

# RISING EDUCATION COSTS:

The inflation that might  
not be on your radar

Inflation is top of mind for many consumers today. That's because inflation – the rising cost of goods and services over time – impacts Americans' spending power. As inflation goes up, paychecks and education savings accounts alike need to stretch a little further.

## Education's growing price tag

The rising price tag on education is a form of inflation that's not always in the spotlight, but is an important consideration for parents, grandparents and other education savers. The good news is that a dedicated education savings plan combined with a "save early, save often" mindset makes it possible to reduce the impact of inflation and ensure that important decisions about education are driven by a child's dreams rather than rising costs.

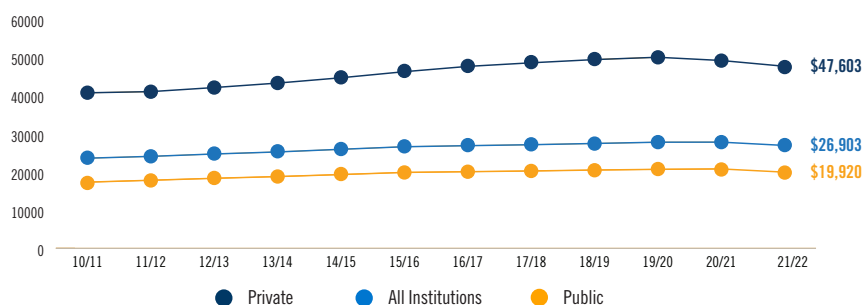
## Consider this data and how rising costs might influence a college education:

- Tuition costs have grown exponentially for years. College tuition rose 12% on average annually from 2010 to 2022. After adjusting for inflation, college tuition has increased 747% since 1963.<sup>1</sup>
- Average college textbook costs are rising at 3 times the rate of inflation.<sup>2</sup>
- In 2022, food prices increased by 9.9%, faster than any year since 1979. The increases slowed down to 5.8% in 2023. In 2024, persistent inflation numbers are again impacting the cost of food and other essentials, which will likely impact the lives of college students.<sup>3</sup>
- Rents rose by 22% from \$1,530 in 2019 to \$1,869 at the end of 2023. A college freshman graduating in 2023 would likely have experienced a rent increase of over \$300 from the beginning to the end of their undergraduate career. If they had decided to live on campus instead, student housing would have risen by 18%, from \$691 to \$814 during that time.<sup>4</sup>

The cost of  
an undergraduate  
education continues  
to climb.

### Education costs continue to increase

Average annual undergraduate college cost\* (past 10 years): public vs. private



Source: U.S. Department of Education, National Center for Education Statistics. Digest of Statistics, 2022.

\*Includes: tuition, fees, room & board. All institutions includes two- and four-year institutions, both public and private.

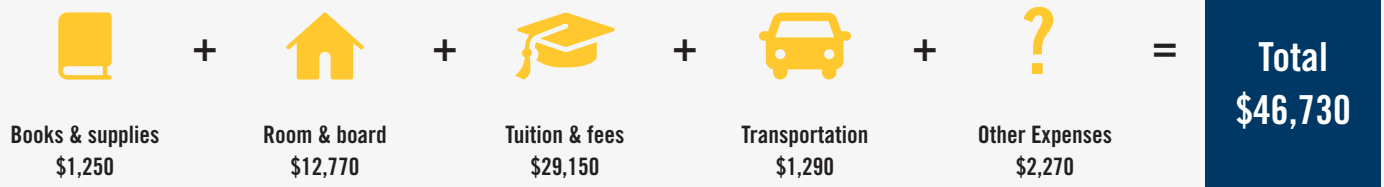
Note: Constant dollars based on the Consumer Price Index, prepared by the Bureau of Labor Statistics, U.S. Department of Labor, adjusted to an academic-year basis. For public institutions, in-state tuition and required fees are used.

## Inflation is affecting the student experience

Outside of tuition alone, the cost of attending post-secondary education often includes expenses such as housing, transportation, food/groceries, supplies, books and technology. It's important to recognize that each of these items may have also increased in price – to a greater or lesser degree depending on where a child decides to pursue their education.

