College May Cost Less Than Parents Think—And A Degree Pays Off

By Kris Spazafumo

(NAPSA)—Parents who hope to provide their children with a college education may feel overwhelmed by the cost of higher education and reports have stated that only about half those who start college graduate. But rather than giving up, they may want to investigate further, because beneath the headlines lies a more complex reality. What's more, parents who start saving early—and strategically—can amass a sizable college fund without busting the family budget.

Let's start with the benefits of a degree. Over a 40-year working lifetime, the median earnings of those with a bachelor's degree are 65 percent more than those of high school graduates. Nor does a student have to graduate with a four-year degree to earn more. Those with an associate degree earn 27 percent more and those who attended college but didn't finish earn 13 percent more. On the personal side, college graduates tend to exercise more, smoke less and are less prone to obesity.

Now about the costs. While it's certainly possible to spend $250,000 to send a child to an Ivy League or comparable university (a figure often quoted in the press), that's not the typical experience. In fact, most (about 70 percent) four-year students attend public universities, where tuition and fees can be significantly less. Here are some relevant numbers, all for 2013–14. For in-state students, the average published cost of tuition and fees nationwide at public four-year institutions was $8,893. For out-of-state students, it was $13,310. For students at public two-year colleges, it was $3,264. As you would expect, that number was significantly higher for students at private, nonprofit, four-year institutions: $30,094.

As you can see, families have a wide range of choices when it comes to a college budget. What's critical, however, is to make time an ally. Parents who want to send their children to college should act now—by devising a game plan that might include junior colleges and public institutions; by educating themselves about grants, scholarships and loans; and most of all, by starting a regular savings plan. In that regard, it's hard to beat 529 college savings plans. These easy-to-open accounts enable parents, grandparents, other relatives, family, friends and even the prospective student to make contributions that grow tax-free. When the student reaches college age, withdrawals—when used for qualified educational expenses—are free from federal income taxes and, in most cases, state taxes as well.

Paying for education may be easier than many families fear.

Families that start saving early can build substantial college funds. For example, putting away just $100 a month for 18 years could provide more than $48,000 for college expenses. Parents can start small and let their savings grow—a CollegeAmerica 529 plan can be opened for as little as $50 using an automatic monthly investment plan, or with a $250 start-up contribution.

What about future costs? While it's impossible to say what college will cost 15 years from now, the rapid increases we've seen appear to be moderating. Costs did rise significantly over the past 15 years—43 percent at private four-year schools and 91 percent at public four-year schools—but that trend appears to have peaked in the 2009–10 school year and has since subsided. The increase for the 2013–14 school year was just 1.6 percent for public four-year schools and 1.2 percent for private four-year schools—far below the comparable 8.3 percent and 6 percent increases for the 2009–10 school year. In other words, the conclusion that college costs will keep escalating dramatically isn't necessarily supported by the more recent evidence.

Sending children to college requires commitment and discipline, from both parents and students. But higher education isn't out of reach, if families educate themselves about college costs and options, and start early and save strategically with a 529 plan. Anyone interested in a 529 plan should contact their financial advisor.

Investments are not FDIC insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Regular investing does not ensure a profit or protect against loss. Investors should consider their willingness to keep investing when share prices are declining.

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Note: Statistics on earnings and unemployment of college graduates are from the Georgetown University Center on Education and the Workforce and the Bureau of Labor Statistics; other information is from The College Board. Amassing $48,000 over 18 years assumes an 8 percent average annual rate of return (compounded monthly) for investments.