The State of the Union of College Funding:

And how financial advisors and schools can partner to benefit families

VAYLARK
Financial Services

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Reference # 2014 AD662 WAREHAM 3-21-14

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What's on the cover?

Vaylark Financial Services is located in the heart of downtown Hartford and we are committed to the revitalization of the Hartford area. The city can be quite spectacular at times, and this images shows Hartford as viewed from the rooftop of the Riverpoint condominiums on the banks of the Connecticut River.

Background:

Many families today are struggling more than ever to match the rising expectations of college choice with the realities of paying for it. If advisors and counselors are to provide best in class guidance to help clients fund college successfully, we need to first identify the real issues.

In the early 1990's, Mick Endersbe was hired by American Express Financial Advisors to serve as a consultant to their advisors on the subject of planning for college funding for families. In the 90's, and even today, college funding advice centered on the message that parents just need to save more. This is probably true, but inelegant and doesn't reflect the whole story. To their credit American Express Financial Advisors recognized this and hired Mick from the Department of Education to consult with and train advisors on how to better guide clients to successful college funding outcomes.

After being introduced to him in the 90's our firm designed and implemented the college funding program that is now the foundation of our practice. Currently Mick is President of College Planning University in Minnesota and consults with families and financial advisors nationwide on college funding philosophy and strategy.

Every few years as an office we seek to reconnect with Mick for an all-day consulting and brain storming session with our advisor team, school counselors, and community partners. The objective is to update and synchronize our materials and presentations, to discuss best practices, and improve our deliverables. This paper is a summary of the discussion and determinations from the most recent of those held in our office on October 9th, 2013 with Mick, our team of advisors, and several High School counselors in attendance.

Biographies

Mick Endersbe served as director of Federal TRIO programs – an educational opportunity outreach program designed to motivate and support students from disadvantaged backgrounds.   He has testified before congress regarding the state of college funding, and is generally acknowledged as the person who put the “free” in Free Application for Federal Student Aid (FAFSA). He is also proposed with Congress a forerunner of what is now the Net Price Calculator. He travels the country to speak on college funding issues, and has trained more than 10,000 financial advisors and spoken with more than 60,000 families on college funding topics. He has appeared on national television and radio, appears frequently in print media, and is considered one of the nation’s foremost authorities on college funding topics. Currently he is president of College Planning University, a consulting firm located in Minneapolis Minnesota. Mick Endersbe is not affiliated with Vaylark Financial Services or Independent Financial Group.

Charles Wareham has been a financial advisor since 1992, a registered principal since 1999, and has specialized in college funding strategies since the beginning. While most advisors focus first on wealth planning and retirement with college funding as an adjunct, Charles has found value in first working with parents on college funding and then expanding into retirement planning, estate planning, and investment portfolio design.   Charles is a polished public speaker and presents at over 60 high schools and community venues per year on college funding, investment strategies, and wealth preservation. He is Charles is considered one of the area’s foremost authorities on college funding strategies and is regularly consulted by high school guidance counselors for his expertise, as well as quoted in National media. Most recently he was quoted in the March 2014 of Financial Advisor Magazine for an article on college funding topics, and by Reuters in June 2014 for an article on educating grandparents on college funding options for grandkids

Specializing in the College Funding to Retirement Transition

At Vaylark Financial Services in Downtown Hartford, our team of advisors and client service specialists focus on the needs of the college bound family. We are intensely dedicated to this segment, and regularly provide research and strategy to parents, high school counseling professionals, and financial professionals. We host the annual Guidance Professional’s Symposium in the spring (www.GuidanceSyposium.com), and provide financial aid night presentations at schools and communities throughout Connecticut.

Defining the Problem:

Modern kids are often addicted to and expect the best. They are also often driving the conversation about school choice, influenced largely by the marketing efforts of schools with tuition in excess of $50,000 per year. Parents who want the best for their kids often learn too late how much they will need to pay out of pocket.

This is a story about Middle America. This is a story about families whose incomes are just above the "hot zone" of $120k per year of income or more. This is a strata of families who are dealing with an education and financial aid crisis of epidemic proportions. And often they are their own worst enemy.

What is the Income Hot Zone?

Parents, tax advisors, and even financial advisors understand if even on an intuitive level that if a family saves for college, then those savings dollars may count against their ability to receive financial aid for college. Some tax advisors or financial advisors or other licensed professionals even advise their clients that they shouldn't save for college at all, and instead should save only in retirement plans or annuities in that theoretically they don't count against themselves for financial aid purposes. Often this is very damaging point of view, and it is generally perpetuated by advisors who know just enough about financial aid and college funding to be potentially dangerous.

