

EPISODE 1153

*“**RL:** Think about the kinds of questions you might ask about a \$300,000 house, a little of a \$600,000 house, or a \$900,000 house, or a 1.9 million dollar house. This purchase involves our children and their future. We should be asking approximately 17 times more questions about this, than we do about the home purchase, but we don't, right?”*

[INTRODUCTION]

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FT: The average price for a private university in this country, ladies and gentlemen, \$300,000 a year. That is the latest. If you have a child that's going to be going to college in the next 10 years, in the next 20 years, well, might want to double that figure. Today's episode is all about how to pay for this big-ticket expense, how to value a college experience and is it all really worth it?

Welcome to So Money, everybody. I'm your host, Farnoosh Torabi. Joining me today is I'm very excited, Ron Lieber. He is the Your Money Columnist for the New York Times. He's out with his latest book called *The Price You Pay for College: An Entirely New Roadmap for the Biggest Financial Decision Your Family Will Ever Make*. That is for sure. It is a six-figure cost.

Ron and I discuss, how did we get here? Whose fault is it that tuition costs so much? What are some ways that we can better afford college, in addition to of course, saving for it, like the 529 and filling out FAFSA, what are some other ways, some creative ways that we can come up with money? What are the discounts that schools are offering? Have you ever heard of merit aid? It's a relatively new phenomenon and it's a little bit controversial. Ron breaks it down.

If college is in your future, whether it's your future, or your child's future, you want to listen to this. You want to pump up the volume. Here's Ron Lieber.

[INTERVIEW]

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FT: Ron Lieber, welcome back to So Money. It's so nice to have you on the show and with so much great information you're going to unpack.

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RL: Thank you. It's a pleasure to be back.

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FT: Okay. The latest book, your latest and greatest, in addition to your big job, the New York Times, helping everyone navigate their finances. You have a book out now called *The Price You Pay for College*. You write, this is the most complex and emotionally fraught financial decision that many families will ever make. I agree with that. My listeners agree with that. If I told you, I didn't check our kids' 529 college savings balances every day, Ron, I would be lying.

My kids are six and three, I think you're going to tell me, I'm not neurotic, right? We're going to get into what is appropriate planning. Firstly, how did we get here, where we have tuition rates? Let's just use a four-year private university as an example, around what? \$300,000, which is about the price of an average home in this country. What is driving the price of college to this point?

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RL: Well, it's not cheap to do this well. The thing that people tend to seize on, the climbing walls and the lazy rivers and the fancy buildings, that is not the majority of the expense. It turns out that these colleges are expensive to run, because the people who make them great are themselves expensive. If you want to become a professor, you spend at least five years in graduate school. People who spend that much time training expect to be compensated.

There are more administrators for every thousand undergraduates than there were a generation ago, when today's parents were in college. That's for good reason. It's because we want more

people in positions of authority to make sure the Internet network is functioning and make sure that the career counseling is up to snuff and make sure that the mental health counseling system works better than they did when we were in college 20, or 30 years ago. We want to make sure that people are following the regulations, that people from low-income backgrounds and people of color feel more comfortable than they did even 10 or 20 years ago. All of this costs money, because the people who are good at these things require a salary and benefits.

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FT: I shouldn't be upset. These are all good – I can get behind these reasons. I can get behind, okay, it's expensive because we're putting money towards human capital.

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RL: Sure. I mean, if you believe what the Wall Street Journal editorial page has to say about this, is that these schools are beset by administrative bloat that comes from the fact that the schools are overly woken, paying too much attention to diversity and whatnot. It turns out that we get the regulations around equity that we vote for. We got Title IX, because we actually wanted women to have an equal place on undergraduate campuses.

If you don't like the regulations that allow, say, someone with a mental health condition to thrive on a campus, then in a way that they might not have a generation ago, you can go vote for that at the ballot box. We have the regulations that we ask for via the politicians that we vote for. If we wanted something different, if we wanted professors who were paid less, if we wanted fewer administrators, I don't know that we would necessarily like the product that would result from that, particularly because it is a product that we are delivering to our kids.

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FT: Later on, I look forward to learning more about the experiences that we should be looking for in college. I really love your book, because it really challenges families to think about value in a way that maybe they hadn't before. You did some phenomenal research. Let's talk about planning, because I have a lot of listeners, Ron. I'm sure you get a lot of people writing in,

asking whether it's "insane," neurotic to open up a college savings account for a yet to be born child. These are real people out there, worried, panicked. They're not even parents yet. They have prioritized college savings.

