

Get Smart About College

Parents and students like to think they're rational when it comes to picking a college and paying for it. They aren't.

By [SANDY BAUM AND MICHAEL MCPHERSON](#)

It's the time of year when families start to think about colleges. But very few take a crucial first step: thinking about *how* they think.

Parents and students like to believe they're purely rational when they make big decisions about what school to attend and how to pay the bills. But even when people are sure they're looking at all the available evidence with a clear eye, their minds can frame decisions in ways they don't realize—potentially sending them down the wrong path.

The way people think about debt, for instance, may leave them borrowing *too little*, rather than the right amount. Or it could lead them to pick colleges where they have a *worse* chance of graduating.

It doesn't help, of course, that decisions about college are mind-numbingly complex to begin with. For starters, a college education is really a joint production between both the college and the student, so "fit" matters greatly. The best college for one student might be a nonstarter for another. Second, both the benefits and the costs, at least for the two-thirds of students who borrow, are extended over a long period of time, requiring a kind of investment perspective.

Moreover, investing in college is not something families deal with frequently, so learning from experience is hard. Reliable information is hard to come by, and decisions aren't reversed easily or without cost; transfer is possible, but it's often expensive and risky.

Even a rational planner armed with all available information would have a tough time making smart choices. Add in the foibles and frailties of real human beings, and it's easy to see why the college search process results in so many bad decisions by so many families.

Being aware of cognitive biases—and taking steps to combat them—can help families make smarter choices. We can't make the process simple or foolproof. But we can offer some observations and techniques to guard against the cognitive traps too many families fall into.

Here's a look at some of the most common traps, and how to overcome them.

It's All in the Presentation

Studies show that people feel better about a bet when they're told they have a 90% chance of winning, rather than a 10% risk of losing. In just the same way, how schools frame a deal can make a big difference. Families may be drawn to a school that charges \$40,000 tuition and offers a \$10,000 "merit" scholarship instead of one that simply charges \$30,000.

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■ Increase in tuition and fees from 2005-6 to 2010-11

24%
Public four-year

17%
Private nonprofit four-year

11%
Public two-year

■ Percentage paying less than \$12,000 in tuition and fees at four-year schools

81% Public **8.9%** Private

■ Percentage of bachelor's degrees awarded to females

43.1% 1969-70 **57%** 2008-09

■ Percentage paying more than \$33,000 in tuition and fees at four-year schools

0.4% Public **31%** Private

■ Top 3 fields for bachelor's degrees in 2008-9

21.7%
Business

10.6%
Social sciences and history

7.5%
Health professions and related clinical sciences

■ Percentage of adults 25 or older with at least a bachelor's degree (2010)

30%

■ Percentage of 18-to-24-year-olds enrolled in college or graduate school (2009)

37.5% Men **46.3%** Women

■ Average value of grant aid from all sources and federal tax benefits for fulltime students

\$3,400
Public two-year

\$6,100
Public four-year

\$16,000
Private nonprofit

■ Percentage of associate-degree recipients graduating from community colleges with no student debt (2007-8)

62%

Sources: U.S. Department of Education; U.S. Census Bureau; College Board

Likewise, one school may say that, after allowing for all aid, the student need pay only \$5,000. That may seem a lot more attractive than another school that makes the same \$5,000 offer but spells out what the family needs to do to get there: \$10,000 in grant aid, \$12,500 in loans that need to be repaid with interest and \$2,500 in on-campus work, leaving \$5,000 to be paid now. Same apparent bottom line, quite different stories.

There's a simple way for families to defend themselves against being swayed by more and less appealing descriptions of basically the same offer. They should make a spreadsheet and record all the offers they receive in a common format: how big is tuition, how much aid is in loans and so on. Then they can compare the schools' offers head to head, free of the framing that is imposed by the colleges' descriptions.

A side note: Families should be sure to include good estimates of the nontuition costs, too, including housing, food, books, transportation and more. And they shouldn't rely too much on the budgets the schools provide, because the assumptions can differ greatly from college to college. One may allow for only one trip home a year and expect students to rely on campus computers, while another may figure on three trips and a personal laptop.

Focusing on the Short Term

Decisions about how much to spend on college—and how to finance it—require weighing benefits and costs that extend further than the eye can see. And that leads many families into another cognitive trap: short-term thinking.

By the Numbers

38%: Increase in total college enrollment (1999-2009)

79.5%: Share of full-time undergraduate students receiving financial aid (2007-2008)

66%: Share of undergraduate students who borrow money at four-year colleges (2008-2009)

\$24,700: Average amount of debt of students at four-year colleges (2008-2009)

\$99,707: 2009 median family income for people with at least a bachelor's degree

Sources: U.S. Department of Education; U.S. Census Bureau; College Board

Simply put, people tend to overvalue current consumption relative to future opportunities. Small wonder: It's always difficult to pay now, or soon, for benefits we won't enjoy until years in the future. What's more, monthly payments are precise, while the numbers attached to a better career in the future are vague and uncertain. Psychologically, it's hard to give them proper weight in the decision.

