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Some Thoughts on Planning, and Paying for College

I mean, if somebody said to me, junior year of college, you can go anywhere, your old man's paying for it, I'd have been gone in a flash. But I had to work. Every summer my mother would say, "Get that job and hold on to it until August 30."

Chris Matthews

December 2014

In This Issue...

In the September 2014 edition we talked about planning for retirement, a topic appropriate for all readers but probably of more interest to those readers past the child rearing age. So, for balance, I thought we'd focus on a topic of more interest to our younger readers; those facing the task of sending their kids to college. First, don't be afraid. Despite all the scary projections you have heard, paying for college is doable if (1) you have a plan and (2) you begin executing that plan early.

Now, before we start talking about creating a plan, here's something the pundits never bother to mention. Your children are already costing a bundle. According to the USDA, the average annual cost of raising a child in the Midwest is $11,700[1]. That figure includes costs for housing, food, transportation, clothing, heath care, child care and education and a category identified as other. Some of these costs transfer to your child or completely disappear when your child starts college (For example, you probably won't be paying for braces, ballet lessons or child care for your college aged child.) If we focus on just those costs that would be ongoing during college years, that number is reduced to $6,588 (food, clothing, education and other). So, **point number one:** you're already covering some of the costs associated with sending your child to college. **Point number two:** You don't have to pay all the fees up front. A growing number of colleges allow parents to pay some of the costs, such as room and board, in periodic payments over the school year.

Okay, so let's talk about creating a plan. The first thing to do is to pick a college. If you have very young children, you really don't have a clue where they'll eventually go to school, so I suggest picking an in-state public school with a lower tuition schedule and an out of state school with a higher tuition schedule as you prepare a plan; this way you'll have a couple options when the time comes. The next step is to go to the colleges' web sites. Chances are, the colleges have already posted everything you'll need to estimate the cost of four years, including estimates of future cost increases. Now, remembering point number two above, focus initially on only those expenses that must be paid up front; namely tuition, books and fees. You can worry about the rest later (and remember point number one above). More than likely, the colleges' web sites will provide estimates of future costs for only a few years out. If you are planning today for, say an eight year old, you'll have take the figures provided and adjust them for future increases. Once you have some final estimates, the last step is to calculate how much must be saved each year to reach those numbers. (If you need help, give us a holler. It's what we do).

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Most folks are as happy as they make up their minds to be.
— Abraham Lincoln

Some Thoughts continued

And a note about scholarships, simply this... don't plan on them. Truth is, most kids going to college are average. I know that's not politically correct, but it's true. And average kids don't receive full scholarships; at least not for the first couple years. Doubt that last statement? Of the 25,000 full time students enrolled at the University of Nebraska Lincoln for the 2013-2014 school year, 387 received Regents Scholarship[2] and 164 received full athletic scholarships[3]; that's barely 2%.

Start talking to your kids early about college: make sure they know it's a privilege, not a right. That the costs will be a burden on the family's budget and, in return for accepting that burden, you expect them to: (1) do their part by earning good grades in primary and secondary school and (2) be responsible financially with the family's money while attending college. Advise them to get summer jobs in high school and save some of the money for college. Encourage them to plan on having part time jobs while in college. If loans prove to be necessary, make certain they understand the obvious … loans must be repaid! From my vantage point, that conversation is one of the most important you will ever have with your children. Don't wait until they're ready to graduate from high school; start early and have those conversations often.

And lastly, and perhaps we should have discussed this first, *what do you expect your child to get from college: a job or an education?* There is a difference. If you answered a job, perhaps you and your child should think about a technical education. Many community colleges and technical schools provide excellent and affordable programs in a wide variety of professions. Students graduate in a couple years and often are employed in their field of study prior to graduation, particularly in areas such as: computer programming, diesel mechanics, electrical and electrical mechanical technology, heating and air conditioning, physical therapist assistant, welding technology and wind turbine mechanics. Notice any similarities in this list? For the most part, they are traditionally highly paid occupations and, for the most part, are occupations that cannot be outsourced to some distant land. On the other hand, if you answered an education, you need to accept the fact that a traditional four year college curriculum, for the most part, does not prepare your child for a job; it prepares your child for a lifetime of career choices.