I think, you're in the camp of encouraging families to begin this conversation earlier than they might. What is the best first step, or what's your first bit of advice for people who are just embarking on this idea of planning for college?

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RL: Sure. Well, I think the first step is to sit down with your spouse, if you have one, or your ex if you have one of those, and try to get on the same page and say, "Look, what do we have in mind for a goal here?" Maybe even to take a step back from there, to have a real conversation, maybe one that's different from the ones that you've had previously about what you really valued. Not just about the experience you may have had as an undergraduate and the training you got as a college student, but about how it felt when your parent, or parents did, or did not pay for the whole thing, or none at all.

Do you want your kids to have that same feeling that you did? Or do you want them to have a different feeling entirely? If you do want them to have a different feeling, is that actually a reasonable goal? Do the two of you, if there are two of you, actually agree on these things? You can't make a plan, until you're in alignment on the overarching goal and the kinds of feelings that you as parents and also, you want your kids to have about this process in the first place.

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FT: Preparing your kid is also really important. I know when I was going through this process, it was an abrupt arrival. It just fell on my plate. My parents, both immigrants, although very much wanting me to go to college, did not save for college and didn't even think that I should go anywhere, except for the state school. They hadn't communicated this to me. I was getting all the applications from the Ivy Leagues and the private schools and they were like, "Oh, what? We can't afford this."

It was this very rude awakening for me. I do fault them a little bit for that. We got through it. What's your advice for parents and their eighth graders, or ninth graders? What are the conversations you can be having at that point that won't freak anybody out? Because what I what I remember most about that experience for myself, Ron, was that I felt like, they had pushed me to work so hard throughout my years in school, especially in high school that if the "plan" was to not save for me and just maybe have me go to the state school, I could have maybe stress a lot less about my SATs. I could have more fun in college, mom and dad. That's for the therapy sessions. Tell me what parents should talk to their kids about.

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RL: I think it's only fair that someone starting high school have a basic sense of how the system works, in terms of what schools cost and the ways in which they give out discounts. That it's only fair that the parent or parents who are involved have the beginnings of a conversation with that kid, about what they believe that they will be able to pay for and what they believe that they will be willing to pay for. It sounds like in your household, there might have been a disconnect between ability to pay and willingness to pay. Then, there also might have been a disconnect between the parents and the child about what the child thought she might have been working for.

Now that said, I never want to cast too much blame on parents, because this system is enormously complicated, it often catches up with people very quickly and then bites them in the ass. It is not their fault. It is not their fault that the system is so complicated and hard to understand. Talking about money is difficult and talking about money with your children is challenging. I acknowledge all of this, but I do believe that the right answer to the question is to start earlier, rather than later, so that everybody knows where everybody else stands on the matter.

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FT: I think you're right about while you want to understand your own experience and what you valued about that, you also have to meet your kid where she's at, or where he's at and what are their goals. I know in 8th grade, you don't know a whole lot. I think, it's worth checking in 8th

grade, 9th grade, 10th grade, because the right college out there, which we'll get to is not always what you think. It requires an exercise in really knowing your kid and what they need.

What does planning for college really entail, or should entail? We often talk about 529 plans and filling out FAFSA. You say there are many ways to save for this expense and you include roping in grandma and grandpa into the equation.

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RL: Sure. We can break this down into three parts. We can talk about what to save. We can talk about how to save and we can talk about who's doing the savings. The what to save is – this is an expression I first learned from Carl Richards, the financial writer who is the author of the *Behavior Gap* and wrote the Sketch Guy column for The Times for a long time. He's always going around the world saying, “Save as much as you reasonably can.” That's always the right answer. Save as much as you can and don't beat yourself up if you can't save anymore.

If you really want to put some numbers to it, I talked to a couple of Kevins who are financial planners; Kevin Mahoney and Kevin McKinley for the book. They have different versions of the same general approach. The McKinley plan is to think in fractions. We're going to save a third of this, we're going to take a third of the expense out of current income during the four years and we're going to borrow a third. Or maybe you divide it into quarters. Maybe you save a quarter, the kid borrows a quarter, you borrow a quarter and then you spend a quarter out of current income.

