In This Issue...

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Financial Briefs

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Is It Time to Rethink College?

College costs can seem staggering. For the 2008–09 school year, the average annual total cost was $37,390 for a four-year private university and $18,326 for a four-year public university, up 5.6% and 5.7%, respectively, from the prior year (Source: *Trends in College Pricing*, 2008). Over the past decade, average tuition costs have increased 4.2% annually after inflation at public colleges and 2.4% at private colleges (Source: *Trends in College Pricing*, 2008).

On top of that, many people's investments set aside for college have decreased substantially over the last couple of years. Add concerns about the current economic situation, and it's no wonder that students and parents alike wonder whether college is really necessary.

To help answer that, consider the median earnings by level of education for 2005 (most recent year available):

Professional degree	$100,000
Doctoral degree	79,400
Master's degree	61,300
Bachelor's degree	50,900
Associate degree	40,600
Some college, no degree	37,100
High school graduate	31,500
Not a high school graduate	23,400

(Source: *Education Pays*, 2007)

It is estimated that college graduates will earn approximately $1 million more over their working lives than high school graduates. In terms of paying back college costs, the College Board estimates the typical college graduate who started college at age 18 will earn enough to compensate for tuition and fees at the average four-year public university as well as for foregone earnings during those college years by age 33 (Source: *Education Pays*, 2007).

While that doesn't sound like a bad tradeoff — breakeven by age 33 and then earn substantially more for the rest of your life — keep in mind that those figures only include the cost of tuition and fees at a public university. Room and board adds another $7,750 annually to the cost. And if your student goes to a private university, the costs are typically double that of a public university.

Those figures also don't consider how you pay for that education. If you pay for that college education primarily with student loans, it could take a lot longer than age 33 to breakeven.

That doesn't mean your child shouldn't go to college, just that you

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Get Familiar with the Financial Aid Process

Over $162 billion of financial aid was distributed during the 2007–08 school year, with an average award of $8,896 per full-time student. Of that total, approximately 65% was in the form of loans and 32% in grants (Source: *Trends in Student Aid*, 2008). With so much money at stake, you should understand the financial aid process to maximize your share of financial aid.

The first step is filling out the appropriate forms so colleges can determine your financial need. After January 1 of the year your child enters college, you must complete the "Free Application for Federal Student Aid" form as well as any forms required by colleges your child applied to. These forms are used to determine your expected family contribution (EFC), which is the amount you're expected to pay annually toward college costs. If college costs exceed your EFC, financial aid officers try to fund that difference using grants, scholarships, work-study programs, and student loans.

Be prepared — most families are surprised by how much they're expected to contribute toward college. The calculation is based on a formula, not your actual expenses. After some adjustments, your EFC equals 2.6% to 5.6% of your eligible assets and 22% to 47% of your income, plus 20% of your child's assets and up to 50% of his/her income (Source: Savingforcollege.com, 2009). Your EFC is the same no matter how many children are attending college, so you can expect more aid if you have more than one child

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Is It Time to Rethink?

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may need to reevaluate how much you want to spend on that education. Consider these strategies to reduce the cost of a college education:

- **Look for scholarships that are not based on need.** Generous merit scholarships are often available to students with outstanding high school grades and above-average entrance exam scores. Scholarships may also be available for athletes and for those with strong music backgrounds. If your student has qualities that a college is looking for, that college may be more willing to offer scholarships to attract him/her.
- **Apply to several different colleges.** Don't make the mistake of thinking that aid packages will be the same at all universities. You may be surprised at how wide the differences can be. Even if your child is set on one school, it is generally wise to apply to several different colleges. This is especially true in these economic times when more students are applying for aid and colleges have less aid available.
- **Talk to the university.** If the financial aid package is not sufficient, talk to the financial aid officers at the university. By explaining extenuating circumstances or showing offers from other universities, you may be able to increase your financial aid package.
- **Don't overlook state public universities.** Costs of public universities, especially in your state, are typically much more affordable than private universities.
- **Decide whether it makes sense to go to an expensive private college.** First, you need to evaluate how much financial aid your student would be entitled to, since many private universities offer substantial aid packages. If you are still left funding much of the cost yourself, consider whether your child's intended career makes it a good investment. If your child intends to pursue a career with limited salary potential, you may not want to send him/her to an expensive college.
- **Consider starting at a two-year college.** Two-year colleges are often much cheaper than four-year colleges, especially when you consider that most students live at home while attending. For instance, for the 2008–09 school year, the average cost of tuition and fees at a public two-year college was $2,402 compared to $6,585 at a public four-year college and $25,143 at a private four-year college (Source: *Trends in College Pricing*, 2008). Before starting, however, your child should determine which four-year college he/she will transfer to and make sure all of the credits from the two-year college will transfer to the four-year college.
- **Send more than one child to the same university.** Many universities offer discounts on tuition if more than one child attends at the same time.
- **Accelerate your child's studies.** You can save a significant amount of money if your child can complete a four-year degree in three years. Another alternative is to have your child take summer courses at a local community college. High school students may be able to take courses at a community college which will then transfer as college credits. Advanced placement courses may also count as college credit.

