"So, just kind of food for thought that there's no business that's undefeatable. Even when we look at things like major companies now like Apple and Google. That does not mean they're undefeatable."

Paul Adams: Hello and welcome to Your business, Your Wealth. My name is Paul Adams, founder of Sound Financial Group, and I am joined here today as always, by Cory Shepherd. Cory, as always love having you on here. Most importantly, everybody loves having you on here instead of me by myself.

Cory Shepherd: Well, I hope that everybody does. I'm sure we could find one person out there that doesn't.

Paul Adams: And the bigger our audience gets, the more likely it is that people are gonna like me, which is really the reason why the podcast... Anyway, and just... Cory and I wanted to...

Cory Shepherd: He's not that joking all that much, everybody. Just so you know.

Paul Adams: But just to...

Cory Shepherd: Oh Lord.

Paul Adams: Just to kind of kick us off in a slightly different direction than usual to start off our podcast, Cory an I just wanted to take some time to acknowledge all of you as listeners. We're in a world that is constantly hammering people with information, especially about money or things you could do with your money that you don't really have any option over. You're flipping through commercials, and they get you. You're in your regular news hour and they say something to you.

Cory Shepherd: Or Facebook or Instagram?

Paul Adams: Oh my gosh.

Cory Shepherd: It's everywhere.

Paul Adams: Yes. And here you are taking time out of your day, your week, time you could have spent with your family, taking us on a run with you or to the gym or on your drive at home or your drive to work. All of that is because you're intentionally trying to seek solid knowledge for your future. Instead of the core to soul-filled, change, make decisions, do something right now, environment of the regular media, instead, you're here with us to really have some thoughtful reflection, and maybe taking a different look at your money and your future, than you'd otherwise get access to. Now, today's episode is "Stop wasting your kids' money on college." And stop... I'm sorry I said it wrong. "Stop wasting your kids' college money." I saw Cory kinda smirk at me and realize I had said it wrong.

Cory Shepherd: I think that may be a Freudian slip. When we get into the episode, we're not gonna be far off from that sentiment either. If folks wanna leave money behind, then it is their kids' money that they might be wasting on college.

Paul Adams: Yes, and it's this... But instead of a five-minute snippet on some money show where somebody comes and talks about college, there's a call-in where it always concludes with your husband's an idiot or you gotta change this, or you're a fool. None of that here. This is just meant to be a welcoming aware space. We're talking about what your options are and a different way to look at your money than what I would lovingly refer to as what the big bucks financial retailers would like us all to believe. And so with that, we're really excited to jump in today. But Cory had a really unique weekend planning today.

Cory Shepherd: I was floored when I saw this. I knew this is what we had to talk about, and it just, it floored me. So Money Magazine is no more. Money.com is still gonna be around, but their magazine is no longer being printed. June was the last episode that they printed it. Now they are all online, and that is just... And it's the end of an era of advice.

"Planning for college does not have to equal buying a college savings plan. "

Paul Adams: It's amazing. Their first issue was in October of 1972. So put that in perspective. This company is almost 50 years old. 46 years of continuous publication. Their total circulation in 2002 was 1.9 million copies, so two million distributed physical copies. I think Cory you made the observation earlier, they had so much money they were actually able to purchase money.com.

Cory Shepherd: Yeah. They're the ones... The had enough forethought, resources, leverage whatever to say, "Oh, we're gonna get money.com", and they got it. And yet that still wasn't enough chutzpah to be in business as a print magazine anymore.

Paul Adams: My goodness. And here's the thing I'd like all of us to reflect on as business owners, Cory and I included, is that we can feel like well our business is super secure, ours is undefeatable, or ours has all these things going for it. Let's put that in perspective of how strong Money Magazine was just in 2012. Now, they had been looking for a buyer for Money Magazine and instead, they couldn't find a buyer. In fact, some of the articles, that Cory and I read about this...

Cory Shepherd: With two million subscribers, they couldn't get anybody to buy them.

Paul Adams: Yeah. And now that was 2012. So they could have been lowered by now, that's the last public release that we could see. But think about this for a moment, an undefeatable people that would make money managers careers is having them published in Money Magazine. Now, it also had a really unique background, which I don't think we're gonna be able to read these kind of articles anymore, Cory, where somebody says, "Here were the top ten picks of mutual funds, five years ago from Money Magazine. If you had bought all of them, you had lost 20% a year, the last five years." Those were always fun articles when you get a chance to read. And we won't have those anymore, 'cause now it's gonna exist all online. And they just abandoned trying to sell the entire thing and said, "Well we're just gonna be an all-online platform."

Cory Shepherd: So it'll be so much harder to have a flag planted in the ground or see what the flag is that they've planted in the ground of philosophy. Incidentally, this is why we record all of these episodes and leave them online, so it'd be very hard for us to just up and jump ship at a moment's notice and go off in a different direction.

Paul Adams: Absolutely. Absolutely. We can all feel like our business is undefeatable but if things like Money Magazine that really was still a rock in 2012 at least to the American consuming public and now their business hasn't gone well if they can't keep the print portion going. Now maybe they'll really blossom as an online-only medium except there's people like The Motley Fool and other all online financial journals that are way ahead of them and now they're gonna try to be competing in that space. And I'll be curious whether or not that carries over or not.

"The truth may set you free, but first it's going to piss you off."

Cory Shepherd: There's literally no difference now between Money Magazine, and Mr. Money Mustache or Motley Fool or at...

Paul Adams: Except those guys probably know how to engage their audience better than Money does.