Something like that gives you an anchor. If you are saving for a state university, or you only plan to spend \$25,000 or \$30,000 a year, you can get to that savings goal with maybe a 100 bucks a month, if it earns 6% or 7% over the next 18 years, if you start when the kid is an infant. You got to decide what to save.

The Kevin Mahoney plan is a little bit different. He's often working with clients who still have student loan debt of their own. He asks that every time they get a little extra money, or they pay down a debt, they take whatever they were putting towards the previous expense and just start

tossing that at college savings. People often catch up by using that method. That's the what to save. There's the how to save, which is usually 529 plans, but it doesn't always have to be.

As you've probably discussed before, 529 plans have a whole bunch of tax advantages. They are nice for people who live in the 30-some states, where you get a state tax break for the money that you put in. Then everybody gets a federal tax break on the way out, because the money that has grown, often over 20 years in these accounts, comes out free of capital gains, taxes, as long as you use it for higher education expenses.

Mine has been sitting around for 16 years now and those were some really good years in the market and there are a lot of taxes that I'm not going to be paying and I'm really happy about that. You talked before about the fact that you're constantly checking the 529 balance. We both know that that is not good financial behavior, to be watching your returns every day. There is something about getting that 529 statement, which I still get on paper. That makes me feel really good about myself. Not so much because the figure is going up or going down, but because I know that I am doing something great for my kid by saving as much as I reasonably can.

Then there's the who. I'm a big believer that you should have an open and forthright conversation with grandparents, if there are any in the mix, and just say to them, "Look, this thing is crazy expensive. It costs way more than it did back when you helped me go to college myself. There's a pretty good chance that we're not going to be able to pay for the whole thing just out of savings, or just out of our income. Anything that you can do now to help would be great. We want you to take care of yourself, but if you are inclined to help, helping now while the money has time to grow and compound, would be a great thing."

If the parents if the grandparents don't have any money to spare, great. If they can help with child care in the early years, which gives you the ability to work a side hustle and put that much more money away, that's an equally great contribution that the grandparents can make.

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FT: I love that. I was pleasantly surprised when sifting through your book, and I didn't know this. Maybe this is a new thing. I don't know if that was reality when I was applying to college, but the sticker or list price is not often what families end up paying, because universities and colleges

will sometimes discount and give applicants, whether that's through a scholarship, or grant, or a Merit aid, a discount that significantly reduces the price.

First, I want to learn a little bit more about this, but then is it also to suggest to families that we don't have to narrow down our search just based on price, that maybe there is that opportunity to go to your dream school for less, but how do you even know that until you apply?

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RL: Well, this cuts to the very heart of the matter. One of the things that I find so problematic about the way the system works now is that this is arguably the biggest financial decision families will ever make, particularly if there's two or more children involved. It's an incredibly large number potentially. You go into the process and you don't know until the very end what it is that it's going to cost. Often, it can be a \$100,000 less than what the list price was, even if your family is wealthy. How can that be? What is going on here?

Well, the thing that's changed dramatically since today's middle-aged parents were in college, was that this whole new of financial aid and discounting has emerged. Back in the olden times, financial aid was based almost entirely around need. If your income was low enough, if your assets were too few, if the school could afford to help you and it wanted you to come badly enough, it would give you some aid, and so with the federal government. That was relatively simple.

What's happened since then is that schools have started offering what's become known as Merit aid. This started with \$5,000 or \$10,000 discounts given to the very top students, to try to keep them from going to more selective institutions. Because if they went to the less selective institutions, those less selective institutions would have better statistics to report to US news, so that they could rise in the rankings, so they could attract even more attractive students. Which is all well and good, until the university down the street catches wind of the fact that you're discounting too.

Then within a generation, all but the 40 or 50 most selective institutions in the country are now offering these discounts that have nothing to do with need. There are all sorts of families who

earn \$300,000 a year, who are getting a \$100,000 in discounts, from schools like Oberlin and McAllister and Occidental and Whitman and the University of Alabama. Great institutions, who do not need the money. But because there is this marketplace for above average students at any given institution, you can get these crazy discounts and there is often, no way to predict whether you will get them.

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FT: Yeah. Merit aid is problematic in the way that you have discovered. It obviously goes against the goal of being equitable, which a lot of these schools strive to be, what's the consequence, or can we work towards a better system?

