IS COLLEGE WORTH IT?

UNDERSTANDING THE COSTS AND BENEFITS OF COLLEGE

Increasing college tuitions and staggering student loan debt leave many Americans asking, “Is college the right choice for me?” This special report will help you understand the costs and benefits of a university degree and give you valuable information about planning and saving for college.

"The rising cost of tuition combined with a tight, competitive job market have many young Americans wondering whether they should pursue traditional college degrees..."

INTRODUCTION

The decision to attend college is a serious one, and it has lifelong implications. Changes in the US economy and employment market, along with a revolution in technology, are causing high school graduates and their families to carefully weigh the costs and benefits of a traditional college education.

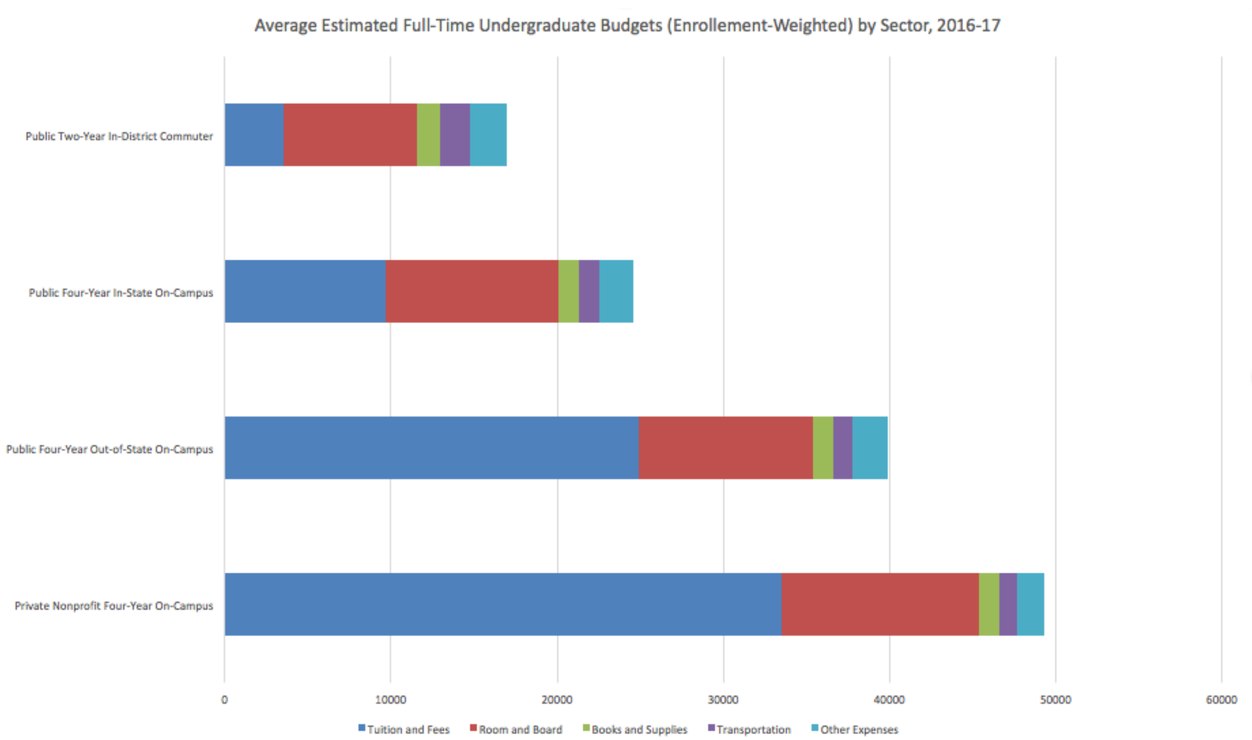
The rising cost of tuition, increases in student loan debt and a tight, competitive job market have many young Americans wondering whether they should pursue traditional college degrees, technical training, online education, or apprenticeship programs. For those who choose the conventional college experience, the debate persists over whether to continue to graduate or attend professional school.

