

EPISODE 678

[INTRODUCTION]

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FT: Welcome to So Money, everyone. I'm your host Farnoosh Torabi, topic today is college savings. Many of you write in asking me, "Hey Farnoosh, where should I save for my child's college education?" Some of you are very ahead of the curve asking me about your unborn children and where to save for their college education and I'm with you. It's very expensive to go to school today, let alone in 18, 20 years and one vehicle that has been a solution for many families is a 529 plan but is it really the best option? To learn more about this we have the COO and Co-founder of a brand new financial technology website called, CollegeBacker.

Abby Chao is here, prior to launching the company Abby was senior associate and social sector fellow at McKinsey & Company which is a top consulting firm in the world. What's interesting is that only 30% of Americans know what a 529 plan is and that's where CollegeBacker wants to help. It's a new company that's educating parents around college savings and how to make it easier for them to save for those future costs and their trick is involving your community of friends and family.

At CollegeBacker you can open a 529 plan and invite your friends and family and others to contribute, not a bad idea. Something that I actually do in my own life whenever anyone asks what to get the kids I say, "Money" and "Here is my direct deposit account," and that money goes right in to their 529's. Yeah, Abby and I discussed the pros and cons of starting an account like this. It's not a given that a 529 plan is the best way to save and it's the best way for all families. What if you save diligently in to this account and your child doesn't go to college or perhaps gets a college scholarship, a full scholarship.

What happens to the money then? And, I was pretty surprised by some of the answers. There's also so potential legislative changes to the 529 this year that may or may not expand its impact. We talk about all of this as well as Abby's own impressive career resume. She talks about her So Money moment was when she was working and she convinced her bosses to give her a

promotion and a raise and reimbursements for graduate school all the same time. Stay tuned because we're going to mention a site where you can get a free gift from CollegeBacker, free money – a match, stay tuned for that sign up information.

Here is Abby Chao.

[INTERVIEW]

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FT: Abby Chao welcome to So Money. Excited to learn how to catch up and save more for my kids college. Welcome to the show.

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AC: Thank you so much for having me Farnoosh, so excited to be here today.

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FT: Yeah, it's so great and I'm so happy that you have started what you started, you know, the co-founder of CollegeBacker we're going to dig in to this some more on the podcast. I think it's so critical for new tools and in services to encourage families to be able to save more, not just encourage them but to enable them, you know, to give them the ability to do this easily. I know college is not inexpensive and it's expected to, you know, double over the next ten years and I have two children, very little but we've already started saving for them.

People can't believe it when I tell them that we have 529's for our kids but when you run the numbers it's a no brainer. You have to start saving as soon as possible. But before we get in to the details of CollegeBacker, tell us a little bit about who Abby Chao is and what inspired you to get in to this space in the first place?

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AC: Yeah, I'm happy too. So, I am originally from the Chicago suburbs but moved out to California to essentially pursue a dream of working in tech in some capacity. I was also always a bit of personal finance gig growing up so, you know, when I was in 7th grade I read *Rich Dad Poor Dad* and it totally changed my life and I was addicted since then. But, what really came but what the real inspiration for CollegeBacker was essentially looking around and realizing that so many of my friends and family and my co-founders friends and family were starting to have children and those new parents were thinking about the cost of college really intimidated by the rising cost many of them still paying off their own student loans or having just paid off their own student loans. So they were just acutely aware of how scary the cost of college could be.

But, when they went to go and try to find a solution and figure out the best way to save for college they were just overwhelmed with different options and financial lingo and all of this complexity that they just ended up, sort of, kicking it down the road and saying, "Okay well, I'll figure it out later when I have time to spend hours researching those stuff right now I'm trying to take care of my new child." And so, we just wanted to be able to help in some way, you know, we wanted to be able to give him a gift that would kick start a child fund and set them off on the right direction. But, there wasn't really a good way to do that so that's why we got CollegeBacker.

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FT: And, I know your background is in consulting with McKinsey and also Goldman Sachs, that's quite the professional pedigree. What did you learn from those experiences that has now helped you be an entrepreneur?