The reality of college funding and financial aid is that it is rarely the savings or investments that cause the problem. **The problem is not the money a family saves; *the problem is the money a family earns.***

The "Income Hot Zone" is the income range that exists between $60k – 120K per year of joint household income. And understanding where a family falls on that hot zone scale is the critical first step in determining what strategy that family should follow for financial aid and college planning purposes. For a family with an income below $60,000, there's nothing to do. That family will qualify for the vast majority of financial support available. For the family with income between $60-120K per year, it may be possible to make an – albeit small – difference in their financial aid package by moving assets around. However for the family above $120k of income, moving assets around will generally make no difference to their financial aid outcome at all. Their income alone will take them out of range for the financial aid planning game. The

$120k+ income range represents a huge segment of Middle America, and probably represents a vast majority of the population. That income level represents everyday people, and these people are in dire need of reality-based coaching and guidance for paying for college.

Parents are often their own worst enemy.

Colleges are a business and they will seek to maximize their income. It has never been easier for them to market that business to families via the internet, low cost publishing of slick marketing materials, and blast email marketing tools. And the kids are buying into it.

Our kids come from parents of a generation who struggled for many of the needs and wants of life, and who worked hard for a modestly priced education. Those parents now want to provide more for their kids than they had themselves. They provide cell phones, cars, frothy drinks at Starbucks, manicures and dyed hairstyles, clothes from Abercrombie, vacations to Europe, and more.

In many cases, kids have come to expect that lifestyle. They often feel that they are entitled to a certain level of a college experience. They want really great college buildings with ivy growing up the sides, single suite dorms, and to study overseas. They love that lifestyle. Colleges are happy to provide that experience, but at a price.

Literally since the day the kids where born, parents are often directing discretionary income to pay for that lifestyle. "Keeping up with the Jones'" is a real phenomenon. Often parents are paying for lifestyle simply because they love their kids, and want to provide wonderful experiences for them. Parents today are often more successful than their parents were before them, and they want to provide more for their kids than they had themselves. Over and over advisors hear from parents that it's important to provide that current experience of a nice vacation, or skiing school, or dance classes, or a high end cello. Sometimes they reassure themselves that the expense is "worth it" because it will lead to better development of their kids. Often they will fund sports camps or music camps or theatre camps and similar expenses to the tune of tens of thousands of dollars per year with the hope that it will result in a sports or music or drama scholarship from the college of their choice. But yet they haven't also deposited anywhere near enough in their college savings account. Sometimes it's easier to save into a 401k at work than it is to open a college savings account. There's tremendous education and incentive to fund a 401k heavily, and many families do that. But they neglect the college savings component, and often find at the end that their dreams for college outpace their resources. In part that's driven also by dreams for college being quite lofty. "Brand" is often more important than "substance" when it comes to making good value based college decisions.

Parents often make a conscious decision to provide current lifestyle experiences rather than putting money aside into their 529 fund for college. But when it finally becomes crisis mode for paying for college parents then lament about the lack of financial assistance for college, and the financial difficulty they now face.

As advisors, we often joke about it, but it's at least partially true that our job is at least 50% therapist.

One of the biggest pieces of feedback our advisors hear from parents after attending a presentation is "oh my gosh, I wish I knew this stuff sooner". And yet, when we work with middle schools, elementary schools, and even day care centers to provide that message to parents at the time when they would benefit from it most, the programs are universally poorly attended. It's not until we get to flat out crisis mode with 17 and 18 year old kids that parents come out for the financial aid night seminar at high schools in droves of hundreds.

It's important to remember that if families do this right they will SPEND EVERY DOLLAR THAT HAS BEEN SAVED OR INVESTED FOR COLLEGE. In the perfect world, they will end the college funding process without a penny left in their college accounts. We believe this can often be a psychological roadblock to saving for college. Parents would rather max their 401k plans knowing that if they do it right they will KEEP EVERY PENNY they've saved and live off the interest at retirement. But saving for something; college – even for their kids benefit – knowing that they will NEVER PERSONALLY ENJOY A DIME OF IT, often is a reason not to save for college at all. No question, parents love their kids. And often it's easier to show that love through providing current lifestyle experiences, family vacations, and clothes from Abercrombie than it is to fund a college savings account at a level that is meaningful.

It's not uncommon for parents to live in a state of denial regarding college funding. They suspect that if they come to a college funding program in their elementary school they're only going to hear that they need to spend less and save more. To an extent that's true, but not only is that the whole truth, it's also a message that parents don't want to hear.

But that doesn't mean that financial advisors and school counselors should stop trying. As advisors, we have a duty and responsibility to provide transparent and accurate information to folks that they can make good decisions with. We must help parents to understand how the system works, what the reality of paying for college is, and what opportunity costs are involved with their own decisions.

We are in the business of *paying* for college, NOT *saving* for college

Most financial advisors are missing the boat. Most financial advisors give up when they realize a client doesn't have sufficient cash flow to save for the total cost of college.

The state of the union is that we are not in the business of saving for college. Often the reality is that by the time college funding becomes important to a parent, we have passed the window of opportunity where saving and investing for college would have made a difference.