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

The Impact of Market Declines

It certainly doesn't seem fair. You've done your part by diligently setting aside funds for your child's college education. But if your child will be entering college soon, market declines may have reduced your investments so much that you'll need to find other ways to pay those college costs. Some tips to consider include:

- **Realize that everything doesn't have to be finalized by your child's freshman year of college.** College expenses will be paid out over a four-year period, so you have some time for your investments to recover.
- **Consider alternative strategies to pay for college.** For instance, you can keep your investments in stocks, obtaining loans to pay for college. Then if your stock investments recover, you can sell them and pay off the loans.
- **Keep saving for your child's college expenses.** The average cost of tuition (not including room and board and other expenses) at a four-year public university was $6,585 for the 2008–09 school year (Source: *Trends in College Pricing*, 2008). Saving $550 per month for one year will pay that tuition.
- **Reevaluate your child's and your expectations.** Don't rule out Ivy League colleges without first finding out what financial aid packages they'll offer. If an Ivy League college is out of your price range, there are many colleges providing a good education at a reasonable price. Look into other ways to reduce college costs, such as starting at a community college and later transferring to a four-year college or accelerating studies to complete a four-year degree in three years.
- **Have your child work part-time during college.** Make your child responsible for some of his/her expenses, perhaps books, room and board, or personal expenses. Even a contribution of a couple thousand dollars a year can help. It may also make your child appreciate the education more, since he/she helped fund it.

Financial Aid Process

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in college.

Consider these tips to help maximize your financial aid award:

- **Understand how the financial aid system classifies income and assets.** Your net worth, as defined by the financial aid system, includes bank accounts, stocks, bonds, and mutual funds, but not equity in your primary home, retirement funds, insurance, or annuities. However, individual colleges may have different criteria for certain assets. Loans against assets, such as mortgages, home-equity lines of credit, and margin loans, are deducted from your net worth, but consumer loans are not. Capital gains are also included in income, so you may want to time sales carefully.
- **Consider using your child's assets to pay school expenses before college.** For financial aid purposes, 20% of your child's assets are considered available for college expenses, while only a maximum of 5.6% of your assets are counted. You might want to purchase a computer or car for commuting to college with your child's money.
- **Apply to several colleges, evaluating each financial aid package.** Your awards can vary significantly among colleges, because financial aid officers use discretion when making awards. Some colleges use merit scholarships in addition to need-based financial aid to attract top students. Don't just look at the total amount of the award — evaluate the composition of that aid. Grants, which are not repaid, are more desirable than loans. Even the types of loans offered can make a big difference.
- **Don't automatically rule out more expensive colleges.** Your EFC will remain the same whether your child attends a public, private, or Ivy League college. Many private and Ivy League colleges have more merit aid and discretion than public schools do when making offers.
- **Make sure to adhere to application deadlines.** Typically, colleges first evaluate applications submitted on time. Anyone filing late is evaluated later, after a significant portion of grants and work-study programs have been awarded.
- **Talk to the financial aid officer if you aren't satisfied with the financial aid package.** While financial aid officers don't like the word negotiate, they are often willing to reevaluate a financial aid package. If there have been significant changes in your financial situation since the forms were filled out, call and explain. If your child received a more generous aid package from another college, see whether this college is willing to reevaluate its offer. Colleges will often increase a financial aid package, especially for a top student.

Keep Student Loans under Control

While student loans may be a necessity to get through college, make sure to keep them under control so they don't become financially overwhelming. If your child is struggling with student loans, he/she won't have funds available for things like buying a home or saving for retirement. Consider the following tips to help your child with student loans:

- Make sure your child keeps track of all student loans. Often, students borrow from a number of lenders, taking small amounts out over time. If the student doesn't keep track of these loans, he/she may be surprised by how much debt has accumulated.
- Translate those outstanding balances into a monthly payment. The real problem with loans, of course, is that they have to be repaid. Student loans must typically be repaid within 10 years after graduation. While you won't know the interest rate until graduation, assume an interest rate of 8%. For every $1,000 of student loans, the monthly payment will be $12 if paid over 10 years at 8% interest. A student with the average loan balance of $18,800 can expect to pay $226 per month to repay student loans.
- Encourage your child to pay off all debts as soon as possible. While student loans are likely to be your child's largest debts, they may also be the cheapest. If your child has other debts with higher interest rates, such as credit card debt or an auto loan, suggest paying off those loans first.
- Remind your child that up to $2,500 of education loan interest can be deducted on his/her income tax return as an above-the-line deduction, with income phaseouts of $50,000–$65,000 for single taxpayers and $100,000–$130,000 for married taxpayers filing jointly.
- Suggest your child put off upgrading his/her lifestyle or buying a home until all debts are paid off. This is a lesson that will benefit your child for a lifetime. Learning to live within one's means and purchasing items only when they can be afforded are two of the soundest financial principles your child can learn.

