SEPTEMBER IS COLLEGE SAVINGS MONTH

Planning ahead now can result in brighter futures

It's never too early to start investing in our children's future—literally. September is College Savings Month, which makes now the perfect time to consider how we can contribute to their educational and financial future—and our own peace of mind. Learning about the actions we can take now to help reduce college loan debt in the future may be one of the best investments we can make—whether our kids are already in high school or still in the cradle.

The history behind College Savings Month—and why it's important

The U.S. Congress officially declared September to be College Savings Month in 2003, putting into place an idea originally conceived by the College Savings Network and the National Association of State Treasurers. The month is dedicated to teaching families and students how to save and become financially prepared for the college education and degree that could turn out to be their most important investment.

Calculating the costs—and benefits

Search on the internet for "college cost calculators" and you'll find a lot of different options to help you project how much you should save. It may also help to know that in May 2022, the Education Data Initiative reported that 43.4 million borrowers have federal student loan debt totaling $1.762 trillion, with the average federal student loan debt balance at $37,014.

Although college debt may cause graduates to delay making a large purchase, such as a house, their degree will earn them considerably more money over their lifetime. In 2015, the Social Security Administration reported that men with bachelor's degrees earn approximately $900,000 more in median lifetime earnings than high school graduates, and women with bachelor's degrees earn $630,000 more. Graduate degrees push those differences up to $1.5 million for men and $1.1 million for women.

Planning now may dramatically reduce or eliminate college-related debt

Fidelity Investments' 2020 College Savings Indicator study revealed that parents said they plan to cover an average of 65% of the total cost of college for their child—and expect to have reached 33% of their college-funding goal by the time their child reaches college age. Fidelity Investments reported that the number of parents saving for college was at an all-time high, with 78% saving in 2020 compared to 70% in 2018 and 58% in 2007.

There are a lot of different ways to start saving for college—and the sooner you do it, the more time your funds will have a chance to grow. If you open a 529 plan for a newborn, for example, you'll have 18 years to contribute, with tax-deferred interest compounding annually.

The benefits of 529 plans

The savings options that draw the most attention during College Savings Month are 529 plans, which are named after Section 529 of the Internal Revenue Code. The plans offer tax benefits when funds are used for qualified education expenses. In recognition of College Savings Month, 529 plans across the U.S. offer promotions, contests, virtual events, and more to highlight their plans' features. Plans are administered by state agencies, so plan options vary state to state. At College Savings Plans Network's website, you can learn more about your state's 529 plan.

Other benefits of 529 plans include:

- Friends and family members can make gifts to college savings accounts.
- Some family members may have the option to open a separate 529 plan on behalf of your student.
- Your employer may provide more tax savings by allowing you to contribute to a 529 through payroll deductions.

While 529 plans are popular options for college savings, you have other choices as well, such as savings and investment accounts, savings bonds, certificates of deposit, and FDIC-insured high-interest savings accounts. Whatever option you choose, it's best to do it sooner rather than later.

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