

Audio Lesson #2 – Defining the problem, a broken system

*It's not a hill, it's a mountain
As you start out the climb...*

Hello. My name is Jeff Tyburski. Welcome to my second in a series of audio lessons. I teach financial literacy with a focus on helping you *save* money. Unfortunately, you *can't even begin* to save if you have too much college debt. In this, and the next two sessions, I explain why so many students and parents are taking on excessive college debt and I offer a personal process you can use to attain your career goals with minimal debt.

The process to choose a college is intimidating, if not totally overwhelming. I've been there with my kids. The cost to attend many schools literally seems hard to comprehend or justify and the process to determine the price that applies to you doesn't seem transparent. **In an ideal world, my goal would be to help students and parents *totally avoid* college debt.** Given the high and rising costs of attending college, which we cannot change, **a more realistic goal is to help you *minimize* debt.** I also openly encourage you to challenge the conventional wisdom and national narrative which assumes everyone should go to college in the first place. The fact is, college is not right for everyone.

Let's take a closer look at the high cost of college. Have you ever *really* looked at just how expensive college can be? I mean really stared at the numbers. Many private schools cost over \$50,000 per year with some as high as \$80,000 per year. I said that right. Even many State schools cost over \$25,000 per year. Multiply these *annual* costs by 4-5 times to estimate your total costs to get an undergraduate degree! Multiply that by the number of children in a household to see what parents might face, as they also try to save for retirement, likely a house, perhaps an unforeseen emergency, let alone a vacation or car purchase in a world where pay increases are scarce. *The numbers really don't add up.* Please do an exercise, look up the full cost of attendance for the list of schools you are considering. Remember full cost includes tuition, fees, room and board...and may include travel expense if the school is far from home.

Yet, despite these daunting numbers, I see and hear of behavior as if people aren't even looking at the numbers. It's hardly a joking matter but some anecdotes I've come across are sadly, dare I say, funny: ...like...

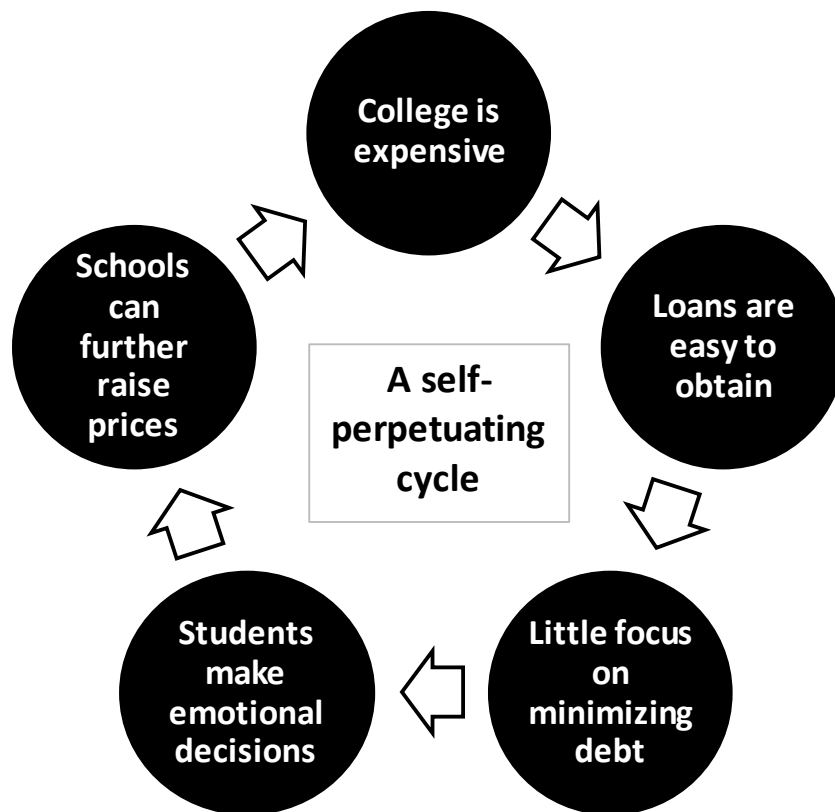
- The student who became fixated on an \$80,000 per year college because the *club* volleyball coach sent her a personal email wanting her to be on the team.

- The students who only consider schools with recognizable names from the NCAA basketball tournament.
- The students who add the costs of spring break to their student loan balances.
- The countless high school students who visit schools and even make a final choice without even knowing the full costs to attend or the impact both on their future finances and their parent's retirement plans.
- The students who, despite the high cost of attendance, push ahead to go to college with no specific career objectives, selected major, or any hope of graduating on time in four years.
- How about the students and families who receive a letter describing their financial aid package, but they don't really understand how to read it or how much of it represents loans which must be paid back with interest. This typically goes hand in hand with the many parents and students who don't openly talk about how much the family has saved for college and what would really be an affordable school for them.
- And lastly, the students who think it is beneath them to go to a community college, trade school, or apprenticeship program. This, despite millions of job openings in our country which don't require four-year degrees and millions of college graduates unemployed or *underemployed*, not using their degrees.