Business Data

	Month-end				
Indicator	Mar-09	Apr-09	May-09	Dec-08	May-08
Prime rate	3.25	3.25	3.25	3.25	5.00
3-month T-bill yield	0.20	0.14	0.18	0.05	1.87
10-year T-note yield	2.75	2.87	3.29	2.26	3.84
20-year T-bond yield	3.78	3.80	4.22	3.04	4.56
Dow Jones Corp.	7.04	6.52	6.01	7.16	5.81
GDP (adj. annual rate)#	-0.50	-6.30	-5.70	-6.30	+0.90

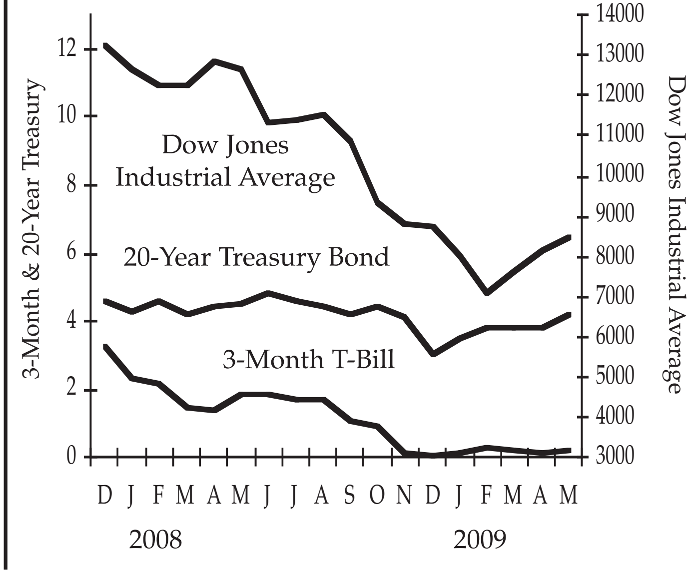
	Month-end			% Change	
Indicator	Mar-09	Apr-09	May-09	YTD	12 Mon.
Dow Jones Industrials	7608.92	8168.12	8500.33	-3.1%	-32.7%
Standard & Poor's 500	797.87	872.81	919.14	1.8%	-34.4%
Nasdaq Composite	1528.59	1717.30	1774.33	12.5%	-29.7%
Gold	916.50	883.25	975.50	15.2%	10.1%
Unemployment rate@	8.10	8.50	8.90	23.6%	78.0%
Consumer price index@	212.20	212.70	213.20	1.4%	-0.7%
Index of leading ind.@	98.40	98.00	99.00	-0.1%	-2.9%

— 3rd, 4th, 1st quarter   @ — Feb, Mar, Apr

Sources: *Barron's, Wall Street Journal*

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

December 2007 to May 2009



News and Announcements

A Budget for Your College Student

Many students will first handle money without parental supervision during college. To help keep expenses down and avoid conflicts, you might want to develop a budget to guide your child's spending. As you go through the process, consider the following:

- First consider all potential expenses, including food, travel, clothing, entertainment, phone, periodicals, computer expenses, medical and dental expenses, and insurance.
- Develop a preliminary budget for the first couple of months of college. You may find that you forgot about certain items. After your child has lived on his/her own for a couple of months, you can develop a more realistic budget.
- If your child has trouble sticking with the budget or can't account for large sums, have him/her keep a journal for a couple of weeks that details all expenditures. Go over the journal together to determine how expenses can be reduced.
- Consider providing your child with a debit card rather than a credit card. Since your child's spending will be limited to the amount on deposit, it is harder to overspend.
- Explain the basics of credit cards. Make sure your child doesn't use a credit card as a means to overspend. Go over which types of items your child can use the credit card for and which items should not be charged. Make sure your child understands that if the balance isn't paid in full each month, a significant amount of interest will be due on the outstanding balance. If you teach your child nothing else, try to instill the concept of paying credit card balances in full every month.
- Have your child provide you with a written monthly comparison of his/her actual expenses to budgeted amounts.

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