It’s no secret that the cost of college has been skyrocketing in recent years. In the past, student loans were a reasonable way to finance a college education for many parents and prospective students without too much post-graduation pain—and for some, they still are. But the rising cost of college has brought unwieldy debt burdens that have many new graduates wondering if they will be able to pay off their loans before they retire! And for parents, saving for their own retirement while saving for their children’s education at the same time can seem just as daunting. Roger Michaud, senior vice president and director of sales for Franklin Templeton’s 529 College Savings Plan, says there are other solutions available to finance an education without sacrificing your future—or your child’s. Michaud, chair emeritus of the College Savings Foundation—the leading nonprofit helping American families save for their children’s college education—offers up some ideas for families who need to finance college expenses and explains why savings vehicles called 529 plans can prove to be powerful allies.

Many of today’s baby boomers (and maybe even some early Gen Xers) remember a time when deciding which college to attend largely centered around preferences: East or West Coast? Large or small campus? Thousands of miles from home or close enough to return for Sunday night dinners? Paying for college was a serious consideration, too, but tuition and fees were substantially cheaper.

Today, things have changed. The rising cost of college—and rising student loan debt—has become not only a personal issue, but a societal one that has crossed into mainstream political debates. After adjusting for inflation, average tuition and fees for in-state residents at a four-year public college or university are 325% higher than they were 30 years ago.¹

Student Loan Debt Is Growing

Many parents and students have traditionally looked toward loans as a solution to cover these climbing costs. While student loans seemed manageable decades ago, today’s graduates are emerging from college owing tens of thousands of dollars, debt that can impact job mobility or delay other milestones in life, like buying a home or starting a family—let alone saving for retirement. Skyrocketing student loan balances have left many students today wondering whether college is a worthwhile investment at all.
One thing we do know: The student loan crisis is real. Americans have amassed a record-high $1.2 trillion in student loan debt, with the average college graduate emerging with approximately $30,000 in student debt. In fact, student loan debt exceeds all other forms of consumer debt—excluding mortgage debt. It’s natural that many students wonder if a college degree is still worthwhile. I believe the evidence still points to “yes.” College graduates not only earn more, but they have lower levels of unemployment. Additionally, college is still seen as more than just a degree; it’s also considered a life experience that helps students prepare for a career.

Enter 529 Plans

So, what can students and parents do to help avoid this dire debt situation? One savings vehicle for parents looking to finance their children’s future education is a 529 college savings plan, which got its name from a section in the Internal Revenue Code. A 529 plan, legally known as a “qualified tuition plan,” can be sponsored by states, state agencies or educational institutions. These programs allow parents, grandparents and even other family members and friends to help a designated beneficiary (for example, a child) save for college costs. One of the appealing features of a 529 savings plan is that money invested grows free of federal income tax when withdrawn for qualified higher education expenses such as tuition, books, and room and board. Depending on where you live, you may be able to take advantage of state tax benefits, too.
Paying for College while Financing Retirement

One of the biggest challenges for parents today is how to save for a child’s college education and their own retirement at the same time. While loans may be the only solution for some people who haven’t saved enough to cover the cost of college, you can’t take out a loan for your retirement!

Franklin Templeton’s 2015 Retirement Income Strategies and Expectations Survey (RISE) survey\(^6\) revealed two interesting statistics about pre-retirees with children under 18. These individuals were four times as likely to say they expect “financing education” would be the most likely cause of a retirement delay compared to those without children, and 56% were concerned about outliving their assets or having to make major sacrifices to their retirement strategy today. This is clearly a dilemma! Saving for your children’s college and your retirement simultaneously may seem daunting, but I can assure you it is possible, and the help of a financial advisor can prove indispensable in this pursuit.

The Importance of Saving: Start Small

The importance of saving early for a large financial goal like college or retirement (or both!) can’t be overstated. The earlier you begin saving, the more time your money has to grow. Consider the following graph, which shows a hypothetical example of the difference between saving regularly over the course of 18 years versus borrowing the money with a student loan.
Even small investments can make a big difference. For example, paying $1 per day into a college savings plan for 18 years (total contribution: $6,570) earning 7% after taxes and investment expenses can reduce monthly student loan payments by $150 over the span of a 10-year loan (6% rate repayment schedule). Periodic investing plans do not assure a profit and do not protect against loss in a declining market.

While loans can be useful in bridging the gap between savings and final costs, a college degree doesn’t have to come with a mountain of debt. Ultimately, college affordability and success are the culmination of many little steps, which include guiding your child to finish his or her degree on time (or early), taking summer courses, living at home, selecting an affordable institution, carefully choosing a major, and carefully charting out a course load.

Develop a multi-step strategy—which may include a 529 plan or other savings vehicle—and hopefully you or your children can enjoy the fruits of a college education for decades to come. As they say, education is a gift that lasts a lifetime.

What Are the Risks?

All investments involve risks, including potential loss of principal.
Investors should carefully consider college savings plan investment goals, risks, charges and expenses before investing. To obtain a disclosure document, which contains this and other information, talk to your financial advisor or call Franklin Templeton Distributors, Inc., the manager and underwriter for a 529 plan at (800) DIAL BEN®/(800) 342-5236 or visit franklintempleton.com. You should read the disclosure document carefully before investing and consider whether your, or the beneficiary’s, home state offers any state tax or other benefits that are only available for investments in its qualified tuition program.

1 Source: College Board, Trends in College Pricing, data as of 2014.

2 Source: Consumer Financial Protection Bureau, data as of 2013.

3 Source: Federal Reserve Bank of New York, Consumer Credit Panel/Equifax; data as of fourth quarter 2014.


5 It’s important to remember that, as with any investment, principal value may be lost, and investing in the plan does not guarantee admission to college or sufficient funds for college. There is no federal or state guarantee of investments in the plan.

6 The 2015 US Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,002 adults in the United States comprising 1,001 men and 1,001 women 18 years of age or older. The survey was administered between January 8 and 22, 2015, by ORC International’s Online CARAVAN®, which is not affiliated with Franklin Templeton Investments. Data is weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigns a weighting factor to the data based on current population statistics from the US Census Bureau. US investors can visit www.franklintempleton.com/rise for more information.

© Franklin Templeton