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AC: Yeah, I think both of those experiences were really, really, helpful to me because I know that some people can just jump into entrepreneurship maybe when they're 14 years old or something as a wiz kid. But for me it was really helpful to get a little bit more of that professional training of, you know, how to think about different problems, how to think different aspects of the business, whether it's the financial aspect as, you know, of course I learned that Goldman as well as, at McKinsey I learned a lot about business operations and marketing and all of that

good stuff. I also had the opportunity when I was at McKinsey to go deep in to the world of education and really study our K12 and higher education systems in the US.

And so, it was really that experience that helps me realize that an opportunity like CollegeBacker really can make a huge, huge, difference for our society as a whole. Every single parent out there individually probably is concerned about as concerned about paying for college but also us as a society we need to be really thinking about how we're going to educate the next generation.

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FT: What's unique about CollegeBacker is that it really involves your community, your friends, your family, and makes it not just something that parents have to individually solely shoulder. The unique proposition is "Look you can actually invite friends and family to contribute to this." Is that – from what I understand that's one of the unique aspects, right?

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AC: Absolutely, I think this is definitely one of the big things that separates CollegeBacker from the other options out there, is that we just wanted to make it really, really, easy for family and friends to be able to give you the gift of college. So, we give you a custom link that might be collegebacker.com/abby or rather your child's name and you can share that at holidays or birthday parties or any other event and we've often seen birthday parties raise, you know, \$400 or more, just on that one shot. I think the reason that's important is because so many of new parents are worrying about so many other financial goals.

Maybe, you're worrying about how you're going to pay for just being a new parent maybe you're worrying about so many other financial goals. Maybe, you're worrying about how you're going to pay for being a new parent. Maybe you're worrying about your retirement or your emergency fund or paying off your own student loans but the fact of the matter is that they are actually a lot of people around you who want to give you the gift of college. Grandparents want to be able to jumpstart the college or friends and family might not want to go and stand in the toy store and

pick a random piece of plastic and instead would much rather give you this really meaningful gift of college savings and we just wanted to enable that.

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FT: But, still a quick 101 for anyone listening who's maybe new to the 529 world, I get questions often on Ask Farnoosh like, "Is it worth it?" Because there are some risks and if you believe that say, your child may not go the traditional track and go to college and frankly I don't think that's a negative. I think the way the world is shifting and the way that we're valuing a college education is changing. I don't think it's going to change overnight but I do think that it's valid when parents are like, "Well, I don't know if 529 is the best vehicle for me."

So I'll let you take the mic and tell me first, what is a 529? I know, but some people may not. Why is it advantageous? And, what are some things to think about to figure out if this is actually the right vehicle for you as a saver.

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AC: Yeah, actually most parents have no idea what a 529 is so I'm really glad that we're starting here. The data shows that over 70% of parents have never heard of a 529 and less than 10% of parents are actually using one, even though you and I were probably agree that this is an amazing tool to save for college. So, a quick 101 of 529's – you can essentially think of it as a Roth IRA but for college. So, it's an investment account where you put in post-tax money and then that money grows completely tax free and withdrawals are tax free as long as you are using it for higher education.

So, the main benefits of using a 529 are those investment gains and the tax benefits on top of it. In addition to that, 529's are actually surprisingly flexible so it's true that it really should be for higher education but the categories are pretty expensive. So of course it includes tuition, it also includes room and board, it also includes books, it also includes computers and related equipment and it can also be used for variety of different higher education institutions, so that includes public and private schools, in state and out of state, community college, some trade schools, undergraduate and graduate.

So, there are a lot of different forms of higher education that can be included, it's essentially anything that qualifies for federal financial student aid. That means that of course there are concerns around, you know, "What if my kid doesn't go to college or any of those forms of higher education?" Any money that you put in to the 529 which is, your original contribution or the principal you can actually withdraw that money without any taxes or penalties at any time. However, if you want to withdraw the gains for something else, let's say you want to take that money and go buy a car for example. Then, you would have to pay taxes on that and penalties.

But there are some ways to avoid those tax and penalties even if your child decides not to go to college. So, for example if your first child decides that they don't need that 529 money anymore but you have a second child that is planning to go to some form of higher education, then you can transfer the funds to the second child by doing a beneficiary change. And, you can change the beneficiary to anyone in your family including yourself, if you wanted to go back to graduate school or something like that.