Cory Shepherd: I know. [chuckle]

Paul Adams: So just kind of food for thought that there's no business that's undefeatable. Even when we look at things like major companies now, like Apple and Google, that does not mean they're permanently undefeatable, even in the face of no antitrust regulation, et cetera, they can still go down because the environment changes. Because the world changes, and that's equally true for all of our businesses. So if we ever get the hubris as entrepreneurs and business owners that we're undefeatable as a business, that's why we wanna make sure we're constantly pointing to on this podcast and in any of our public speaking events and on our YouTube channel, is that you have to build money on your personal balance sheet to have the freedom and autonomy that you want for the future because you don't know how long that business can last or whether something totally outside your control could upset the business model you're currently in. So with that, Cory, should we get on to telling people how to stop wasting their kids' college money?

Cory Shepherd: Yeah.

Paul Adams: Or their kids' money on college, as I slipped to earlier.

Cory Shepherd: Now that we've said that a couple of times less this is the point that someone's just about to tune out, we're not actually saying that sending your kid to college is a waste of money. There are some ways to do it, like you may pick a college that was unnecessary, You're paying more for it, it's not getting you the value that you actually want. That could be always, but in general, this is not anti-higher education, but it's saying, if you're gonna send your kids to college, let's do it in a very effective way 'cause lots of people are doing it in a way that is spending more and leaving money on the sidelines that they don't have to. So that's our context for going into this.

Paul Adams: Very well said. Well, and I think Jordan our video engineer is gonna have a little bit of an extra journey today. He's gonna have to both show one of the screens on my computer, plus do some switching cutting Cory and I in and out of it, so he's gonna put a priority on making sure you guys have the visuals necessary to see about the numbers that we're talking about. For those of you that are just listening via the podcast, we'll put this PowerPoint up on the show notes page, so that you could download it in PDF later if you wanna just match it with visuals, and then of course, as always, the entire episode, plus some snippets will be out on YouTube in the coming weeks. So that's why we're no longer, say, just a Your Business, Your Wealth podcast, we're the Your Business, Your Wealth weekly show. And we're really doing our best to step up production and make this financial education more accessible to more people. And we're so glad you could join us on this journey.

"We can invest and plan for a child's education without using a college savings plan."

Paul Adams: Alright, well, let's get to busting or as a friend of mine says, busting myths and/or killing sacred cows. Once again, these are things we've talked about in a lot of different mediums in which Cory and I have been published, but the most important thing to think about is we're gonna zero it down to just thinking about college education starting with the way that we all begin to think when we first have children.

Paul Adams: And I can really relate to this personally is that when I... I remember it was Christmas, and my son was gonna be born in May, was the... Actually, he was supposed to be born in September. He just happened to be born in May. He was born eight weeks early. And prior to that, it was December, and I remember a friend of mine saying that to me, "this will be the last Christmas where you're not a Father. Like you're always going to be a father." And I remember that landing with me, 'cause I guess intellectually or in my head, I lived with this idea that I'm gonna have a child at home here for 18 years. But the gravity of you're never not a father, this is the last Christmas you will not be a father just took me aback a little bit. And I remember having these feelings like holding our child and then going "we want the absolute best for you, we love you, We're gonna give you every opportunity in life". And then almost what follows on, like It's the "right thing to say" is, "and we're gonna pay for your college".

Paul Adams: Now, that's not an outrageous thing to think about. In fact, many people feel that way, but I think oftentimes, people say that without A, first really counting the cost, what's it gonna take to pay for a child's college in real dollars in the future and what does that mean I would have to start doing today? So people make that kind of... That commitment without knowing how big the commitment is right before they make it. That's Kind of Part One. And then part two is... Cory, What do people automatically think they need to do? So, I've said, "I wanna pay for my kids' College, it's the right thing to pay for my kids' College". Everybody who's in my similar situation, making between 300,000 and $2 million a year, of course, pays for their children's college. What's the first thing they go for?

Cory Shepherd: Well, and before I answer that, just to highlight this for folks who don't... Yeah, I have kids, I don't only have kids. We do have 15 nieces and nephews right now. It's always in flux, so you count them coming and going. About 15. And I've even been present at the birth of several of them and I remember these feelings. It's not even my job and I know it's not my job, and I'm still like, "I wanna make sure whenever... " If there's a gap and the parents can choose what the gap is, but I'm still like, "I wanna help you do that". And they're not even my kid, so I can only imagine what it's like when it is your own child right in that room. To answer your question, Paul, a lot of folks I thought in my mind, oh, can I start a family foundation? I'll put some money in there for any of them to get some money for college if they need it. But for most folks, it's a 529. Do I need to start a 529 plan or do I need to start saving some money for college, day one? That's what they're thinking.

"Not taking as good care of yourself now to the favor of taking care of your kids is not actually taking good care of your kids over the course of your life."

Paul Adams: Cory, that's exactly right, people end up thinking. Well, I gotta do a 529 plan. And it's true that 529 plans can be used to pay for college, but the falsehood that nobody says is the case, but I think people live with... 'cause there's a moral, I should be paying for my kids' College, Is that the only way a responsible parent could pay for college is a 529 plan. It's probably a good time for us to pause for a minute and just say, "Here's what a 529 plan is, in case you're not wholly familiar." One, college savings plans parents can set up for kids, also grandparents, or you could set it up to Cory's point, for nieces and nephews. The 529 plan has some significant restrictions on the mutual funds that they can invest in, typically restricted one fund family, and even restrictions on how often you can move from one 529 plan to a new 529 plan, say, sponsored by a new state.

Cory Shepherd: And I think that's... Most people have never heard that. I think it's just like any investment account, like their IRA, it's right next to it. I can invest in the same things. No.

