

The Price of Education

- ▶ The cost of a college education continues to increase at a rate roughly twice that of general inflation.
- ▶ Fortunately, parents and grandparents can save for a child's future college expenses with a Section 529 plan, which allows for tax-free growth of their contributions.

While it is often stated that a college education is priceless, the reality is that costs continue to rise each year. The good news is that many sources of financial aid are available to students and their families. For example, during the 2010–2011 academic year, \$227.2 billion in financial aid was distributed to undergraduate and graduate students in the form of grants from all different sources (see footnote). Moreover, there are plenty of savings vehicles that can be utilized.

The table illustrates the trends in college pricing for the 2011–2012 academic year, according to the College Board's Trends in College Pricing. When compared with the prior year, the various fees are up at least 4.4%, with a high of 8.3% (tuition and fees only). It appears that the rate of growth in tuition and fees has been more rapid at public four-year institutions than at private four-year institutions.

These costs might seem somewhat alarming to most people (especially to those parents who have put off saving and planning for their children's college). But about 44% of students who are enrolled at four-year colleges or universities attend institutions that charge tuition and fees of less than \$9,000 per year. When taking into account only public four-year colleges and universities, this number climbs to 61%. While private four-year institutions have a much wider range of tuition and fee charges, only about 11% of all students attended colleges (public and private) with tuition and fees totaling \$33,000 or higher per year.

In any case, it would be wise for parents to start saving for college as soon as possible and to assume children will attend a private four-year institution (assume "the worst"). If they receive grants and/or scholarships or decide to opt for a more affordable option, think of all the fun things you can do with the excess cash! There is an array of college-savings options available, and many offer tax-deferred growth and tax-free withdrawals (when used for qualified higher-education expenses). Some of the more popular plans include 529 plans and Coverdell Education

Savings Accounts (ESA). There are contribution limits to the various plans, and plenty from which to choose, so it would be wise to consult with your financial advisor to see what is right for you.

As with any goal, whether you are saving for retirement or a vacation home, the key is to start saving early (don't wait until your child is born), and save often. While it's easy to procrastinate when it comes to initiating a long-term college savings plan, the sooner you begin, the more likely it is that the plan will succeed. By starting early, you are taking advantage of the power of compounding and, in this case, time can be your best friend.

Trends in College Pricing: 2011–2012 Academic Year

Type of college/ university	Tuition & fees	% change vs. prior year	Including room & board	% change vs. prior year
Public 4-year (in-state student)	\$8,244	8.3%	\$17,131	6.0%
Public 4-year (out-of-state student)	\$20,770	5.7%	\$29,657	5.2%
Private 4-year (nonprofit)	\$28,500	4.5%	\$38,589	4.4%

Source: College Board's Trends in College Pricing, 2011.

¹College Board's Trends in Student Aid, 2011.