A 2015 Gallup poll found that 70% of Americans say it is "very important" for an adult to have a degree or professional certificate beyond high school. A little more than 7 in 10 Americans (71%) strongly agree or agree that employers value the knowledge and skills a degree represents. A total of 70% strongly agree (39%) or agree (31%) that having a degree or professional certificate beyond high school is key to landing a good job.[1]

A recent Georgetown University Center on Education survey backed that up. An essential shift in the job market following the most recent economic recession fundamentally changed the composition of the American workforce, with four-year college graduates for the first time comprising a larger share of the workforce than those with high school diplomas but no college degrees. Researchers found that out of the 11.6 million jobs created in the post-recession economy, 11.5 million went to people with at least some college education. Of those jobs, 8.4 million went to workers with a bachelor's degree or higher. People with a high school diploma or less education landed 80,000 jobs in the recovery, the report said.[2]

This white paper examines the costs and benefits of attending college today in hopes of helping families and young Americans make appropriate education-related choices for their futures.

THE COST OF ATTENDING COLLEGE



THE COSTS OF ATTENDING COLLEGE TODAY

- Tuition is what you pay a college for academic instruction. Fees run the gamut from student activity fees to parking, and they are typically mandatory. As you can see, average tuition and fees vary widely between public and private colleges. Generally, financial aid is only applicable to this category of costs.
- Cost of room and board will depend on the level of housing and meal program you choose. Most colleges offer varying levels of meal support as well as on-campus and off-campus housing options. Of course, students who live at home can save on room and board.
- Books and supplies include everything from required books (including lab books) to classroom supplies and a computer.
- Miscellaneous expenses cover everything else: transportation, clothing, entertainment, insurance, and more. Each student lives a different lifestyle in college, and it is wise to consider a range of costs rather than a fixed amount.

THE BENEFITS OF COLLEGE

The economic case for college is simple: college graduates make more money than those who have only a high school diploma or less education. It is true students today pay more than ever to attend college, and because of the nation's sluggish recovery from the Great Recession, they are earning less when they enter the job market. Despite that, however, studies and surveys show that the economic return on college degrees remains high because those with less education also are enduring falling wages.[3]

"College wage premium" is another way the worth of a college degree is measured. This is calculated as the ratio of the median hourly wage for one holding a bachelor's degree and the median hourly wage for one who has only completed high school.[4] The college wage premium is near an all-time high, and it reduces the opportunity cost (an economic phrase that refers to the cost you incur by doing one thing rather than another) of college.[5]

With the cost of college rising and the benefits in doubt, many are wondering whether earning a college degree still pays. For many, it does.

Men with bachelor's degrees earn about $900,000 more in average lifetime earnings than high school graduates, and men with graduate degrees earn $1.5 million more. Women with bachelor's degrees earn $630,000 more in average lifetime earnings than high school graduates, while women with graduate degrees earn $1.1 million more.[6]

The benefits of graduating college go beyond better jobs and better pay. In particular, college-educated millennials have lower unemployment and poverty rates than their less-educated peers. They are more likely to be married and less likely to still be living in their parents' homes. They also tend to see themselves on career paths rather than simply holding down jobs to pay the bills, which, in turn, gives them feelings of satisfaction with their jobs.[7] According to a survey by PayScale, the most satisfying careers are medical laboratory science (93%); ministry (93%); physical therapy (89%); nursing (88%); and physician assisting (86%).[8]