Paul Adams: Nope. Exactly right. And the money does grow, tax deferred, and at least under current tax law can be deployed to pay for certain educational expenses tax free. Meaning, we deferred our growth on our taxes, and... Or the growth of our investment, we didn't have to pay taxes on it each year, and if we take it out as long as it's taken out for higher education, it can be tax-free, and it pays for the college as long, as it pays for college for the designated beneficiary, and if it's not used for college, you gotta pay taxes on the growth, plus a penalty on the growth for whatever period of time it's grown. So it ends up being single-use dollars. Now here are some of the problems that occur with 529 plans. Number one; planning for college does not have to equal buying a college savings plan; that's first and foremost. The power of investment compounding never really gets a chance to work.

"Putting money into a 529, whether you start right at birth or some amount later when you start doing the college savings, but let's say at birth cause it's even harder. The earlier you start, the more it's forcing you to perfectly predict the future."

Cory Shepherd: Yeah.

Paul Adams: We're gonna give you some evidence behind that here in a minute. And then if you're gonna be prudent with the money, you have to be risk-off about four years out from college. Now, we've gotten a lot of pushback on this from clients, now not in a big way, but just because we've now been in a relatively up-market, at least calendar year up-market every year, since about 2008. There's been some blips but it's not game over. And the issue is we say, well, let's say you were gonna retire or not retire, you were going to send a child to college in 2009. You need to be risk-off far enough ahead of those events that they don't potentially hurt the capacity to send the child to college. There are many children that had to make very different college choices, not only because their parent's income and net worth may have been obliterated by inappropriate investment decisions that occurred prior to 2008, but then on top of it, you have the actual college fund itself that got decimated.

Paul Adams: So we need to be risk off four years out, so if the market does go down a bunch, you can leave the money invested long enough to rebound before they go to school. The idea that single use dollars are always lost. Meaning if you saved money for any single purpose, it doesn't matter if it's a boat, a car, college, an RV, if it's saved for a single purpose, it's always lost. We're gonna give you some background behind that, and people tend to spend what's budgeted, but there's... You had mentioned, Cory, that there's one additional problem you're aware of.

Cory Shepherd: What I see here is, it's another example of the financial industry productizing a part of our life, meaning it's making it about a product that they can sell more than anything else. It's no difference than... We are so trained that almost no one, if you get a sniffly nose, says, "I need a facial tissue." What do they say?

Paul Adams: I need a Kleenex.

Cory Shepherd: I need a Kleenex, but that's just one brand name of many options. "Oh, I am putting money into an IRA, therefore I have a retirement plan." No, I'm putting money into a 529 does not mean I have a college savings plan. And that's the difference between making it all about a product that you can buy versus putting some strategy together, which is I think where we're going next.

Paul Adams: Indeed. And you know what I've never thought about before but just resonated with me there, Cory? Is the idea that you don't have a college funding strategy. You might just have a college savings strategy. Like, let's think about that for a moment, that you could have a college funding or you could have a college savings plan and still not have a college funding plan.

[chuckle]

"And maybe they don't party quite so much during the week and sleep in through some classes. They become more of an informed consumer, realizing the value they need to get. Maybe they are advocating to their university and their professors for doing things differently so they get more out of that experience."

Cory Shepherd: Right.

Paul Adams: That's weird to think about, but it's true, that we just... If people aren't thinking that way they will not have what's required to actually fund college. They'll only have what it took to "save for college". And the funding strategy might be terrible on top of your college savings strategy. So let's just talk about that compounding. Like, how big of a deal is the compounding that could happen on our money? Now, for the sake of this being easily understandable, we're not talking about somebody opening a 529 plan, adding $25 a month, crossing their fingers and hoping for the best. To make it simple for everybody to understand, especially those of you only listening on the podcast, let's just talk about starting with $100,000. In this case, we'll start at 35, and we're gonna analyze $100,000 growing at 7% compounding rate of return each year, out to age 65. So the parents have about a 30 year run of money growth, and that money will grow to $761,266. Not to be exact or anything, but that's your 7% rate of return, if there's any trolls out there double-checking or math.

[chuckle]

Paul Adams: I'm just trying to get the show big enough that we get trolls.

Cory Shepherd: I really want a troll. We had a mini-troll the other day.

Paul Adams: We had a mini-troll.

Cory Shepherd: Yeah.

Paul Adams: Great thing about having Scott Adams on. There's a troll coming out of the woodwork somewhere for him. So, what we had is this idea that we plop away money, we set aside and we watch it grow and it grows to a bunch. But here's the thing that trips up people all the time. On any compounding decision, this is not just saving for college, you could be saving for retirement etcetera, is they tend to look at the early years. So let's just look at the math. If you start with $100,000 and it's growing 7% per year, and perfectly, like no down years in this example, it's all linear...

Cory Shepherd: Which is not... Yeah.

Paul Adams: It grows to 140,000 in the first five years, and people shrug their shoulders sometimes like, "What's the big deal? I can make that up with extra savings or something later. It's no problem." But here's what people forget. No matter when you start, as long as you take five years to hold your investments, everybody has the first five years of compounding. What everybody doesn't have is the last five years, and that's what makes the biggest difference. You see, at 25 years in a 30-year compounding curve, you have 540,000, meaning there's $220,000 of growth in the final five years. That's where it really matters. That's where the money gets its exponential growth is at the end of the curve.

But the problem is that not only does that compounding occur all the way out to age 65, the compounding would continue well into retirement, as we've talked about on prior podcast. If you and your spouse are healthy at age 65, you have the mortality of the couple last out till age 93 and what's the thing about mortality everybody forgets, Cory?

Cory Shepherd: It's a average, it's a 50-50 line meaning, that 93 just means half of all the couples have both passed away, the other full 50% have one of them lives some amount longer.

Paul Adams: Meaning your money could have to last a really long time, but more importantly, that also means any lost opportunity cost or poor decisions, not only last to your age 65, but maybe for the rest of your life, including things like college funding. Let's look...

