The Emotions, Myths and Facts about Paying for a Child's College vs. Saving for Retirement.

The difficult dilemma in having to choose between saving for your retirement or paying for a child's college education is never an easy decision, and doing the right thing for yourself does not necessarily mean doing wrong by your children.

You have all heard these stories in the firehouse or at role call -

"I will live off only my pension during retirement. That is enough money for me."
"A good parent pays for college."
"I want my kids to attend the best possible school."
"I don't want them to start life with big amounts of debt. "
"To get a good paying job my kids need a college degree."

These, and many others, are the stories first responder parents tell themselves and others. Each thought makes a different argument, but they all go to the root of who they are and how they may view themselves. These stories tap into one's sense of responsibility, sacrifice, and ability to provide for your family. Numbers are one thing, but emotions run deep when it comes to our children's future. Ideas of saving for your comfortable retirement seem light years away. The financial facts are the facts, but our emotions make admitting that we will not be able to fund both hard to accept.

This decision can become an inner battle or part of a family's stress point. This belief needs to be countered by one in which someone can choose not to pay for college while also being a fantastic parent. What is most important for parents to know is that sometimes not giving children a full ride can be the best choice for their kids' future.

Let's explore some of the myths and some of the realities of this issue.

Myth - Student loan debt will make it hard for my kids to get started in life.

Debt can be a challenge, but it does not have to be. Researchers[1] have followed the lives of thousands of people after graduation, tracking their financial circumstances and their ability to repay the debt, as well as their feelings of burden and stress about the debt.

The results show that most people can manage their school debt if they keep their payments below 8% of their pre-tax salary. This roughly translates to the following rule of thumb: If your child expects to pay their loan back over 20 years, keep the total amount borrowed below 80% of their expected gross salary after graduation; if they want to pay it off in 10 years, keep the total balance to around 50% of your expected salary. General guidelines are in the table below (amounts are rounded for simplicity).

Expected Gross Salary	Maximum Monthly Payment	Total Borrowed (20-year repayment)	Total Borrowed (10-year repayment)
\$25,000	\$150	\$20,000	\$12,500
\$50,000	\$350	\$40,000	\$25,000
\$75,000	\$500	\$60,000	\$42,500
\$100,000	\$650	\$80,000	\$50,000
\$150,000	\$1,000	\$120,000	\$75,000
\$200,000	\$1,300	\$160,000	\$100,000
\$250,000	\$1,600	\$200,000	\$125,000

Myth - Focusing solely on one's studies is the best way to get the most out of college.

The thought behind this belief is that if a student does not need to work then there will be more time to do well in school. It seems like a reasonable assumption, but research on students' work and academic performance shows otherwise.

In actuality working part time while in school may boost your child's performance. Several studies[2] have found that students who worked 1-15 hours per week had significantly higher GPAs than those who worked more than 15 hours *and those who did not work at all.* Kids who worked at school part time were more involved in the academic and social community on campus, which may help explain the boost in GPA. After they graduated, those who had worked while in school earned slightly higher wages than those who did not. Lastly, working while in school seemed to benefit kids' psychological well-being as well as their time management and leadership skills.

This effect was reduced in two cases: 1) When the student was a low academic performer before college. 2) When the student worked off campus. In the first case, students who struggle academically may need to focus solely on their studies since they need extra time. In the second case, researchers think it may have to do with engagement in the school community.

Bottom line: Working during school may be a good thing for students. Rather than taking away from their studies, having a job on campus may help students engage in the community, manage their time well, and develop leadership skills. What is that old Lucille Ball expression? "*If you want to get something done, ask a busy person to do it. The more things you do, the more you can do.*" First responders who expect their kids to work part time during college may be helping their kids more than those who don't expect it.

Myth - Kids who go to Ivy League schools get better jobs and earn more than kids who go to state schools.

Again, this seems like a reasonable assumption, but it does not quite pan out that way. Most of the statistics[3] that cite Ivy League graduates as having higher earnings don't take into consideration other factors that may be contributing. For example: Do kids who go to Ivy League schools have more-stable home lives prior to college? Are their parents more educated? In order to really compare apples to apples, we need to look at the difference between an Ivy League education and a state school education, all else being equal. Thankfully, this has been done. A very careful study[4] of students who were accepted to Ivy League schools but chose to attend state schools instead (often for financial reasons), shows that there was no difference between their post-graduation salaries and those of Ivy League graduates. This study is important because it looked at a group of kids who had similar abilities and motivations, but some went to Ivy Leagues and others did not. The results suggest that it isn't the school that leads to great jobs and salaries; it is the motivation and abilities of kids who get into those schools.

Bottom line: If a student is Ivy League material, they do not need to attend an Ivy League school to succeed. As that expression goes, "*If you want a hunting dog, you better find a dog who likes to hunt. Because you can't put the hunt in the dog.*" Drive and skill predict salary more than the title of the institution on a person's degree.

Myth - College is necessary for a successful life.

Not necessarily. While there is a clear correlation[5] between higher education and higher wages, there are plenty of counter examples. In fact, in recent years so many people have flooded the halls of colleges around the world that high-paying trade jobs[6] are going unfilled. While these jobs require specialized skills, they do not require a bachelor's degree. Trade jobs like iron- and steelworkers, plumbers, electricians, and many others often pay well above the median income[7] and may appeal to kids who are not excited by the traditional textbook and term paper style of education. Not only do these jobs offer good wages with a shorter time to entry, but they may also offer job security in lean times.

