



## Give Your Kids a Chance

### FACT 1 – “The Haves And The Have-Nots”

The gap between the rich and poor is growing rapidly across the United States. The richest 20% of US households receive a greater share of national income than the middle three-fifths combined. The bottom 40% is worse off in inflation-adjusted terms than similarly situated people two decades earlier. (Source: US Department of Labor)

### FACT 2 – “A College Education Is The Difference”

Earnings of full-time workers who have a college degree continue to accelerate faster than those with just a high school diploma. In 1979, the average college graduate earned 49% more a year on average than a worker with only a high school diploma. By 1994, the earnings gap had widened to 89%. Each year of formal schooling after high school adds 5% to 15% to annual earnings later in life. (Source: US Department of Labor)

### FACT 3 – “College Costs are High and Rising”

Today, the minimum per year cost for a student attending a 4-year, in-state university is about \$15,000 per year. This cost includes in-state tuition, books, and room and board. It now takes an average of 5 years to graduate. Only about 40% graduate in 4 years. Here are the minimum costs of a college education based on 5 years to graduate and college costs rising at 5% per year.

Now	\$ 75,000	Future 5 Years	\$ 95,721
Future 10 Years	\$ 122,167	Future 15 Years	\$155,919

### FACT 4 – “You Have Four Choices”

1. Pay college costs out of ordinary income. Add 25% to 30% to cost for taxes.
2. Student works to pay part of costs. This could take longer to graduate with the higher possibility that student will dropout.
3. Student loans. College graduate starts out in life deeply in debt.
4. Pay college costs out of assets. Buy a rental property that will be free and clear.

The easiest way to pay for a college education is to buy a rental property when your child is young, and put the property on a 15 year loan. Here’s the equity created in a \$150,000 rental property with a 20% down payment and a 15 year amortized loan:

<u>Equity Now</u>	<u>Equity in 5 Years</u>	<u>Equity in 10 Years</u>	<u>Equity in 15 Years</u>
*\$30,000	\$58,789	\$97,621	\$150,000
**\$30,000	\$100,231	\$191,956	\$311,839

\* Assumes no increase in property value

\*\* Assumes 5% per year appreciation

If your child is already a college student, purchasing a property is still an excellent solution to curbing the high cost of education. The investment property can be a place for the student to live and provides a source of income (roommates) to help pay the mortgage.