Saving While Borrowing: A Balancing Act for the College-Bound

The fact that my high-school career is almost coming to a close is a big relief. However, I will be entering another phase of my life called "college". While this new phase of my life sounds very exciting, it also brings with it many concerns about entering the real world. My exposure to juggling finances and money has been minimal and has gladly been something my parents have taken care of until now. My newfound financial independence has given me reason to plan for my economic future. As I embark on one of the biggest investments of my life—college— I plan to apply a simple tactic of borrowing capital in the form of student loans and saving the capital I earn in long-term savings accounts to help me attain a college education and ultimately a financially secure future for myself.

Higher education has become increasingly important to ensuring financial security. Similarly, the opportunity costs have increased for prospective college students. In August 2006, Carl Buck, the vice president for college funding for the college information firm Peterson's, estimated a 5% increase in both college tuition and fees in the next year (www.cnn.com). When attending college, I must not only take into account the money spent for my education, but also the time spent to successfully complete this education. Will the four years studying in college outweigh the benefits from earning a salary during those four years? The thousands of dollars spent on a college education are thousands of dollars that I will not be able to spend on other commodities and services.

Despite these opportunity costs, I have decided to attend college because of the future financial benefits it offers. According to the College Board's "Education Pays Update" news release in 2005, the earnings gap between high school graduates and college graduates has widened considerably over the past three decades. While the median earnings for female college graduates was 60% higher than the median earnings of female high school graduates in 1972, the percentage difference increased to a 69% higher median wage for female college graduates in 2003 (www.collegeboard.com). Thus, entering the workforce with a college education increases the probability that I will earn a higher salary than if I entered the job market with only a high-school education.

As I come to terms with the end of my protected teenage years, and the inevitable end of my dependency on my parents, I have determined that a combination of student loans and investments of my nominal savings will fund my college tuition. This past year I earned $1,800 for my internship at a pathology laboratory at the Uniformed Services University of Health Sciences (USUHS). Because I meet the eligibility requirements, as I earn less than $110,000 annually, and because my earnings can grow on a compound and tax-free basis, I have decided to invest my earnings in a Roth IRA. I hope to continue making contributions of $2,000 each year over the next four years, as I plan to join a work-study program through college. By the time I graduate from college, I hope to make contributions of up to $5,000 each year, so that by the age of 68 I will have more than $1,000,000 saved, assuming my savings earn a 10% average return during each of fifty years (McKinley, 131-132). Opening a Roth IRA account now rather than later will allow my earnings time to grow on a compound and tax-free basis. A Roth IRA will give me the flexibility to make withdrawals without penalty to pay for college tuition loans and eventually my first home purchase (Glink, 155-157).

I plan to attend college immediately after high school, but as earning money takes time, I have planned to take out student loans to help me pay for my college tuition. Using credit presents some disadvantages such as loans that have to be repaid with interest. Another disadvantage of using credit comes in the form of convenient credit, such as the infamous credit card, which encourages impulsive buying and in turn lowers credit ratings, making credit more difficult to obtain in the future. However, despite these disadvantages to using credit, paying for college is not easy without student loans. By following a few simple steps such as paying my bills on time, avoiding impulsive buying and balancing my credit with my income, I can avoid falling into severe debt. Besides, the benefits of using credit to pay for the valuable asset of a college education, are worth the risk and financial repercussions associated with credit. By using loans to help pay for college, not only will I obtain a college degree, but also I will have the chance to ensure a financially secure future for myself, as I can be reasonably assured a college degree will increase my chances of obtaining a high-wage job. Moreover, by starting a credit line early, I can build a good credit history that can help me later with applications for other loans, mortgages or even during the credit verification process for some job applications (www.newyorkfed.com).

While my plan may seem quite optimistic and requires strict discipline, especially for a new college student, it actually requires a simple balancing act of borrowing and saving simultaneously. By taking out a student loan to help pay for my college education, along with earning a nominal amount to invest annually, I can start building my credit now while working towards the goal of securing my financial future. If I avoid the pitfalls of credit and save and invest the money I earn wisely, I can be sure to balance my credit and ensure a financially secure future for myself, without sacrificing my goal of obtaining a higher education. Thus, by borrowing for my college education now I am also saving for my future.