McRae
Capital Management, Inc.
Investment Counsel

COMMENTARY
TIMELESS MARKET WISDOM THAT MATTERS NOW

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Saving for Higher Education: What You Need To Know Now

When it comes to paying for our kids' college, we'd love to either have enough money (or conversely, so little) that we wouldn't really feel the costs. But 18 years from now, most of us are likely to reside in that vast slice of America that somehow finds a way to afford the ever-escalating costs of higher education, but really feels the pinch. How much that pinch hurts may depend on when you can start planning and saving for college, whether you have a newborn or a teenager. It's never too late, but the earlier you can start a conversation with your financial advisor the better. Because if you have multiple children, their college education is likely to be the most expensive thing you'll ever have to buy. Read on to see why.

JUST HOW PAINFUL IS THIS GOING TO BE?

If you have more than one child, higher education might cost more than your house...even a really big house. Currently, the all-in sticker price on a classic, East Coast liberal-arts college is north of $60,000 a year. That includes tuition, room and board, and the other niceties of college life, like laundry, trips home to see Mom and Dad, and the occasional Drake concert. (We're not sure why that one's important.) That's today: If your child born today goes to a private college 18 years from now, at current growth rates, that cost would rise to $150,000 per year. For most of us, it's unlikely income growth will keep pace with the accelerating cost of a college education.

At McRae Capital, we believe that no matter what your situation is, not taking planning and saving seriously is a dangerous game. Even if you started today, and managed to sock away $1,400 a month for a newborn over the next 18 years, you'd still only save about 75% of what their private-college education is projected to cost.** And while there are ways to offset some of the costs of college, they are neither as readily available nor as financially meaningful as many people think. Here's a closer look.

COST-SAVING STRATEGIES: ANY MAGIC BULLETS?

A quick examination of some familiar ideas for lowering your college costs quickly reveals why it's so important to start a serious planning and saving program. Keep in mind that those tuition bills will be coming due at the same time you're trying to save for retirement, which, we can't stress enough, is actually the higher priority.

How much that pinch hurts may depend on when you can start planning and saving for college

Academic scholarships? Don't count on them.

They're available, here and there, but many top schools don't offer a meaningful number of them, and the ones not associated with schools may not do much to relieve the tuition burden (a National Merit Scholarship, for example, provides just $2,500.) According to Forbes, most state universities and the most selective universities don't offer merit scholarships at all. And although smaller colleges often do, it's tough to predict with any certainty that your child will be smart enough and driven enough to out-compete peers for them. Merit scholarships are wonderful points of pride, but they can't be relied on to shoulder much of your burden.

Athletic scholarships? Don't count on them, either.

In the aggregate, yes, thousands of college students get athletic scholarships. But only a small fraction of high school athletes ever play in college: around 10% of ice hockey players, for example, and only 3.4% of high-school basketball players, according to the National Collegiate Athletics Association. And of those high school players who do make it, not all get scholarships—not by a long shot. The Ivy League and Division III schools don't offer athletic scholarships at all. Finally, even if your child does win an athletic scholarship, odds are it will only pay for a fraction of the cost of their education. In 2013, the average NCAA athletic scholarship only covered $13,821 for men, and $14,660 for women.

Choosing a lower-cost college? Great way to save.

The one price determinant you most control, by far, is where your child goes to college. But as parents ourselves, we get it: When your 17-year-old has his or her teenage heart set on a certain private university, it's tough for even the most resolute parents to say no (and that includes us here at McRae Capital). Consider a compromise, where for example your child could attend a well-regarded community college for two years, living at home, then transfer to a private school for his or her junior and senior years. Same degree; a fraction of the price. Another option: Take a look at Canadian and other foreign schools, which may be priced competitively (often in line with the cost of attending American in-state universities.)

Need-based assistance? It's hard to qualify.

Even if you're sure you won't need it, you should always fill out the government's higher-education financial-aid form, or FAFSA; if nothing else, it's downside protection in case of a layoff or disability. (Without filing it, even emergency aid is unlikely to be forthcoming.) And if you make very little money, then yes, there's significant financial aid available from many colleges. But the income ceiling for warranting aid may be lower than you think. Generally speaking, a family with $100k a year in income, average investments and cash, and a typical small mortgage would be on the hook for around 33% of the cost of a Bucknell University education, 50% at Reed College, 66% at Duke University, and 80% at Southern Methodist University, according to The College Board's Net Price Calculator. Increased to just $150k in annual income, however, that same family would be expected to pay about 80% at Reed, and 90% or more at Bucknell, Duke and SMU.