Cory Shepherd: So Paul I'm just thinking I could tell what some people are thinking with that side All the way to 93, obviously, it's not just kinda sit there and grow off into the future. I'm gonna need to use it at some point. But if you had already used it for college, then you weren't gonna have had it.

Paul Adams: Yes.

Cory Shepherd: And if you needed to use it, then you would have wanted to have it and not spend it for college. Either way, there's a problem here. [chuckle]

Paul Adams: Indeed.

Cory Shepherd: We're not just making up fluff. There's an issue, one way or the other.

Paul Adams: Yup. And now here's the math most people do. They sit down with their calculator, their child is just born and they do the math and they say, "Well by the time they're 18, $100,000, I'm gonna get a good... " Now again, we're just saying 7% gross rate of return. 529 planner out of a 529 plan, I would make the... At least the case that inside some of these 529 plans, the lack of investment, what you can choose, and some of the fees that are laden in on these 529 plans, you may very well get the same return in a tax deferred growth of a 529 plan and investing your money outside the 529 plan. But to just equate these two, and we'll touch on this tax portion, before we're done at some point, we're just gonna say 7% growth, 100,000 at the beginning, growing to 337.

Paul Adams: Now, there's limits to what you could put in a 529 plan also. You can't just drop a 100 grand in all in one shot unless it's 50,000 from one spouse 50 from the other. There's some gifting rules, you can use a little bit differently with 529 plans, so we can... Most people, when they're using them, are putting annual deposits in, but you could get a lot of money in right on the front. 100,000 deposit it grows, at a 7% rate of return every year, and at 18 years, we have $337,000. Problem we cannot, as we said earlier, stay at the same old risk all the way up to paying for college because the market could really take a hit. How it really ends up looking most of the time is more like, instead of thinking you have the 337,000, what you actually have is 247,000 that exists at the child's age 14.

Paul Adams: And then you need to be relatively risk-off earning little to no rate of return, for the next four years, because the money has to be prepared to pay for college. Or kind of per this graph here, you'd have to be ready to deal with the market taking a hit, and I just want to demonstrate this visually, for those of you listening, because I know it could be easy to miss. If you took a hit in your portfolio, it needs to be able to make its way back up to be at that 247, if you went risk-off four years out. But the bad thing happened right before you went risk off, and you need to stay invested long enough to come back. We end up with 257, still a very respectable amount of money to have for college. Now...

Cory Shepherd: And I would say the four years risk-off is even being optimistically friendly to the market, depending on your risk tolerance and other money you have. We know that even 10 year period can have a lot of variability. There are some folks who may feel like they need to be risk-off even sooner than that.

Paul Adams: Indeed. And now, I'm gonna say this straight out, and then Cory is gonna soften it, okay?

Cory Shepherd: Nice. [chuckle] This is the game we play every day folks.

[laughter]

Paul Adams: So here's... Yeah. I just... What is it? The truth may set you free, but first it's going to piss you off? [chuckle] If somebody, let's say you were just... Your employer or your business partner said to you, "Hey I'm gonna tell you what, I need you to take a vacation. You have been working hard, everything else, I'm gonna give you $25,000, you have to take your vacation. Here's the criteria. It needs to be taken some time in the next six months. You've got a 10-day window in which to spend $25,000 and you and your spouse have to go spend that money and it must be enjoyed on the vacation. You can't bring anything home when you're done." Now Cory if I made that offer to you, how much money do you and Danielle end up spending?

Cory Shepherd: 10-20% more than you're giving me.

[chuckle]

Paul Adams: Yeah. That's right. 'Cause you had some amount of money, budgeted already, but there's no way you come back with $23,000 worth of receipts. You're gonna come out with at least 25. Now, the part that... I don't mean to be offensive but, I'm not calling college education, a vacation. What I'm trying to do is put it in the context of you as an adult in your career or with your business today that if there's an amount of money budgeted it's unlikely that even you with your knowledge, capacity and understanding would not use 100% of the budget somebody gave you. So...

Cory Shepherd: I'll give you another example.

Paul Adams: Yeah.

Cory Shepherd: I'm switching up credit cards in part because the one that I have now is a little too restrictive in how I can use the points. I'm just... I gotta make a shift so that... Because the problem with that restriction, the card renews in August we're about a month away from that. I'm gonna have to pay an annual fee, which I don't wanna pay, so I need to cancel it before then. But I also have some points I have to use before then. Chances are I'm not gonna make the most grounded and responsible choice in how I'm gonna spend those points 'cause I'd lose them if I don't find something to spend them on.

Paul Adams: Indeed.

Cory Shepherd: So It's... Right. That's the problem that we can get ourselves backed into. And the problem I'm solving for the future for myself by changing the cards by the way 'cause I realized that. And same with college, if we know we've got a budget and it's a limited amount of time to spend it And now, some folks do squeeze five whole years or four whole years into five.

Paul Adams: Yeah.

Cory Shepherd: Sorry, [26:09] ____ right? [laughter] The victory lap we like to call it back in college.

[laughter]

Paul Adams: Well, and that's just it, is that the kids are gonna use 100% of it. And here's the funny thing, now having done this about two decades, watching people send their kids through college because they set up 529 plans often before we met, and I will tell you what. When that child has $250,000 in their 529 plan, every time they seem to find colleges that have and will use all $250,000 or $250 and then some in total budget. All that to say that the money is gone. It reminds me of that old South Park episode where the people go in to work with the financial person, and it's gone.

Cory Shepherd: And it's gone.