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RL: Well, to try to answer the consequence question, it can be hard, because it is never clear from the very limited data that exists, what trade-offs any institution is making in any given year. When it gives out Merit aid to a wealthy family, does that necessarily mean that there is less money left over for low-income families, who then don't get into the school at all? Or is it possible that by giving a \$20,000 discount to a wealthy family, the school brings in that many more students who are still profitable and they can use the tuition that they do pay to cross-subsidize lower income families? We don't know the answer to that question and the schools aren't telling us.

All we can be is deeply suspicious of the fact that this is so intensely opaque. Now, you can find out what percentage of students at any given institution are qualifying for Pell grants, like what percent are truly low income. That's something you can find in what's known as the college scorecard data. We can check on this stuff and we should, because diversity should be important to us. All of the best research in this area comes to the conclusion that students thrive, all students thrive by learning in diverse environments. These are things that we should absolutely check up on.

If we wanted to rid ourselves of this system altogether, it would require the collective market movement away from this discounting. That would almost certainly and in fact, has in the past more than once, raised the eyebrows of the anti-trust authorities at the Department of Justice.

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FT: Well, that's increasingly, we are starting to look at colleges with more of a, I don't know, more scrutiny. I think that 2020, with everyone going virtual, a lot of students going virtual and really questioning the "value" of a college experience, I think that was a healthy thing in some ways, because – and I want to know. In your in your research, did you discover some schools that are better off not being in business anymore? Because, I think there are some schools that might be better off going away, because they're just not delivering.

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RL: Well, I'm making a mental list in my head of the schools that have gone out of business, or have had near-death experiences in the last couple years. I don't feel like, I know enough about their specific market offering to say for sure whether they deserve to die. To me, the most interesting part of what feels like it might be the beginnings of a shakeout is the schools that have had near-death experiences and then have come back from the dead. Hampshire, Antioch, Sweet Briar College.

If you pay a medium amount of attention to higher education, you know something about these schools. You've heard of them. They all actually offered a pretty understandable position in the market. These school these are schools that stood for something. They may not have stood for things that as many people wanted as they used to, but these were institutions that should have been able to attract some student body, some sizable student body, such that they were able to make it work.

What ended up happening, was that in most of these cases, it was the alumni that came out of the woodwork to fight for the survival of the institution. I think that tells us something important. Because one of the things that people seek when they select an undergraduate education is

that they're looking to find their people. They're looking for the friends who will carry them up and through life. They're seeking a kinship right.

When an institution has a near-death experience, it almost can feel like, if you're part of the alma mater diaspora, that a part of you is dying too. People seek a sense of belonging. They want something to belong to. In some sense, they want a label to attach to themselves. To me, the fact that it is very hard to kill a college harder than we think, says something about how we value what they stand for in the first place.

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FT: I appreciate that. It transitions us well into my next question which is you spend a lot of time in the book encouraging readers to think deeply and more broadly about what a college experience means. As a student going through today's world, what does a college really – where can a college really show up for you and be a support system for you and be a launching pad for you? The question you ask in the book that you want your readers to ask themselves is what are we buying into, which to some extent is subjective, but could you talk a little bit more about how to walk through this exercise and what maybe universally these days really does matter when it comes to that college experience? You mentioned diversity, which I hope is on everyone's list. What are some other things?

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RL: Sure. Well, I think the first thing that people have to do is they have to ask themselves, what is college in the first place? Not to get all existential on it, but what is the actual point of the exercise? I wasn't sure what the answer to the question was, so I just kept asking it and asking it and asking it and I kept hearing the same three things over and over. People go to college for the education. They go to college for the kinship and the friendship. They go to college for the credential. Maybe it's the credential that gives them a firm grip on the middle-class that they might not have had previously. They can become an accountant, or a teacher, or a nurse and get a firm hold on a run of the social class ladder that maybe is higher than they were before. There's that part of the credential.

Then, some people are reaching and striving for more of a gold-plated name brand, either a degree from an institution that will open doors that might not have been open to them previously. That's the stuff that people are shopping for. You have to ask yourself, what is what is my definition of success and how much is enough? Once you know among those three things what you're really shopping for, then you can go down a longer list of things that might be worth paying extra for, above and beyond what your state university costs, but you have to ask a lot of really careful questions about each of them.

It's everything from what schools, or what programs within the school will lead to higher salaries, or lower salaries? Which institution is going to give me the best odds of getting into grad school, if I happen to be one of these 17-year-olds that just knows that they want to be a bench scientist with a chemistry PhD?

