CREATIVE PLANNING

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School of Hard Knocks

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If we locked a dozen parents in a room and asked them to hammer out a statement summarizing their financial aspirations for their children, screams and tears—and much childlike behavior—would likely ensue. But as the hours mounted without water, food, sleep and bathroom breaks, they'd probably quit their quibbling and settle on something like this: "We want our kids to grow up to be happy, financially responsible adults who devote their days to work they love—and that work should pay them enough to live in comfort."

Next, of course, comes the really hard part: figuring out how to get our children there. That raises one of the thorniest family financial-planning issues: What's the right college and how do we pay for it?

If the numbers are anything to go by, we know how many families have answered these two questions over the past decade: They've encouraged their teenagers to attend the college of their choice, regardless of price. What if the annual cost is more than the parents can afford? The kids have taken out loans to bridge the difference.

Over the past 10 years, total student loan borrowing has skyrocketed 151%, even as overall household debt has climbed a mere 6%, according to the Federal Reserve Bank of New York. Indeed, the latest report on financial aid from the College Board found that, among 2016's bachelor's degree recipients from public and private nonprofit colleges, 60% had borrowed to pay for college—and the average amount was $28,400.

All this is understandable. College costs have been rising far faster than inflation—and yet it seems those costs are still worth paying, because college graduates have lifetime earnings that are perhaps $1 million greater than those with only high school diplomas. Moreover, where our kids attend college feels like the ultimate assessment of our parenting abilities: If they go to an Ivy League college, we must have been good parents, right? So what if the kids have to take on debt? That just gives them skin in the game.

But maybe it's too much skin. There's mounting evidence that young adults are being hamstrung by hefty student loans. Consider those born between 1981 and 1991. By age 35, just 50% of this group were homeowners, versus 60% for the two prior generational cohorts, according to a study by Boston College's Center for Retirement Research. These young adults were also considerably less likely to make the financial commitment that marriage involves—a result that the study's authors attribute, in part, to high levels of student debt.

Meanwhile, other research has found that those with student loans have less in retirement plans, perhaps as much as 40% less. Put it all together, and those currently age 25 to 35 have less wealth than earlier generations had at the same age.

This is a shame: Financial experts often proffer different opinions, but they're almost unanimous in advocating

that young adults start saving for retirement as soon as they enter the workforce. Those in their 20s may not have much money, but they do have time—and that can be just as valuable, thanks to investment compounding.

Suppose you save $600 every month and earn 6% a year. If you do that for 40 years, you'll amass $1.2 million. What if you save for just 30 years, because you spent the first 10 years paying off student loans? You'll retire with $606,000, or barely half as much.

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What does all this mean for parents and grandparents? Some believe that taking on—and then paying off—student loans can itself be a valuable education for young adults. But the above statistics suggest that perhaps the price of this life lesson is simply too high.

Let's be realistic: We cannot expect teenagers, who have never even paid a credit card bill, to have any sense for what it means to shoulder $30,000 or $40,000 of student loans. If we can't help our children pay the full cost of college, it's imperative we help them with our advice. When our children are high school freshmen, we should sit them down and have a frank discussion about how much we can help financially with college—and what their likely career earnings will be.

If our children are destined to be doctors, lawyers or investment bankers, taking on debt doesn't seem so terrible. But if they're looking at a career in teaching or social work, we may want to steer them toward less expensive colleges where they'll need to take on little or no debt. We might even suggest they start with two years at a community college and then transfer to a four-year institution, from which they'll then graduate.

No, our children won't thank us at the time. Remember, we are talking about teenagers here. But if we guide them so they graduate with a debt load that's reasonable given the size of their future paychecks, there's some slim chance they'll thank us later.

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