Paul Adams: And it's the same. By the way, this money, when you put it in the 529 plan, listen, I don't mean to blow people's minds with this, but that money's gone as soon as you made the promise to your kids and put it in there, and you started letting it grow. Even though you can look at the statement when it shows up, it is gone off of your balance sheet. It's forever gonna be used by somebody else. And so in this case over, and again, we use the example of the victory lap, the squeezing a four-year education into five years, five years of funding at $50,000 a year, and it's all gone at the end of the child's 23rd year of age. Now, you guys may remember we did a post on this on YouTube. We can put it in the show notes. The idea of the Morehouse graduation, where Robert F. Smith was kind enough to pay off everybody's college loans.

Paul Adams: And in that video, I shared with all of you that I think one of the things nobody's talking about is if you were one of those students in the audience who worked one or two or three jobs while you were in school and worked every summer to pay cash for your college, or let's say you had a family who was just absolutely up against it and couldn't hardly pay for college so as soon as you got out of the house and your mom had the ability, she got two part-time jobs so you could pay for your college, cash. That if you were somebody that saved up all that money in a 529 plan so that you could go to Morehouse, or send your child to Morehouse, now, at the end of that five years, you've spent all your money and then there's an announcement that a incredibly charitably-minded billionaire is paying off everybody student loan, and you don't have that.

Cory Shepherd: And you're like, "Son of a... "

Paul Adams: Yeah. Yeah, that's right. "I missed the boat. I could've had a quarter million dollar windfall," but it's not... You didn't miss the quarter million windfall because Robert Morehouse... Because Robert F. Smith was unfair at the Morehouse graduation, it's because you didn't keep control your money for the maximum amount of time, and you created a big lost opportunity cost. You see, the lost opportunity cost because all that money was gone, the $100,000 dollars, when it went into the 529 plan or got 100% committed to college, it's gone off your balance sheet. And by age 65, it triggers $760,000 of lost opportunity cost. That's additional money that could've been on your balance sheet all the way to graduation. And when we go out to that age 93 that Cory and I talked about earlier, with a 7% cost of money, that lost opportunity cost is almost $6 million dollars, $5.79 million dollars of lost opportunity cost because you paid for college. Now, I first learned this many, many years ago in my 20s. I'm sitting at this conference and somebody first rolled out this math to me, and I nudged the guy next to me. I said, "You know how I'm gonna worth $10 million dollars?" He said, "How?" I said, "I won't have 15 kids." Boom, I'm rich. [chuckle] I'll just have less children than 15, and look at all the money I'm gonna have.

Cory Shepherd: Well, think about this. If parents, if you gave your child to deal like, "Hey, I know student loans are hard and having to pay those is tough, but you could either... I could pay for school 100% for you, or I could just let you do your student loans and you figure it out, but then when you're 60-something, 70-something, I'm gonna give you a check for $5.7 million dollars when I die." I don't know, that's a pretty good offer. So...

Paul Adams: It's compelling.

Cory Shepherd: Regardless, I think we've depressed people sufficiently enough so far. We need a little break, so perfect time for an announcement from our sponsor, Sound Financial Group. When we get back, we're gonna start bringing this up to the realm of solutions and alternatives, so we don't just leave you hanging in misery here. So a word from Sound Financial Group.

[music]

Paul Adams: Hey everybody, I had to interrupt our show for just a moment to share with you something new. We've designed a new white paper that we think is gonna add you value in the way that you think about money. It's three of the biggest mistakes we see people make and six ways to fix them. Now, for some of you, you might not want the white paper. You might be ready to have a conversation with us, and that is okay. You can email us at info@SFGWA.com. That's info@SFGWA.com. Find us on the web at yourbusinessyourwealth.com. And any time on any of our social media platforms, send us a message and we can get you this white paper. But in the meanwhile, if you want to just skip over the white paper, have a philosophy conversation with us, we're happy to do that with you. Just let us know "Philosophy conversation" in the subject line. And if you want this white paper, just put "White paper" in there, and we'll immediately get out to you this white paper on the three biggest mistakes that we see people make and the six things that you can do to fix them. And now, back to our show.

Cory Shepherd: And welcome back to Your Business, Your Wealth. Our episode [31:35] ____ titled Stop Wasting Your Kids' Money on College. Stop Wasting Your Kids' College Money... Paul, you got it in my head.

Paul Adams: I know. Maybe that should have been the name.

Cory Shepherd: Both of them. It's both of them.

Paul Adams: Stop wasting your... Yeah, just stop wasting your kids' money.

Cory Shepherd: Yeah. So we've talked about the downfall of the traditional college funding model, and now we're gonna talk about some alternatives, some ways that this could end up in a more optimal state for you, your balance sheet, and your kids' education. So, Paul, alternative...

Paul Adams: We just gotta start with the statement that we can invest and plan for a child's education without using a college savings plan. Now, just all stop, I don't know that most people... You would... As soon as you hear that, you're like, "Oh, of course, I guess I could." But nobody talks that way. Why? The entire financial industry is looking for products they can send to you around a specific pain point so that you will transact, so that you will move your money, so that you will do something so you will feel less than in some way because you didn't set aside enough money for college or whatever, and they wanna get you on the horse and start setting aside money. In fact, I met with a woman, this is how prevalent this is, who had designed a unique app for the phone about how to do 529 plans. And I spent time taking her through this conversation, and she is super smart. And you know what it all came down to? No kidding, is, "Yes Paul, but people will set aside money for their college when they might not for themselves, and that's what 529 plans are important to do," because that is true. People sometimes will take better care of their children than they take care of themselves, especially because that college impact is closer for most people than "retirement age." And as a result, they will take that action versus the other action.

Paul Adams: In that, she's correct, but the math behind whether or not it's a good idea to put money in 529 plans, in fact, this app had certain fees and things on it that might have you paying. If you're setting aside a small amount of money, you might be paying up to 20% of the college funding costs to set up the college funded account because it's a monthly fee rather than a load on the account. So you're not setting aside a lot of money.