How much is size going to matter to me and if I know I want a smaller school, what is the best data to use to try to measure how small the experience will feel? What about amenities and which ones are important to me and which aren't? Are there going to be actual teachers in the classroom, or is it going to be adjuncts, or graduate students? Does the school have any way at all of measuring, or proving how much progress students actually make in terms of what they learn?

It turns out that these institutions know very, very little about how much actual learning is going on, which is astonishing. What advantage might there be to going to a single sex institution, particularly if I am female and particularly, if I'm interested in science? You might guess that there are some outsized benefits to going to a small single sex institution, if you are a woman who is interested in science, and on and on and on.

I try to give people a list of questions in each of these categories, that they can take with them on their shopping expeditions, in order to end the process as a more informed consumers, so they can decide for themselves when if ever it is worth paying up to \$200,000 more than whatever their flagship state university costs.

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FT: The other takeaway that I got in reading this in your book is that you really want to encourage families to feel empowered and know that it's okay to ask these questions, where I think the positioning of colleges for a long time has been like, "We're the best. We know what we're doing. If it's not on our website." You almost feel it's a nuisance asking these very specific questions, or you don't want to be a bother, but this is our job as families. We have to do the investigating, because it's not just all going to be put out there.

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RL: Right. I mean, think about the kinds of questions you might ask about a \$300,000 house, a little \$600,000 dollar house, or a \$900,000 house, or a 1.9 million dollar house right. This purchase involves our children and their future. We should be asking approximately 17 times more questions about this than we do about the home purchase, but we don't. Now, why don't we do that? Well, for a whole bunch of reasons.

We feel like we're supplicants in this relationship, where we're the ones begging for entry. The fact of the matter is that the vast majority of undergraduate institutions are hurting for students and they're not sure that they're going to make their number each year. Another challenge is that, oftentimes the best place to and the best time to ask questions of the expert is when you're on campus visiting a school. If you're in a group information session, or you're on a tour, way more often than not, your kid is with you and they're going to punch you in the ribs if you get too pointed and pressing, because they'll feel like you're embarrassing them.

One of the best things I've seen. I took dozens of these tours over several years, just to see how this information was being presented and also, what was being left out often deliberately. The thing that I love that's starting to happen at a few schools is that they separate the kids from the parents. The parents can ask all of the annoying questions that they want and the kids don't have to roll their eyes.

The other thing that blew my mind, once or twice, I ran into high school juniors who were just out on their own, in their car at age 16 or 17, sometimes with a friend who were just touring the schools without their parents at all. I thought that was awesome. Yes, we should be asking more questions. Yes, I understand, sometimes it feels like it's hard. If you're embarrassed by it, maybe

wait until your kid hopefully has a whole collection of acceptance letters and then really ask, because nobody's going to yank the admissions offer away, just because you have 15 pointed questions. I actually think that if you don't have 15 pointed questions, you're probably doing it wrong.

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FT: You mentioned earlier about women's colleges, Ron. I just want to highlight, because I love that chapter about Smith College and your breakfast with the president of Smith College, a woman's college and the quote that she said. It's a four-year intervention, where students see that women can lead. It gave me goosebumps, because I know that I got the pamphlet for Smith College. I lived actually down the street from Smith College. Sorry, I lived down to from Bryn Mawr College, which is another women's college. I just never um considered a women's college, because I just had this perception that it would limit my experience in school.

That chapter really opened my eyes and I have a daughter and I'm excited that maybe she would consider one day a woman's college, because I see how it's so valuable. It can be so valuable.

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RL: Yeah. I'm so glad that spoke to you. I am the father of two daughters. All I really ask of people is that they go into this with an open mind and going into this with an open mind, just means considering it as a possibility. Somewhere along the way, if you happen to be near a woman's college, sometime during the four years before your daughter applies for college, just go take two hours and check it out. Pick up a little literature, sign up for an e-mail list, just think about it. Just think about it. I just want people to have an open mind about it.

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FT: Ron Lieber, thank you so much. The book is *The Price You Pay for College*. Parents or parents to be, grandparents' kids, pick up this book. I'm telling you, I've covered personal finance for 20 years. I've interviewed a lot of people in the college world, the personal finance

world and the information is very scattered, but this book puts it all in one nice, neat resource. It's a great read. Ron, congratulations.

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RL: Thank you so much for saying so. Thank you for having me.

[END]