When parents first have kids, they are most likely first concerned about buying and outfitting a home. They may also be contributing as much as they can to their 401k. For new families daycare is a huge expense. Or there may be a single family income as one parent chooses to stay home instead of work. Funding a college savings plan 9 times out of 10 will take a back seat to other needs. Parents mistakenly believe either consciously or subconsciously that sufficient financial aid will be there to help them when their kids reach college age. Any other message to the contrary is often mentally blocked until – again – the family is in crisis mode when their kids are 16 or 17 and college bound.

College funding is rarely planned or funded for at a time where it would make a meaningful difference. College funding is usually thought of while in panic mode as the kids cross age 16 or 17 years old.

Therefore financial advisors and school counselors are in the business of helping parents PAY for college in the most efficient manner possible, often at the last possible moment. An effective college funding plan really centers around building cash flow models, helping parents understand the impact of borrowing, negotiating merit awards, factoring in tax credits for education costs, making good cost benefit choices to begin with, seeking growth within tax advantaged savings and investment programs, and then monitoring and adjusting the cash flow model over time. Often it involves partnering with other responsible and ethical college coaching firms who provide guidance on selecting the best college fit, or preparing the best possible submission package.

In reality, parents are often bankrupting their household and their retirement to provide for a college education for their kids that is often financially out of reach. The biggest threat now to family's net worth is excessive education expenses. Parents are buying into the pleas from their kids for a *lifestyle* based education, rather than a *value* based one.

Often parents are making college selections financially blindly with a false expectation that financial aid and student loans will be there to make a branded college possible. But by the time they figure out that won't work the way they thought, it's too late to pull the plug on their kid's dreams. The result is often the "crying daughter scenario" if we're fortunate enough to catch it before they go off to college. Or worse yet, parents might allow the kids to go to the expensive school, but then have to pull them from that school the following year when they run out of money. Massive levels of debt become the only possible solution for a family in that scenario.

One Point Two Trillion and Counting

The US Department of Education suggests that the average college student graduates with $26,000 in debt[1]. Our experience is that it's more like $60-80,000 of debt!

Certainly there are some families of means who can pay for college out of pocket, or who have saved and invested well. The best case scenario is the family that can invest $30-40,000 per child into a tax free 529 plan that earns 12% per year from the day their child is born. But certainly that's rare, and it's also not generally the families who attend a college funding presentation at the High School. Our experience is that 90% of the attendees at a financial aid night presentation are in crisis mode about how they will pay for college, and the remaining 10% are in a lower economic strata where they will benefit from financial aid no matter what they do.

[1] Federal Reserve – Sept 2013

For most families, education is now primarily financed with debt. Campuses growth is also financed by debt. The whole industry is financed with debt. Federal direct debt now exceeds one trillion, is greater than the national level of credit card debt, and that isn't even counting the State and private debt such as CHESLA (Connecticut Higher Education Supplemental Loan Authority) or retail bank debt.

The US Department of Education states that the average student loan debt is about $26,000. But that doesn't tell the whole story. A vast amount of students are graduating from college with nearly 6 figures worth of debt that they took on to fund a school that was probably financially out of reach to begin with. Then they are having difficulty finding work, their loans become in jeopardy, it affects their credit, and may even make it difficult to get better paying work due to background checks and credit checks going bad.

One of the moving parts of college cash flow management is managing the interest payments on education loans. Many college advisors haven't factored in this component yet.   For instance, a family might develop perhaps $1000 per month of cash flow to pay for college, and that's good. But then the interest payments that are due on Stafford or CHESLA loans start to kick in. Soon that $1000 per month is used to pay the interest service on those loans – especially as younger siblings enter the college pipeline.   This then leads to a reduced capacity to pay for tuition, which then leads to an increased need for more lending. Eventually families can get capped out on their lending options as the interest service payments exceeds the 40% debt to income ration required by most education lenders. Again, in a worst case scenario parents may have to withdraw their student from the expensive college when they run out of cash flow, assets, and borrowing power. It's also important to remember that most of these loans are co-signed for by parents, stays on their credit report, and affects their credit scores and ability to borrow for their own needs.

It appears that we are quite literally creating an entire generation of bankrupt college graduates and families. They are bankrupt the minute the students graduate. They are leaving school with a negative net worth of high tens of thousands, unable to get a house, and unable to save for their retirement, or even to save for their OWN children's education in the future - which then just perpetuates the problem. Students are graduating from college with the equivalent of a condo mortgage without the condo. It's important to tell this truth about the opportunity costs associated with the choices parents are making regarding education funding.

This is a crisis of epidemic proportions that hasn't seen enough daylight yet, and may end up with a crash of college pricing or a huge defaulting of debt, or potentially both.

Financial Aid and the Federal and State Budget Crisis

The Federal Government has indicated they intend to reduce availability of loans for college. However this is not a positive message, and therefore can't be a public one. Instead the message is bundled into a positive one by tying Federal Direct Stafford and Plus loan interest rates to the Treasury bill rate. This initially reduces current interest rates, but will likely create much higher rates in the future.

