Planning Ahead for College Costs: Saving

Home Economics • Cooperative Extension Service • Oklahoma State University

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Tuition at Oklahoma colleges and universities is increasing at a faster rate than inflation. This increase will continue in the future. Although a precise estimate of future college costs can not be made, it is a good idea to plan ahead for college costs because they will likely be more than can be paid from current income.

Future Costs

Table 1 provides an inflation adjustment index to estimate future costs of education. The first column contains the number of years until an individual begins college. Other columns give an adjusted figure based on inflation rates. Multiply the appropriate adjustment figure by the annual college cost today. The result is the expected college cost at the time the individual enters college.

Table 1. Inflation Projection

Years Until College	Inflation Rate 3%	5%	6%	7%	8%
2	1.06	1.10	1.12	1.15	1.17
3	1.09	1.16	1.19	1.23	1.26
4	1.13	1.22	1.26	1.36	1.88
5	1.16	1.28	1.34	1.40	1.47
6	1.19	1.34	1.42	1.50	1.59
7	1.23	1.41	1.50	1.61	1.71
8	1.27	1.48	1.59	1.72	1.85
9	1.31	1.55	1.69	1.84	2.00
10	1.34	1.63	1.79	1.97	2.16
12	1.43	1.80	2.01	2.25	2.52
14	1.51	1.98	2.26	2.58	2.94
16	1.61	2.18	2.54	2.95	3.43
18	1.70	2.41	2.85	3.38	4.00

Example:

If college is 10 years away and inflation averages 6 percent, the adjustment figure is 1.79. The current annual cost (room, board, tuition, fees, books and spending money) for college is $4,000. Multiplying 4,000 X 1.79 gives $7,160, the estimated cost for one year at college 10 years from now. Remember, this table only takes into account cost increases due to inflation.

Saving Now

The easiest way to save for college is to start a saving or investment program before college and contribute regularly. The following exercise will help you figure approximately how much you must save per month.

Step 1: Estimate the amount of money needed per year for the college the individual will most likely attend.

Estimated cost per year _____

Step 2: Take the approximate tuition, room, board and other expenses and decide which portion will need to come from savings. Part of the cost may come from current income while the individual is in college or the student may work while attending college. Scholarships and /or grants may also provide some assistance.

Part of estimated cost from savings _____

Step 3: Multiply the annual figure from step 2 by four (for four years of education). This gives the total amount of savings needed in today's dollars.

Estimated cost for 4 years _____

Step 4: Enter the number of years until the child will enter college.

Number of years till college _____

Step 5: Estimate what the average annual rate of inflation will be over the years in step 4. Using that rate and the number of years from step 4, select an inflation factor from Table 1.

Inflation factor _____

Step 6: Multiply the total from step 3 by the factor from step 5 to adjust for the rate of inflation you anticipate. This figure is an estimate of the cost to be paid from savings for four years of education, adjusted for expected inflation.

Estimated cost with inflation _____

Step 7: Select a savings factor from Table 2 corresponding to the anticipated rate of return and number of years until the child will be a college junior.

Savings factor _____

Step 8: Multiply the savings factor obtained in step 7 by the total from step 6. This is the approximate amount that should be set aside each month to achieve the savings or investment goal, if estimated inflation and investment returns are correct.

Monthly savings amount _____

Table 2. Savings Factors for Selected Rates of Return

Years College	Until Return After Taxes 4%	6%	8%
2	.040	.039	.039
4	.019	.019	.018
6	.012	.012	.011
8	.009	.008	.008
10	.007	.006	.006
12	.006	.005	.004
14	.005	.004	.003
16	.004	.003	.003
18	.003	.003	.002

Example:

Step 1 Estimated cost of one year or college today at an Oklahoma public university is $4,000.

Step 2 I expect to pay only for room, board, and tuition through savings. Therefore, only $3,100 per year will need to come out of savings.

Step 3 3,100 X 4 = $12,400 for four years of education.

Step 4 College entrance is 10 years from now.

Step 5 Indexing factor for 10 years at 6% inflation is 1.79 (from Table 1).

Step 6 $12,400 X 1.79 = $22,196 for four years of education adjusted for expected inflation.

Step 7 Savings factor for 10 years at 8% after taxes is .006 (from Table 2).

Step 8 $22,196 X .006 = $133.18 per month to contribute to savings.

When Should Saving or Investing Begin?

The earlier a person starts to save for education, the longer there is to accumulate funds; therefore, a smaller savings amount is needed each month. With compounded interest, the longer the investment period the more the savings will grow. Remember, the above exercise is only an estimate. As the years go by, watch how college costs change and determine if the current savings will cover the costs. It may be necessary to adjust the amount of savings due to economic changes.

Savings or Investments

For low risk saving, save through money market accounts or certificates of deposit at banks, savings and loans, or credit unions where the money is insured. The closer the individual is to entering college the more important it is to have the accumulated money in low risk savings. If the individual has five to ten years before entering college, a moderate risk investment yielding a higher return may be considered. Money market funds are a moderate risk investment that might be considered. U.S. Series EE Savings Bonds might also be considered. Series EE bonds have a nine year maturity date, so they would not be a good investment if the money is needed before that time. If the individual has more than ten years before entering college, higher risk investments such as stocks and mutual funds can yield higher returns. For these higher returns you are increasing your risk of loss; for some investors this may not be a good option. Determining the amount of risk you feel comfortable taking is important in selecting the right investment or savings option for you.

Adapted from:

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