school as prestigious," Wall said. "A level of pride and status goes with saying that my kid is smart enough to go to such and such a school, and I can afford it. Sometimes they can't afford it, but they pretend they can. Or maybe they can afford it but the money is going from the retirement pocket to the college pocket. They say, 'I'll spend forty thousand for college and worry about my retirement later.' Well, that's four years of investment and returns that are missed, more if there are two or three children involved." Or, as Orson Bean makes clear, the money may also come from that needed for current living expenses. This can create a dilemma: Should you mortgage your retirement future or reduce your standard of living?

Wall's advice to middle-income parents and students: "Lighten up, look at less expensive options. In the end, where you go to school is not that important. It's the individual, not the school, that will be the biggest part of success, however you define it. If you go to a good school that provides a good, basic education and you make the most of that, it's not important that the school have a prestigious name attached to it. And the parents will still have some money left for retirement."

Wall stressed the importance of picking the right school. "You want a school that offers the most bang for your buck. Costs and reputation are not necessarily the key things you need to consider about a school. My personal observation is that if there is an advantage to going to, for instance, an Ivy League school, it may be the networking opportunities it offers. These kinds of opportunities are probably better than at lower-echelon schools like state universities." The extent of these networking opportunities, of course, depends partly on a student's field of study and how effectively he or she takes advantage of them.

Wall cited the case of his son: "As I've told my seventeen-year-old son, if you apply yourself to school and focus on what you're doing, commit to it, and come out with good grades and good contacts with professors and other faculty members, you're going to do well no matter where you go. You'll have the references, the grades, and the education; you'll be fine. If you have strong interpersonal skills, you'll do fine. You don't need a pedigree diploma to get your foot in the door. I also told him not to think that just because you get accepted to an Ivy League school and attend it, that your road will be paved with good fortune. It's not going to guarantee you a job or an income. That will come from your own applications and your own hard work. My brother, for instance, went to Rutgers University and is now a federal judge. When I was at his swearing-in ceremony, I looked around at some of the other judges. Most had gone to fairly prestigious schools. I told my son that it just goes to show that you don't have to go to Harvard and Yale to succeed. His uncle is an example."

That's pretty good advice from a father to a son, and, as a result, the younger Wall, an honor student, is applying to a mix of schools and is keeping his options open.

Any big bookstore has a section full of books offering advice on selecting a college. Their value and quality vary greatly. One that I like is *Harvard Schmarvard: Getting Beyond the Ivy League to the College That Is Best for You* (Three Rivers Press, 2003) by Jay Mathews, an education reporter and columnist for the *Washington Post.* It is practical and takes a refreshingly contrarian approach to high-profile schools. One of the book's best features is an appendix titled "Hidden Gems" that lists 100 colleges that the author says are "better than you think."

SO WHERE'S THE PAYOFF?

People who insist their children go to big-name schools often fall back on the argument that, yes, such schools are expensive, but graduates—with their prestigious degrees—will earn more in the workplace than those who graduated from lesser-known colleges and universities.

There's only one problem with this argument: it's not true.

Alan B. Krueger, the Bendheim Professor of Economics and Public Affairs at Princeton University, and Stacy Berg Dale, a researcher at Mathematica Policy Research, released a study in 2000 that reviewed earnings after almost twenty years of two groups of people who started college in 1976. The researchers looked at 6,335 sets of male students with identical Scholastic Aptitude Test scores who were accepted at the same types of colleges. Some students in each set graduated from a top college, like those in the Ivy League; others, whose SAT scores were good enough to get into Harvard or Yale, elected to go to a state university or other less selective college.

The somewhat surprising results: in 1995, the latter group of students had a slightly higher average salary—$91,232 a year—than their peers who attended selective schools, whose annual salaries averaged $90,144. In other words, for students of comparable ability and choices, the selectivity of the colleges they attended made almost no difference in future earnings (see figure 7). Similar results were found for women.