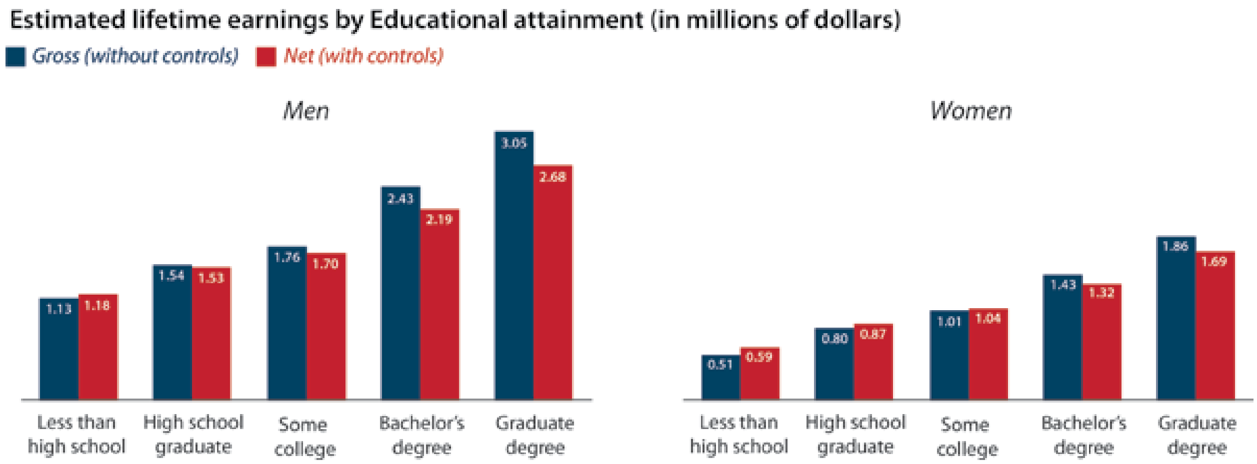
POSSIBLE DRAWBACKS TO COLLEGE

Often, the expectation for high school juniors and seniors is to start applying to and touring universities and colleges that interest them and that might be good academic and financial fits. Attending college can be a pivotal experience for many young people, but the truth is that college is not for everyone—whether the reasons are academic, financial, or time related. A degree might also not be necessary for the field a young person is interested in pursuing.

In some cases, potential students might not want to take time away from developing their entrepreneurial or technical skills. For example, many successful entrepreneurs attended but dropped out of college or bypassed it entirely to build successful businesses. Many students do not do well in college—for myriad reasons—and drop out, which compounds the issues of cost and lost time. College dropouts might acquire quite a bit of debt but then do not reap the benefits from the full value of a college degree.

It is difficult to quantify, but there can be consequences to sending unprepared young people to college. They might find the college environment

"The economic case for college is simple: college graduates make more money."



SOURCE: US BUREAU OF LABOR STATISTICS

overwhelming academically, emotionally, and mentally. Pressuring them to enroll in college when they are not ready can lead to poor grades, distress, and dropping out. For those who think they want to go to college but do not feel prepared yet, attending a community college or taking a gap year might help them figure out a career path and develop strong skills students need (such as studying, note taking, listening, and focusing) to succeed in school.

Ultimately, the decision to attend college is an intensely personal one that should be discussed well before it is time to apply. If college lies in the future for you or someone you love, it is important to plan for college as soon as possible.

PAYING FOR COLLEGE

Paying for college can put a serious strain on family finances, which is why it is important to start planning early. It likely will not surprise you to learn that the best way to trim a college bill is to start saving as soon as possible. While many families might plan to rely on financial aid to cover university costs, it is wiser financially to start saving now. When you save early and regularly, you might compound your money when your investment earnings are reinvested and, therefore, keep generating more earnings. Overall, the more you save, the more you might earn and the less money you might have to borrow and pay interest on.[9]

There are many ways to save for higher education, and this list is by no means exhaustive; CTS Financial Group can help you explore the options and come up with a strategy that fits your family's needs.

Stafford Loans

Student loans are the most common way to pay for college. The chief benefit of loans is that students and their families do not have to plan for university expenses. Student loans typically rely on the student's ability to find a well-paying job and pay back the loan. The obvious disadvantage is that relying too much on student loans will mean a heavy debt burden once the student graduates.

