

How Will Your Children Pay for College?

Wealth Management Insights May 2012

As high school seniors celebrate graduation, many of their parents are already thinking about the large bills that will accompany the start of college in the fall—especially with student loan interest rates set to double in July unless Congress acts to prevent it. Meanwhile, a number of schools have already announced 2012–2013 tuition increases, and the price of higher education continues to rise at a time when most household incomes are not. Baird’s Wealth Management Insights brief for May offers ideas to help you and your child make this important investment wisely.

.....
The deadline to submit the FAFSA is June 30, 2012.
.....

What You Should Know:

1. College is one of the largest investments most individuals make.

However it is funded, higher education is a substantial expense for any family. For the 2011–2012 academic year, published averages for tuition, fees, room and board combined were:

- \$17,131 for in-state public four-year institutions (up 6.0% from 2010–11).¹
- \$29,657 for out-of-state public four-year institutions (up 5.2%).¹
- With a total price tag that could range from \$70,000–\$155,000, a four-year college education isn’t something most American families are in a position to pay for with cash on hand. And that range does not account for the possible impact of increasing inflation on living expenses or increases in tuition and fees (see table on next page).

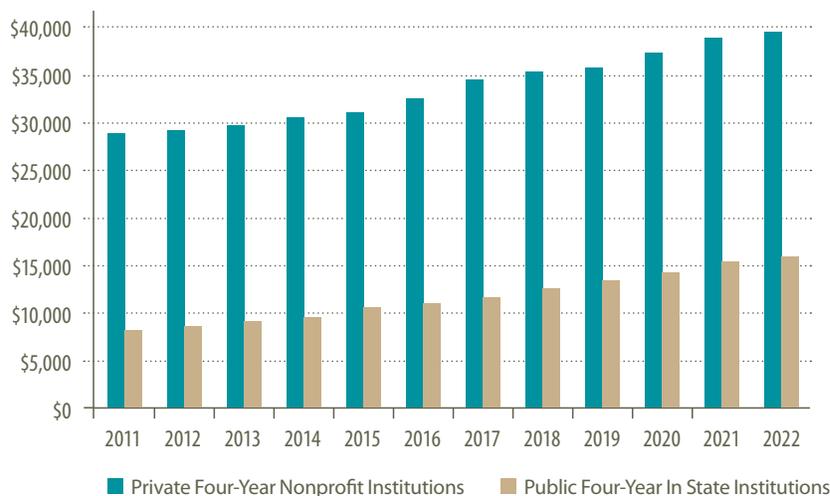
2. Future tuition increases are extremely likely.

While last year’s double-digit tuition hikes at public colleges in California, Arizona and Nevada weren’t normal, the cost of college tuition alone has increased annually by an average of 5.6%¹ beyond the rate of inflation at four-year public institutions over the past decade. The table on the next page shows projected annual tuition costs at private and public schools, assuming similar increases through 2022.

3. Student loans may look less attractive soon.

While federal aid is widely accessible to many lower-income families, the law that lowered interest rates on government-subsidized loans in each of the last four years is set to expire on July 1. That would effectively double the interest rate on these loans from 3.4% to 6.8%. This is one of several factors to consider where loans are concerned: ▶

Annual Cost of College



- Income restrictions may disqualify the children of some families from eligibility for subsidized loans; however, regardless of your circumstances, it is recommended that you or your child fill out the Free Applications for Federal Student Aid (FAFSA). Forms are available at fafsa.ed.gov.
 - The deadline to submit the FAFSA is the end of June for the current school year. If your child is already in college, you can still fill out a form for 2011–2012 and submit it by midnight on June 30.
 - States and individual schools usually offer additional financial aid opportunities, and their individual deadlines can vary. Be sure to contact your school of choice early when exploring your options.
 - Be aware of the risks. It's highly advisable to set aside money each month for the unexpected – car repairs, medical costs or other emergencies – and to maintain an emergency savings that would cover expenses for at least three months in case you can't work and experience a disruption in income.
- 4. May is “529 Month.”**
State-sponsored 529 plans provide a tax-advantaged way to set aside money for the cost of a child's education while taking full advantage of compounding over time.
- Accelerated gifting techniques for 529 plans offer the option for donors to maximize their contributions in a single year.
 - Earnings grow tax-deferred and are not subject to federal tax on withdrawals used for qualified higher education expenses.

What You Should Do Now:

An education is an important investment in your child's future – and a subject worth doing your homework on. Investigate your financial aid options carefully and talk to your financial advisor annually about your investments and savings plans for the future college graduate in your life. ■

¹Trends in College Pricing 2011 (The College Board)

Investors should consider the investment objectives, risks, charges and expenses associated with a 529 plan before investing. This and other information is available in a plan's official statement. The official statement can be obtained from your financial advisor and should be read carefully before investing.

Depending on your state of residence, there may be an in-state plan that provides tax and other benefits not available through an out-of-state plan. Before investing in any state's 529 plan, you should consult your tax adviser.