



Developing a College Savings Strategy That Will Work Best for You

Deciding how much to save for a child's education and when to start saving are important steps in developing a college savings plan.

KEY INSIGHTS

- Parents should aim to save enough to cover 50% of their child's college costs.
- For parents with newborns, setting aside \$250 per month may be a good starting point to meet their savings goal.
- Many colleges provide grant and scholarship aid that can help lower the cost of tuition.
- Make a plan to fund college through multiple sources rather than relying heavily on loans.

Higher education can be key to unlocking a variety of careers. However, college can also represent a big financial challenge for many households: It is one of the largest savings goals families face, next to retirement. It can also be difficult to commit to a savings plan when there is so much uncertainty about how much may be enough.

"Saving for a college education can feel overwhelming, and affording the sticker price may seem out of reach," says Judith Ward, CFP®, a thought leadership director with T. Rowe Price. "A successful college savings strategy includes setting a reasonable savings target, getting an early start, and choosing the right type of account."

The 50% rule of thumb

The published cost of college includes tuition, fees, room and board, books, supplies, and transportation costs. When it comes to planning for college costs, parents should realize they don't need to cover the whole sum themselves. In fact, T. Rowe Price recommends that parents aim to save enough to cover 50% of the published costs—which is around what most parents end up paying, according to data from Sallie Mae.¹ This target can help parents strike an appropriate balance among their long-term savings goals.

"The parental contribution to college costs can come from a combination of savings in the years before college and from income during a child's college years," says Roger Young, CFP®.



Judith Ward, CFP®
Thought Leadership Director



Roger Young, CFP®
Thought Leadership Director

¹ How America Pays for College 2022. Sallie Mae. Data from academic year 2021–2022.

Assets in a 529 account can be used for any eligible higher education institution across the country.

a thought leadership director with T. Rowe Price. “Money set aside early on will have more time to benefit from the potential for compound growth, so getting an early start on saving can help maximize the impact of that money.”

It’s also important to take advantage of specific types of accounts, such as tax-advantaged 529 accounts. These college savings plans are specifically designed to support saving for higher education—whether that’s college or an accredited trade or technical program. And, contrary to popular belief, contributing to a 529 account may have little impact on a student’s financial aid package. These accounts help maximize the impact of your savings through any tax-deferred investment returns while also allowing you to make tax-free withdrawals when paying for qualified education expenses. Qualified expenses include tuition and fees as well as college-related books and supplies, technology needs, and room and board.

Assets in a 529 account can be used for any eligible higher education institution across the country. And though contributions are not deductible from federal taxes, some states do offer state tax deductions with limits. Anyone can open and contribute to a 529 plan, including a parent, grandparent, other family member, or even a family friend.

How much you’ll pay and how you’ll pay for it

You may be asking yourself, if I save for 50% of the cost, how will the rest of the college price tag be covered? It’s important to understand that the published cost of college is often not what students will actually pay. As a result, your savings strategy should factor in every potential source of funding available, including:

Financial aid

Grants and scholarships make the actual net price of college lower than the

published cost. For example, the average estimated in-state net price for a public, four-year institution was \$19,250 in the 2022–2023 academic year, according to College Board data. That total is 31% lower than the published price. (See “Sticker Price vs. Actual Price.”) Grants and scholarships don’t need to be repaid—they essentially provide a discount on tuition. Some of this institutional aid is merit-based, and some is based on need.

“Even if you don’t think your income will qualify you for aid, it is potentially worth factoring it into your savings plan as financial assistance may not be based on income alone,” says Young.

Loans

Borrowing money is another potential source of funding for college. But debt should only play a limited role, if possible. For example, during the 2021–2022 academic year, loans accounted for just 18% of the typical family’s college funding sources, with students borrowing 10% and parents borrowing 8%.²

Too much student debt can create a financial burden for students, putting a strain on their finances long after college. College debt also can have a negative effect on parents’ financial situation, potentially leading to delayed retirement or changes to their everyday lifestyle. “Parents rarely plan on loans being a big part of their funding,” says Ward. “But loans may play a larger role in situations where families have not planned ahead to pay for college or choose a school that stretches their financial resources.”

T. Rowe Price recommends limiting student borrowing to federal loans, which are currently capped at \$31,000 for dependent, undergraduate students, according to studentaid.gov. This limit aligns with another guideline to consider: Students should try not to borrow an amount that is more than the annual starting salary they expect after

² How America Pays for College 2022. Sallie Mae. Data from academic year 2021–2022.

Sticker Price vs. Actual Price

(Fig. 1) For most students, grants and scholarships can reduce the actual price of college by a significant margin.

