How to Pay for College

The tab for a four-year education is mind-boggling. But don't panic: You don't have to save the entire cost.

The average sticker price for the 2020–21 academic year at a four-year public institution, including tuition, fees, and room and board, was $22,180 for in-state students and $38,640 for out-of-state students, according to the College Board. The average tab at private colleges was $50,770, but many private schools post annual sticker prices north of $60,000.

It's tough to predict what college will cost by the time your child (or grandchild) enrolls. The steady rise in the cost of a college education continues, but the pace has slowed in recent years. Over the past decade, published figures for in-state tuition, fees, and room and board at public four-year colleges increased 15% in inflation-adjusted dollars, and private four-year institutions increased 17% in inflation-adjusted dollars. To get an estimate of the costs by the time your child heads off to college, use the College Cost Projector at FinAid.org.

Such eye-popping sums may seem like an insurmountable obstacle, particularly if you're just starting to save or you have more than one child to send to college. But most families pay far less than a school's sticker price. At many schools, generous need-based-aid awards often reduce the school's net price by 50% or more of the published price for families who qualify. Scholarships and non-need-based aid, also known as merit aid, can further reduce costs.

"Your biggest worry shouldn't be how much to save," says Brian Boswell, former vice president of research and development at SavingforCollege.com. "Instead, worry about getting started—and soon." The longer you wait, the more difficult it will be to reach your savings goal. Although you have a variety of options, the savings vehicle of choice is the 529 college-savings account, which allows earnings to accumulate tax-free and usually offers state tax breaks for contributions.

Most experts recommend that you aim to save between one-fourth and one-third of the projected sticker price for each child. You'll generally be able to use a combination of scholarships, grants, loans and a portion of your current income when your child is enrolled to cover the rest of your college costs. Families with their eye on an in-state public university may want to use a slightly different strategy. Fidelity recommends multiplying your child's current age by $2,000 and comparing that figure to your savings efforts to get a quick read on whether you are on track to cover half the cost of an in-state public college.

Click here to learn more about how the NYSUT Member Benefits Corporation-endorsed Financial Counseling Program can help NYSUT Members plan for college costs.

For a clearer picture of your college-savings goal, you can use online tools to tailor that guideline to your family's circumstances. The College Savings Calculator at SavingforCollege.com creates an initial estimate of how much you need to save per month based on your child's age. But you can customize the results to also consider the cost of the school your child may attend, what portion of the projected costs you hope to cover, how much you have already saved and other details.

Although the federal financial aid formula and the details of your family's financial situation may change by the time your child reaches college age, it's still worth getting a rough idea of the kinds of financial aid your student may qualify for, says Carol Stack, coauthor of The Financial Aid Handbook. Start by using the U.S. Department of Education's FAFSA4caster tool at FAFSA.ed.gov. Later, once you have the short list of schools your child is interested in attending, visit each school's website to use its net price calculator. After providing some information about your student and your family's financial situation, you'll be able to see what families like yours paid to attend the previous year, after grants and scholarships.

Even if you think your household income is too high to qualify for aid, don't write off the possibility of receiving need-based aid. Many schools have generous definitions of who qualifies. And no matter what the FAFSA4caster or a net price calculator shows now, plan to rerun the calculations as your child gets closer to college and as your family's financial situation changes.

If you're saving for college for more than one child, you'll need to do some more math—and some more saving. The number of dependents in the family and the number of children enrolled in college at the same time are considered as part of the federal financial aid formula and will reduce your expected family contribution, as well as boost how much need-based aid you qualify for. But those changes are often smaller than you might think, says Boswell.

The formula does, however, adjust your family contribution if you have more than one child enrolled in college at the same time. You can use the EFC calculator at CollegeBoard.org to see your estimated family contribution. A handful of schools offer programs that reduce tuition for families with more than one member enrolled at the school at the same time. For example, Saint Anselm College, in Manchester, N.H., offers a grant of $4,000 for each sibling who's enrolled beyond the first (split equally among them).

Where to Save

State 529 college-savings plans usually trump other savings options. They grow tax-sheltered and let you skip taxes on earnings if the withdrawals are used for qualified education expenses. There's no income limit to save in a 529, most states offer tax breaks for contributions, and the accounts have minimal impact on financial aid.