The reality is, people are choosing schools they really can't afford and doing so by taking on lots of debt. And they aren't seeing debt as the negative that it is. College debt is truly a "Double whammy"; it is both a hole you must dig out of and a lost opportunity to save money. The average student in America borrows over \$30,000 to attend college. Many students and parents combine to take on over \$100,000 in debt. For every \$10k in debt you will likely have to pay back \$3-4,000 in interest. Later sessions on how money can grow will further illuminate the potential here but if you were instead saving \$10,000 while in your 20s, as opposed to paying back a \$10000 loan, and if you earned a reasonable return on the investment until you were 60 years old...you'd likely amass over \$125,000! >10x the original \$10,000. That is what is at stake! Building wealth is at stake. Again, **student debt is a *double whammy*. Debt is both a hole you must dig out of and a missed opportunity to save**, especially at a young age when the power of compounding is strongest.

Let's take a few minutes to understand *why* school is so expensive by looking at *the system* involved in the college selection decision making process. There are multiple *players* in this system: the federal government (the direct source of almost all student loans), colleges, influencers like high school counselors and consultants, and of course the student and family. **There is a self-perpetuating nature to this system which drives and supports ever higher costs of attendance.** The engineer in me sees a system that is not producing a desired result; I call that a broken system. I want you to be able to recognize and navigate what is wrong in this system.

To visualize the self-perpetuating cycle I'm referring to, picture a set of conditions in a circle (*or simply print my summary slides*). Move clockwise around the circle, ending where you began, each condition feeds on and enhances the next so the whole system is like a snowball rolling downhill perpetuating higher costs.



What are the conditions I'm referring to in the current environment acting in a self-perpetuating way?

<p>We begin with the fact that College is expensive</p>	<p>The cost to attend college is high and, as it has for decades, is rising multiples of the rate of inflation.</p>
<p>Next, Loans are too easy to obtain</p>	<p>The high cost leads to loans and the Federal loans (over 90% of all loans) are very easy to obtain. Federal loans are issued <i>without</i> consideration of career objectives, progress towards on-time graduation and employment, or analysis of a student's future earning power needed to pay off the loans. There are limits on how much a student can borrow from the federal government, so for many schools, there is still a large funding gap. This gap is often filled when the government issues loans to parents called Parent PLUS loans; these can be taken out up to the <i>full cost of attendance and come with a large upfront fee.</i></p>
<p>Next There is little focus on minimizing debt</p>	<p>nor is there an emphasis on the long-term negative financial implications of debt. Players in the system often help the student get what they <i>want</i> (i.e. the school name) instead of what they need (i.e., a degree and career with minimal debt).</p>
<p>Next is your role -</p>	<p>Sadly, students and families all too often simply <i>fall in love with a campus</i> or are swayed by communication with the schools and in the end make a largely emotional decision to attend a school they truly cannot afford. They don't make a sound financial decision and instead take on excessive debt.</p>
<p>Finally, Schools have the opportunity to further raise prices</p>	<p>Schools have the opportunity to raise costs of attendance knowing those families who have the means will pay while those who do not will obtain loans. The uncapped nature of the parent loans <i>especially</i> feeds into the ability of schools to raise the cost. Schools are also in a spending arms race to invest in campus amenities and staff to catch the prospective student's eye. Schools further raise the price of attendance to obtain a return on this investment...<i>perpetuating the cycle.</i></p>

Let's wrap up this session.

Some college debt may be unavoidable. Some college debt is even reasonable and justified by the probability of higher future earning power. Of course, **a degree alone does not guarantee you higher income potential (nor does a degree from *certain* schools over others).** **As with all things in life, your future success will come down to you:** some combination of the effort, drive, and passion you put into your work *and* an element of *luck*. There are also plenty of examples of people who demonstrated competence in a field, combined with intense passion, and they succeeded *without* a college degree. If you do pursue a college degree, one thing is for sure, crippling amounts of college debt can put you in a financial hole from which it can be very hard to dig out of. **I want you to avoid joining the ranks of those taking on too much debt.**

In the end, I think your decision to select a school is within a largely broken system, but I say that not to shift blame but rather to inform you. In the end the final decision about which school to attend is *your* responsibility! *You* can choose a school you can afford. I wish college cost less, but we can't expect the system to change. We must find a way to succeed in this flawed environment.

That concludes our second session.