PUBLIC, FOUR-YEAR SCHOOL (IN STATE)	Average annual published cost	Average annual net price*
Total cost of attendance	\$27,940	\$19,250
Tuition and fees only	\$10,940	\$2,250

PRIVATE, FOUR-YEAR SCHOOL	Average annual published cost	Average annual net price*
Total cost of attendance	\$57,570	\$32,800
Tuition and fees only	\$39,400	\$14,630

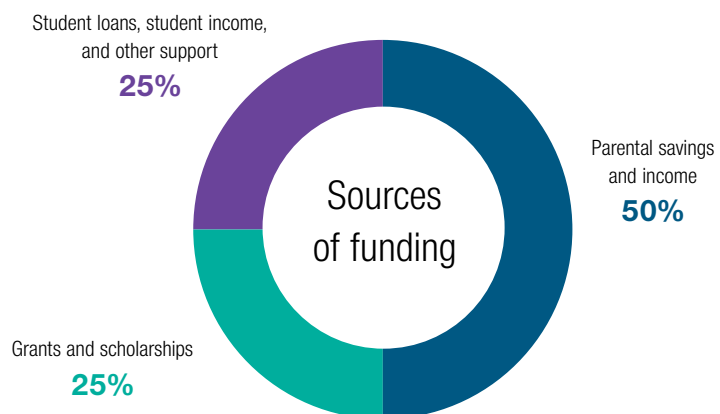
Source: Trends in College Pricing and Student Aid 2022. College Board. Data from 2022–2023 academic year. Total cost of attendance includes tuition, fees, room and board, and other expenses. Net price = total published college cost minus grants and scholarships.

graduation, which will vary widely based on degree and career choice. According to study results from the National Association of Colleges and Employers, the median starting salary for students of the 2021 graduating class was \$55,911, while the average student debt, of those who had debt, was nearly \$30,000 (data from *U.S. News & World Report*).

In addition to loans, students can also contribute through their own income and savings. (See “A Potential Funding Plan for College.”) Support from grandparents or other family members or friends can play a role as well. For instance, through gift tax exclusions, family members can gift up to \$17,000 per person, per year in 2023.

A Potential Funding Plan for College

(Fig. 2) Parents and students may not need to cover 100% of the cost of college. Instead, consider the many sources of potential funding that can help you achieve your goal.



A savings starting point

Parents with younger children have time on their side. For these families, the goal should be to develop a plan and start saving as early as possible. This means saving well before a child has any sense of the degree they want to pursue or the college they want to attend. Since the cost of college varies greatly from one institution to another and from one degree to another, that will mean developing a strategy despite the uncertainties.

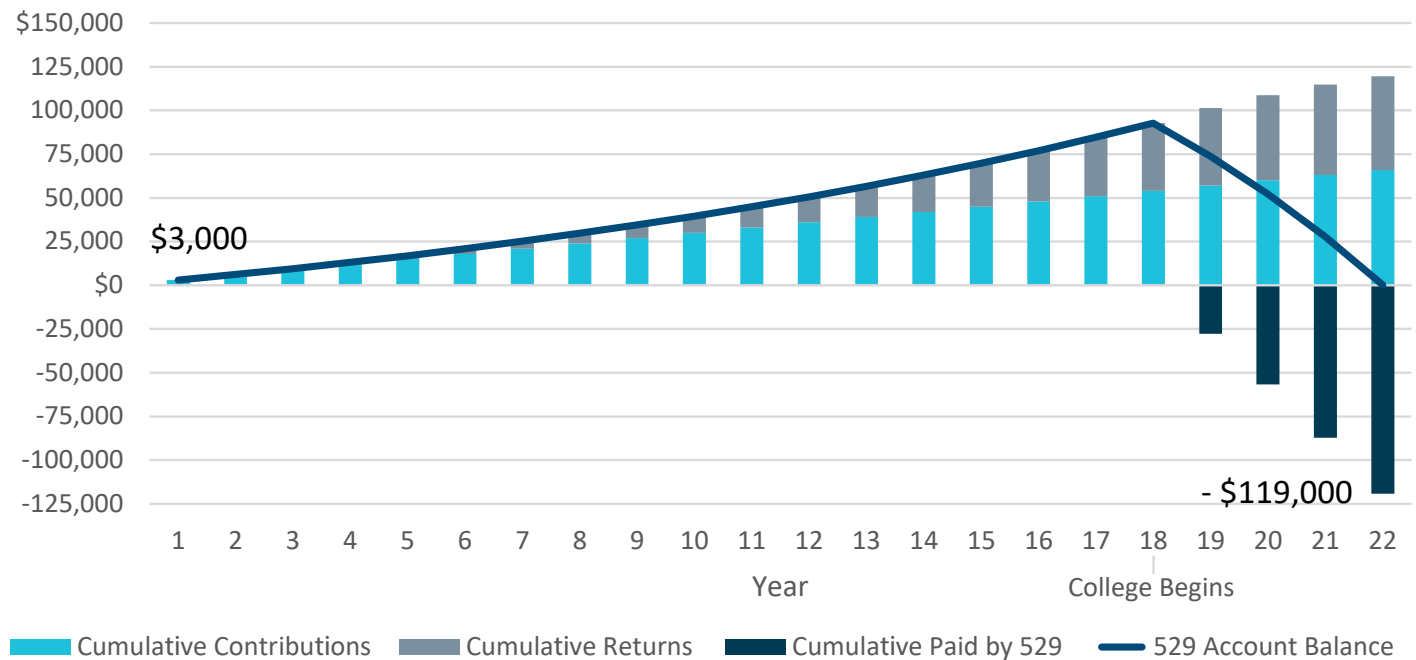
In the absence of an exact savings target, parents should consider saving at a level that gets them on track to cover 50% of the projected future cost of tuition, fees, and room and board for four years of in-state public college. Considering this full cost in today's dollars is around \$23,000 per year, the future amount for four years—after 18 to 21 years of inflation—is projected to be \$238,000. According to the College

