

## Q and A on Paying for College

**Dear Budget Guy,**

**What are your thoughts on paying for college? For example, is it reasonable to expect our kids to pay for some of the cost?**

Yes, I think so. In fact, I think they will get a better education if they do. Why? Human nature. We all place a higher value on things we've worked for and earned versus things that have been handed to us.

In addition, your child will get some great work experience that will look good on a job application. And the kinds of jobs they will have to take are likely to be less enjoyable, and certainly will pay less, than the jobs they will have after school – further enhancing their understanding of the value of a college education.

**So what's a fair amount to ask our kids to pay?**

That's going to depend on your family situation. One way to go about it is to determine how much you can contribute and expect your child to make up any difference. This could be a specific dollar amount, a particular category of expenses, or a percentage of the cost.

For example, you could peg your contribution to 80% of the cost of a particular school. Your child can make up the 20% difference and go to that school, or contribute even more in order to go to a school that he or she finds more attractive. He or she could even choose to save money by going to a junior college for two years. After all, a degree from UT or A&M is the same whether you spent your first two years there or not.

Just don't spring this on your kid at the last minute. Work with them in a positive way and help them figure out how they will come up with their share of the cost.

**How much should I try to save for college? Right now I don't seem to be able to save anything.**

Obviously the more you save, the better off you will be when college time comes. It's really just

a question of priorities – we usually find the money for the things that are most important to us. Keep in mind that if you don't save and have to borrow, you will end up paying much more. When you save, you get interest; when you borrow, you pay interest.

**How much debt is reasonable for me to take on?**

Depends on your financial situation and on the type of debt. I'm not aware of any general "rules of thumb," but here are my thoughts: Don't take out a home equity loan (puts your house at risk). Don't borrow against your 401(k) (more on that in a minute).

And don't saddle your child with student loans that he or she will have to pay off. If you are going to cover the repayment, fine. Otherwise, student loans should be left to your child's discretion with respect to the portion of their college costs that they are responsible for.

Also, kids should keep the amount they borrow reasonable in light of what they will be able to earn after graduation. It doesn't make sense to run up student loan debt of \$40,000 if your starting salary will be \$35,000 and you can only expect average pay increases.

**Should I put money towards my kid's college or toward my own retirement?**

It may feel selfish, but you probably should put saving for retirement ahead of paying for college. That includes not borrowing from your 401(k) plan.

Why? Because you can't get scholarships and loans to pay for retirement – you've either got the money or you don't. And if you don't, you don't retire. However, you can certainly make a conscious decision to retire later in order to pay more for your kids' college.

**Questions? Comments?**

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