Unfortunately, however, student loan debt is a reality today. Debt figures are staggering. More than 44 million borrowers have an accumulated debt of $1.3 trillion in the United States alone. The average graduate from 2016 has almost $40,000 in student loan debt. In consumer debt categories, only mortgage debt tops student loan debt, which is higher than both credit card and auto loan debt. Of 44 million borrowers, 42 million students owe $100,000 or less in student loans. Almost 12.5 million have student loan debt between $10,000 and $25,000. About 2 million borrowers owe more than $100,000 in student loans, with 415,000 of them owing more than $200,000.[10]

Stafford loans are the most common type of government student loans and are awarded to college students who file the Free Application for Federal Student Aid (FAFSA). Stafford loans come in two forms: subsidized and unsubsidized. While both types are fixed-rate loans, subsidized loans have the benefit of accruing no interest while the student is enrolled, while unsubsidized loans begin accruing interest immediately.

Beginning July 1, 2017, the interest rates on federal student loans increased. Stafford loans went from 3.76% to 4.45%. For graduate students, loans will rise from 5.31% to 6%. PLUS loans rose from 6.31% to 7%.[11]

PLUS loans—Parent Loan for Undergraduate Students—are another type of federal loan available to parents of dependent undergraduates. These can be used to cover student expenses not covered by other forms of financial aid. The maximum that can be borrowed is the student's cost of attendance (as determined by the school) minus any other financial aid received.

Students and their parents should read student loan paperwork very carefully and talk about loan terms that might affect students' future employment prospects and lifestyle.

529 Plans

Another option for saving toward a child's education is a 529 plan. These plans are legally known as "qualified tuition plans," and they allow money to grow and be withdrawn federally tax-free when used for qualified post-secondary education–related expenses. According to a 2016 report, more families than ever are plunking more money into 529 college savings plans, investing a record $253 billion, according to the College Savings Plans Network (CSPN). In 2015, the number of 529 accounts rose 3.6% over the prior year to 12.5 million. The amount of money families put into their plans increased by $25 billion. [12]

There are two main types of 529 plans: prepaid tuition plans and college savings plans. Both types of plans typically are sponsored by states, state agencies, or educational institutions. 529 plans can be a great way to help save money for college because they carry many tax benefits, depending on the state in which you live. Another advantage is that the account owner (often a parent or other relative) retains control over the account, even when the beneficiary (the student) is no longer a minor. If your child qualifies for financial aid and the 529 funds are no longer needed, the funds can be easily transferred to another beneficiary and used for his or her education.[13]

Prepaid tuition plans are 529 plans that are guaranteed to increase in value at the same rate as tuition at participating colleges in your state. They allow families to buy units, or credits, at local private and public universities for future tuition (and sometimes room and board). The idea is that

you can pay for future tuition at today's prices. They often are backed by the full faith and credit of the state.* There's an obvious downside, though. To gain the full benefit, a student must be willing to enroll in a school covered by the 529 plan. While it is often possible to transfer tuition credits out of state, the plan will not offer the same level of tuition support, leaving the family to make up the difference.[14]

529 college savings plans are tax-exempt savings vehicles that allow families to invest for future college expenses. Unlike prepaid tuition plans, there are no guarantees, and investments are subject to market conditions. However, with this added risk comes the opportunity for potentially greater returns.

