

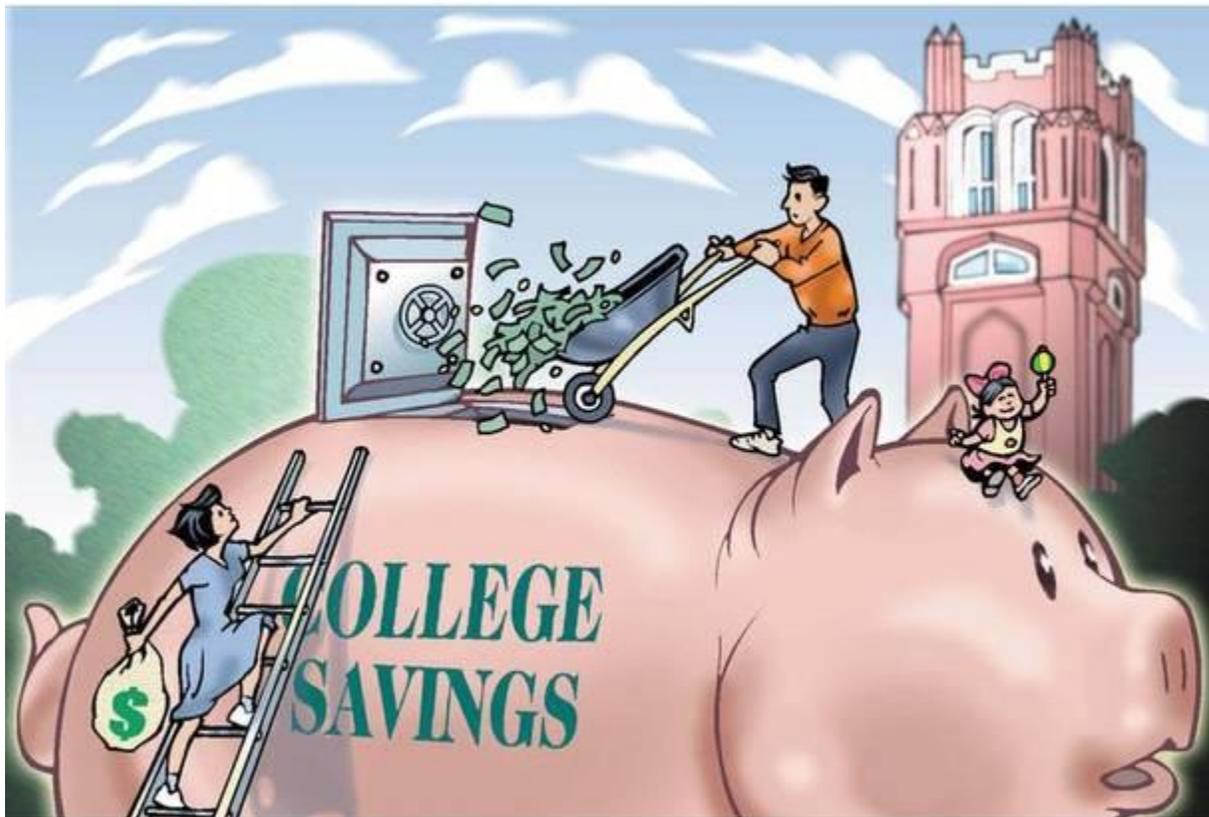
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BUSINESS

Should children help pay for college?

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By: Pamela Yip

As college-bound students head to campus, parents are preparing to shell out bucks for tuition, room and board, fees and other costs.

I'd like to pose a question to those parents: Do you think your children should pay for part of their college costs?

Many parents believe so.

Eighty-five percent of parents surveyed by Fidelity Investments said their children should help contribute to their college bills, yet only 57 percent of parents with kids age 13 and older have talked to them about how the family will fund their education.

Parents want their kids to pay an average of 35 percent of college expenses by tapping their own savings, income from working part-time jobs and student loans.

The Fidelity survey was conducted online from June 3-30 among 2,543 families with children 18 years old and younger. The families had annual household income of at least \$30,000.

“Parents are taking a team approach to college funding, which is perhaps a more practical way to look at it,” said Keith Bernhardt, vice president of college planning at Fidelity. “Working together to talk through priorities and determine opportunities to save can help families develop a solid, realistic plan that they can stick to.”

I understand why parents want their kids to help out.

“With the cost of college doubling every nine years, many parents are finding it difficult to pay the full bill for their children’s college education,” Fidelity said.

Whether you should pay the entire cost of your child's college education or require him or her to contribute is a personal decision, but decide without the interference of emotions.

"You need to step back and look at the big picture," Bernhardt said. "Is the family situated to be able to pay all of it, and what would it take to get there? There might be tradeoffs to get there that are very reasonable.

"But if it's going to put their retirement at risk, probably not a good idea."

Kids can borrow for their college education. You can't borrow to finance your retirement.

"If they can afford it, I recommend the parents accumulate enough money to pay all of the college costs but tell the child they will only pay a portion," said Tom Murphy, certified financial planner at Murphy & Sylvest in Dallas.

"The child can then work or take out loans. After graduation, the parent can help the child pay off loans or gift them money to help buy a house, buy a car or start a business."

Having the child contribute financially will give him or her more motivation to study and apply for financial aid, Murphy said.

But be careful that your student doesn't become overloaded with student loan debt.

“Skin in the game is often used as an excuse for forcing the student to take on more debt than they can afford to repay,” said Mark Kantrowitz, publisher at Edvisors.com, a financial aid website. “Having the student borrow excessively will either force the student to drop out of college or graduate with too much debt.”

Total student debt at graduation should be less than the student’s expected annual starting salary — ideally, a lot less.

“Parents should borrow no more for all their children than they can afford to repay in 10 years or by the time they retire,” Kantrowitz said. “A 10-year repayment term means that total parent loan debt is less than the parents’ annual income. If retirement is less than 10 years away, they should borrow proportionately less.”

In any case, don’t wait too long to talk with your kids about financing college.

“You want to try to have those conversations earlier,” Bernhardt said. “Make sure expectations are aligned to help you make more reasoned and calm decisions.”

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