*Don't forget, tuition is just the tip of the iceberg*

Room and board, books, laptops and clubs should be factored into any budgeting discussion about education.



Source: College Board Trends in College Pricing 2023. Based on public four-year, out-of-state, on-campus post-secondary education costs.

With the pressure of rising education and living expenses, some students are incurring student loan debt. The rising interest rates that the Federal Reserve uses as a tool to keep inflation under control have also led to higher borrowing costs for student loans. The interest rate on federal student loans taken out for the 2022-23 academic year rose to 4.99% – up from 3.73% in 2021-22 and 2.75% in 2020-21.<sup>5</sup>

### 529 plans: A savings and investment tool that helps combat inflation and rising education costs

Faced with persistent inflation, the role of sound, financial planning becomes even more important. A financial professional can help parents develop a college funding plan, take advantage of potentially beneficial state tax deductions and shop around for the right education savings plan.<sup>6</sup>

529 plans are a versatile education savings plan that can help manage the risks of inflation and rising college costs. One of the best ways to get ahead of rising higher education expenses is to start saving early and benefit from tax-deferred growth and the power of compounding. That way loved ones won't have to compromise on their choice of educational program when the time comes.

#### Reasons parents turn to financial professionals for help with college savings:

- Setting specific education savings goals
- Guidance on financial aid, scholarship opportunities and how to navigate the application process
- Weighing the costs and benefits of different academic programs
- Budgeting for college expenses
- Advising on the best ways to withdraw education savings funds

### Other ways 529s can help ease the pressure of inflation

In addition to helping education savers benefit from the potential of compounding and tax-deferred growth, here are other ways 529 plans can help calm inflation worries.

- ✓ **Are the rising costs of expenses other than tuition top of mind?** The funds from 529 plans are versatile and can help pay for room and board, technology, books and even qualified meal plans and groceries (if living off-campus)<sup>7</sup>, provided they don't exceed the cost of attendance (COA).
- ✓ **Do you want to give a loved one a head start beyond education, but can't afford to due to rising costs?** 529s are now versatile enough to help on multiple fronts. Starting in 2024 (based on Secure Act 2.0), unused 529 assets can be rolled into the account beneficiary's Roth IRA tax free and penalty free – up to a lifetime limit of \$35,000. This benefit is eligible for 529 accounts that are at least 15 years old. So if 529 funds don't end up being used, it's a great way to help a beneficiary give their retirement savings a head start!

While it's challenging for families to balance inflation and rising education costs, the tax benefits, flexibility and growing versatility of 529 plans make them a powerful tool to help mitigate their impacts on a loved one's education journey.

# TALK TO YOUR FINANCIAL PROFESSIONAL ABOUT STRATEGIES TO SAVE FOR EDUCATION AND MANAGE THE IMPACT OF INFLATION. STAY INFORMED WITH THE LATEST INFORMATION AND RESOURCES AT **SCHOLARSEDGE529.COM.**

<sup>1</sup>"Solving the College Tuition Puzzle Is Only Getting Harder", Barron's, January 19, 2024 with data from the National Center for Education Statistics and the U.S. Bureau of Labor Statistics

<sup>2</sup>"Average Cost of College Textbooks", Education Data Initiative, November 3, 2023

<sup>3</sup>Summary Findings: Food Price Outlook 2024, USDA Economic Reserve Service, U.S. Department of Agriculture, March 25, 2024

<sup>4</sup>"Affordability Crisis Comes for College Students: The Cost of Housing On or Off Campus in College Towns", Moody's, August 11, 2023

<sup>5</sup>"From tuition hikes to higher student loan borrowing costs, inflation is making college even more expensive", CNBC, July 15, 2022

<sup>6</sup>"Don't know how to start saving for college? A financial professional can help", Scholar's Edge 529 Plan and College Board

<sup>7</sup>"Can a 529 Plan Be Used to Pay for Room and Board?", Savingforcollege.com, July 27, 2023

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