Since long term and short term treasury bill rates are currently low, rates on unsubsidized Stafford and Plus loans have gone down. But realistically interest rates will not stay low forever, and the underlying T-Bill rate will quite likely rise soon. The interesting part is that the new rate cap on education loans is HIGHER than the previous fixed rates on education loans. It's now likely that as general interest rates and T-Bill rates rise in the future, education loan rates costs will EXCEED previous rates. This will likely reduce both demand and supply for education loans.

Additionally we've seen changes to the way tax credits for college are calculated and reductions in State level scholarships, sponsorships, and incentives. We believe that the trend is for tightening of funds for governmental programs. We believe that as the Federal and State governments begin to deal with their budget deficits in a meaningful way, we will see additional reductions. It's likely that we will see a Republican government over the next few elections, and indications are they will seek reductions in financial aid and tax credit programs for education. Therefore one of our biggest fears for clients is that they will burn through their college savings early on, with hopes of relying on lending and support for the later years that will be either diminished or non-existent.

This trend is starting to look a lot like the trend away from guaranteed benefit pension programs for retirement in favor of self-directed 401k savings plans. For retirement planning, more and more of the responsibility for funding retirement is on the individual and their efforts to save into their 401k and IRA plans. We used to be able to rely on a combination of savings, social security, and pensions for a retirement plan. Now, social security is being tightened and pensions are virtually non-existent. We expect a similar trend in college funding options to take hold in years to come.

The Bennet Hypothesis is interesting here as well. Originally stated by then Secretary of Education William Bennet a quarter century ago, The Bennet Hypothesis suggests that college pricing is so high because of Federal loans making it easier for students to be able to afford higher priced schools. The thought is that schools only charge as much as they do because of a vast pool of Federal loan dollars making that price affordable.

We find however that supply and demand is the stronger force here and more recent studies support that. As a community we've done a fantastic job of convincing kids that they need to go to college, and they got the message. Demand for college has exceeded supply for decades. As long as parents continue to line up to pay $50,000 per year for college, then colleges will continue to charge that. One of the first rules of business is to "charge what the market will bear", and apparently the market for a college education can currently bear quite a bit.

It may soon be a buyer's market

We believe there may be a change coming for college pricing. Some of the biggest expenses for a college are payroll and fuel for heating of buildings. While both costs are somewhat under control right now, as payroll costs increase, and if another fuel crisis occurs, this may be an issue for colleges in the future.

In addition, the number of kids going to college peaked in 2009 and is now going down.[2] This means we may be heading into a buyers' market for college bound students. Many smaller schools don't have large endowment from which to offer merit and scholarship assistance, but their prices are so high that without that scholarship or merit assistance they may be pricing themselves out of the market. College counseling advisors are slowly making an impact in the conversation of a value based education at a manageable price. With a potential tightening in the availability of college funding loan options in the future, we believe that colleges could continue to see a squeeze and that can lead to better pricing options for college bound students. The overall public outcry over rising college costs may possibly have an additional

[2] College Funding University – Oct 2013

effect, but we believe that demand for brand-based college experiences will be the stronger force.

Parents who have gone before are quite vocal about the sticker shock they experienced and have spread that message to parents who come later. Families who had their investments hit hard in the market meltdown of 2008 are becoming savvier about how best to use the funds they now have. Home equity values are still (mostly) underwater for many families, and some parents are forced into reality based choices for schools simply because lending options are unavailable to them.

Negotiations and Appeals

It's still possible for students and families to appeal and negotiate their financial aid awards. In fact, we view this as one of the most powerful strategies advisors can deploy to help a family improve their overall funding package.

While appeals and negotiations can be very effective, we often find that many financial aid night presenters aren't even discussing this option. They often don't understand what it means, how to do it, or what strategies might be successful. They may even have a conflict of interest if they are a representative from a college admission or financial aid office. Those advisors that do handle appeals or negotiations often charge large consulting fees in the thousands of dollars, and can potentially even end up damaging the outcome by their own efforts. Appeals and negotiations are probably best handled by the parents or students themselves. As soon as a college sees that the appeal is being handled by a paid consultant, the dynamic changes and the conversation shuts down.

Our best practice is to coach a family or student on how to appeal or negotiate, give them resources or templates to do so, but then ultimately let them use those tools to do it themselves.

In these scenarios, it's not unusual to see increases in award packages by thousands of dollars. More recently however, colleges are resisting and fighting the appeal process. They know that the stock market is up, that employee stock options are back in the money, corporate bonuses are up, and home equity is rising. In fact, we believe colleges are now making up for the larger financial aid awards they had to offer in 2008 to attract students at the height of the market meltdown by reducing the awards they would make now in similar situations.