Grandparents? Yes, that could work.

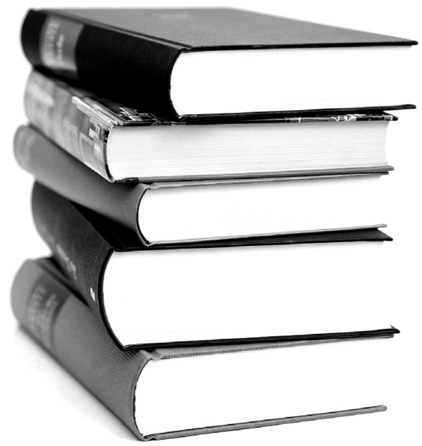
Family members can be a great source of college funding, if they have the means to spread out their wealth, and don't have too many grandchildren waiting in line. Certain techniques involved in estate planning, such as the grandparent paying tuition directly to the educational institution (the money is not considered a taxable gift), are available to maximize the value of grandparents' contributions. McRae Capital can help you navigate through all the rules and regulations.

SAVING FOR COLLEGE 101

It's worth trying everything you can to defray college costs. As it gets closer to game time, and you start to get a handle on your child's talents and desires, you can zero in on specific strategies, but there's plenty you can do right now to start putting yourself in a position where you'll have options down the line. With that in mind, here are the basics.

The first thing to know is that saving for college is a moving target.

The first thing to know is that saving for college is a moving target. For much of your offspring's childhood, there won't be any real way to know whether they will be attending public school or private, or whether they are athletically gifted, etc. Also, regulatory changes over the years could affect the cost of student aid and other factors. It's a lot more complicated—and long term—than saving for a washing machine, and it's a compelling argument for aiming high with your savings. Every family will have different circumstances, needs, and risk tolerances, so it's important to consult a financial advisor as you start planning to save.



It is difficult to navigate through the byzantine world of student loans, both governmental and private, which come with their own rules and regulations (for example, you can't shed student debt in a bankruptcy—one of many things to keep in mind). The good news is that loans are there if you and your child need them. The bad news is that, as with any borrowing, they come with costs. Here are some tips.

First, don't put money in a savings account that's in your child's name.

This is the first source entities evaluating financial aid eligibility will expect money to come from when a family is financing a college education. The lower the amount of money in your child's name, the better your chances for receiving financial aid.

Second, explore growing your savings faster with tax-deferred 529 plans.

The 529 plan is a very popular, tax-advantaged way to save money now to pay for education expenses much, much later. The money grows free of federal taxes, and your contributions can earn state tax breaks. And they're reasonably flexible: If you live in New Jersey, for example, you can invest in New York's 529 plan if you prefer, and then use the money to send your child to school in Connecticut. Remember, though, it is extremely important to look at the specific details of each state's individual plan.

Third, consider the once-popular UGMA and UTMA options... carefully.

These are specific trust accounts held by the child at a bank or brokerage you may hear recommended to you. Just know there are a couple of downsides to these options that have led to their falling behind 529 plans in popularity as a college-savings vehicle. First, since they are in the student's name, they will be counted as a student-owned asset, and thus decrease the likelihood of financial aid. Second, the child has the legal right to the money at a certain age, and can use it for other purposes besides college. You could find yourself unintentionally funding four years of Drake concerts.

The overriding message when it comes to paying for college: Don't wait for the details.

The overriding message when it comes to paying for college: Don't wait for the details. Start now, plan wisely, and save as much as you can—it'll provide more options and greater flexibility when you need them, later on. Our smart, conservative financial advisors can help you establish a college-savings program tailored to your family's unique situation, putting you in a better position to control your own destiny, as your children work toward that incredibly expensive cap and gown.

****THIS CALCULATION INVOLVES THE FOLLOWING ASSUMPTIONS:**

- 3 Month Old (Born in June of 2016, starting college in August of 2034)
- 4 Year Private College
- Assumed $63,000/year in today's dollars
- College cost Inflation at 4.6%/year
- Total cost for 4 years of college $606,481
- 5% (tax free) Rate of Return for 529 Plan
- Saving through the beginning of college to be able to fund 75% of college costs spread over 4 years
- with final 529 Account Contribution made July 1, 2034

MCRAE CAPITAL MANAGEMENT HAS A WEALTH OF INVESTMENT INFORMATION FOR YOU.
If there's ever anything we can help you with, please don't hesitate to give us a call.

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