An F in College Planning

by Cullen Douglass, CFP®

Eighteen years ago, when my first daughter was born, I decided it was imperative to set up a college account (529 plan) for our new baby. As a Certified Financial Planner™ professional who was helping clients with such an important goal, how could I not practice what I preached? Over the first 10 years of her life, I put approximately $100,000 into an account for her so that when she went to college I would be prepared. I was proud of myself and thought there was no way I wouldn't have enough money to pay for four years of college. Little did I know that my daughter would do so well in school that she would want to go to a small, private, liberal-arts college. Based on the amount I set aside, and the growth I earned on that money, I have approximately two-and-a-half years' worth, possibly three, of her tuition, room and board, and books currently stashed in her account.

What went wrong? How did I fail to plan? Well, several statistics stand out.

Since 1980, college costs have increased by approximately 600%, well above inflation. Over that same time, a family in the top 5% of earnings has seen an increase in income of approximately 71% (Short, 2011). Income has not kept pace with college costs. Based on the math, college costs have increased at a rate 500% higher than what income growth has been over that same period.

Here's another scary statistic: 68% of current college graduates who have a bachelor's degree also have an average student debt of more than $30,000 (DiGangi, 2017). With interest and principal, how does that affect the next generation's purchasing power, or when they want to buy homes or have children? Also, for entrepreneurs who want to start a business from scratch, how can they do this with college debt? How does an entrepreneur start a business while being weighed down with copious amounts of debt? There's a

22% chance that a college graduate age 30 to 44 still owes money on his or her student loan (Cilluffo, 2017). What went wrong from a planning perspective?

The reason I gave myself an F is that I didn't properly plan for what college costs would be in the future. I also didn't plan to have twins five years later, which doubled my expenses; I'm even further behind on my twin boys' college plans than I am on my daughter's college plan.

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The moral of the story is that you can’t procrastinate on college savings and you have to plan for what costs will be in the future. Find a financial planner who can help you figure out your goals, objectives and how much you need to save, so that you can do what you're supposed to do when your children are doing everything they're supposed to do. There are some helpful planning tools that you can use, whether it's a 529 college savings plan, or a Roth IRA, or some hybrid of an insurance product that allows you to save on a tax-favored basis. If you want to get a passing grade on college planning, follow the lesson we try to teach our children: Do it sooner rather than later.

<u>Sources:</u>

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