The result is that even people who *think* they're looking long term often focus on what a student will earn at that first job out of college, and use the neighbor who just graduated into a tough economy as a benchmark. This myopic approach can lead people to opt for schools that offer better prices, regardless of whether the schools are the best fit—and that can be a huge mistake.

Don't misunderstand: People are right to be concerned about borrowing too much for college. They probably don't have to look very hard to find people who have done just that. But it's just as important not to take on too *little* debt.

Consider this: Opting for the lowest price, or working excessive hours to avoid debt, increases the odds that a student will drop out. Students who go to a lesser college when they've qualified for a highly selective one are 20% less likely to graduate, our research shows. Is it really worth the risk?

When weighing present obligations against future potential, it can help to take a step back. College is an investment but it's a peculiarly intimate one; students are investing in themselves, parents in people they love. To get some perspective on the matter, families should look at choosing and paying for a college like starting a small business (You, Inc.). Would someone launch an enterprise without a line of credit? Or skimp on equipment and human capital to avoid cutting into short-term consumption?

Families should also think carefully about context when they're making estimates of future earnings. Someone who graduates in four years is likely to have a shot at a much better first job than someone who graduates right now; many experts hope and expect the economy to look quite different by the time today's high school students finish college.

Likewise, a graduate will not be earning a first-job salary forever. All the evidence is that the wage advantage enjoyed by college graduates grows over one's lifetime.

When they're in the right frame of mind, families can ask more realistically how expensive a college, or how big a loan, they can afford.

A good first step for families is to leave aside the *total* cost of the loan and instead focus on something that's much easier to grasp in everyday terms: the anticipated monthly payments. These, of course, will depend on the interest rate and the number of years over which repayment is stretched. (Families who are going with nonfederal loans should remember that variable interest rates are quite likely to go up.)

Again, families should think long term about earnings. Parents should estimate the income they expect over the next 10 years or so—and not just use today's earnings as a standard. Students should think about their anticipated career path, and what salary it's likely to bring. A student studying engineering is likely to be able to manage higher payments than her friend whose dream is to be a preschool teacher. Another important point students should bear in mind: Federal student loans—but not private loans—include an option that limits payments to a manageable percentage of income.

If all of that still seems too abstract, families should ask themselves what they would have to give up to make the monthly payments. If a new car is on the horizon, would parents need to opt for a Toyota instead of a Lexus? Would students need to go for a used car instead of something more up to date? Or would the required sacrifices be much more severe?

Finally, families should look at potential obligations and other considerations. For instance, if parents have *other* children who will be entering college soon, they may not be able to shoulder a big loan for all of them. On the other hand, if the parents' savings have been depleted by stock-market fluctuations, a bigger loan may be a sensible course, since they are likely to recoup some of their losses over time.

Listening to the Loudest Voices

The last major bias is putting too much weight on examples one has heard about recently, or seen close at hand. When people read news articles about students who borrowed \$100,000 for undergraduate education and have been unemployed since graduating, they tend to believe that this will happen to them (and that it will last forever). Likewise, people put lots of stock in the recurring (and misleading) warnings that college is a bubble or that it isn't worth the money in the long run.

These stories make for captivating headlines, but all the evidence is that college pays off better than ever. And, of course, virtually all the people who issue the warnings have sent their *own* children to college.

Likewise, many an inspiring story has been written about a first-generation college student who began her studies at a community college and went on to earn a bachelor's degree with honors from the flagship university. True, students who successfully transfer from a community college have a very good chance of earning their degrees. Unfortunately, the odds of successfully getting through a community college are surprisingly low. On balance, the chances of getting a bachelor's degree within six years are nearly twice as good if a student *starts out* at a four-year college.

There's no magic cure for the tendency to believe things one hears over and over again, but awareness of that bias should help people stop and think.

People should also ask if their ideas about what it takes for success are based on a few anecdotes that are prominent in their minds or on more reliable data. When people question whether it's worth paying for college at all, are they focused on the extraordinary success of Bill Gates, who famously dropped out of school? When they think about the worth of an elite private college, do they find themselves thinking about the Ivy League pedigrees of recent presidents of the U.S.? Did they recently read an article by someone who thinks college is college, and it doesn't matter where you go?

There is actually good evidence available on all of these points. To think more clearly, it helps to read a variety of articles by knowledgeable people with different perspectives.

If parents understand more about the decision biases they share with the rest of the human race, they may be able to plan and save more effectively and to help their children make more constructive choices. They should actively question all of their assumptions and be open to planning, choosing and supporting their children even in ways that don't immediately feel "right"—like taking on more debt for a higher-tier school.

Finally, there are two basic truths people should keep in mind. The college market is highly competitive. If families have a favored school, and a worthy rival offers a better deal, they shouldn't hesitate to show the top-choice college their cost spreadsheet. The student-aid office may improve its offer.

And remember that for the great majority of students, the time spent in college, forgoing full-time work, has a bigger monetary value than the tuition they pay. To make the most of college, students have to choose the right place, find a course of study that motivates them, and put considerable time and energy into the learning process. Nothing matters more than using this valuable time well.

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