Another important exception is that if your child earns a scholarship you can also withdraw the amount of the scholarship without incurring any penalties. So if you have a brilliant kid that gets full ride to school and you don't need any of that money anymore you can still take that out and you won't be penalized for it.

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FT: Oh, I didn't know that.

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AC: Yeah.

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FT: It's good to know. Yeah, give us some smarty pants kid who, you know, gets a whole ride or partial a scholarship and then you've got this, you know, overly funded 529 –

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AC: Which is great when it happens.

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FT: That's a good tip. Alright, so obviously this is important. I didn't realize that a majority of parents didn't know what 529's are and how they function, that's crazy. Alright, Abby tell us a little bit more about your background in terms of like going way back so we know you're professional background but, you know, what was your childhood like? Did your parents save enough for your college?

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AC: Yeah, this is a great question. So, I was really fortunate when I came to college because I did manage to get a significant scholarship and then my parents did have a small 529 for me that helped with room and board and things like that. So, that's another pro tip, even if your kid does get a scholarship, remember that there's a lot more to the cost of college than just tuition.

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FT: That's were there really ahead of their time. I feel like my parents, well, I don't know if my parent's generation really have 529's. I feel like this is, kind of, a new area of focus, right? Because obviously college is getting more expensive, parents really ever have to save, you know, 20 years ahead of schedule.

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AC: Yeah.

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FT: To send their kids to school.

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AC: Absolutely, I mean 529's are a little bit of a new phenomenon, so it's been I want to say it's been about 20 years of 529's have been out there but the cost of college has completely changed, you know, over those past 20 years. So, once upon a time you would be able to pay for college just with, you know, cash flow from the parents or doing a part-time job and working over the summer things like that. But, today that's pretty unrealistic for most families and as a result, we have a \$1.4 trillion student loan crisis.

So, it's a very different world today and so one way of thinking about it that I always like is going to college or paying for college used to be like buying a car but now it's like buying a house – you have to plan in advance.

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FT: There is this resistance to just reporting it through student loans, that was the mentality when I was applying to college and high school. I would look at these price tags for school come home and talk to my parents about it and there like, “Yeah, that's just not happening, if you get in to this school that's great but if we have not saved enough for you to afford this in the clear...” and I was like, “Don't worry mom and dad our – my teachers said, that there is this thing called, the student loan.”

And my middle eastern parents who don't really have – they didn't have any debt except for the mortgage or like – that's not our protocol here. We don't just leverage opportunities by going in to debt. And so, that was our household that wasn't every household obviously now we have huge student loan problem. I think people are waking up to the fact that should not be, kind of, the first way of attack to attack college cost.

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AC: Absolutely, I think that today, you know, where realizing the cost of student loans essentially and now, you know when folks graduate from college with an average of over \$30,000 in debt. We're realizing that really puts a big damper on your options, right? So, when I graduated from college I had the opportunity to work at some amazing jobs but then afterwards, you know, I decided to become an entrepreneur and build my own company. I think if I have those mass of student loans paying over me I wouldn't be doing what I'm doing today.

Similarly, when I look at my friends who graduated with me who are very smart, very capable, very highly educated as well, they would like to be doing something more entrepreneurial or doing something on their own or following their passion but they don't have that opportunity right now because they need to focus on having the various – the solid paying jobs so that they can payback those student loans.

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FT: It's an interesting time to be a female start up entrepreneur, founder, in the Bay area in Silicon Valley. Indulge us – tell us a story behind the scenes of some, sort of, friction you came up against or tension or challenge or, you know, anything that you overcame ultimately or that you feel was a really great lesson learned. I think those are – those stories we can't get enough of these days.

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AC: Sure, so it's definitely a contentious topic and I will say that for the most part I feel like I've always been fortunate and working with really supportive men and women in any of the roles that I've had. Whether it was even being an investment banker at Goldman or consultant at McKinsey and now being an entrepreneur in Silicon Valley. But, of course, like you always have a few bad actors and, you know, I've had an experience where we were at, and event talking to various investors at a happy hour and then, you know, progressively one of these investors just continued saying increasingly inappropriate things to me as the evening wore on. And eventually I had to obviously remove myself from the situation and in retrospect, nothing terrible happened from it obviously.