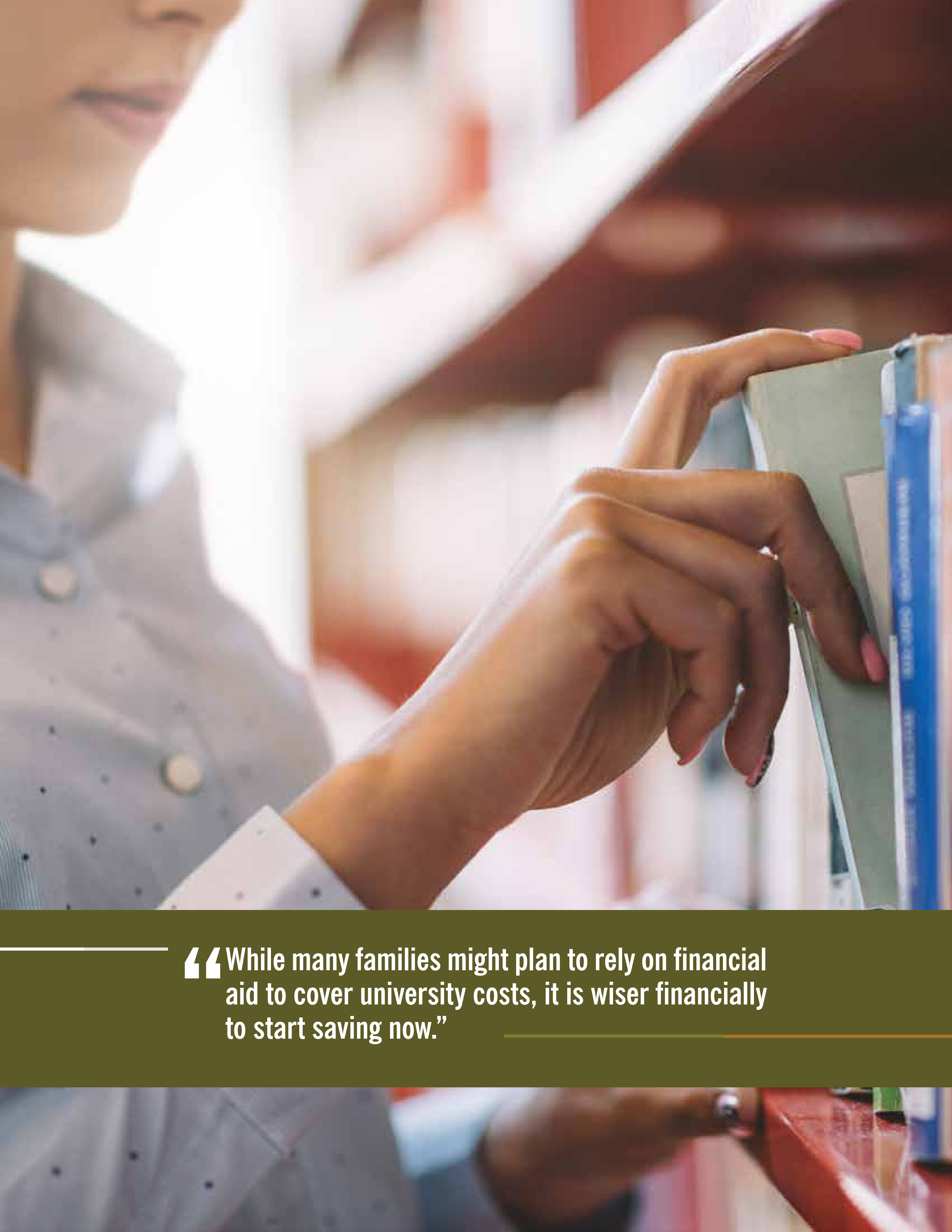
529 plans are subject to contribution limits, depending on the state that sponsors the plan. Many states limit total contributions, meaning that once that limit has been reached—including earnings—no more contributions will be accepted. 529 plans also can be subject to gift tax limits; any amount you contribute over the annual gift exclusion amount might be subject to federal gift taxes.[15] Donors might be able to accelerate transfers to a 529 plan without incurring federal transfer taxes, but the process is complex. A tax professional can help you understand whether this is an appropriate choice for you. Withdrawals from 529 plans not used toward qualified education expenses might be subject to penalties and taxes.

It is important to consider the impact that savings will have on financial aid calculations. 529 college savings plans might not have a big effect on your ability to qualify for support. In the financial aid formula, a 529 plan is treated as a parental asset, meaning that only 5.6% of the value is applied toward the family's expected contribution. In contrast, assets held in the child's name (such as in Uniform Gifts to Minors Act and Uniform Transfers to Minors Act accounts) get assessed at 20%. An important caveat is the difference in treatment when someone other than a parent or student (such as a grandparent) owns the 529 plan. In that case, any distribution from that 529 plan is reported as income to the beneficiary, and it potentially results in a reduction in eligibility for need-based financial aid the following year.[16]

*Participation in a 529 plan does not guarantee that the contributions and investment returns will be sufficient to cover future higher-education expenses. Investments involve risk, and you might incur a profit or a loss. There is no guarantee that dollar-cost averaging will result in a profit or protect against a loss in a declining market. Investors should carefully consider the investment objectives, risks, charges, and expenses of the municipal fund before investing. This, as well as other important information, is contained in the official statement. Please read it carefully before investing or sending money. An investor's home state might offer favorable tax treatment only for investing in a plan offered by such state. Withdrawals for nonqualified expenses might be subject to additional penalties and taxes. Consult your tax advisor regarding state and federal tax consequences of the investment.

