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Is a College Degree Still Worth the Cost?

You've probably heard the horror stories: recent graduates from well-known colleges and universities leave with a mountain of debt, can't find a job, default on their loans, and move into their parents' basements.

Against the background of headlines of soaring college costs, tales like this have prompted many to ask whether a college education is really worth the expense.

A 2011 study by the Georgetown Center on Education and the Workforce found that over his/her lifetime, the average college graduate will earn nearly $1 million more than someone who only has a high school diploma — and that the earnings gap is widening. In fact, the study found that the income advantage continues to climb with more advanced degrees:

Educational level	Advantage over high school diploma
Less than high school diploma	-$331,000
High school diploma	—
Some college, no degree	270,000
Associate's degree	423,000
Bachelor's degree	964,000
Master's degree	1,367,000
Doctoral degree	1,948,000
Professional degree	2,344,000

The Georgetown study also found that some people with less education made the same or more than the median income for those with higher educational achievement. For example, 14% of Americans who only held a high school diploma earned the same or more income than the average person with a bachelor's degree. Similarly, 23% of those with some college courses under their belt but no degree equaled or outdid the lifetime income of those with a bachelor's degree.

But for most people, as the table demonstrates, average lifetime

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The Fundamental Investing Principle

The whole point of an investment program is to accumulate sufficient funds to meet your financial goals. So what is the most fundamental investment principle? To help ensure you meet your financial goals, you must save significant sums on a consistent basis. The sooner you start this habit, the less you need to save. Consider the following example.

Fresh out of college and 25 years old, you decide you'll need $1,000,000 when you retire at age 65. You can save on a tax-deferred basis through your employer's 401(k) plan and expect to earn 8% compounded annually. If you start at age 25, you'll need to invest $3,860 a year for 40 years to reach your goal. However, you decide to wait 10 years. At age 35, you now need to invest $8,827 per year for 30 years. Still seems like too much? Consider that at age 45, you'll need to invest $21,852 annually. The really bad news is that someone waiting until age 55 will need to invest $69,029 annually to reach that goal. By postponing investing, you lose time and, with it, the ability for compounding returns on your contributions to perform much of the work of attaining your goals.* OOO

** This example is for illustrative purposes only and is not intended to project the performance of a specific investment. It does not consider the payment of income taxes. Keep in mind that a plan of regular investing does not assure a profit or protect against loss in declining markets.*

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Is a College Degree?

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earnings are significantly higher for those with more education. And those benefits even stand when taking into account the rising cost of a college education. The Brookings Institute put it this way in a study it issued recently, "[W]hile college may be 50% more expensive than it was 30 years ago, the increase to lifetime earnings that a college degree brings is 75% higher. In short, the cost of college is growing, but the benefits of college...are growing even faster."

Unemployment Protection

In addition to better earnings prospects, a college education brings a second benefit: greater protection against unemployment. As of October 2012, the U.S. unemployment rate stood at 7.9%. But, according to the Bureau of Labor Statistics, among those at least 25 years old, the rate of those with a bachelor's degree was just 3.8%, while those with only some college suffered an unemployment rate of 6.9% — more than 80% worse.

Those with less education were even worse off. Among those with just a high school diploma, 8.4% were unemployed, while 12.2% of those who dropped out before earning a diploma were jobless. As the Brookings Institute put it, "Today, a college graduate is almost 20% more likely to be employed than someone with only a high school diploma."

What's more, the job growth that occurred over the prior 12 months was entirely among the college-educated. On a seasonally adjusted basis, jobs for those with only a high school education actually declined 0.3%, while jobs for those with some college grew 3.6% and those with a bachelor's degree grew 4.2%.

Caveats

Despite these advantages to a college education, there are other considerations that temper this rosy outlook:

✔ **Majors matter.** Not all college degrees are created equal. Recent graduates in the fine arts and liberal arts aren't faring as well in employment or earnings as students who major in other subjects, like engineering, accounting, health sciences, and mathematics.

✔ **Ability and drive trump name colleges.** Studies show that more expensive "name" colleges can give a career boost to some students, like those from low-income families and those in the first generation of their family to graduate from college. Otherwise, educators say ability, drive, character, grades, and SAT scores correlate more closely with career success than the prestige of the college from which a student graduates.