We can see this with the historical tracking of financial aid award letters. In our office we maintain files of award letters of families who have gone to a particular school in the past versus the award letters colleges are generating now, and there is a definite pattern. Families don't generally have access to this data. But in our role as college funding advisors, we get to see both horizontally and vertically what is happening both with many families attending a certain school, or a single family applying to many schools. This is an important transparency that we are in a unique position to be able to provide for clients.

What's Important?
What Do We Do Now?

1. The new story for college funding needs to be one of positivity. Advisors should educate parents about the reality of college funding and pricing, but also give them a structure or framework within which to successfully fund college.

If after attending a college funding presentation a parent worries or loses sleep, *we have failed*! Our role is not to cause stress and loss of sleep, *it's to show the way out*. An advisors role is to provide strategy and information that parents can use to make good decisions and evaluate options. It's critical to encourage students to pick the right school to begin with, to provide resources to help do that (Naviance, best in class school counselors, outside professional consultants). It's important for students to graduate college on time (only 50% graduate within 4 years), and for families to pay with cash flow and non-retirement savings instead of debt wherever possible. But selecting a good value for the college funding dollar is the critical first step.

2. High schools and Middle schools should focus less on how to fill out the FAFSA at their financial aid night presentations, and focus more strategies and solutions that families can use to efficiently pay for college. The reality is that if you can fill out a tax return, you can fill out a FAFSA.

And even if a family has difficulty completing the forms, there are a myriad of resources available to help parents figure out how to complete the FAFSA. While the CSS/PROFILE certainly adds complexity, the vast majority of parents are able to work through the CSS/PROFILE on their own. In a real pinch, there are consultants available who will complete the forms for the family for a modest fee.

In fact, a presentation that focuses on how to fill out the forms may be useless in the big picture. It may serve the parents very little real benefit. One guidance director (Michelle Ianello, Portland High School) calls that sort of presentation "a monumental and complete waste of time". However it may be of benefit to provide a presentation that offers an overview of the entire college application process. Again, Portland High School serves as a model where they provide a Naviance presentation, an overview of the college applications, and an overview of the FAFSA and CSS/Profile, all in one 2 hr presentation (with a 15 minute intermission). The preferred option is probably to have these two separate presentations (Naviance and College Application Process, and Paying for College) on different nights. But still, in this case it works famously. In general, we find that the best practice is that if a school intends to provide a presentation on completing the forms, that they should also augment that information with a separate presentation from a licensed, qualified financial professional to discuss strategy and solutions related to paying for college.

3. Make a clear distinction between the "process of applying for college" presentation and the "paying for college" presentation.

Financial aid is a terrible word to describe what most parents use to pay for college. To have a "financial aid night" presentation is probably not realistic, and it gives false hope. For most parents, paying for college is done with a loan package. (If anything, schools should call it "Education Loan Night" since the vast majority of education aid comes in the form of a loan). We would encourage partner schools to modify the title of the presentation to promote strategy rather than understanding the forms. Instead of having "Financial Aid Night" presentations, we believe it's clearer and more effective to have instead a "How to Pay for College" night. When we re-label the presentation in this way, our experience is that attendance is from a wider stratum of families.

In fact, there are so many sources of financial aid and scholarships and loans and grants out there that it would be impossible to cover them in one seminar. To promote the presentation as a "financial aid night" implies that all - or even many - sources of financial aid will be discussed; which is virtually impossible. It also implies that a family will learn about sources of financial aid that they can use to pay for college, which again is misleading. For 90% of the families that would attend such a presentation, the maximum aid they will receive is the Stafford Loan of $5,500 in the first year. It would be quite difficult to discuss even all of the major sources of financial aid since the most viable ones are career specific, or achievement based and therefore unique to each family's individual situation. Frankly the best source for the myriad of financial aid and scholarships options is probably the internet (FastWeb.com) or the catalogs of scholarship programs sold in the college planning section at Barnes and Noble.

4. Parents are drowning in information. What they are really seeking are *solutions and strategy!*

Parents have more brochures, websites, handouts, and booklets talking about college funding and financial aid than they know what to do with. Parents are drowning in information. What parents are really seeking isn't to know how to complete the forms or what aid is available to a broad stratum of families. Instead they are trying to figure out how *they specifically are going to carve out financial resources from their own cash flow or investments to pay for a decent level of college without going bankrupt*.

5. Individual follow up and consultations are critical to this process, since only through personal consultations can an advisor address the specific strategies that may apply to a specific family.

If the goal is to help families pay for college, we believe it cannot be effectively done by a broad presentation to hundreds of families without the option of individual follow up consultations afterwards. Obviously these consultations must be at no charge or obligation. In fact a broad presentation without the option of follow up often may lead to just more confusion or "paralysis by analysis." Follow up consultations must be ethical, responsible, non-salesy, and handled in a professional manner.

