Saving for College

A college education is generally the largest purchase a family will make, aside from buying a home. And college is expensive. In 2023, for example, the average one-year cost of tuition and fees, and room and board, at four-year public colleges in the U.S. was $22,389.[1] If this annual figure is multiplied for four years of study, the total reaches $89,556. And that's not everything – these figures do not include books, transportation to and from school, other incidentals, and continuing cost inflation.

Not only is college expensive today, the cost of a college education keeps going up as each year passes. Even worse, higher education costs have been increasing at a rate faster than inflation. The average annual tuition and required fees charged at four-year public colleges in the U.S. in 1985 was $1,228. By 2023 that figure had grown to $9,750[1], a compound annual growth rate of 5.71%. In comparison, inflation, as measured by the Consumer Price Index (CPI-W),[2] increased from 1985 to 2023 by an annual compound rate of only 2.74%. Many expect that college costs will continue to outpace inflation.

Start Planning Early:

With college costs high and rising, a family needs to begin the college planning process as early as possible. Taking key steps now makes it easier to reach the goal:

- **Start a savings program:** Start by estimating the cost of college. Once the cost is known, the needed savings can be calculated. Then compare available cash flow with the savings required. If current cash flow is not enough to save the full amount, at least a partial savings program can be started.

[1] Source: U.S. Department of Education, National Center for Education Statistics, Digest of Education Statistics, Table 330.10, Average undergraduate tuition and fees and room and board rates charged for full-time students in degree granting postsecondary institutions, by level and control of institution: 1963-64 through 2022-2023. Measured in current dollars.

[2] The CPI is the Consumer Price Index for Urban Wage Earners and Clerical Workers, CPI-W.

- **Consider tax-advantaged approaches:** 529 Prepaid Tuition Plans, 529 Education Savings Plans,[1] Coverdell Savings Accounts, Roth IRAs,and cash value life insurance all have important tax advantages.
    - **If there's a shortage:** If personal savings will not be enough, the family can plan for the need to apply for financial aid or begin the search for scholarship.

SAVINGS EXAMPLE

Assume a family has a new born child. College costs are currently estimated to be $20,000 per year, and are expected to increase at 6% per year over the next 18 years. The total amount needed at the start of college for four years will be almost $237,000. If the family can earn 3.5% (after-tax) on their savings, monthly deposits of approximately $786 will be needed to pay for the child's education.

[1] Federal law does not allow deductions for contributions to 529 plans, although growth inside a plan is tax deferred and qualified distributions are tax-exempt. The earnings portion of a non-qualified distribution is subject to federal income tax, including a 10% tax penalty. State or local tax law, however, can vary widely. 529 plans involve investment risk, including possible loss of funds, and there is no guarantee a college-funding goal will be met. The fees, expenses, and features of 529 plans vary from state to state.

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