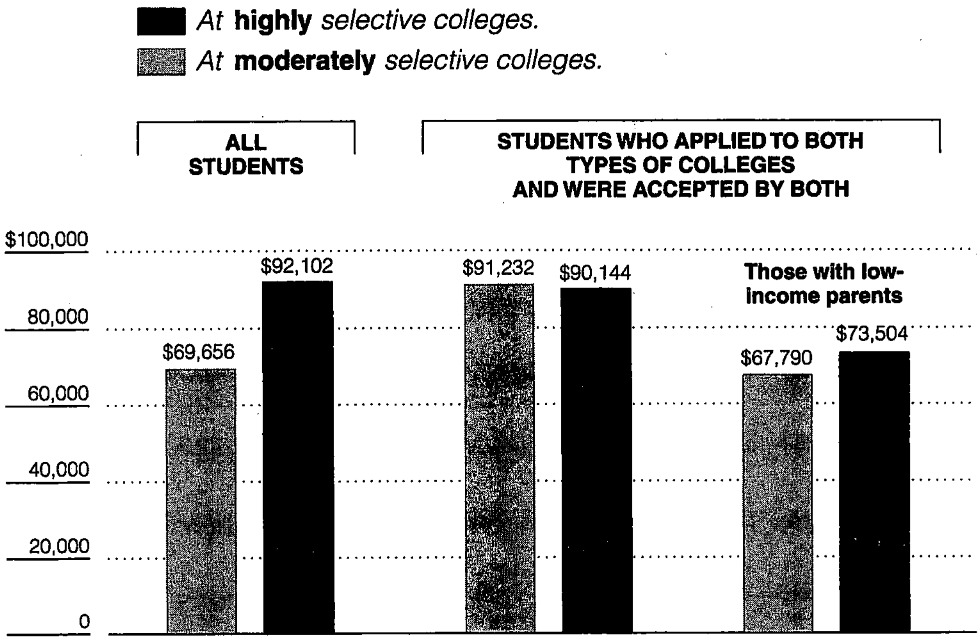
The study, however, did show that students from lower-income families who attended selective schools did see a benefit in earnings. Their annual income was $73,500, compared with $67,790 for students from lower-income families who went to less selective schools. In Krueger's view, this was probably because of the contacts such students were able to make at select schools. "These students gain the most from going to elite schools, but they are the ones elite schools are least likely to admit," he said in an interview for this book. The increased earnings for a lower-income student, however, must be weighed against the much higher costs of attending a select school. It's one thing if financial aid is available, another if a student and family are trying to foot the full bill and, perhaps, taking on a lot of debt.

In an April 27, 2000, column in the *New York Times* in which he discussed the study, Krueger had the following advice for students: "Don't believe that the only school worth attending is one that would not admit you. That you go to college is more important than where you go. Find a school whose academic strengths match your interests and which devotes resources to instruction in those fields. Recognize that your own motivation, ambition, and talents will determine your success more than the college name on your diploma."

Figure 7

Alma Mater and Income Later

Average annual earnings in 1995 for workers who enrolled as freshmen in 1976:



Source: Alan B. Krueger

His advice to elite colleges: "Recognize that the most disadvantaged students benefit most from your instruction. Set financial aid and admission policies accordingly."

During his interview, Krueger added that parents and students should consider not just a school's reputation but what the school puts into a student's education. "All the elite schools don't necessarily put in the same amount," he said. "Just because a school is selective and hard to get into and considered elite doesn't necessarily mean it's going to raise your child's earnings power. Some colleges have a great reputation, but the best professors are hardly ever in the classroom. They have an ethic that professors don't spend much time with students. There are other schools that are less prestigious but where faculty members spend a lot of time with students. Being elite and providing a lot of resources are not necessarily the same. Also, some schools are good in some departments and not in others. Harvard's a great school, but if your child wants to be an engineer it's not great in engineering. What is really important is that parents not make a rigid decision and say that the most expensive school has got to be the best. That's just not the case for all students."

Krueger agrees that the study certainly lends support to the notion that parents ought to think twice about sending their children to an elite school if it's going to put their financial security or retirement plans at risk. He suggested that parents in this situation should consider sending their children to a less expensive undergraduate school and then, if they do well there, to a more prestigious graduate school. "At the graduate level, more assistance is usually available," he said. "Students will be able to help themselves more than they could when they were eighteen."

"WE DID WHAT WAS FINANCIALLY RESPONSIBLE FOR OUR FAMILY"

Jim and Elizabeth Hammond of Columbia, South Carolina, have two children—Thomas and Sarah—one in college, the other in graduate school. Neither child has incurred any debt, and the parents have not had to tap their retirement savings to pay for schooling.

Sarah Hammond was the valedictorian of her class when she graduated from high school in 1998 in Columbia, where her father was the state capital correspondent for the *Greenville News*. She wanted to be a writer and was accepted by the University of South Carolina, the University of Pennsylvania, Furman University, the University of North Carolina at Chapel Hill, and the University of Virginia.

Sarah wanted to go to the University of Pennsylvania because of its prestige as an Ivy League school. At the time, it would have cost about $35,000 a year. However, she was offered a full four-year scholarship, including money for room and board, at the University of South Carolina. Jim wanted her to accept the South Carolina offer.

In the end, Sarah agreed to attend the University of South Carolina, where she graduated magna cum laude in 2002 with a degree in English. She is now enrolled in a three-year master's degree program for playwrights at the University of Iowa in Iowa City. Three of her plays—*Kudzu*, *Wax Work*, and *Green Girl*—have already been professionally produced in South Carolina and Iowa. She is pursuing a career as a playwright.

