HOW TO PAY FOR COLLEGE©

INTRODUCTION

Most advice on how to pay for college is bad. Everyone has an opinion, and generally that opinion is based on the desire to sell you on opening an account or buying their advice. Common advice is based on assumptions that are unlikely to occur. Common advice fails to account for many possible changes in life, some of which would be fatal to your plan.

COMMON ADVICE

Set up an UTMA account, put money away each month. If you put $100 away each month, after 18 years at 3% you would have only $28,600. $300 a month gets $85,800. $100 at 5% gets $34,900, $300 gets $104,800.

And the grandparents say they will help.

YOU'RE DOING WHAT THE PUNDITS SAID TO DO

What are the problems?

- That you actually do it, without exception.

- That you live long enough to do it.
  You die and are not able to fund all 216 months. Imagine if you die in month #2. And what if you become disabled?

- That if something happens and they don't go to college, it is their money, not yours. Kid is 18, you've been a good parent, and the money is there. You've done it! And the kid says, "no college for me, I want a Ferrari! Gimme my money." No you say. And the kid successfully sues you for ***his*** money.

- That you invest the money instead of saving it, and the market is against you when you have the need. But it isn't just the investments. You earn less money, you lose your job, and your debts pile up. Can't use the UTMA money, it ain't yours.

- The grandparents don't contribute, or stop contributing. You can't force them.

BETTER METHOD

Purchase WHOLE-LIFE, not term, not universal, not variable, not an employer plan, good old fashion WHOLE-LIFE from a reputable company, like Northwestern Mutual Life, Guardian, or Mass Mutual, State Farm. Not Prudential or Equitable.

How does this plan work?

1. If you die any time after buying the policy, there is cash available for college and family.
2. If you survive, you withdraw the cash.
3. You own the policy. No UTMA accounts, no life insurance trust, just you, so if you are fortunate that you don't need the cash for college, you leave the cash in the policy and this becomes a retirement account for you. It is your money.

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How does WHOLE-LIFE work? There is a PREMIUM to be paid. There is a DEATH BENEFIT to be paid to the beneficiaries. And there is a CASH VALUE, which is the savings component. The cash value can be withdrawn from the policy at any time, and used for any reason. Whole Life policies pay dividends, which increase the cash value and the death benefit.

And as your needs change, you can change what you do with the policy.[1] What was not used for college is yours.

The advantages are:

1. Protected in case of a premature death (or disability, because you would get a waiver of premium rider if you became disabled).
2. Ability to change the goal from college funding to retirement funding if they don't go to college or if you have other resources to pay for college when the time comes.
3. It is your money, not the kids.

COMMENTS ABOUT LIFE INSURANCE

Insurance is a **RISK MANAGEMENT TOOL**, it is **NOT** an investment. It is a way to help us manage a loss. Our biggest asset is our ability to earn money, our ability to take care of our family, our ability to provide for the future. And while we insure the house and cars, we don't insure the ability. This is what Life Insurance does.[2]

Many commentators and some insurance agents will say that Whole Life is a waste of money, that it costs more than Term, that you should "buy Term and invest the difference."[3] And the first point they will make is that it is a bad investment. But insurance is not an investment. If their first point is that, then all their other points are irrelevant.

Term insurance is like auto insurance, in that you pay a premium, and at the end of each year it automatically renews. Each year you get older and the odds of death increase, so the premium will increase each year. Assuming you are still insurable.

Whole Life insurance starts with a higher premium, but it is for life and the premium never increases. At some point the *increase in term premium* will *exceed the whole life premium*. 4 years or less from a better company. And the cost of Whole Life can even go negative (ie, the cash value is greater than the premiums you have paid).

Occasionally insurance company commercials allude to this type of plan. They don't explain it and this would not be picked up by anyone unless they were aware of it. Insurance companies have terrible commercials. I wonder if they actually teach their insurance agents about this.

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[1] Whole Life insurance is flexible. Within limits and time, you can (1) choose to pay or not pay, (2) have dividends reduce premiums, (3) have excess dividends reinvested to increase the cash value, (4) have excess dividends paid to you, (5) stop paying and convert the policy to a fully paid policy, (6) systematically withdraw the cash value, (9) convert the policy to an annuity. Generally tax-free.

[2] Commentators who call this Death Insurance because it does not pay you but instead pays someone else at your death are wrong. They don't call auto insurance crash insurance. They miss the point of what insurance is.

[3] Buy Term and invest the difference doesn't work because people don't do that. The insurance industry responded to that with gimmick polices, the variable and universal life policies, where you can choose an investment from a menu. I have not heard of anyone who has done better than good old fashion whole life.