

Balancing Brand-Name College With The Cost | Biz Brain

By Karin Price Mueller | NJMoneyHelp.com for NJ.com
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Q. My daughter got into several colleges. Of course, the one that's the most expensive is the one she wants. How can I convince her the brand name isn't as important given all the debt she would have if she goes? -- Balancing Act

A. A. Choosing the right college for your student requires a lot of planning, and a lot of money. You also have to use your brain instead of rely on your heart.

"Teenagers and parents often become emotional when choosing schools," said George Kiraly, a certified financial planner with LodeStar Advisory Group in Short Hills. "It's important to keep those emotions in check, weigh the costs, crunch the numbers and make smart decisions, before your children commit to a future of potentially life-altering debt."

Before kids even apply to colleges, parents should have a conversation with them about affordability, Kiraly said. If you can't afford it, there's no reason to let them apply to their "dream" colleges.

"The dream should be their future lives and careers - not four years in a brand-name college and crushing debt," he said.

Kiraly said parents shouldn't jeopardize their retirement and financial health to pay for high-cost schools. It's simply not worth it, he said.

Here is what every college-bound student needs: A plan.

"Talk to your daughter and have her think about what kind of career she wants," he said. "Then work backwards, planning what major she would need, how much she can expect to earn and how much student debt she could afford."

Also think about the return on your investment.

He said you shouldn't take out an enormous loan for a degree that won't land your daughter an equally enormous income. A good rule of thumb is that the total college debt for her entire education should be less than her expected starting salary after she graduates, he said.

He offered some additional talking points you should have with your daughter to help you make the appropriate family decision.

"If she borrows more than twice her expected starting salary, she will likely be at high risk of defaulting on her debt," he said, noting she can't rid herself from this debt. "The federal government owns most student loans and has the power to recover these monies by garnishing wages, tax refunds, and federal benefits like Social Security when borrowers default."

A student loan default will hurt your daughter's credit score and make it more difficult for her to obtain credit cards, auto loans, and home mortgages, Kiraly said. Even if she is able to qualify for future loans, they'll likely carry higher interest rates.

And student loans are almost impossible to discharge in bankruptcy.

Additionally, studies have shown that education debt can also have a big impact on a college graduate's lifestyle - for years after graduation, he said.

"Students who graduate with excessive debt or who default on their loans are more likely to suffer mental health issues, including depression," he said. "When financially stretched to the limit, graduates often postpone getting married, having children and buying a car or a home."

The bottom line, Kiraly said, is that college tuition for the average family has become a major financial burden.

"Massive student loans can wreak havoc on your kids' lives," he said. "You should put a game plan together and have frank discussions about financial affordability early in the admission process, which will lead to smarter decisions and a better outcome for the entire family."

Email your questions to Ask@NJMoneyHelp.com.

Karin Price Mueller writes the Bamboozled column for NJ Advance Media and is the founder of NJMoneyHelp.com. Follow [@NJMoneyHelp](https://twitter.com/NJMoneyHelp) on Twitter. Find [NJMoneyHelp](https://www.facebook.com/NJMoneyHelp) on Facebook.

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