

Preparing for Rising College Costs: Start Early and Save Often

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Introduction

The skyrocketing cost of college education has become a growing concern for students and families across the U.S. As tuition continues to rise, it is crucial to adopt a proactive approach to prepare for this financial challenge. In 2022-23, average budgets (tuition and fees, room and board and allowances for books and supplies, transportation and other personal expenses) for full-time undergraduate students range from \$19,230 for public two-year students and \$27,940 for public four-year in-state students to \$45,240 for public four-year out-of-state students and \$57,570 for private nonprofit four-year students.¹

Plan Early

Ideally, you want to begin saving for a child's education costs as early as possible. One of the best ways to do so is through a 529 education savings plan. Currently, 49 states and the District of Columbia offer a 529 plan. These plans offer tax-free investing and distributions for qualified college education expenses, as well as distributions up to \$10,000 per child per year for K-12 expenses and cost of apprenticeship programs, and up to \$10,000 for qualified student loan repayments (lifetime limit). Individuals are not limited to their resident state plan and can contribute to any 529 plan. If your resident state plan does not offer a meaningful tax deduction or tax credit for 529 plan contributions, consider a plan that boasts low fees and a broad range of investment options.²

Custodial Accounts, also known as UGMA (Uniform Gifts to Minors Act) or UTMA (Uniform Transfer to Minors Act) accounts are another way to save for a child's college education. These accounts are typically set up by adults on behalf of a minor. While funds must be used for the child's benefit, it is not necessarily earmarked for college education-related expenses, and the child assumes full control at the age of majority, typically 18 or 21, depending on the state. This lack of control may be a concern for some. It is also important to note that custodial accounts are considered assets of the student when applying for financial aid. This can affect the amount of needs-based aid the student receives so it is important to weigh the potential impact on financial aid eligibility.

¹ College Board's "Trends in College Pricing and Student Aid 2022", Data as of October 2022.

² Fiducient Advisors' "2023 Financial Planning Guide", January 30, 2023.

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Scholarships and Grants

While every parent would love to see their child receive a four-year academic or sports scholarship to the college or university of their dreams, that is simply not realistic for most. In fact, recent data indicates that only about 1.5% of students are awarded full scholarships each year.³ However, many families are able to take advantage of some type of scholarship, from private scholarships to federal Pell Grants. Scholarships and grants are an excellent way to offset the rising cost of a college education. Students should invest time in researching and applying for scholarships well before their senior year of high school. Many organizations, institutions and businesses offer scholarships based on academic achievement, leadership skills, extracurricular involvement or specific fields of studies. Additionally, students should explore grants offered by federal and state governments, as well as private foundations. By leveraging these opportunities, students and their families can significantly reduce their financial burden.

Don't Rule out Financial Aid

Federal Student Aid, an office of the U.S. Department of Education, is the largest provider of financial aid for college in the U.S. Any college student attending an eligible school qualifies to submit the Free Application for Federal Student Aid, or FAFSA. To ensure maximum financial aid eligibility, it is crucial to complete the FAFSA as early as possible. The FAFSA determines a student's eligibility for federal grants, work-study programs and low-interest student loans. Colleges and universities may also require additional financial aid applications. It is important to pay attention to the requirements and deadlines for each institution and submit the applications accurately and promptly. By prioritizing financial aid applications, students can increase their chances of receiving assistance.

Conclusion

The rising cost of college education may seem daunting, but with careful planning and strategic actions, students and families can navigate this financial challenge. By understanding the trends in college expenses and taking proactive measures including starting to save early, researching scholarships and grants and prioritizing financial aid applications, a college education can be achieved without being overwhelmed by excessive debt. Investing in education is a valuable long-term investment; strategic and proactive measures can help ensure a smoother path towards academic and financial success.

For more information, please contact any of the Professionals at Plaza Advisory Group, Inc.

³ ThinkImpact, 2021