1.http://www.cnpp.usda.gov/tools/CRC_Calculator/default.aspx

2.http://newsroom.unl.edu/releases/2013/08/05/UNL+awards+$15.3+million+in+scholarships+to+Nebraska+freshmen

3.http://www.huskers.com/ViewArticle.dbml?DB_OEM_ID=100&ATCLID=209428617

Stock Markets

Let's continue our discussion of Wall Street words. We started this discussion in the September 2014 newsletter by comparing two commonly used investment words: value vs. growth investing. This issue we're going to focus on two more commonly used investment words: *liquidity and marketability.* Unfortunately, these two words are often used interchangeably, but they shouldn't be. *Liquidity* implies the asset can be converted to cash quickly with *little or no loss of principal*. Your checking, savings and money market accounts are considered liquid assets. *Marketability,* as used in the securities industry, implies there is an active, organized secondary market where the asset can be sold within a reasonable amount of time, typically four business days. Examples including the New Youk Stock Exchange, the New Your Bond Market and NASDAQ. These secondary markets provides highly regulated and very affordable platforms where buyers and sellers can execute transactions but with a catch; *a gain or loss of principal is almost always a part of the outcome.* Your individual common stocks and bonds and your mutual funds are marketable securities. While you can almost always find a buyer or seller for antiques, collectibles and real estate, these markets are not organized nor are they as highly regulated as secondary securities markets. In addition, transaction times are typically measured in weeks, not days. Transaction fees, as a percent of total dollars involved, are typically higher than similar sized transactions in secondary securities market.

Bond Markets

The word *coupon* pops up a lot when we talk about bonds. Well, sit back and let me tell you a story about *coupons*. Prior to 1982, most bonds, and especially municipal bonds[4], were sold in *bearer* form, meaning the actual certificate did not include the investor's name. Here's a fictitious municipal bearer bond issued in 1974: $10,000 Lincoln, Nebraska 4% due February 1, 2004. Back in 1974 the city of Lincoln promised to pay the investor four percent (4%) simple interest each year on the maturity value of $10,000, or $400 each year and return the principal amount of $10,000 on February 1, 2004. Bearer bonds did not identify the investor by name, so the issuer, in this case the City of Lincoln, never knew who the investor was. Instead, the physical certificate would contain written language something like this: "The City of Lincoln, NE promises to pay the *bearer* of this bond four percent (4%) each year until maturity. Annual interest will be paid in two installments of $200 each on February 1st and August 1st.. Principal repayment will occur February 1, 2004". Attached to the physical certificate were *coupons* for each planned interest payment date. These coupons were about the size of a raffle ticket and could be redeemed at most banks by the bearer for $200. This bond, when first issued, would have had sixty such coupons attached to the certificate itself- two for each of the 30 years to maturity. Investors would clip off the coupon, take it to a bank teller and exchange the coupon for $200. At maturity, investors would take the certificate itself to that same bank and exchange it for $10,000. After 1982, all US bonds were required to be registered; meaning the investor's name was printed on the certificate itself, thereby eliminating the need for coupons because the City of Lincoln now knew who owned the bond and where to send the $200 semi-annual payments. Bearer bonds are gone, but the term *coupon* lives on.

Before you go, let me finish my story. When I started with E F Hutton, a very old municipal bond trader from Maine taught me how to identify prospective bond clients. He had me go to every small to medium bank in driving distance of Lincoln, Nebraska on the 1st and 15th of each month, get a cup of coffee and just watch to see who came into the bank's safe deposit area with scissors in hand. They were coming in to *clip coupons*. All I had to do was strike up a casual conversation about the price of corn and beans, current interest rates and any new municipal bond offering on the calendar and voila, I had a new client. True story ☺.

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4. Municipal bonds are subject to numerous risks, including higher interest rates, economic recession, and deterioration of the municipal bond market, possible downgrades and defaults of interest and/or principal

The Book Worm

The Sixth Extinction, an Unnatural History by Elizabeth Kolbert. The author takes us thru the last 500 million years of earth's history with special attention to those historic events that created mass extinction of various plants and animals. You can guess what she thinks is coming next. Not particularly easy to read but probably a book everyone should read.

The Boys in the Boat by Daniel James Brown. The true story of the 1936 US Olympic rowing team. Easy and fun to read.

The Greater Journey, Americans in Paris by David McCullough. Some writers just have the knack for making history fun; McCullough is one of those writers. You'll immediately recognize many of the characters: American writers, doctors, and entrepreneurs all searching for adventure, knowledge and success in Paris between1830 and 1900.

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