A financial advisor's role isn't to replace the "filling out the forms" presentation; their role is to *augment it.*

In fact, the new Net Price Calculator has created a new level of transparency that can negate what would happen at a traditional financial aid night seminar. This tool allows parents to enter in their own personal financial data – income and assets – as well as the GPA of their student, their SAT and ACT scores, and then the tool spits out a result. That result is the actual price that the student will pay to attend that school. It includes any Federal financial aid, direct loans, and merit or scholarship assistance from the school themselves. It's what the parents are looking for, and what colleges are now required by law to provide on their website. The calculator generates a result that is specific to that family, and is accurate enough to be useful in their strategy and planning. For most families there is probably no need to pay someone to complete a FAFSA, or pay someone to shop for financial aid. The Net Price Calculator eliminates all of that and provides complete transparency for families at no cost.

Presenter options:
Are schools liable?

The concern now is the liability that high schools and middle schools face when they have an unlicensed, untrained, and unsupervised presenter speak at the school who doesn't provide a full, responsible, ethical and transparent discussion of the real problem and the real solution.

It's critical to have a high energy and professional presenter to help get the message across. We believe it's important to guard against a presenter who dull, dry, and lifeless and lulls the audience to sleep. We also believe it's important to have a licensed, professional, insured, and qualified financial professional provide the "How to Pay for College" presentation. But in many school districts there is a hesitation about having presenter speak regardless of how expert, licensed, and capable they may be if they also represent a "for-profit" business. And yet, these same districts wouldn't think twice about having a for-profit physician speak to their group on school grounds about a particular health topic of interest.

The concern usually centers on the thought that the school might be giving the appearance of endorsing a particular financial advisor or firm. Or it can center around the thought that an advisor would only attempt to "sell" to the attendee's. (This fear is not entirely unfounded. There are a number of un-professional advisors who attempt to solicit to schools who are not savvy enough to understand how to properly work with schools).

We would suggest that the decision process in evaluating a presenter should be the same decision process used to make other vendor decisions on other issues every day. Schools decide which is the best textbook to use, what computer systems they will buy, what teacher they will hire to teach a particular subject. They seek "best fits" in other vendor decisions, and we believe this should be no different. We believe the process should be two-fold; (1) evaluate between a professional licensed advisor with skill and experience in the topic, or (2) a non-licensed consultant experienced in financial aid, or the college application process. Both options can have merit, and are not necessarily mutually exclusive. However there are important points to consider.

One alternative may be a consultant who works with parents to process financial aid forms, or helps with admissions consulting. These folks are generally independent business people with a small consulting practice sometimes operated out of their home. Some of these independent businesspersons are effective, ethical, and responsible. However one concern may be whether they have support staff and capacity to handle large volumes of consultations. Another concern may be that there is currently no licensing requirements for someone in that role, no certifications, nor any State or Federal oversight. They are also just as much a for-profit operation as anyone else, sometimes charging families – or even schools on a per-presentation basis – hundreds or thousands of dollars at a time they can least afford it.

We believe that advisors should not charge for consulting and college funding guidance for families, or for presenters to charge schools for the presentation.

Financial advisors are more than adequately compensated for by the investment companies they eventually place business with. Consultants are adequately compensated by the fees they charge families who choose to work with them. We believe that financial advisors can provide valuable guidance and advice to families at no charge, and that families are intelligent and capable enough to then determine if they would like to continue to work with that advisor for investment management. For those families that wish to receive only the college funding guidance or cash flow models, but not to place investments or accounts with the advisor, a modest fee may be appropriate.

Another possible presenter option may be an admissions person from one of the local colleges. Again though that person may have no licensing, oversight, supervision, or liability insurance. These persons are also not generally able to provide any level of follow up with attendee's, nor individual consulting, and may even have conflicts of interest towards discussing appeals and negotiation strategies.

We believe schools should be wary of unlicensed, uninsured presenters. Those presenters may not be able to effectively advise parents on their college funding options since they are not licensed investment advisors, nor tax advisors, nor legal advisors. They may not be able to discuss 529's, or education IRA's. They may not be able to discuss the American Education Tax Credit. They may not be able to discuss the rules surrounding withdrawals from retirement plans for education purposes, and may have conflicts of interests toward discussing negotiation and appeal strategies. And if they do discuss strategies in those areas, they may be deemed to have provided investment advice, tax advice, or legal advice without being licensed and registered to legally do so. This may open up the school to possible liability.

Errors and omissions insurance can be important as well. Unlicensed or unregistered presenters rarely carry E&O coverage should something go awry. However a registered financial advisor is required by FINRA and their broker dealer to carry errors and omissions insurance. They are fully trained and licensed to discuss saving and investment options, or other financial strategies. The reality is that in this litigious society, sooner or later a parent who attends a program may go after a school for something they heard - or thought they heard - at a college funding presentation that caused them a tax penalty, or some other fault and the school may end up as liable.

We believe schools should protect themselves by using a presenter who is properly registered or licensed, insured, and discloses their non-endorsement from the school during their presentation.

