

borrowing for booze

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Many people think about the cost of consuming alcohol in rather simple terms: a six pack of beer averages around \$7.00 depending on brand and a “nice” bottle of wine runs close to \$15.00. In a bar or restaurant, those costs go up significantly. Beer would be closer to \$2.75 a bottle or glass, and that same bottle of wine almost doubles in price to \$28.00 a bottle. In addition, costs for a before or after dinner cocktail would be similar to the cost of wine at \$5.00 per serving. To determine how much one is spending on alcohol appears to be a pretty straightforward calculation, correct? Well, not really. If the individual happens to be a student at one of the State’s many colleges or universities who relies primarily on student loans for all living expenses, the math becomes somewhat more complex and the actual cost can be alarmingly high.

Let’s take that thought a little further, and use “Jason,” a first-year student at the Medical University of South Carolina (MUSC), as an example. Jason enjoys a few drinks with friends to wind down. For the sake of illustration, we will say that Jason enjoys on average two beers per week, three cocktails on Friday nights, and shares a bottle of wine with his fiancée on Saturday (his treat). (The alcohol quantities are used only as an illustration.)

Jason purchases the beer at a grocery store, so the beer costs Jason approximately \$1.00 per drink or \$2.00 per week. The mixed drinks and bottle of wine are usually consumed at a restaurant and, therefore, would cost about \$43.00 each week.

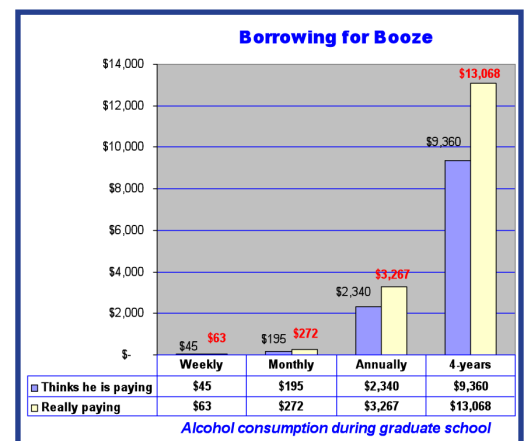
As we mentioned earlier, Jason is a full-time student and has little time for a job outside his studies. Therefore, Jason uses student loans to pay his tuition and living expenses for the four years of his academic program.

The average student loan is generally repaid over ten years following graduation. The interest rate on such a loan is typically 6.8% with an additional 1.5% loan origination fee which is generally assessed. With this information in mind, we can calculate the actual money Jason spends on alcoholic beverages over the course of his student life at MUSC using the following principles.

On a weekly basis, Jason **believes he is spending \$45** on alcoholic beverages, yet it is **really costing him \$63** because he uses borrowed funds to cover his living expenses. Jason’s alcohol spending is **\$272 per month** (not \$195 like he thought) or **\$3,267 a year** (not the \$2,340 he calculated). Over a four-year period, this is **nearly \$3,708 more than he thought!**

Figure 1 shows Jason’s perception of his spending on alcohol compared to what he is really spending during the usual four-year curriculum once student loan interest is factored.

FIGURE 1: Comparison of Perceived vs. Actual Cumulative Costs (\$US) for four years



If you are like Jason and drink only a few alcoholic beverages a week, then you can stop reading here and think about how you want to spend your money in the long run.

Not long ago, we helped a student calculate how much money he was spending on alcohol in a month. We identified that if he did not purchase alcohol he could buy a very nice new car, and that was without considering interest!

Since the economic downturn began two years ago, more individuals are focusing on ways to live within household budgets. The more frugal and financial savvy are paying particular attention to their discretionary spending habits like alcohol consumption. According to the Labor Department's recent Consumer Expenditures Survey, middle-income households have considerably decreased their alcohol spending on average by 20.1 % from 2007 to 2009.

If you drink more than Jason drinks, consider reading further.

Let's make the situation a bit more complicated. Let's say that Jason has "a few too many" drinks one night and receives a DUI charge. Now we have to add in the cost of an attorney (an average of \$5,000), fines and court costs (another \$800.00), PLUS interest since Jason is still living on loans. If Jason is identified as having a "drinking problem," as a result of his arrest, we can add in the cost of outpatient treatment (\$150.00 per hour for 6 hours as a minimum if he receives treatment outside of MUSC Counseling and Psychological Services). That is, if he is lucky and his problem is not yet too serious. If his problem requires more intensive therapy, then add in \$30,000 for a six-week inpatient alcohol rehab program. When considering rehabilitation and legal expenses, the total costs associated with a DUI charge can easily equate to \$36,700 or more! Remember to add interest if Jason is still borrowing money to pay for all of this because he did not win the lottery last week. The loan balance must also be adjusted to yield \$36,700 after deducting 1.5% loan fees. It is important to note that there are restrictions on how federal loans may be spent. Jason would likely have to turn to much more costly private loans.

Figure 2 shows the total costs Jason can expect for a DUI charge based on similar borrowing patterns for illustration purposes.

FIGURE 2: Estimated Current Cost of DUI Charge vs. "True" Out-of-Pocket Expenses Paid Using Borrowed Dollars (\$US)

DUI CHARGE	Estimated Costs	Repayment Amounts
Attorney Fees	\$5,000	\$7,010
Fines & Court Costs	\$800	\$1,121
Treatment Options:		
Outpatient	\$900	\$1,262
Inpatient	\$30,000	\$42,060
TOTAL	\$36,700	\$51,453

Now for some additional "hidden" but nevertheless significant costs: Jason's academic program may require him to have on-going random alcohol testing. The average monthly costs of the alcohol screening tests he must take to remain in school are about \$91.00 a month for about a year PLUS interest (unless Jason decided to tell his parents and they are now paying these costs).

Annual cost for drug and alcohol testing:

\$1,092 per year + \$439 interest = \$1531 total annual cost.

In the long run, if Jason is not adequately addressing his problem, more testing and more treatment costs may be incurred. What if Jason's alcohol use has interfered with his academic performance and/or his professional behavior; and, as a result, his academic program requires him to take a leave of absence to continue more intensive treatment? Then we have to add in the cost of an additional semester or TWO of tuition, living costs, etc., again with interest. The estimated cost of attendance in education programs at this University range anywhere from \$33,875 to \$85,234 per year. Costs include tuition, health insurance, room, food, board, transportation, books, and personal/miscellaneous expenses. Can you afford to pay for the same year TWICE because of alcohol, and would you want to do so?

Additional academic year: Student loans starting at \$33,875
 Add: interest and loan fees of \$13,618
 Repayment cost for one additional academic year \$47,493.

Even small buying decisions made today can add up over time to greatly impact your financial future. Do you need to make lifestyle changes? We can see that Jason's alcohol use costs far more than it appears at first glance. How much does yours cost?