✔ **Minimize student debt.** In order to stretch to meet the high cost of some colleges, students are tempted to take on ever-higher amounts of education loans. While a college degree improves the odds of landing a job right after college, debts that entail monthly payments rivaling those for a luxury car or an apartment can wind up limiting the graduate's job flexibility or putting an unpleasant crimp in their lifestyle, even if they land a job. In the long run, it may be better to excel at a lower-ranked college than incur substantial debt to attend a higher-ranked one.

Please call if you'd like to discuss this in more detail. OOO

Encourage Your Child to Fund an IRA

Once your child starts working, help him/her develop good savings habits by encouraging him/her to fund an individual retirement account (IRA). Even if your child only contributes for a few years, an IRA can provide significant funds for retirement.

Your child must have earned income to contribute to an IRA and may only contribute the lesser of earned income or the maximum IRA contribution. The maximum limit is $5,500 in 2013.

Although most children will be eligible to contribute to both a traditional deductible IRA and a Roth IRA, you should probably encourage your child to fund a Roth IRA, which has several advantages:

✔ **Roth IRAs are more flexible.** Your child can withdraw all or part of his/her contributions at any time, without paying federal income taxes or penalties. Thus, if your child later decides to use contributions for college, a car, a down payment on a home, or for some other purpose, contributions can be withdrawn with no tax consequences.

✔ **Earnings accumulate tax free, plus qualified distributions can be withdrawn tax free.** A qualified distribution is one made at least five years after the first contribution and after age 59½. There are also certain circumstances where earnings can be withdrawn without paying income taxes and/or the 10% federal income tax penalty. If your child allows the funds to grow until at least age 59½, all contributions and earnings can be withdrawn without paying any federal income taxes.

✔ **A traditional deductible IRA offers little tax benefit to a child.** When your child first starts working, he/she will typically pay a low marginal tax rate on his/her income. So even though the Roth IRA contribution is not tax deductible, your child typically receives little or no tax benefit from deducting the traditional IRA contribution anyway. OOO

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How Much Can You Withdraw in Retirement?

It's probably one of the most important decisions you'll make when you retire — how much to withdraw annually from your retirement assets. Take out too much every year and you may have to seriously reduce your living standard late in life or even deplete your assets. Take out too little and you may unnecessarily reduce your standard of living so you don't enjoy your retirement.

Several factors need to be considered when calculating your withdrawal rate, including your life expectancy, expected long-term rate of return, expected inflation rate, and how much principal you want remaining at the end of your life. Unfortunately, life expectancies, rates of return, and inflation are difficult to predict over a retirement period that can span decades. Keep these points in mind:

✔ **Your life expectancy.** While it's easy enough to find out your actuarial life expectancy, life expectancies are only averages. Approximately half the population will live longer than those tables suggest. How long close relatives lived and how healthy you are can help you gauge your life expectancy. Just to be safe, you might want to add five or 10 years to that age. After all, you don't want to run out of money at age 75 or 80, when you might not be able to return to work.

✔ **Rate of return.** Expected rates of return are often derived from historical rates of return and your current investment allocation. Historical rates of return are averages of returns over a period of time. You might want to be more conservative than that, assuming a rate of return lower than long-term averages. Even if you get the average return correct, the pattern of actual returns can significantly affect your portfolio's balance. For instance, if you experience higher returns in the early years of retirement when your portfolio balance is higher, and lower returns in the later years when your portfolio's balance is lower, you'll have a higher ending balance than if the opposite occurred. One of the most devastating scenarios for a retiree is to experience a severe market decline right after retirement.

✔ **Expected inflation.** While inflation has been relatively tame recently, even inflation of 3% can have a dramatic impact on your money's purchasing power over a long retirement. For instance, at 3% inflation, $1 is worth 74¢ after 10 years, 55¢ after 20 years, and 41¢ after 30 years. Since your retirement is likely to last decades, use an inflation estimate encompassing a long time period.

So what is a reasonable percentage to withdraw on an annual basis? To be conservative, it is typically recommended that you only withdraw modest amounts from your retirement savings, especially in the early years of your retirement. A common rule of thumb is to withdraw no more than 4% in your first year of retirement, adjusting that amount for inflation in subsequent years.