If the conclusion is that a licensed professional financial advisor should provide the college funding presentation, the next criteria would be to select the proper firm or presenter. It is a reasonable concern that an advisor may end up being a “salesperson” with their own agenda who either provides no real value at best, or at worst turns the presentation into a sales pitch. Historically this has been the biggest fear of schools, and rightly so. The solution is to work with a firm or advisor that specializes in the college funding market, who comes highly referred from other schools, who understands the responsibility and ethics involved with working with the schools, and has years of experience doing so.

Most financial advisors do not choose to work in the college funding market. Their perception is that it is not profitable, and that it takes a considerable amount of time. In many respects that’s true. Developing a practice based on the college funding market involves generally takes more time and is less efficient in the short run than most financial advisors are willing to commit to.   Typically financial advisors are seeking high net worth households to work with, and generally those household don't have an issue with providing college funds.

We're concerned about an increasing trend in the financial industry where firms such as College123 actually solicit and promote to advisors that by using their system an advisor can triple their commissions on life insurance and annuity sales. In fact, there have been cases where financial advisors put large numbers of people into annuities as a "financial aid shelter". There are college counselors armed with a small bit of knowledge and an EFC calculating tool that use that tool to advise parents that if they move money into tax sheltered annuities that it will reduce their EFC. There have been numerous incidents where advisory firms that do this have been sued and/or penalized by regulators, and in some cases that firm's advisors are now not even allowed to say the words "college planning" to their clients.   What a disservice for advisors not to be able to discuss college funding with their clients!   The issue is that while sending funds to an annuity can reduce the EFC, it rarely reduces it to a level to where it makes a difference in the financial aid outcome because – again – it's rarely the assets that are a problem. The problem is usually INCOME. Then at that point, the funds that might have been used for college are now locked up in an annuity with taxes, penalties and surrender charges to get the funds back out again.

In our office we treat the college funding presentations not as a profit center, but as a great way to build relationships and meet new friends. We believe that advisors should provide value first – often for the sheer joy of doing so – and that by providing true value for good people that opportunities to manage assets will reveal themselves. We believe that working in the college funding market is a great way to build relationships with great people, and that by showing value and consideration at this stage that it leads to other opportunities. This philosophy has served us well for over 20 years and has provided us with a thriving practice in financial consulting and investment management.

Best Practices

Guidance and counseling professionals who tell the truth about paying for college are succeeding. Sometimes they are courageously defending and the right thing to do with the school principal, or the school board, or even parents themselves who are reluctant to hear a difficult message.

No question, when the guidance and counseling's office gets behind a professional How to Pay for College program the results are healthy. In our office we average over 800 individual no-obligation consultations per year to help families iron out their funding options. This level of work indicates to us that there is a tremendous demand for ethical and responsible guidance. Our sources indicate that nationally we are one of only about 20 firms that work in this way. We believe that while progress is being made, there is still a long way to go in educating advisors and schools in how to provide best in class guidance to families around college funding.

Boosting Attendance:

Many schools consistently see attendance in the hundreds

The attendance numbers to a college funding presentation vary widely between schools. Without question, the difference is the support for the program that the counseling department provides.

It's critical that the counseling department get behind the program, support it, communicate it, and make it important. Many of our schools boast attendance of over 250 persons at the presentations. Some of our very best schools to a fantastic job of this, but others may have more to do. It's challenging in some schools for a counselor to stand up for transparency and truth and take the (sometimes) controversial stance that having a for-profit financial advisor speak at the school is the way to go, and to communicate that message widely. But those counselors that have done so have reported fantastic results. In every survey we've ever taken of attendee's at the schools the results have always been vastly positive, and so we believe that there is nothing to fear in having a qualified for-profit financial advisory firm provide the college funding presentation at schools.

Marketing professionals will tell us that a message needs to be transmitted in at least 3 different media 3 different times before it is heard. They also tell us that communication occurs in the receiver, not the transmitter. Therefore the responsibility is on the transmitter to make sure that a message has been received. The best way to do this is via repetition. If a school is only sending out one email blast, or is only sending a poorly made flyer home with the kids, the message is going to be drowned out in the noise of daily communication. However if a school uses several media simultaneously such as:

- An email blast to parents
- Announcements on Naviance
- Place a panel announcement on the main page of the school website
- A professional flyer sent home with the kids
- A professional flyer sent again via US Mail
- A post in a relevant blogs on the school website
- A blurb in the school newsletter
- An announcements at the PTA or other relevant meetings
- A press release in the local newspaper
- Robo calls to parents (Be aware that FCC rules regarding robo calls are in flux. Please consult the current laws and guidelines)
- Making certain that the presentations appears on the school calendar
- Twitter announcements

… then the message is much more likely to be received, and attendance will be higher. For a school that handles this part well, attendance is often in the hundreds with standing room only.