UTMA/UGMA Accounts

The Uniform Gifts to Minors Act (UGMA) and the Uniform Transfers to Minors Act (UTMA) are two types of custodial accounts that adults can set up on behalf of minors for college. Parents, relatives, and friends can contribute to the account, and all the assets (e.g., mutual funds, stocks, bonds, CDs, etc.) are turned over to the beneficiary's control at age 18 or 21 (depending on the state in which the asset was opened). The main benefit of this type of account is that the assets can be used for any purpose, not just college tuition. There are also no contribution limits, but contributions above the annual gift tax exclusion might incur federal gift



“While many families might plan to rely on financial aid to cover university costs, it is wiser financially to start saving now.”

taxes.

Here are a few important things to consider with UTMA/UGMA accounts:

- Any transfer into this type of account is irrevocable, and it is not possible to transfer money back to the parent. Once the money has been given to the child, the child owns it.
- UTMA/UGMA accounts are not tax deferred. You might need to file tax returns on the minor's behalf. Consult a tax professional for more information.
- No restrictions can be placed on the use of assets once the minor becomes an adult. At that time, the beneficiary can use the money for any purpose.
- Since UTMA/UGMA accounts are in the name of a single beneficiary, they are not transferable to another beneficiary.[17]

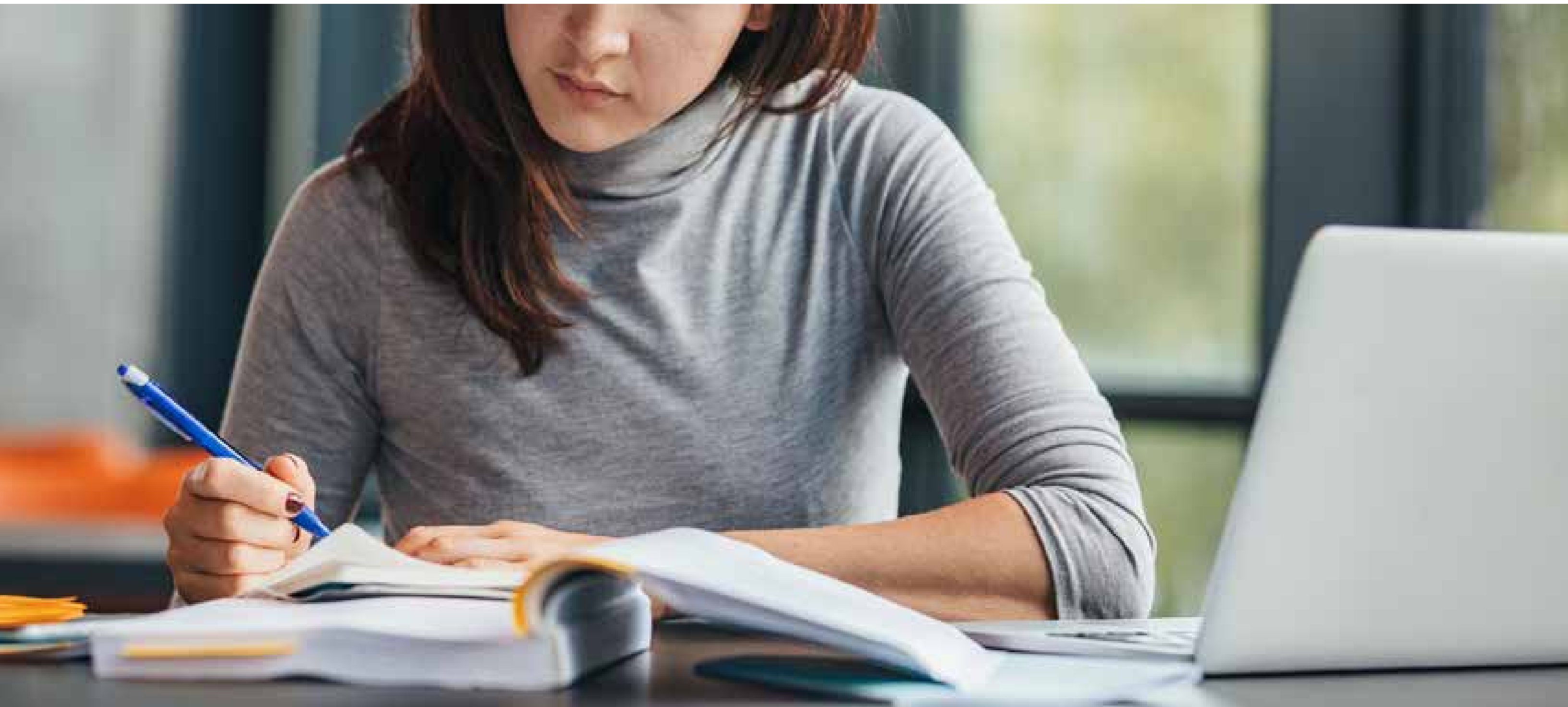
Coverdell Education Savings Accounts (ESAs)