Consider these tips when deciding how much to withdraw from your retirement funds:

✔ **Use a modest withdrawal percentage to ensure you don't deplete your assets.** While you should certainly go through the process of determining how much to withdraw based on your unique circumstances, be prepared for modest withdrawal percentages. With a $1,000,000 portfolio, a 4% withdrawal equals $40,000.

✔ **Stocks need to remain a significant component of your portfolio after retirement.** While the recent stock fluctuations have been difficult to deal with, especially for recent retirees, stocks should still remain a significant component of your retirement portfolio, especially with inflation rates now starting to rise.

✔ **Review your calculations every year.** This is especially important during your early retirement years. If you're depleting your assets too rapidly, you can make changes to your portfolio, reduce your expenses, or consider going back to work. As you age, your options tend to become more limited.

✔ **Work as long as you can.** Supporting yourself for a retirement that could span 25 or 30 years requires huge sums of money. Consider working at least a couple of years longer than originally planned. During those years, you can continue to build your retirement assets and you won't be making withdrawals from those assets. Once you retire, consider working at least part-time to reduce your withdrawals from your retirement assets. Even modest earnings can help tremendously. For instance, if you earn $20,000 annually, that is the equivalent of a 4% withdrawal from a $500,000 portfolio.

Deciding how much to withdraw from your retirement assets is an important decision that will impact your standard of living for the rest of your life. Please call if you'd like help with this decision. OOO

Financial Thoughts

Approximately 54% of families age 55 to 65 carry mortgage debt, up from 37% in 1989. The median mortgage debt is $97,000 among families age 55 to 64, up from $34,000 in 1989 (Source: *The Wall Street Journal*, December 10, 2012).

Approximately 22.6% of homeowners have mortgage balances that exceed the market value of their home (Source: *Kiplinger's Personal Finance*, January 2013).

Almost 25% of seniors rely on Social Security payments for 90% or more of their family income (Source: *aarp.org/bulletin*, November 2012).

The median retirement savings for households age 55 to 64 is $120,000. Approximately 42% of workers guess at what they need to accumulate for retirement rather than performing an actual calculation. The average annual amount spent by retirees is $31,400, compared to $39,900 spent by working families (Source: *Money*, December 2012).

Almost 45% of those earning more than $75,000 per year have at least six months of living expenses in an emergency savings fund (Source: *Money*, November 2012). ○○○

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News and Announcements

Hello again everyone, and welcome to autumn. I hate to take issue with the *Holly Jolly Christmas* balladar Burl Ives, but I think weather wise, fall is the "best time of year."

Perhaps we have never had a timelier or more debated lead article than appears in this current issue. With the economy still dealing with a hangover from the Great Recession, I think the article's question is, if nothing else, interesting. I firmly believe, and the data would support, a resounding yes. However, I wish instead of college, we would all look at "further education." This to me would include trade schools, cosmetology schools, and our military, to name a few. Simply put, high school diplomas seem to be only a first step to lifelong learning.

A much more interesting and frightening thought is: How do we PAY for further education? I looked up the direct cost of a few schools on their websites and found some alarming numbers. At the University of St. Thomas (sometimes referred to as the Harvard of the North), tuition, fees, along with room and board check in at $44,294 per year. The beloved University of Iowa goes for $20,721 per year. In Mason City, Iowa, the very fine North Iowa Area Community College (NIACC) lists $4,039 as tuition, room and board. The venerable Harvard University (always called the St. Thomas of the East) is fully priced at $56,407. Now consider that *Forbes* magazine says the average U.S. graduate leaves with a diploma and $26,000 of debt, and a Fidelity Funds survey puts that number at closer to $35,000 of debt.

What to do!?? Well, for one thing, let's encourage our kids and grandkids to study hard. More scholarships are granted for academics prowess than athletic awards. Secondly, let's start early saving for those kids' and grandkids' educations — in fact, the sooner the better. Third, talk to your Weitzel Financial Services, Inc. advisor for ways that you can give the gift of education to your loved one.

Now let me tell you what definitely is NOT worth the high cost. How about a Chicago White Sox 2013 payroll, would you believe $119,573,277? The sad thing for Mr. Reinsdorf is that the Sox are 24 games out of first place with five games to go. All I can say is…Wait till next year and study hard. Thanks for your trust and confidence in this University of St. Thomas Alumini (Class of 1979). We really appreciate it.

Jim