Cory Shepherd: That's so tricky 'cause most people are doing $25 bucks, $50 bucks a month or something like that and...

Paul Adams: Exactly.

Cory Shepherd: The worst percentage fees out there that you could possibly find for managing your money.

Paul Adams: I was gonna say, it's fully-disclosed and totally transparent, yet easy to miss. So instead, we wanna just focus on wealth building for the parents and the family rather than just education funding. Now, Cory and I talk a lot about the metaphor of getting on a plane and making sure you put your mask on first before you help the kids. Simple reason why, if you're not breathing, it's very difficult to help a child get their mask on after, so you gotta take care of you. They can lose consciousness and you can get the mask on them, and they'll begin to breathe again shortly. That's how...

Cory Shepherd: If you go back to that 529 lady, not taking as good care of yourself now to the favor of taking care of your kids is not actually taking good care of your kids over the course of their life.

Paul Adams: Yes. Yes. Well said. And if you don't, this is a big deal, you need to build toward enough wealth that you can reach DFI, or definite financial independence, then pay for the most effective part from the most effective part of your balance sheet, college when the time comes. And by the way, what's gonna happen if you pay for your child's college and now you don't have enough money to care for you and your spouse in your old age? Guess where you're gonna live? With that child. So you better make sure they don't get one of these super fluffy degrees like underwater basket weaving, or archaeology of the Amazon from 10,000 years ago, like some totally random thing that unless they go get a doctorate in it, it's gonna have no economic value. That, if they're getting a degree that the only value in that degree is to stack two more degrees on it and then go teach that degree to other people who it will also be useful for, that's a quick way to understand that they can't get that kind of degree if you're gonna bankrupt yourself paying for it because you will need to live with them, and they'd better be able to have a mother-in-law quarters attached that house. Sorry.

Cory Shepherd: That's the way that I... No, that's the way I ask. If I have a good relationship with a client... Well, we have good relationships, but the right kind of relationship at the point that this comes up, I'll say it like, if you gave your kids this deal, which would they choose? "Honey, I would love to pay for 100% of college for you, but if I do that, I'm living with you when I'm 85." Do they then accept your help for college? [chuckle]

Paul Adams: Yeah.

Cory Shepherd: I don't know if they would take that deal.

Paul Adams: Which goes back to our point. If somebody gave you a budget for the vacation with no negative consequence for you spending all the money, you would spend all the money. But if somebody said, "I'm gonna pay for that vacation for you, Cory. But the thing is, if you spend all the money and then I need money for a new car, in two years you need to buy me the new car," you're not gonna take the deal. Same thing here. And here's the question. Let's say your child doesn't finish college. Do you intend to pay for college for a child that doesn't finish? Universally, all of our clients say no, but here's the thing they're not familiar with. 52% of kids who start college do not finish college. So, next question.

Cory Shepherd: And a half-built bicycle is not 50% as valuable as a whole bicycle.

Paul Adams: That's right.

Cory Shepherd: It's zero percent valuable.

Paul Adams: In fact, it's a liability. Like you may, may, have a bigger liability of getting halfway through college and not finishing than if you had just not gone to college at all and had two years of knocking out accomplishments. But here's the question, who should pay for your child's education if they don't graduate? And every time... Again, these are just questions we pose our clients that they always get the same answers to. And they always say, "Well, they should." So let's explore a different way of allowing the child to share responsibility without cost, but responsibility for their college education. Now, number one, we don't have to pay for college immediately off of the parents' balance sheet. Anybody can qualify for student loans no matter how successful you are. So this is the way college loans work. We borrow the money in tranches, if you will, at the beginning of each school year. And for the sake of this conversation, we're gonna say it's borrowed once a year, it's earning a 5% or has a 5% loan rate against it, and we're looking at each year being funded. So, year one...

Cory Shepherd: Yes. For anyone listening right this moment, depending on your loans, they may be higher, they may be lower because there's a wide range. So if you're out there thinking, "Oh, well, my loans are at seven, eight... " Don't worry about it. I just want people to not be sitting there, seething and frustrated like, "We have to pick some number, and things are gonna change." So just deal with it, please, okay?

Paul Adams: Yes, I like that. I'm rubbing off on Cory, he's getting just offensive enough.

Cory Shepherd: You are! Oh my God!

Paul Adams: I know it's just happening, I get you agitated early in the morning, where you don't have enough coffee and then... So here we have year one, year two, year three, $150,000 borrowed. Same amount of money as before, here we have a quarter million dollars of borrowed money. Now, this parent did not put all their money in a 529 plan, in this case, they just left the money growing elsewhere on their balance sheet, okay? As they did that each year, when they arrived at college, instead of saying, "Oh I got my 529 plan money, which one of the things our clients have actually experienced is showing up to the admissions office and laying everything out, and literally having them say, "Well, your daughter, she's doing great, she's doing so well in softball, et cetera. We're gonna give her a full ride. Now, this was not a client... This is from many years ago, this client did not have a lot of means. They'd managed to save up 40,000 toward college. And the college said, "This is great, we are gonna give her a full ride to school, except we just need you to spend the 529 plan money first. Meaning, if the money hadn't been in a 529 plan, the school would've just given her the full ride, period, end of the story. But...

[overlapping conversation]

Cory Shepherd: This is Moorehouse all over again.

Paul Adams: It's Moorehouse in a smaller scene, but to a family who would impact it more perhaps.

Cory Shepherd: Hugely.