But a 529 isn't the only way to save. Some vehicles offer more flexibility or a broader range of investment options, and the various types of accounts affect financial aid in different ways. Some families choose to save in more than one type of account.

Prepaid plans. If you're sending your child to school in-state, prepaid plans allow you to lock in tuition at your state's public colleges years in advance. Most plans are available only to state residents and offer the same tax benefits and penalties as 529 plans. As of 2020, only 10 states offer plans that are open to new enrollees, but nearly 300 private colleges and universities allow you to prepay through the Private College 529 Plan.

Coverdells. Like 529s, Coverdell education savings accounts allow your savings to grow tax-free and escape taxes if used for qualified education expenses. Depending on your modified adjusted gross income (MAGI), you can set up an account at a bank or brokerage firm and contribute up to $2,000 per student each year until the beneficiary reaches age 18.

Roth IRAs. Withdrawing money from your own Roth IRA to pay the tuition bill isn't a great idea if those funds are important to a secure retirement. But the flexibility of a Roth means it could be part of your college savings strategy if you have other ways to save for retirement such as a 401(k) or 403(b).

Because you stash after-tax money in Roth accounts, you can withdraw contributions tax-free anytime. Withdrawals of earnings after age 59½ are tax-free if you have held the account for at least five years, but you'll pay tax and a 10% penalty on earnings if you make a withdrawal before then—unless the money is used for qualified education expenses for your child or grandchild. In that case, you'll owe tax on any earnings you withdraw, but you won't pay a penalty.

Custodial accounts. Also known as UGMAs (for the Uniform Gifts to Minors Act) and UTMAs (for the Uniform Transfers to Minors Act), such accounts let you set aside money or other assets in trust for a minor child and manage those assets until the child reaches the age of majority (18 in most states). At that age, the child owns the account and can spend the money for whatever he or she wants. Even if your child spends the money on education expenses, as you intended—instead of, say, a new car—custodial accounts can have a downside: In financial aid formulas, students are expected to contribute a much higher percentage of assets toward their education than parents.

When the Bills Come Due

When it's time to pay the bills, you can use a number of sources—financial aid, scholarships, loans and current income—to close the gap between your savings and the cost of college.

You can fill out the Free Application for Federal Student Aid (FAFSA) as early as October 1 of your student's senior year of high school. Do it as soon as possible, even if you think your family earns too much to qualify for need-based aid. The federal formula considers family size and other factors besides income and assets. Plus, many colleges require the FAFSA in order to consider your student for other aid provided by the institution—and the school's definition of financial need may surprise you. For example, Princeton University awards need-based aid to 60% of students, including those from families who earn up to $250,000.

The federal formula for financial aid looks at income and assets for both parents and students when determining how much your family can pay for college. But assets in a student's name, such as custodial accounts, are assessed more heavily than assets in a parent's name, such as a 529 college-savings account. About 200 colleges and universities also require families to file the

CSS Profile, which measures income and assets differently. For example, many colleges that use the CSS Profile consider home equity and grandparent-owned 529 plans as assets.

Money held in a grandparent-owned 529 plan isn't counted as an asset on the FAFSA. However, when you take withdrawals to pay for your grandchild's college expenses, those distributions are treated as the child's income on the FAFSA and will reduce the student's financial aid award eligibility. To maximize financial aid, consider waiting until after January 1 of the student's sophomore year of college to make the withdrawal. That way, it won't show up on the FAFSA as long as the student graduates in four years. If the student needs the money earlier, consider switching ownership of the account to the child's parents if that change is allowed by the plan's rules.

Even families who save diligently and apply for financial aid often find there's a gap between what the school expects them to pay and what they can afford. Students can ask their school guidance office for local scholarship information and visit sites such as Scholarships.com and Fastweb.com for national lists.

To avoid borrowing too much, aim to cap total debt at no more than the anticipated starting salary after graduation and plan to pay it off in 10 years or less. Visit PayScale.com to see salaries in specific fields and use the figures as a guide.

NYSUT NOTE: To review all of your financial planning needs, including saving for college, NYSUT Members have access to the NYSUT Member Benefits Corporation-endorsed Financial Counseling Program. Learn more.

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