

FINANCIAL PLANNING, MONEY SAVVY LIFESTYLE

## PAYING FOR YOUR CHILD'S COLLEGE: GET HIGHER RETURNS ON HIGHER EDUCATION



If you have any doubts that a college degree is an investment in your child's financial wellbeing, these statistics should put them to rest. According to [CollegeBoard's most recent study](https://trends.collegeboard.org/education-pays/figures-tables/lifetime-earnings-education-level) [https://trends.collegeboard.org/education-pays/figures-tables/lifetime-earnings-education-level], a person with a bachelor's degree can expect to earn 66% more in wages over a lifetime than someone with only a high school diploma. Translated into dollar amounts: in 2016, the median family income for families headed by a college graduate was \$114,640—[more than twice that of families headed by a high school graduate](https://trends.collegeboard.org/college-pricing/highlights) [https://trends.collegeboard.org/college-pricing/highlights].

For many Americans, however, the challenges involved in funding that opportunity can feel insurmountable. Children born today [can expect to pay tuition costs 3 to 4 times higher](http://www.finaid.org/savings/goals.phtml) [http://www.finaid.org/savings/goals.phtml], than they are at present. In the two decades between 1986 and 2016, the [average cost of in-state tuition](https://trends.collegeboard.org/college-pricing/highlights) [https://trends.collegeboard.org/college-pricing/highlights] and fees at a public four-year college increased more than \$6500—higher than the rate of inflation (and those costs make up only 40% of the total budget for a student living on campus.) Meanwhile, according to that same study, 20% of families with the lowest incomes have yet to reach the income levels they had achieved before the Great Recession.

Still, rest assured: These days most parents don't expect to be able to save up the entire cost of sending their children to college. Most can get by on [one-third rule](http://www.finaid.org/savings/goals.phtml) [http://www.finaid.org/savings/goals.phtml]: save one-third of the expected costs before they enroll, pay for another third with your wages as they attend, and borrow the last third with some combination of parent and student loans.

The terrain to financial preparation is steep—and presents a variety of paths and choices. Still, with a little research and a lot of determination it is possible to make this important investment in your child's future.

The below tips and resources can provide you with a lay of the land:



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## Base your savings goal on long-term tuition inflation

[FinAid.org estimates that college tuition will increase by 8% over the long-term \[http://www.finaid.org/savings/goals.phtml\]](http://www.finaid.org/savings/goals.phtml), meaning that in approximately 20 years, tuition will cost at least 3 times what it does today. To determine a savings goal, therefore, parents of a newborn should research current college prices and multiply it by three.

[This page provides for charts of the savings required to reach your savings goal \[http://www.finaid.org/savings/goals.phtml\]](http://www.finaid.org/savings/goals.phtml).

[And these savings calculators can help you determine a concrete plan \[http://www.finaid.org/savings/calculators.phtml\]](http://www.finaid.org/savings/calculators.phtml).

## Research your options for college savings

### 529 Plans, otherwise known as Qualified Tuition Programs (QTP)

There are 2 types of government-run 529 plans to help you put away money for your child's education: College Savings Plans and Prepaid Tuition Plans. Each is run by the state, though you need not be a resident of that state to invest your money with them. [Wisconsin's 529 plans \[http://www.savingforcollege.com/529\\_plan\\_details/?state\\_id=50&page=plans\\_by\\_state/\]](http://www.savingforcollege.com/529_plan_details/?state_id=50&page=plans_by_state/), for example, are managed by TIAA-CREF Tuition Financing and offer a state tax deduction for contributing to either plan. Often you can [automatically deposit a portion of your paycheck \[https://safetynet.com/blog/payroll-hacks-milk-paycheck/\]](https://safetynet.com/blog/payroll-hacks-milk-paycheck/) into a 529 account, and anyone is allowed to contribute to them and enjoy the tax deduction (making for many a happy grandparent). The kicker? Savings must be applied toward a college education, specifically those [colleges and universities listed as eligible by the IRA \[https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/eligible-educational-inst/\]](https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/eligible-educational-inst/). If your child opts out of attending college, however, you may transfer your savings to another family member or face fees and tax penalties when withdrawing the funds.

529 College Savings Plans are similar to retirement plans such as IRAs but with much higher contribution limits than the, say, annual \$5500 limit of some IRAs. They grow by accumulating compound interest. 529 Prepaid Tuition Plans let you lock in future tuition rates at in-state public colleges at their current prices. That means, if tuition at your state college is currently \$10,000 per year and you contribute \$5000 to that account in one year, you have actually paid 50% of your child's future tuition—no matter what that will be in actual dollars by the time he or she attends. If your child decides to attend a (more expensive) private institution in lieu of an in-state public college, you may apply the tuition earned toward that expense. Unlike 529 College Savings Plans, 529 Prepaid Tuition Plans are also usually guaranteed by the state.

### Roth IRA for education costs

Typically used for retirement funds, these tax-advantaged investment accounts can also be used for your first down-payment on a house or your child's college education (after 5 years). Like 529 plans, you contribute after-tax money and later withdraw that money (and its earnings) tax-free. While the annual contribution limits are lower than those of 529 plans, you can apply your savings to more than just a college education, thus making it a good bet if there's a chance your child will opt out of attending college.

### Crowd-funding tuition costs

There are multiple ways to solicit gifts and financial aid support from friends and family. [This article by The Simple Dollar provides a primer \[https://www.thesimpledollar.com/how-to-save-for-your-childs-college-education/\]](https://www.thesimpledollar.com/how-to-save-for-your-childs-college-education/) on these other options.

### Stocks, bonds, trusts, and home equity

Though some form of college savings plan are more popular than others, parents and students can pick from a wide range of college savings options, like stock and bonds, trusts and home equity. [FinAid provides an in-depth look at these types of college savings vehicles \[http://www.finaid.org/savings/otherwaystosave.phtml\]](http://www.finaid.org/savings/otherwaystosave.phtml).



government to assess your child's eligibility for financial aid will lean more in their favor should your child show fewer assets. For another, money saved in a child's name (for example in a trust) is the child's property. There is little you can do to ensure that money will go to an education.

## Don't lose sight of your other savings goals

Parents may dream of being able to pay for their children's college education, but it is equally important to keep their own financial wellness in check. Prioritize your financial decisions with your other financial goals. This includes paying off any standing debt, stashing [enough into an emergency fund \[https://safetynet.com/blog/how-much-emergency-savings-need/\]](https://safetynet.com/blog/how-much-emergency-savings-need/), and shoring up your own retirement savings.

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