Paul Adams: And so in this case, we're gonna say, "No 529 plans, the money's just growing on the balance sheet, we're gonna go ahead and take out student loans to pay for college, which with that 5% interest rate, ends up having a total debt of $290,000. But here's the thing, you tell your child at the beginning of this process, "Who pays for college if they don't finish?" They do. So they own the student loans, if they decide to go to school for a year-and-a-half, and then they think they got the next Facebook and they're gonna drop out, more power to them, and if they're right, they're gonna have no problem paying that loan off. But it's not... It's gonna be their responsibility. Now, some certain things happen. My wife and I call those consequences that we as parents put on them. And then there's natural consequences, which are my favorite, like, "Hey, be careful playing in that tree, you could fall out." And they fall out. I don't have to spank him, I don't have to do anything, it's just like "I'm so sorry he fell outta the tree, honey, do you remember?" And I told my kids this weekend, "Do you realize you almost always get hurt after Mom and I say, 'Hey, that could be dangerous,' and then you fall and get hurt, and we're like, "Well, sorry." That's natural consequence.

Paul Adams: Here are the natural consequences for adult children when it comes to college: Number one. They get a chance to learn what it's like to borrow money and how interest and compounding works, they're naturally gonna think more about where they're gonna attend college because they know this liability could be theirs. It feels a bit more like spending their own money. Your money stays on your balance sheet and continues to grow while they're going to college, which means we do not have to go risk off four years out because now we have a much longer investing time horizon. And then you can make the choice to pay for college in deeply and different radical ways compared to put it in a 529 plan and then go through the procedure of cashing out the 529 plan every year.

Cory Shepherd: Something's bugging me, I gotta say something about this. That family with a 529 and full ride and "Oh, but you gotta spend your... " Literally, in that situation, I'm thinking about a better account that they could have started with that 529. Just call it a garbage can in the corner of their yard that's just constantly on fire for the last 18 years, just every day, they're just putting a little bit more cash into that...

Paul Adams: Yeah.

Cory Shepherd: They would've had light at night for some bonfire, they would've had some warmth from it. They literally got more benefit...

Paul Adams: Roasted marshmallows.

Cory Shepherd: Yeah, more benefit from that money than having it... Put it into the 529, in that case.

Paul Adams: I know.

Cory Shepherd: And this is so wild.

Paul Adams: And our view on that is so deeply unpopular, not for any grounded reasons, not for any reason anybody could give us, but because feelings, like if... What do you mean 529? I've spent a lot... Because by the way, if you're listening to this right now, and you spent 10... Last 10 years hammering money to a 529 plan, you might be ready to defend 529 plans for no other reason other than your conditioning of having put money in for a decade. And we're gonna help you with that before we're done, about what to do, but for now, just roll with us here. Here's what it looks like differently now. Remember we don't have to go risk off, which instead of having $250,000 when the child goes to school, we have 337. And we can keep the money invested for another five years while that child manages to fit and cram a four-year education into five years. So here is the same overlay, but now with that debt creeping up of $290,000. Now on the parent's balance sheet, we have $474,000. Now keep in mind, I'm saying this as money being set aside at 7% every year in, say, a set of investments that are academically allocated, globally diversified.

Paul Adams: But you know what else they could have been? The parents could have bought the building their business is in, the parents could have bought three rental properties, the parents could have invested money back into their business and had many multiples time more than they would have to 7% all things not possible to 529. I'm actually being more generous to the 529 by simply saying, "It's the equal amount."

Cory Shepherd: Yeah.

Paul Adams: So we could see that the money that we borrowed from college has continued to increase each year, but now we have on the parents' balance sheet $474,000 that we can now do something very different than everybody else can do after the graduation ceremony. Just think of it, taking your child out to lunch after and saying, "We've been talking about this for a while, you graduating college, us having set aside this money. But now we're gonna give you a few choices, you owe $290,000, and what we're gonna do as your parents, we love you very much. And, A, you can just take on all the student loan, you debt, the $290,000, you just pick up the payment, you run with it, it's your responsibility and we give you all $290,000. It's our gift to you. You can pay off the student loan debt or not. Maybe you've got the next best investment, maybe you've got the next Facebook, the next you name it, you're gonna start it in your garage, but you need quarter a million dollars of funding and you'll have it because we, as your parents, set aside the money and now all you have to do is pick up your college loan payments."

Paul Adams: Or, if you don't quite trust your kid enough that they might make the best decisions with that, you can split it. You can say, "We're gonna give you $40,000 cash. As your parents, we're gonna take the remaining amount of money that we have, and we're gonna pay off your student loan debt in portion, and you're gonna have $40,000 of debt, but you're gonna enough cash to down payment on an apartment, maybe get a dependable car, and some new clothes for your workplace, and have a little safety net money on your balance sheet." It'd be a great gift.

Paul Adams: Many of you listening to this will wish your parents had been able to do that for you. Or, last but not least, you could just put them in the position like they would have been if you'd have had a 529 plan and said, "We will be responsible for 100% of the student loan debt. We'll just write one check, pay it all off. You don't need to worry about it." That would be great. And we put ourselves in the same position, but here's what it looks like financially. You see, if out of the $474,000, even if we pay off $290,000 of student loan debt, we now retain money on the parent's balance sheet. So instead of having that $700 and some thousand of lost opportunity cost from having paid for college overall, now we still have $414,000 on the parent's balance sheet, having alleviated over half of the lost opportunity cost of college, even if we still chose to pay it off in total. And it gave us different choices for how we could pay for college when college costs came.