Coverdell ESAs are another option that might be attractive college savings vehicles, particularly for a family that also wishes to save for a child's K–12 education. Coverdell ESAs function similarly to Roth IRAs, in that funds are contributed after tax and grow tax-free. Distributions also are tax-free—as long as they are used for qualified educational expenses. Under IRS regulations, a beneficiary is someone who is younger than 18 or who has special needs. Here are some important things to consider:

- Total contributions per child cannot exceed $2,000 per tax year, even if they are made by different family members.
- Coverdell ESAs cannot be funded once the beneficiary reaches age 18. The account must be fully withdrawn by the time the beneficiary is 30, or remaining funds might be subject to taxes and penalties.
- Like 529 plans, parents (or account custodians) keep control over the account assets, but they must be used for the benefit of the beneficiary and cannot be transferred back to the adult or another beneficiary.[18]

However your family chooses to cover the expenses of college, it is important to speak with a financial professional who understands your unique circumstances, goals, values, and time horizon and can help you determine financial and investment decisions for your family. There are many crucial factors that will affect your choice of college savings vehicle, not least of which is its financial aid treatment. Parental income factors heavily in financial aid calculations, which can be a double blow to a family with higher income but no college savings. As much as 47% of income can be counted toward a family's expected contribution, meaning middle-class families often get caught in the financial aid gap; they make too much money to qualify for aid but cannot afford to pay the full price for university expenses.[19]

In financial aid calculations, custodial accounts, such as UTMA/UGMA accounts (and sometimes



Coverdell ESAs), are considered assets of the student and might have a higher impact on financial aid eligibility than noncustodial accounts, such as 529 plans.[20] There are several strategies that might help reduce the impact of college savings plans on financial aid calculations, and a financial representative can help you develop a plan that is right for your needs.

HOW CTS FINANCIAL GROUP CAN HELP

For many families, paying for college can be a daunting task, but professional financial advice can help you make decisions for your child's future. As financial advisors, we do not just help clients strategize for retirement; we help our clients develop strategies designed to address all of life's major financial milestones, including paying for college.

We hope this report has been useful to you and your family; we recommend sharing it with your child or any family member who is weighing the benefits of enrolling in college. While the decision to attend college is a major one, we believe that being well informed is key to making the choice that is right for you and your family.

We also want to make ourselves available to you and your family as a resource. We are happy to answer questions about your current financial situation and future goals, and we offer complimentary consultations at any time. If you have any questions about the information presented in this report or you would like to discuss planning for college or any other important financial milestone, please contact us. We would be delighted to speak with you.

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