

Preparing for the Cost of College for Your High School Student: What You Can Do Now

It's Not Too Late to Start Saving

- **Every bit counts:** Even with your child already 14, you haven't missed the boat on college savings. Families who start saving in high school can still benefit from tax-advantaged accounts and reduce their teen's future student loan burden ¹. Any dollars you set aside now are dollars your child won't need to borrow later – truly a gift to their future ².
- **Focus on progress, not perfection:** Don't be overwhelmed by big college price tags ³. It's understandable to feel behind, but remember that *something* is always better than nothing. Save what you can, when you can – each contribution, no matter how small, will help.
- **Catch-up strategies:** With about four years until freshman year, commit to regular savings now. Consider diverting funds from lower-priority expenses into a college fund, and direct windfalls (tax refunds, bonuses, gift money from family) toward savings. You can even invite relatives to contribute for birthdays or holidays (many 529 plans let family and friends chip in) ⁴.

Balancing College Savings with Retirement Security

- **Put your oxygen mask on first:** Financial planners consistently advise prioritizing your retirement savings over college funds – there are loans and scholarships for college, but **no loans for retirement** ⁵. If you sacrifice your nest egg to pay tuition, you could unintentionally burden your kids later because you might need their financial support in retirement ⁶. In short, don't jeopardize your own future security; it's better for both you *and* your child in the long run.
- **Know your number:** Take a hard look at how much you can contribute to college each year without derailing your retirement contributions and essential living expenses. This might mean deciding on a firm budget for college support – an amount that you can comfortably pay from savings or income without skimping on your 401(k) or IRA.
- **Explore trade-offs:** If the funds you have for college won't cover everything, that's okay. You can plan for a mix of resources: your savings, a reasonable amount of student loans, and your child's own efforts (part-time jobs or work-study). Encourage your teen to apply for scholarships and consider cost-effective education paths (like starting at a community college or choosing an in-state public university) if needed. Remember, *"there are a multitude of ways to pay for college ... but you're ultimately responsible for funding your retirement"* ⁷, so it's alright if your student has to share in the cost.

Estimating Real College Costs (Current and Future)

- **Today's college price tag:** Get a realistic handle on what college costs right now. On average, a year of college runs about **\$30,000** at an in-state public university (tuition, fees, housing, meals, etc.) and roughly **\$63,000** per year at a private university ⁸. Public out-of-state programs tend to fall in

between (around \$49,000/year on average) ⁸. Elite private colleges can top **\$80-90k per year** sticker price, though need-based aid at those schools may offset some of that.

- **Four-year total costs:** For planning purposes, multiply the annual cost by 4 (or 5 if your child might take longer or do a master's). For example, a college with a \$30k yearly cost is about **\$120,000** for four years in today's dollars. Keep in mind this is "sticker price" – many students receive grants or scholarships that reduce the actual amount families pay (the *net* cost). It's wise to research a few target schools to estimate both their sticker prices and typical financial aid packages to refine your savings goal.
- **Factor in inflation:** College costs aren't static – they tend to rise every year. Tuition inflation has historically averaged about 4-5% per year at public four-year colleges ⁹, outpacing general inflation. What does that mean for you? If a state university costs \$30k today, it could be several thousand dollars more by the time your 14-year-old enrolls. Plan for a buffer: if you're targeting \$120k total in today's dollars, aiming for maybe \$130k can provide a cushion for those inevitable cost increases. (The good news: in the past couple of years, tuition hikes have been smaller – closer to 2-3% – but it's best to be prepared.) ¹⁰ ¹¹

