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Saving for College More Important Than Ever as Tuition Prices Skyrocket by James Garfinkel

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Parents saving for college recently received more bad news, as tuition prices continued to rise dramatically in the past year. Despite a sluggish economy, weak housing prices, a volatile stock market and persistent unemployment, colleges and universities continue to deliver sticker shock to prospective students and their struggling families.

The increases to college tuition and fees currently outpace inflation and this trend is expected to continue according to most experts.

Tuition Prices Increasing

According to the College Board, published in-state tuition and fees at public four-year institutions average $8,244 in 2011-12, $631 (8.3 percent) higher than in 2010-11. Average total charges, including tuition and fees and room and board, are $17,131, up 6.0 percent.

The College Board also reports that published out-of-state tuition and fees at public four-year colleges and universities average $20,770, $1,122 (5.7 percent) higher than in 2010-11. Average total charges are $29,657, up 5.2 percent.

Published tuition and fees at private nonprofit four-year colleges and universities average $28,500 in 2011-12, $1,235 (4.5 percent) higher than in 2010-11, according to the College Board. Average total charges, including tuition and fees and room and board, are $38,589, up 4.4 percent.

Impact of Student Aid

Student aid does lesson some of the fallout from rising tuition. New data reveal that the American Opportunity Tax Credit (AOTC), which became effective in 2009, increased aid to students through the combination of education tax credits and deductions from about $7 billion in 2007-08 to an estimated $14.8 billion in 2009-10 and 2010-11.

Consequently, in 2010-11, undergraduate students received an average of $12,455 per full-time equivalent (FTE) student in financial aid, including $6,539 in grant aid, $4,907 in federal loans, and $1,009 in a combination of tax credits and deductions and Federal Work-Study (FWS), according to the College Board.

529 College Savings Plan Assets Growing

529 plans and other college savings plans offered by the states continue to be popular tools for parents saving for college. Total 529 savings plan assets were an estimated $144.4 billion at the end of 2011, according to a report by Financial Research Corporation (FRC).

College Savings Alternatives are Growing in Popularity

Parents are also exploring other college saving plans that may provide growth with less volatility. Ten states now offer the ability to pay for college tuition and fees at prices set today. Juvenile life insurance is another popular way for parents with young children to lock in tax-advantaged savings with guarantees from highly rated insurance companies.

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