I had a really terrible taste in my mouth in that, kind of, ruined my evening but I think the most surprising thing was that when I spoke to people and they would ask me a question like this at first I felt almost, embarrassed and ashamed of it because I felt like somehow this was a reflection of a weakness of mine and, you know, people would say, “Oh like, why didn’t you push back or why didn’t you do XYZ.” But now that I’ve had a little bit of distance from it, as I think back on it, I don’t feel that there’s any reason for me to feel embarrassed or ashamed or any of those negative feelings.

I think that, you know, that guy ought to feel embarrassed and ashamed of himself and I’m really impressed with the way that other women have spoken out about different things that have happened to them. I love that these things are, you know, coming out in to the open now and people are being held accountable.

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FT: Yes, absolutely well you definitely took the high road and as I say sometimes, you know, when I have friends who come up to and like, “That guy...” it’s always “That guy,” it’s always “That guy.” There’s always story about that guy who did that or whatever and I’m just saying like, let him be the wind beneath your wings. Let that experience give you first of all, you know, the that I kind of like the fact that he like to issue – to whatever I don’t, you know, to go to the details but the fact that some men sometimes target women is to your credit like you’re that great that they focused on you.

You know, like Salma Hayek’s in the New York Times about how Harvey Weinstein just tormented her for all those years and she obviously did not deserve it. But at the same time, he targeted her because in some ways, he knew she had potential, right? She totally did and I think that somehow made her stand out and unfortunately become a target, again not to her deserving, but it’s almost like let that be a sign that like you have what it takes and you’re worthy and this person is not worth your time but like almost flip it, right? Flip it and think about “If this person is paying attention to me means that I actually have potential and I’m going to use that as fuel on my fire.”

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FT: Yup, and I also think that even though we're on an environment now where we are talking about this stuff and I think it's really important that we talk about this stuff. It's also something that we can't let weigh us down, we can let this weigh us down too much, right? You know, when I wake up in the morning what I focus on is running my business and not all of this other stuff and so, I deal with it, you know, if and when it comes but I've got bigger fish to fry and more important things to work on – like helping families save for college.

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AC: Yes, yes, what's your So Money moment Abby? You know, a time in your life where you felt like you really achieved something financially awesome and the stars aligned you worked hard for something that paid off.

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AC: Yeah, I think that my So Money moments have been around negotiating actually and this is something that I've constantly tried to work on and it's something that certainly doesn't feel natural to me. I think as women we find it really difficult to really advocate for ourselves, even though we probably should and one very specific example was that when I was a consultant because I was an entry level consultant, they had a benefit where they would consider sponsoring your graduate school if you were an emerging consultant. But that wasn't an opportunity that was afforded to more senior consultants. I was actually offered a promotion but I was considering turning down the promotion because I thought, "Oh well, I really want to keep this benefit of potentially supporting my graduate school."

And so, I was about to turn it down when I spoke to one of my mentors and she just looked at me like I was crazy and she was like "Abby, that rule is stupid, you should just tell them that you want to be able to go to graduate school and you want the promotion" and I was like, "Oh, okay, I didn't know that I could do that." So, she kind of helped me navigate that process and then I eventually got both and all I had to do is ask and ask them right away, you know.

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FT: Yes, break those rules.

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AC: Exactly, exactly, they were all just made by other people, so.

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FT: Yeah, and I mean all those people where men. Another stereotype but I think that, you know, women young girls do great in school because – and better than boys statistically, I mean more women are going to college, more women get A's I mean at school, it's because we are really good at following the rules, right? Schools is like – we thrive at it, we raised our hands, we participate, it's totally at least traditionally it's very much like it placed to our strings. But in the real world it's good to break rules, it's good to like, color outside the lines and speak when you're feel something passionately and not maybe when you're called upon, you know, just to be the fore font of your own ideas. I think that's something a good lesson for all of us men and women but I think particularly for women's since we're not really socially conditioned to do that.