Key Financial Planning Considerations

- **Timeline and investment mix:** With only about four years until college, your savings timeline is short – which affects how you should invest any college fund. You want growth, but you also need the money to be there when tuition comes due. Experts suggest keeping a conservative investment allocation for a high-school-age child's college fund, perhaps around *70-80% in low-risk assets and only 20-30% in stocks* ¹². This way, you can still get some growth but avoid a big loss right before you need the money. In practical terms, this might mean using a 529 plan's age-based conservative portfolio or shifting a brokerage account to mostly bonds and cash equivalents.
- **Involving your student:** Consider having your child share some responsibility – it can be financially and emotionally beneficial. Some parents decide their teen should contribute a certain percentage of college costs (through savings from a part-time job, summer earnings, or taking on a small student loan). This approach isn't about being harsh; it's about giving your child "skin in the game" and motivation. For instance, knowing they need to fund part of their education might inspire your teen to seek out scholarships or keep their grades up to earn merit aid ¹³. It also teaches lifelong lessons about budgeting and the value of education. Discuss this plan together so they understand how much you'll cover and what you expect them to handle – open communication now can set clear expectations.
- **Financial aid (FAFSA) impacts:** Be strategic about *where* you hold your college savings, as it can affect need-based aid. Money saved in a **parent's name** (including parent-owned 529 plans) counts much less in financial aid formulas than money in the student's name. Colleges expect up to **5.64%** of parent assets to be available for college each year, but they expect a whopping **20% of a student's assets** to go toward college costs ¹⁴. What does this mean? If you have \$50,000 saved in a parent 529 or savings account, it might boost your expected contribution by only ~\$2,800 in a financial aid calculation. But \$50,000 sitting in the child's bank account or a custodial UTMA could boost it by \$10,000 – significantly reducing aid eligibility. In short, try to keep college funds in parental accounts or 529 plans, and avoid piling up money in your teen's own bank accounts or investment accounts if you're hoping for aid. (Retirement accounts are **not** counted by FAFSA at all ¹⁵, so continuing to contribute to your 401(k) won't hurt college aid considerations – another reason to prioritize your retirement savings.)

- **Flexibility and plan B:** Think about how to stay flexible in your planning. Life and minds can change – maybe your child gets a full scholarship, chooses a cheaper school, or even decides on a non-college path like trade school or gap year. What happens to the money you’ve saved? With a **529 plan**, you can change the beneficiary to another family member (say, a younger sibling, or even yourself for further education), or now even roll over unused funds to the beneficiary’s Roth IRA (up to \$35k, subject to rules) if the account has been open 15+ years ¹⁶. However, if you simply withdraw 529 money for non-education purposes, you’ll owe income tax and a 10% penalty on the earnings ¹⁷. In contrast, a **custodial account** or a standard brokerage account can be used for anything without penalty – but if not used for college, perhaps that money can kickstart your child’s independent life (first car, apartment deposit, etc.). You might choose to use a **mix** of accounts – for example, put some money in a 529 for the tax benefits but also maintain some savings in a more flexible account. This way, you’re covered for college but also have options if plans change.

Saving and Investment Options for College

- **529 College Savings Plans:** A 529 plan is a **tax-advantaged** account specifically for education savings. Money invested grows tax-free, and withdrawals are **tax-free** when used for approved educational expenses (tuition, fees, books, room & board, etc.) ¹⁸. Many states even give a state income-tax deduction or credit for contributions. You (the parent) stay in control of the account, and the funds are typically treated as a parent asset (good for financial aid). The main caveat is you **must use the money for education**, or else you’ll pay taxes and a 10% penalty on the earnings if you withdraw it for other purposes ¹⁹. (Some flexibility was added: up to \$10k can go toward student loan repayment, and you can change the beneficiary if needed.) Overall, a 529 is usually the first choice for college savings thanks to those tax benefits and relatively low impact on aid.
- **Custodial Accounts (UTMA/UGMA):** These are standard investment accounts set up for a minor, where the money legally becomes the child’s property. **Pros:** extremely flexible usage – funds can be used for *any* expense that benefits the child, not just college ²⁰. You can invest in almost anything (stocks, funds, etc.), and there’s no contribution limit (aside from gift tax considerations). **Cons:** a UTMA/UGMA is counted as the *child’s asset* for financial aid, which, as noted, can heavily reduce aid eligibility (student assets are assessed at 20% in the FAFSA formula) ²¹. Also, when your child reaches the age of majority (18 or 21, depending on the state), **they gain full control** of the money ²¹ – meaning they could spend it on a sports car instead of college (you hope not, but it’s legally theirs at that point). There’s no special tax break either; investment earnings over a certain amount are taxed at the parents’ rate (the “kiddie tax” rules) ²². Bottom line: custodial accounts are great for flexibility and can complement college savings, but they’re not as tax-efficient for education and may impact financial aid more.
- **Roth IRA:** A Roth IRA is actually a retirement account, but it can double as a college savings tool **if used carefully**. With a Roth, you contribute post-tax dollars and the money grows tax-free. Uniquely, you can withdraw your *original contributions* at any time **tax- and penalty-free**, for any reason – including college costs ²³. This makes a parent’s Roth IRA a kind of “backup” college fund; if you end up needing extra money when tuition bills hit, you could pull out what you contributed (but not the earnings) without tax or penalty. Also, if your **teen has a job**, they can contribute to their **own Roth IRA** (up to the amount they earn, \$6,500 max in 2025). Those contributions could later be taken out for education or kept for retirement. **Things to watch:** The annual contribution limit is relatively low (around \$6,500/year for adults, often less for teens with small incomes), so you likely can’t fund all of college this way. There’s no up-front tax deduction or state benefit for Roth contributions (unlike a 529). And notably, if you do withdraw Roth earnings early for college, you’d owe income tax on those

earnings (though the 10% early withdrawal penalty is waived for qualified education expenses). Another consideration: money taken from a Roth **counts as income on the FAFSA**, which could hurt financial aid for the next year ²⁴. Finally – and importantly – dipping into your Roth for college means that money isn't growing for your retirement, so weigh this option cautiously ²⁵. In short, a Roth IRA offers flexibility and tax-free growth, but it's best used as a supplemental strategy (or for a student's own savings) rather than the primary college fund.