Bottom line: Skills are necessary in order to find a good job. College is one way to acquire skills, but there are also many other ways.

Put time on your side by saving for retirement as soon as possible.

As a first responder, almost all of you will retire with a pension. In many cases, pension benefits will usually fund most of your retirement income needs. However, studies have shown that many pre-retirees underestimate both income taxes as well as health care expenses incurred during retirement. According to the Fidelity Retiree Health Care Cost Estimate, an average retired couple age 65 in 2021 may need approximately $300,000 saved (after tax) to cover out of pocket health care expenses in retirement. This estimate does not include the costs of assisted living should that be required at some point during retirement.

In short, you cannot take a loan out to fund your retirement like your kids can for college. This is a very important distinction when thinking about the economic implications of paying for college versus saving for retirement. A student loan amortizes the cost of the education over a period in which benefits are received (when the student is working). This makes sense from an economic perspective, especially given the noted financial benefits (like higher salaries) associated with attending college. In other words, you can either put a burden on your kids when they are young, strong, educated, and unencumbered by family (when they first graduate); or they can put the burden on themselves when they are older and have additional competing financial priorities — one being the possibility of needing to care for their parents because they did not save enough.

Many families simply have not thought through this part. If you underprepare for your own retirement, the people who are most likely to be burdened by their financial needs are...your children. Therefore, it makes more sense, if the option is available, for the student to take out the loans and for the parents to reimburse the student for part of it. Obviously, significant student debt upon graduation is not the goal, but at least the student will gain an awareness of how much the education costs. This can also potentially create some accountability for completing the degree (like the parent agrees to repay more of the loan based on grades, degree completion, and so on).

The impact of paying for college versus saving for retirement is not dollar for dollar, since the funds not spent on college would grow to some greater amount by retirement. In other words, the interest that can be earned on funds saved for retirement is often greater than the interest that would be paid on student loans. Look at this effect in the table below, which includes the multiple for how much $1 would grow based on various investment periods (years) and real returns.

		Real Return				
		0.0%	2.0%	4.0%	6.0%	8.0%
Investment Period	0	1.00	1.00	1.00	1.00	1.00
	5	1.00	1.10	1.22	1.34	1.47
	10	1.00	1.22	1.48	1.79	2.16
	15	1.00	1.35	1.80	2.40	3.17
	20	1.00	1.49	2.19	3.21	4.66
	25	1.00	1.64	2.67	4.29	6.85
	30	1.00	1.81	3.24	5.74	10.06

Source: Morningstar

For example, if an individual who is 45 years old plans on retiring at age 65 and can earn a 4% real return and invest the money for 20 years, then the value of the money that would have been used for college would more than double by retirement.

How can you best prepare to send your kids out into the world with the skills they need and still protect your own retirement funds?

One funding strategy that can make paying for college seem more doable is to break it into three discrete pieces, each with its own time horizon.

- Personal savings: A multi-year savings endeavor in the years leading up to college.
- Financial aid and student loans: In the case of federally subsidized student loans, interest doesn't begin racking up until after the student has finished college.
- Contributions from income while child is enrolled in college: These contributions can come from the parent or the child.

Though the parents can and should work to enlarge the college savings fund, this three-part approach demonstrates that they have additional levers available if their own savings fall short.

Of course, the specific ratio of dedicated college savings, financial aid and loans, and contributions of current income (parents' and children's) will depend on the family. For example, let's say the child would like to enroll in a university where the total outlay adds up to $50,000 per year. If the parents have saved $80,000 toward the child's total college costs, that means that $20,000 of each year's tuition bills will come from that pool. The child could borrow an additional $10,000 per year, and the remaining $20,000 could come from other types of financial aid, such as the parents' own cash flows and the student's income from work during the school year or the summer.

Whenever there's a funding shortfall, it's also worthwhile to look at the other side of the ledger. Does the family need to spend as much on college as they're talking about, or can they find ways to economize? A 2013 study[8] conducted by the Pew Research Center found that adults who graduated from private universities reported no greater life satisfaction than adults who hailed from less-expensive public universities.

Another study[9], conducted by researchers at Purdue University and Gallup, found that the type of institution a student attended – public or private, elite or less selective – was a less important predictor of future workplace engagement and well-being than that student's experiences while in school. For example, students who felt their professors truly cared about them as people, or those who took advantage of internships and extracurricular activities, were more likely to report future workplace success and well-being than those who did not. **This suggests that parents should invest as much energy in motivating their children to find positive experiences in college as they do in paying for college itself.**

Before your child heads to college, your family should have a candid discussion about the future career path and the potential income associated with that career. Of course, college is a time for learning for the sake of learning and building knowledge across disciplines. (Although there are those few high school students who already have a well-mapped-out career path in mind.) A good rule of thumb is to keep total student loans at a level that's equal to or below the expected first-year income after a job has been secured. Tools[10] for calculating the return on various college degrees from several universities have proliferated online. Another popular strategy to help families economize on the college-cost front is for the student to take the basic courses at a low-cost community college while living at home, and then transfer to a four-year university once a specific course of study has been set. Some first responder parents might have attended a four-year university far away from home, but their children needn't follow the identical trajectory to find success in their own lives.

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