This may take some work and time and effort on behalf of an already strapped counseling office. The advisor’s role therefore is to make this a partnership and make it as turnkey as possible. The schools that already do this well might bring in school interns to handle stuffing envelopes. In our office we sometimes even loan the guidance department our own office staffing to help them with that. In our office we have often supported schools in the past by printing color copies of the flyer at our expense and delivering them to the school. Or by sticking mailing labels on envelopes, or providing public relations materials, or ad copy, or blurbs for the school newsletter, or working with local newspapers and local radio for PR releases and/or interviews.   Advisors can and should continue to use their marketing expertise to support the schools that request it and make this process as turn-key as possible.

Venue is also important. If the school holds the presentation in the cafeteria or a classroom vs. the auditorium it sets a tone with the parents as to how important that presentation is. The auditorium carries the gravitas needed, whereas the cafeteria may not.

Parents may shy away from a presentation in the cafeteria with poor acoustics, and uncomfortable seating. They know also the media center can't hold a lot of people, so their thought may be that the counseling department isn't expecting a lot of people, and therefore the presentation isn't that important.

However, the auditorium holds hundreds. The seating is comfortable and the venue is designed for speaking presentations. The venue carries some gravitas that the counseling department views the presentation as important, is expecting a lot of people, and has made arrangements in advance on the school calendar to accommodate.

Springtime presentations are also useful and successful. A number of schools have responded to the feedback from parents that they wish they had this information sooner, and are now offering two presentations a year. One is in the fall, and is the traditional presentation for parents of college bound seniors.   A second program is then held in the springtime when things calm down a bit that is promoted to and oriented for parents of underclassmen. The habit for successful schools in this area is that when they book the fall presentation, they also reserve a slot for a springtime presentation as well. We'd like to see more of this, and frankly we think it's the most effective way to reach parents earlier.

Quickie College Funding Solutions

Guidance and counseling professionals are often called upon by parents to provide off-the-cuff recommendations or strategies for how the family might pay for college. While counseling professionals are not financial advisors, nor licensed to give financial advice, here are a few quick concepts that can be easily communicated and may be useful. The best practice however would be to refer the parent to a qualified and professional advisor skilled in the college funding process.

4 X 4 Solution

The 4 X 4 solution suggests that if a family can dedicate $400 per month to college beginning in the high school freshman year, that cash flow can be suitable to fund a state level education with minimal and possibly partially subsidized debt.

$400 per month saved equals $5000 per year, or $20,000 by the start of college. If that goes to the State 529 plan it may also generate a tax deduction. If the family continues that $5,000 per year of cash flow while the student is in college, put pays it to the school on their tuition payment plan, and also then withdraws $5000 per year from savings that's built up, then that's a total of $10k per year of funding towards college. The student should then be required to kick in $5000 per year from a combination of work study and summer employment. At $10 per hour after taxes, that would be 500 hours (or 20 hrs a week per year of employment). That makes $15k total. Plus most families will receive the Stafford loan of $5500 in the first year (and more after) which now totals $20,000+ of funding. The American Education Tax credit can add another $2500 per year to the total, and we have now provided the vast majority of funding for a modestly priced quality education at a State level school. None of this factors in investment growth or savings growth, but in a roundabout sense that growth could account for the missing few thousand dollars per year worth of state college costs.

Families may be able to magnify this effect with merit scholarships and achievement awards. In fact, the 4 X 4 solution could be applied to a mini-elite school if the merit or achievement funds the student earns reduce the cost of the mini-elite school to be commensurate with a state school. State education loan agencies (such as CHESLA.org in Connecticut) can help to make up any gapping. The 4 X 4 solution works fairly well for a family with one student. The problem occurs when families have more than one student.

The $1000/month solution

This solution applies more to families that would strive for a mini-elite level of college education, have generated no previous cash flow or savings towards college, but have rebudgeted to create $1000/mo of current cash flow. This is most commonly done by reducing 401k or other retirement plan contributions temporarily while the student is in college.

An example of a min-elite school could be Northeastern University in Boston Mass. Currently that tuition cost is just about $48,000/year (2014). If a family had little savings, but a student that wanted that level of school, the first assumption would be that the student has excellent grades that lead to merit scholarships which reduce the cost of attendance. The student's GPA would have to be north of 3.7 – 3.8 unweighted in order to see on average $20,000 worth of scholarship. That brings the cost of attendance down to $28,000 in year one.

With the Stafford loan of $5500, and work study of $2000 and student summer employment of an additional $2000, we bring the remaining cost to $18,500. Next we would work with CHESLA, SallieMae, or other loan agency to fund half of the remaining balance on their loan program. The other remaining half, we would work with Tuition Management Services or similar payment plan for the balance, thus bringing the monthly payment for that school to $925/mo.

While this solution is inelegant, generates $64,000 of education loan debt, and also doesn't account for inflation, fees, and miscellaneous expenses, it does have the advantage of being one of the only ways to get this level of education funded when a family has zero savings for college.

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