

Summer Break

June/July 2018

“Just because you can, doesn’t mean you should.” – Unknown

Our son Cole recently returned from his first year of college and, aside from telling us how much fun he had (hopefully not too much!), said how thankful he was to be a Colorado State University student. We believe his thankfulness stems from the fact that he not only had to gain admission to CSU, but also find and receive a certain amount of scholarship money. You see, unfortunately for Cole, both his mother and father are financial advisors who told him they would only pay a certain amount and that he was not allowed to take out student loans. We believe that just because you can, doesn’t mean you should – so we were unwilling to overpay for a college education, much less let our son go into debt and become part of a massive wave of debtors.

The statistics are ominous: at the end of May, there were over 44 million people who owed \$1.5 trillion in student debt; this is a \$29 billion increase in just the last quarter alone, with over ten percent of debtors at least 90 days delinquent or in default (Forbes, 06/13/18). Further, the average loan debt for the graduating class of 2017 was \$39,400, which is a six percent increase from the previous year (Student Loan Hero, 05/01/18). Aside from the alarm that these figures should be sounding, the insidious way the numbers are growing is just as disturbing.

Let me give you a real-world example: when Cole applied to several different schools, most of them offered a “financial aid” package that covered 100% of his total costs; one school actually said that “he would have a 0% contribution requirement”. What none of the schools made clear was the fact that these “financial aid” packages were mostly, if not wholly, comprised of loans that he had not even applied for! That’s right – it seems that if you apply to college and have a pulse then you may qualify for student loans. And to rub salt in the ethical wound, it was never clearly spelled out to Cole how these loans worked much less how they could stay with him for years and years to come!

With the understanding that students could easily receive student loans to pay whatever the colleges might want to charge, what do you think these so-called higher institutions did? Yup, you guessed it - they raised prices, again and again... because they could. In fact, students at public in-state four-year institutions are now paying an average of \$9,970 in tuition for the 2017-2018 school year, which is a 213% increase from what was paid for the 1987-1988 school year (CNBC Money, 11/29/17). And if you think this is simply explained away by inflation, think again; during the same time period the consumer price index only increased 115% (Bureau of Labor Statistics).

So what's a person or student to do? In the words of Nancy Reagan, "just say no". Just because you can borrow money doesn't mean you should. Unfortunately, too many people think there is no limit to the amount of money you should put towards your child's education. I respectfully disagree. There has to be a cost/benefit analysis with a threshold beyond which the cost and debt burden outweighs (and overwhelms) the total earning capacity of a student that paid an exorbitant amount of money to gain that earning capacity. And there must be, one day, a reckoning. My hope is that it will not happen soon (although corrective measures can never come too soon) and that it is not too painful (although corrective measures are always painful); but again, it must happen sooner or later; to me, it's simple math that will necessarily be solved one day.

The question that might now be begged is, what is postponing the inevitable? Well, there are numerous reasons, some of which are political, both domestic and global. But another explanation might be the illusory nature of the problem itself. Not unlike calling student debt "financial aid", we now talk about debt "forgiveness" and/or "cancellation", which are dangerous terms, in my view, since the reality is that they are both ways to have the taxpayer ultimately pay the debt. So, when the Wall Street Journal reported (06/15/18) that bankruptcy judges, appointed during both Republican and Democratic administrations, are starting to make it easier to have student loan borrowers have their debt lowered or even cancelled, I wish they would make it clearer that that simply means that the taxpayer (you and I) will pay the tab (as they say, a pig in lipstick is still a pig!).

As always, please do not mistake my concern for pessimism; we remain optimistic, especially for the short term. But if we do not get serious about addressing these immense issues such as student debt, Medicare, healthcare and Social Security – much less recognize these problems for what they are – then the realist in me knows that the world will look much less generous for the future generations that inherit this mess. So maybe the best place to start is by admitting that, in all things, just because you can do something doesn't mean you should!

Speaking of which, I have recently been told that just because I can work all the time doesn't mean that I should. So, I decided to combine this newsletter for June and July and take a small writing break for the Summer. My hope is that you take a good break this summer as well and enjoy friends and family and life as it is meant to be! Take care!

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