



# The Rising Cost of Education

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## **The rising cost of education in the United States is nearing crisis levels, putting pressure on parents and their children desiring a college degree.**

It is especially alarming to parents of very young children realizing that the cost of their child's education could be three times that of their own college degree. According to The College Board, in the last decade public in-state tuition increased 3.1% per year. In addition to standard inflation, this equates to about a 6% increase in college education costs year over year.

Researchers say that the rising cost in tuition can be attributed to the fact that many states implemented deep budget cuts in public education, leading to a greater burden of the cost being placed on the student and their parents. Higher student loan balances, coupled with stagnating starting wages, is thought to be a contributing factor to a behavioral change for many college

graduates. This group is delaying starting families and has adjusted its attitude toward work, both of which have changed spending habits. The economic impact of these changes is estimated in the billions of dollars.

The rate at which college costs continue to increase may not be sustainable. If the rate increase of college costs continues to outpace the rate increase of income, young people may no longer see the value in a college education. Some experts believe we are already seeing the effect, as college enrollment nationwide peaked several years ago and currently is in a downward trend. Enrollment at many smaller universities and community colleges has decreased over the past decade while applications at top ranked and flagship universities have remained relatively level.

Until the government makes structural changes to the educational system, both parents and their children should plan ahead to help mitigate the rising cost of education. Students should seek out scholarships and grants. Another great option for students is to enroll in dual-credit courses during high school. Dual-credit courses allow students to take college credit courses at their high school or local community college. These courses are often free or at a lower cost.

Parents and students may also want to explore the idea of having the student attend a community college for a year or two and then transfer to the college of his or her choice. Community and junior colleges are not only cheaper, but also offer the perk of smaller classes and more one-on-one attention from their professors. This can help prepare students for success when they transfer to a larger college.

## **What Can Parents Do?**

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The best way a parent can help their child with college expenses is to set up a college savings fund — the earlier the better. The power of compounding interest over time can help one to obtain a college education for less upfront costs. For example, if a parent saves \$5,000 each year for 18 years into a 5% interest-bearing account, the parent could have about \$140,000 saved up for their child's education. Although the parent only contributed \$90,000 to the savings account, the power of compounding interest earned the parent an additional \$50,000 to put toward college costs. Savings vehicles like 529 accounts are great for this use. A 529 is a state-sponsored, tax-advantaged plan that encourages parents to invest after-tax dollars. The invested amount then grows tax-free, and in some states, a deduction may be claimed.

## **If you have any questions about planning for education, contact your Westwood wealth advisor.**

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