Thomas is a junior at the University of South Carolina, where he is majoring in music. He won a merit scholarship that pays more than a third of his annual college costs of around $14,000.

Jim, who now works as a political consultant, estimated that if Sarah had gone to the University of Pennsylvania, her four years there would have cost the family $140,000. "We would have had to borrow money," he said. "As it was, we had some money invested in a second home—a beach home—that we did not have to sell to help pay for college. That house's value increased dramatically during the four years Sarah was in college. We were then able to sell it and pay off our primary home mortgage. We bought the beach house when she started high school, and we agreed we would sell it if we needed the money to pay for her college. But we didn't have to. The net effect of Sarah going to the University of South Carolina rather than the University of Pennsylvania was that the value of our assets continued to grow, we were able to pay our house off, and she graduated from college with no debt."

Even without her scholarship, Jim said Sarah's college costs for four years at South Carolina would have been less than $40,000.

The Hammonds took the course recommended by Krueger. "In exchange for Sarah agreeing to go to South Carolina, we agreed to subsidize her for whatever graduate school she wanted to go to," Jim said. Her costs at the University of Iowa, which is one of the top schools for writers in the country, run about $20,000 a year. The Hammonds pay half; Sarah pays the other half with some scholarship funds and money that she earns working as a teaching assistant.

Jim added: "To me, the benefit of graduating from college with no debt, for the family or the graduate, is incalculable. We will end up having put two kids through college, and nobody will owe anything. Plus, we paid the mortgage on our house. When I was in college, I worked every semester and finished with debt, which is still the case for many students. I never got to fully participate in the academic and social life of college because I had to work. Sarah worked some, but it was work of her choice. She didn't have to. She had every opportunity to fully partake of the college experience.

"We wanted to make sure our kids got good educations. Sarah got a good education at the University of South Carolina, and Thomas is getting a good education. We did what was financially responsible for our family."

Sarah says that in the end she was happy with the decision. "I know I got a good education at USC," she said. "I also know, though, that I am lacking some of the connections and some of the immediate brand-name prestige. That's the stuff that people pay for when they go to those schools. I don't feel slighted, but I do wonder what would have been the difference."

She said when she graduated from high school she had wanted to go away to college. "At the time, it seemed awful to stay in my hometown—even though I wasn't living at home—when everyone else was going away to school. It was difficult at the time to make that adjustment."

She has also come to appreciate the money she and her parents saved. "I understand things better now," she said. "If it had been my decision alone, I would have gone to the University of Pennsylvania and ended up in terrible, terrible debt—which I am extremely glad I'm not. Being in grad school with others who have had to put themselves through school has helped me see the importance of the money angle. Now I'm teaching students who miss my classes because they have to work. Some of them have to support their parents. That really hits home for me and makes me realize what a good deal I got."

In the end, perhaps the best way to cope with college expenses is a blend of the approaches taken by Orson Bean, Peter Wall, and the Hammond family.

Saving is important, and the more the better—but don't save so much of your income that you end up with a lifestyle that is too sparse or forces you to live on the financial edge. To paraphrase Bean, things have a way of working out. When the time comes for a student to go to college, consider the alternatives in terms of the money available, and the financial aid the student can get or money he or she can earn. Don't be too dogmatic or obsessive about a prestige private college or university. If money has to be borrowed, let the student obtain the loan. Above all, don't put your retirement in jeopardy to send a child to college. There are too many other ways, as the Hammond family showed.

Just because you've saved a certain amount for college expenses doesn't mean you have to spend all of it if there are less expensive alternatives. The Hammonds, remember, were prepared to sell their beach house to send their daughter to an Ivy League school. Instead they were able to sell the house and pay off their primary residence—a move that effectively increased their income. That's a neat trick to pull off with two kids in college.

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Cars: A Money Pit

If you get the feeling you're being hustled when you walk into a car dealership, it's because you are.

—GARY DOBBINS, INDEPENDENT AUTO BROKER

If you're serious about saving money, look no farther than your driveway. Take a hard look at your car or cars; they are a serious source of expenses for many people, sometimes ranking just behind housing. Like credit cards, they are an essential part of life for most people, and, like credit cards, you must get them under control.

First, consider getting by with just one car. This can be difficult for working couples or for families with several drivers, but the savings are significant. When you sell one of your automobiles, not only do you eliminate a car or lease payment, or free up some money if you paid cash for the vehicle, but you also greatly reduce your auto insurance bills, which in some high-cost cities and states are considerable.

When the time comes to replace that car, should you buy a new or used one? In most cases, the most expensive thing you can do is buy or lease a new car every two or three years. The least expensive route is to purchase a used car, especially one that is coming off