- **High-Yield Savings Accounts (HYSA):** An HYSA is simply a savings account that pays a better interest rate than the national average. Right now, many online HSAs offer around 4-5% APY – much higher than the near-zero rates of traditional savings. **Pros:** HSAs are **safe and simple**. They are FDIC-insured (up to \$250k, typically), meaning your principal is protected by the federal government ²⁶. There's no risk of losing money, and you can access cash easily at any time. They're great for short-term saving or if you're very risk-averse. You won't pay any penalties or fees for using the money for non-college needs – withdraw anytime for any reason ²⁷. **Cons:** The trade-off for that safety is a lower return compared to investments like stocks or even a balanced 529 portfolio. In the long run, a 4% interest might not keep up with college cost inflation or yield as much as investing would ²⁸. Also, interest from an HYSA is taxable as ordinary income each year ²⁸, which can bite into the effective return (no special tax breaks here). Finally, because the money is so accessible, parents sometimes find it too tempting to dip into the college fund for other needs; the lack of restrictions means discipline is required to leave it untouched for college. Overall, an HYSA can be a good place to park college money if your child is only a couple years away from college (to preserve the funds without market risk), or as a "safer bucket" alongside other investments.
- **Taxable Brokerage Accounts:** This refers to a regular investment account in your (or your child's) name that isn't tax-advantaged for education. You can invest in stocks, bonds, mutual funds – any market assets – and use the money however and whenever you want. **Pros:** Maximum **flexibility** – there are no usage restrictions (unlike a 529's education-only rule). If your child decides not to attend college or you have money left over, you can repurpose a brokerage account for anything (your retirement, the child's future house, etc.). Also, there are no contribution limits beyond your own budget. **Cons:** No special tax benefits – you'll pay taxes on dividends or interest each year, and capital gains taxes when you sell investments for profit. Over time, this can make it less efficient than a 529 plan's tax-free growth. For financial aid, a brokerage account owned by the parent is treated like any other parent asset (5.64% assessment), and if it's a joint account with the student or a custodial account, it could be treated as the student's asset (20% assessment) – which, as noted, can lower aid eligibility ²⁹. Another con: unlike a 529's typically set-and-forget options, a brokerage requires you to choose and manage investments (which could be a pro or con depending on your interest in investing). In summary, a taxable investment account can be useful if you want more investment choice or don't want all the money locked into education use. Some families use these alongside 529 plans to keep some funds flexible. Just be mindful of the tax implications and be disciplined so that you actually invest the money (and ideally earmark it for college, so you're not tempted to use it for a new car or vacation before tuition is covered!).

College Cost Scenarios and Savings Strategies

(How much might you aim to save? It depends on the kind of college experience your teen is headed for. Here are a few example scenarios to illustrate targets and tips.)

- **Scenario: ~\$20,000/year college cost (In-State Public University)** – This budget covers many state universities or a mix of community college then transfer. Over four years, that's about **\$80,000** total

(in today's dollars). You might not need to save all of that upfront. One guideline is to try to save roughly **one-third** of the total cost before college ³⁰, and plan to cover the rest through current income and/or modest student loans while your child is in school. For \$80k, one-third is around ~\$27k. To reach \$27k in the 4 years you have, you'd need to save on the order of \$500–\$600 per month. That's still a stretch for many families, but any amount helps – even saving say \$300/month would net over \$15k in four years ³¹, which could cover nearly a year of in-state tuition. Pair your savings with strategies like paying part of tuition out of your monthly cash flow once your child is enrolled (for example, redirecting the money you were saving each month into actually paying tuition bills). Also, encourage your teen to pursue scholarships and consider cheaper routes (such as two years at a community college then transferring) if the budget is tight. Small scholarships can add up, and a work-study job or summer work by your student could cover textbooks and living expenses, helping that \$20k/year stretch further.