Savings Calculator offered by T. Rowe Price, covering half of that amount would require a balance of \$93,000 at age 18, along with continued contributions and investment growth during the four years that the child is in college. That entails contributions of roughly \$250 a month from when your child is born through the end of their college career. (See “Building Your College Savings to 50% of the Cost.”)

If you aren't able to save that much right away, save what you can, and reassess the amount you're able to save regularly, increasing contributions as you are able. Keep in mind, you may need to rely more on student loans, student income, or other support to help make up the difference. Or you may want to revisit expectations of what type of institution your child may be able to afford to attend.

Building Your College Savings to 50% of the Cost

(Fig. 3) Setting aside \$250 per month for your child's college education from birth through college graduation may generate enough savings (\$119,000) to help cover 50% of the \$238,000 future cost of four years of public college.



This hypothetical example assumes \$250 contributions starting at birth and continuing through 4 years of college. Assumptions include a \$23,000 published cost in today's dollars of 1 year of public college, 18 years until college with college costs increasing at 5% per year, and a 6% average annual return on investments. This example does not predict or project the performance of any investment.

To help achieve your goal, consider setting up automatic contributions to a 529 plan. Steady, regular contributions over time are an important part of successfully saving for any long-term goal.

Make adjustments over time

As your child gets older, they may develop a better idea of what career they want to pursue, which may narrow their choice of degree or institution. Resources such as the [College Board](#) provide average costs for different types of colleges and universities. The [College Savings Planner](#) can help you evaluate different savings amounts against varying college costs, giving you a sense of whether you are on track to meet your goal or if an adjustment is in order. Colleges also provide detailed pricing with their own net price

calculators, which provide an estimate of the final costs based on a student's individual financial situation.

Make adjustments and refinements to your savings plan as you gain a better sense of what college might cost for you and your student. For instance, have college costs changed since you established your original plan? Are you able to save more now that you are further along in your career or once an older child has graduated? Does it look like you are earning more than the threshold for need-based aid? These and other assumptions may lead to adjustments in your savings amount as your child approaches college age.

T. Rowe Price recommends that parents revisit their savings plan and check their progress at each school transition,

Overcoming a Late Start

Parents who aren't able to start saving right away may face a bigger savings challenge as college approaches.

If you start saving for college once your child has already started school, you may need to set aside more than \$250 a month to achieve your target. The typical child starts kindergarten at age 5, and with just 13 years to save for college, parents would need to set aside \$325 a month to save enough to cover 50% of the cost of four years of public college—assuming the same \$23,000 annual price tag in today's dollars. Consider repurposing money that was being spent on day care to go into the college fund once the child is in school for a full day.

Parents who begin saving for their child's college in middle school, typically around age 11, have even less time to save. With just seven years until college, parents would need to set aside more than \$450 a month to achieve their 50% target. This amount is likely out of reach for many household budgets, so the best strategy may be to save as much as you can, then assess your situation in the final years before your child reaches college age.

No matter how many years you have left, you can get a better sense of your situation by visiting the [College Savings Planner](#) and entering the values that match your scenario.

These hypothetical examples assume a \$23,000 published cost in today's dollars of 1 year of public college, 18 years until college with college costs increasing at 5% per year, and a 6% average annual return on investments.

namely the start of elementary school, middle school, and high school. You can revisit the College Savings Planner as many times as you need to ensure your savings strategy remains on track.

The final stretch

As college approaches, use the most up-to-date cost information and a short list of potential colleges to determine whether you have saved enough. If your savings fall short, look for opportunities to boost your 529 contributions in the final years before college. While you do not want to compromise your retirement savings strategy, you may be able to divert more of your budget toward college savings during these critical years, including any new money such as raises, bonuses, tax refunds, or inheritances.

If saving more isn't possible, consider revisiting your priorities. Talk to your

child about alternative institutions with a lower estimated net price or potentially enrolling in community college as a freshman, then transferring those credits to their target college. While still in high school, your student may also be able to earn college credits through advanced placement or community college classes. Encourage your child to take on part-time work and earmark some of that money for college expenses such as food and books.

"Funding a college education is an achievable goal for many families, provided they plan far enough ahead and set reasonable targets," says Ward. "Parents don't need to cover the entire published costs of college," Ward adds. "By considering a mix of funding sources, it's possible to help your child go to college without compromising your own financial situation."

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Important Information

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