



Financial mistakes cost parents dearly

Unwise investments, not saving early, counting on a rich relative are some

BY WARREN BOROSON
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Thanks to his generous parents, an 18-year-old college student had just about enough money to pay for the rest of his education: close to \$100,000.

But his parents had made a bad mistake. They had put all the money in the student's name (in a Gift to Minors Account). And the student, while a freshman, signed all the money over to a religious sect, Hari Krishna.

"There was no way the parents could stop that gift," said Steven W. Kaye, a certified financial planner who is president of the American Economic Planning Group in Watchung.

That's why he opposes any parents putting a lot of college money in a child's name.

KC Dempster, director of program development at College Money in Marlton, agreed. "Our advice is: Never open an UGMA (Uniform Gift to Minors Account) account for a child."

Not only might a teenager go bonkers with the money; money in the child's name counts far more against the child receiving any financial aid from a school.

That's one mistake parents make.

But, considering how badly the stock market has been doing recently, the most egregious mistake that parents can make

seems to be keeping college money in the stock market too long instead of shifting it into safer vehicles, such as money market funds, CDs and short-term bonds.

The conventional wisdom is that money should be moved from stocks to stable investments at least three or four years before it's needed because that's how long typical bear markets last.

One woman was keeping \$75,000 in a custodial account for her son, a senior in high school. She kept all of it in a mutual fund heavily tilted toward technology.

"In January of the boy's senior year, the money had shrunk to \$35,000," said Brian Irving, who runs College Funding Strategies, a division of Brybeck Associates in Parsippany.

"What went wrong? Our lives get so busy. That's why many people, instead of changing their allocations away from stocks at the right time, are asleep at the switch."

The Daily Record asked a variety of financial experts to describe some of the worst mistakes that parents make in saving for their children's educations. Here are some:

■ Trusting that rich Uncle Seymour will cough up the money.

The grandfather had made all sorts of promises, Kaye said. "I'll make sure that he can afford even Harvard," he told the parents. The parents considered that a promise. Years later,

when their child was approaching college age, they went to the grandfather and gently reminded him of what he had said.

Well, the grandfather said crankily, "A lot of time has gone by. There are 10 grandchildren now, not just your one. And I'm not feeling as wealthy as I was back then. I'm also close to retirement. And you know, I sold my business for much less than I thought I would get ..."

■ Investing unwisely.

Raymond Gaer, who runs Gaer Financial Group in Rochelle Park, told of a family in Emerson who were persuaded to put college money into a variable annuity, a tax-deferred policy issued by insurance companies. The annuity had onerous back-end sales charges: from 1 percent to 10 percent. In this case, the charge would have been 6 percent if the parents had cashed in the annuity in the student's freshman year, 3 percent if they cashed it in during the student's senior year. "An unsuitable investment," Gaer said.

■ Not considering an in-state public college.

A high school student in Morris Plains had applied to three colleges: one Ivy League, one sub-Ivy and one state school. "By the time all the numbers were in," said Marylou Reeves, CFP, of Rockaway, who was advising the student's mother, "the state school, which is very high-ranked, would have cost \$13,000 per year versus the alternatives at \$37,000 per year.

"The child, not the parents,

then decided that she would attend the state school — Rutgers, I believe — so her parents could use the money they had saved to help pay her way through graduate school.

"That," Reeves said with spirit, "is one smart kid!"

Many high school students in New Jersey don't want to go to college here. But these days, a college such as Rutgers gets high grades. In both 2001 and 2000, U.S. News & World Report rated Rutgers above such well-known schools as the University of Delaware, the University of Colorado at Boulder and Michigan State University.

■ Insisting that a child go to an inexpensive school.

"The key question," Dempster said, "is whether the school and the student are a good fit. Parents shouldn't be too quick to send a child to an inexpensive school. Not all students are cut out to do well at a public university, where you may have 200 students in lecture halls. Some need one-on-one counseling, a smaller environment, which you sometimes get only at a private school."

To an extent, the decision about public vs. private depends on the student's intended career, Dempster said. A high school teacher doesn't need an Ivy League education, she argued. But someone intending on a business career might benefit from a prestigious school, where the degree may open doors and foster networking.

■ Blindly choosing a

"name" college.

Reeves also had a client whose child was considering a private and a public college. The parents could afford either, although the difference was \$12,000 a year. The child wanted to go to the private school.

The parents said fine, but why? The child's answer: The private school had a "cooler" reputation. The child ended up at the public school and is very happy and doing nicely.

"The moral of the story is: Find out exactly why your child wants to go to a certain school," Reeves said. "It could be as simple as it's got a great hockey team, which may not be the answer you are looking for."

Irving added, "Kids sometimes have very crude methods of choosing schools. Maybe it's because their friends say they are going there. Sometimes it's a shame."

■ Not starting a college fund early.

Some people think that if they don't save a nickel, their children will have a better chance of winning scholarships. "But every dollar you save is a dollar you or your child may not have to borrow later on," Dempster said.

"And when it comes to financial aid, having money in a college fund is nowhere near as damaging as having a high income."

Other people who don't save seem to be living in a dream world. Timothy Watters, CFP, of Ramsey said, "I suspect that Disney University is where the children of some of my clients

will go to college. They always have enough money to take the family to Disney World or on some other lavish vacation... but don't seem to have enough to save for college.

"Savings should come first before pleasure. Plus ... do you really remember all of the vacations your parents took you on as a child?"

■ Taking money from retirement savings to pay for college. "You can borrow to pay college expenses," said Patricia Q. Brennan, CFP, of Rutgers Cooperative Extension of Morris County, "but you can't borrow for your retirement."

If you need money, Irving said, consider borrowing against the equity in your home or having your child get loans. "It's dangerous to take money out of 401(k)s, IRAs and other assets targeted for your retirement."

■ Not involving children in financial decisions.

"It always amazes me," Watters said, "how many parents don't expect junior to save a dime towards his education. I always tell them to explain to their children that it's a partnership. 'We will pay as much as we can towards your education. But the more you can save, the less you will owe in loans once you get out of school.'"

Next Sunday: More mistakes parents make

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