

# FINANCING COLLEGE:

## THE RIGHT INVESTMENT IN TODAY'S ECONOMY

By Steve Syverson, vice president of enrollment

We live in uncertain times. We can never confidently predict the future, though until recently, most of us thought we had a reasonable sense of its financial direction. Our homes and retirement accounts tended to increase in value, and we expected to receive annual salary increases. Our investments fluctuated, but generally we focused on maximizing the rate of increase rather than worrying about significant loss.

Suddenly, our financial world is turned upside down. The inconceivable is happening with extraordinary frequency and magnitude.

Although most of us still have our jobs, we feel less secure about them. Our houses and retirement portfolios are worth less now than a year or two ago. But unless you are trying to sell your house, or are on the verge of retirement, the financial crisis probably has wreaked greater havoc on your expectations about the future than on your daily life.

At Lawrence, we feel these uncertainties acutely. Lawrence has essentially three sources of revenue — donations to the annual fund, tuition income from students, and income derived from the endowment. All three of these are under siege as the endowment has suffered losses and families (both those paying tuition and those making donations) are suffering either real reductions in their financial capacity or a decreased willingness to donate their resources to Lawrence because of their insecurity about the future.

The dramatic economic downturn last fall spawned numerous media stories about high school seniors forgoing their aspirations of attending a top-quality private college in favor of a less-expensive (typically public) college. While this makes a good media story, it is an overly simplistic representation of the financing of higher education today.

Private colleges and universities are strongly committed to providing financial aid to students who could not otherwise afford to enroll. About two-thirds of our current students could not afford to attend Lawrence without financial assistance, and almost one-quarter more have the cost of attendance softened by merit scholarships that were awarded based upon their academic or musical achievements. While many families are questioning

whether or not they can afford to send their son or daughter to a top-quality independent college like Lawrence, they fail to realize that their current circumstances, not their prior circumstances, will be used in assessing their financial strength. So, if their assets and/or income are lower now than they were a year or two ago, colleges will likely provide them with more financial aid than they would have previously.

Uncertainty about the future is having more impact on the attitudes of many families than is justified by the reality of the current situation. For most of us, our financial sense of security is based on three things — our job, our retirement accounts, and the value of our home. Even if we still have our jobs, if our retirement accounts have tanked and the value of our homes has dropped, we feel insecure about the future which may reduce our willingness to spend money — on education, a new car, an extra restaurant meal, etc. If a family has not lost employment, they probably can still afford to spend the same amount as they could before, but they tend to retrench because of their uncertainty, thereby causing the economy to struggle even more. If they limit the college choices for their son or daughter, they may have made a poor long-term investment based upon short-term uncertainty.

Our advice to students (and their parents) hasn't changed — don't limit your initial college search based upon finances. Apply to the colleges that seem to be the best match for you regardless of price, because you don't know what it will really cost until you have received whatever offer of merit or need-based aid each college can provide you.

The business of college admission is always uncertain. The number of students to whom we will offer admission is based on our prediction of how many will accept our offers of admission. That prediction is based on history, but it is always a roll of the dice, because it assumes this year's crop of students will behave similarly to last year's. This year the uncertainty is amplified because we have no recent history that helps us predict the likely behavior of families under these economic circumstances.

We expect that the majority of families that have suffered setbacks in income or non-retirement assets will still find it viable to enroll at Lawrence. The central question for us is, will they agree? ■



## SAVING FOR COLLEGE

One of the best vehicles for putting aside money for college expenses are 529 Plans, education savings plans created in 1998 and named after Section 529 of the Internal Revenue Code.

There are two basic types of 529 plans — savings plans and pre-paid tuition plans. Savings plans are much like an IRA, typically offering a number of mutual funds as potential investments. The redemption value of the investments is determined on the date of withdrawal and may be higher or lower than the original investment.

By contrast, when you invest in one of the pre-paid tuition plans, you are purchasing — at today's prices — specified portions of a year's worth of tuition for particular institutions. When redeemed, the college accepts the shares in payment for the specified portion of the annual tuition, regardless of the actual value of the shares. Both the upside and downside risk are borne by the college.

Lawrence was one of the charter members of the Independent 529 plan, the only pre-paid tuition plan used exclusively for independent colleges. This program is very appealing for families who are concerned that the rate of tuition increase at a school like Lawrence would outpace the rate of return they could secure through other investments.

The first of the families who invested in the Independent 159 plan have just begun enrolling at colleges over the past couple of years. Obviously, in the current economic climate, they are probably feeling very satisfied with their investment decision, because they still gain the benefit of the proportion of tuition they purchased, but the underlying investment is worth much less than that amount.

In contrast, the colleges that are enrolling these students are probably feeling less enthusiastic right now. But taking the optimistic long view, this program can be good for both students and colleges. If you would like to explore the potential future benefits of this program for a child or grandchild, or would like to see the roughly 300 participating colleges, you can do so at [www.independent529plan.org](http://www.independent529plan.org)