Paul Adams: Number one, maybe it would be better off to take it as a 401k loan because of however laws, rules, and tax regulations might work at that time. You could take a home equity line of credit. Maybe that's the best thing. Maybe you're a corporate executive working somewhere and you're exercising some stock options, and you just have more than enough cash. Maybe you're a founder who just sold your company for an eight-figure exit, and it's just no big deal to write the check out of cash you just got from having sold the business. Maybe you're old enough you could take a distribution from an IRA. Maybe you're just gonna pay it out of cash flow 'cause you have enough extra savings ever year, you're just gonna pay for it. Or, last but not least, you might be able to buy an investment property right near campus. You know, Cory, we talked about that in the book, "Sound Financial Advice." You could just buy a fourplex right on campus. Your child gets couple of roommates in their unit, gets the other ones rented out, has to be a landlord, has to help market the property. Oh, by the way, they have be paid as a property manager, so we just tax deducted part of their education while shifting money to the lower tax rate, all things not possible in a 529.

Cory Shepherd: So, putting money into a 529, whether it's you start right at birth or some amount later when you start doing the college savings. But let's say at birth, 'cause it's even harder. The earlier you start, the more it's forcing you to perfectly predict the future. You have a crystal ball and you're gonna put money in a 529 plan 'cause you know exactly how things are gonna go in the future. This alternative method to build your balance sheet first, that conversation with your kid at college graduation, you get to make the choice then with the full assessment of the kind of person that they've become and everything you know about them at that point in time, and what they can handle. I think that's the huge, huge key. It's not that it's gotta be a 529 that's the problem, it's just that's the name of the thing right there. But anything that requires us to perfectly predict the future that far in advance is gonna be a problem for our life.

Paul Adams: And I have to rat out my industry on some of the things that I was taught early on 20 years ago is right about the time 529 plans came out. And I was literally taught, "And if they don't use it on their children's college, the parents can pay for 'em to go to a French cooking school, and it would pay for... " And I'm like, but wait a second. To use their own money, the money that was theirs originally only because they put it in this kind of account with the intention of doing something good with it that then wasn't needed. Child went to trade school, child went to community college. The unthinkable of we outlived one of our children, or the fact that they're just like, "Hey, I just wanna go to an inexpensive school and I'm not gonna use all the money." All of those things make it so that now we have to do something extra, like travel to blah blah, go back to school. I don't know about you, but I probably would rather hike to some new locations, backpack the Pacific Crest Trail, rather than be in a position that to use my money I need to go take cooking classes in France.

Paul Adams: But the bottom line is, this is an extra $414,000 by age 65 that the parent could have had potentially instead of putting it in a 529 plan and having spent it all if everything remained the same. Now, here's what I would estimate. Cory, in that situation, do you think the kid goes out and spends a full quarter million on college if they know they might be responsible for it?

Cory Shepherd: I would think definitely not.

Paul Adams: Yeah, just simple things.

Cory Shepherd: Definitely not.

Paul Adams: We had one parent recently rolled us out to their 16-year-old. First thing the 16-year-old started doing was saying, "Wait, does it really matter?" They were Googling, "Does it matter if I knocked out my basic classes all at a community college or junior college?" Like, "Oh, no, it doesn't matter. Oh, and then I can use those transcripts as a part of my parlay to get into the bigger, more expensive school? Oh yeah, and I'd save a bunch of money? Oh, that's a lot less risk for me. Okay." Because it's their risk now.

Cory Shepherd: Right. And maybe they don't party quite so much during the week and sleep in through some classes. They become more of an informed consumer realizing the value they need to get. Maybe they are advocating to their university and their professors for doing things differently so they get more out of that experience.

Paul Adams: I love that.

Cory Shepherd: Maybe they're changing their university for the better for every student who comes after. We'd never come up with that. Maybe this is a way for them to change our whole... Imagine if hundreds of thousands of people started doing it this way, hundreds of thousands of students started taking more of a consumer approach to their college degree.

Paul Adams: Yes.

Cory Shepherd: And would that change the nature of, you know, everybody's talking about how much it costs to go to school now, maybe this would be a way for that to be different.

Paul Adams: Yeah, I could see kids going, "Well, I'm just gonna work and I'll knock out in my first two years in an online school at a fraction of the cost and then parlay that into my 'four-year... '" And, by the way, what if four-year education is nothing like it is now? I don't wanna... We had Scott Adams in the last episode, so let me just speak to something that he's talked about, which I think could be accurate. I think one thing that could happen in relatively short order is that college will be free, but it's not gonna be free because the government pays for it. He talked about that online education is moving so quickly that what if it just cost $7,000 a year to get a full Bachelor's education online? Let's just call that as close to free as you can, or what if people are saying, "Hey, we'll just pay for your education. We just want the priority and being able to be the firm that places you in the company that you're gonna work for"?

Paul Adams: We can imagine a 100 different ways colleges could be "free," and if that's the case, that college is free, or near free in another 10 or 12 years when your children go to college, then you would have money locked up in this 529 plan with nowhere to deploy it except to intentionally overspend on school because there'll be competing alternatives out that won't require a quarter million dollars to get a degree. And what else could be possible? We talked about being able to buy a building near campus. Your children might go to trade school, you could either help pay for the trade school differently, or give them a hand up, like if they became a plumber and that was the trade that they wanted to study. Now, maybe you could give them the start-up cost to start their plumbing business instead of giving them money to pay off their student loans, so they could go work for somebody else. Maybe they wanna be an entrepreneur, like you. Maybe it's a tech start-up. All these options are possible, all and only because you didn't lock it all up in 529 plans. Cory, before we close out today, is there anything else you wanna drop in before we just kind of wrap-up and what people can do with this?

Cory Shepherd: I'm even a little more fired up than I was when I started today, thinking about how this is all coming together into the economic condition of our country and education, and it all starts with individual people's choices, and so, thinking for clients thinking about what movement do you wanna be a part of, and how do you wanna vote with your dollars for the kind of economy and choices we want in the future? It's really powerful. I'm so glad we're doing this.

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