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AC: I couldn't agree with you more especially, you know, hate to extra stereotype but especially as an Asian American woman. I definitely think that I always really valued, you know, contributing in the right ways and following the rules and doing things properly and as, you know, an entrepreneur, it's really paid for me to learn to experiment a little bit more. And of course like, there are some rules that you absolutely need to follow in the financial services industry, we have to be really careful, right? But, in terms of thinking big and being creative and designing things that are new you can't restrict yourself that way.

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FT: And so, needless to say you got the promotion and the ability to back to grad school, right?

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AC: Yes, that's right.

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FT: Well, so much is changing in terms of how people, kind of, look at college as what the value is and the cost to college is increasing but at the same time I feel like a shoe has to drop the cost of college cannot continue to rise the level that it has. Especially since we have some institutions that are graduating students without the ability to get jobs or are not doing their part to make sure that students that are graduating to be able to go out there and pay off those student loans. So, what's your crystal ball telling you?

Since you are entrenched in this industry so much more than the rest of us, what's your crystal ball showing in terms of where there is various aspects of college are heading, the cost, the perception, how we're affording it.

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AC: Absolutely. So, as you mentioned at the top of the podcast, the cost of college according to current projections is set to double again in the next ten years. But, meanwhile we also know that the value of a college education is enduring. The typical college grad earns about one million dollars more in their lifetime than a non-graduate and again as a society we need more smart educated people who can do high skilled, really interesting, creative, innovative work. And so, I definitely see this tension here that current trends are unsustainable and we as a society need to find a way to address this.

One cautionary thing that I would say is that for many parents when you look at this landscape it can be very overwhelming and that feeling of being overwhelmed can sometimes cause you to just procrastinate or not take action, right? And, I think that's exactly the wrong approach so from my perspective I do think that the value of higher education is enduring and that regardless of what happens in the broader landscape you're never going to regret having some money set aside for your child's education so that you can help your child continue to invest in themselves

and gain new skills and new experiences that are going to allow them to pursue their dreams on an on-going basis in their future.

And then, I also think that from a broader societal perspective, there is an appetite for these new forms of higher education as well, right? So, even a few years ago in the prior administration the federal government was doing a small experiment of expanding the categories of institutions that would qualify for federal financial student aids.

So, that they might include things like the Coding Boot Camp or other in none traditional forms of higher education and now the government is also considering expanding the categories that a 529 can be used for potentially including K12 education, as well as higher education. So, I think broadly there is recognition that the current system cannot sustain and folks are trying to find the ways to correct that and make the higher education landscape and higher education financing landscape, reflect the new dynamic global society that we live in.

But, I think that the most important take away for a parent is that hey, if you believe that a lifetime of education is valuable and that your children will be able to benefit if they have the opportunity to continue learning throughout their lives, then it make sense to get started saving for college in the best ways that you can.

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FT: Well, I didn't realize the 529 was expanding in terms of what it would cover, that's encouraging.

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AC: Absolutely, yeah so we are recording this in December and so it could be that by the time you're listeners are hearing about this that there has been major legislative change already. But essential the thing or the change that's being proposed is expanding a 529 to allow spend on K12 education and specifically the categories there aren't finalized yet but you could imagine and including of course private school and home school but also other forms of additional education that any family might use. So maybe some additional online course work or a summer

school or other enrichment programs, all of that is a bit to be determined but definitely could be an exciting opportunity for a lot of guys.

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FT: Oh my gosh, that is music to my ears because the price of private school in New York City is more expensive than what I paid for college.

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AC: All kinds of scary education costs these days unfortunately.

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FT: Yes, yes, yes, Abby, thank you so much for stopping by this has been a really helpful episode especially as we kick off the New Year I know some parents are looking to refrain their financial goals in 2018. No one ever said, "I wish I hadn't save so much money ever." No one ever says, it's always "I wish I had saved more." So I think it's great to have tools like CollegeBacker enable parents to save more and also and enlist the help of friends and family and yes I do this, I do this by on my own. I just say, my mom's like, "What do we get the kids for Christmas or birthdays?" And I'm like, "Just send me a deposit for their 529." And a little bit goes a very long way especially when you start early.

Abby thank you so much and Happy New Year to you.

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AC: Thank you.

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