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College: It’s an Investment

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A financial adviser on how parents and students can prepare for the increasingly high cost of tuition

The time has finally come when your first born is graduating high school and is heading to college. You have looked forward to this day, yet you discovered that the money you saved isn’t enough. The price of a college education has risen steeply each year and, without proper advance planning, the cost likely will exceed your cookie jar contents.

There is no denying the high cost of tuition. From 1980 to 2014, college tuition increased an average of almost 260 percent compared to the nearly 120 percent increase in consumer items. In 1980, the average annual cost of tuition, room and board and fees at a four-year college was $9,438. That had climbed to $23,872 by 2014 — and it is still increasing.

While the decision to invest in a college education is ultimately a personal one, research shows that a college education is indeed worth the cost. A recent study shows that jobs paying the median household income of $53,000 or more annually made up nearly half of new jobs added during the economic recovery, and 97 percent of these jobs went to college graduates. In addition, the wage difference between college graduates and non-graduates nearly doubled — from 33 percent to 62 percent — from 1980 to 2013.

Some analysts maintain that the gap between increased education costs and increased inflation is sufficiently narrow to keep the gap between college and the working world manageable. They point out that although the average cost of a four-year college education at a public institution has increased by 9 percent between 2012 and 2017, general inflation increased during the same period by 6 percent, leaving the increased cost once inflation is factored in at 3 percent.

Has the average student’s ability to pay for those increases kept pace with inflation and the rising costs of a degree? Seventy percent of all students grapple with debt. Can they earn enough to pay off the debt in a reasonable time? That is the overriding question each potential college student must answer before enrolling.

As parents, we can help minimize the debt our children incur by planning wisely to cover as much of the cost as possible without loans or financial aid. That planning starts early ... perhaps even at our child’s birth. Starting that far in advance may help offset future costs — with a longer timeline, parents may utilize investment vehicles that could allow for greater returns, but which may be too risky for shorter timelines.

As one option, consider 529 college savings plans, which allow for the money to grow with significant tax-advantages. These accounts may grow larger than an identical taxable account where earnings are taxed every year. Additionally, when the funds withdrawn are used for qualified education expenses, including tuition, fees, room and board expenses, supplies and equipment, they are free from state and federal income tax.

How much to save? A general rule is to save what would be the full cost of four years of college in the year the student was born, which translates into approximately one-third of the cost eighteen years later once your child enters freshman year. The second third of the cost might come from your current earnings during your child’s college years. The final third can be borrowed through a combination of parent and child loans.

Regardless of where you fall in the discussion about costs versus financial benefit of a college degree, there is one thing that you can count on: a proactive approach to saving and planning financially can go a long way when it comes time to start tuition payments.

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