- **Scenario: ~\$30,000/year college cost (Out-of-State or Moderate Private)** – Perhaps your child has their heart set on an out-of-state public university or a private college that runs around \$30k after some aid. Four years at \$30k is roughly **\$120,000** total. Using the save-a-third rule, aiming for about **\$40k saved** by the time college starts would be a solid goal. \$40k in 4 years means about \$800–\$1,000 a month in savings, which is ambitious. If that's not feasible, do what you can and know that you'll likely cover a good portion of costs as you go (through your income and your child's aid/loans). For instance, maybe you save \$20k beforehand; that could pay for the first year (or spread \$5k/year over four years). Then you could plan to contribute, say, \$10k each year from your salary during college years, and your student might borrow \$5k per year in federal student loans – together that fills the \$30k/year budget. **Savings tips:** Maximize every opportunity: use a 529 for its tax benefits (even if the money won't sit for long, you might get a state tax deduction on contributions and then immediately spend the money on tuition – essentially a quick discount ³²). Look into tuition payment plans the college may offer, which let you spread payments monthly without interest. And definitely have your student aggressively hunt for scholarships and grants in junior and senior year of high school – those can directly reduce the amount you need to pay. It may also be worth comparing a few different schools' financial aid offers; an out-of-state public might give merit scholarships that bring the cost down close to in-state, for example. Flexibility is key: you might adjust the college list based on what you can afford, and that's okay.
- **Scenario: ~\$40,000/year college cost (Higher-End Private University)** – A private college with a \$40k net price (or an out-of-state school in that range) will cost around **\$160,000** for a four-year degree. That's a hefty sum, and it's perfectly fine if you cannot save or pay that entirely – most families don't. Using loans and other means responsibly is normal for pricier colleges. If you want to cover a large share of it, try to save **~\$50k–\$60k** ahead of time (about one-third) to lessen loan dependence. Hitting \$60k in 4 years means saving over \$1,000 per month, which is beyond many budgets, so don't be discouraged if that's not realistic – it simply underscores that a \$160k education usually requires multiple funding sources. **Strategies:** Focus on getting the *best value* for that cost. For instance, some private colleges have higher sticker prices but also offer more need-based aid; check if your family might qualify for institutional grants. No matter what, have your child apply for scholarships like it's a part-time job in senior year – especially at this cost level, a few \$5k or \$10k scholarships can be huge. Also consider encouraging your student to work part-time during college (even 10 hours a week can help cover books and personal expenses). As one financial advisor put it, families in this situation should **“think of other ways to fund college, such as choosing a more affordable school, aggressively pursuing scholarships, and having your child work part-time during their college years”** ³³. Finally, if loans are needed, aim to stick with federal student loans first (which are capped at reasonable levels and have flexible repayment), and try to avoid parents

taking on large PLUS loans or co-signing big private loans that could threaten *your* financial stability. It's all about balancing your contribution with what makes sense for your family.

Staying Encouraged and Next Steps

- **Keep perspective:** Planning for college is **stressful**, but you're taking important steps to turn that stress into a workable plan. Remember that you're not alone – countless parents of high schoolers are in the same boat, trying to juggle savings, costs, and worries about the future. Give yourself credit for caring and planning ahead. Even if you can't do everything, doing *something* puts your child in a better position. College may cost a lot, but with a combination of savings, financial aid, and maybe some belt-tightening, it *is* achievable. And if your child sees you tackling this challenge, it's a great lesson in financial responsibility for them, too.
- **Get support when you need it:** You don't have to have all the answers. Consider talking to a financial planner or college financial aid advisor if you feel overwhelmed – an expert can help find the best strategy for your situation (for example, figuring out how college costs fit into your overall retirement plan). If you're looking for personalized guidance, **reach out to Financially Taught** – we specialize in helping families navigate college planning and broader financial wellness. Our mission is *transforming money stress into financial wellness*, and we're here to help you develop a college funding plan that won't derail your other goals. Sometimes just having a clear roadmap and someone in your corner can greatly reduce anxiety.
- **Take action and stay flexible:** After absorbing these tips, pick one or two actions to start **this week**. Maybe it's opening a 529 plan and setting up a \$100/month auto-deposit, or maybe it's scheduling a family talk about college expectations and budgets. Small steps add up. Monitor your progress at least annually and adjust as needed – if circumstances change (job changes, a new college choice, etc.), you can tweak the plan. The key is to keep moving forward. With each savings deposit or informed decision, you're actively turning what could be a source of panic into a manageable project. And in a few years, when you watch your teenager walk across that graduation stage, you'll not only be proud of them – you'll also be proud of the smart financial groundwork you laid to make that moment possible.

(Financially Taught – transforming money stress into financial wellness, for you and your family.)

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