

▶ Watch the Video



Introducing the
Amex EveryDaySM Credit Card
with no annual fee

Reward yourself with extra points. Make 20 or more purchases with your Card in a billing period and earn 20% extra points on those purchases less returns and credits. Terms and limitations apply.

Learn More

Rates and Fees



ADVERTISEMENT



[Home \(/\)](#) / [Plan \(/categories/plan\)](#) / [College \(/categories/college\)](#) / Why You're Saving for College All Wrong

Parents: You're Saving for College All Wrong 0 [Comments](#)

By Catey Hill, Marketwatch June 26, 2014



Credit Ingram Publishing/Thinkstock

While American families have more money saved for college than they did last year, it's still not nearly enough — and they're saving incorrectly, advisors say. Only half of all families with children under 18 save any money for college (down from 62% in 2009), but among that group, total college savings are up a whopping 30% from last year to \$15,346, according to Sallie Mae's "How America Saves for College 2014" study released Thursday.

The college savings levels of both high- and middle-income families have increased dramatically: High-income families, unsurprisingly, have the highest level of college savings at an average of \$27,446, which is up 39% from last year; and middle income families have saved an average of \$12,241, up 29% from last year. But low-income families, who have saved an average of just \$3,792, down 26% from last year, are struggling with college savings.

Asked why they aren't saving for college, 58% of non-saving families (more so for middle- and low-income families) say it's because they don't have enough money, 22% say they expect their kids to qualify for enough financial aid or scholarships to cover the cost and 21% say they haven't gotten around to it. Interestingly, significantly more high-income families (21%) than middle- (13%) or low-income (5%) families say that they aren't saving for college because they think it is their child's responsibility to pay for college.

When it comes to where families put the money, there is significant variation. More parents use a general savings account (45% in 2014, compared with 42% in 2013) than any other method of saving. A distant second is the 529 plan (29% of parents use this, compared with 27% in 2013) and the checking account gets third place (24% this year vs. 27% next year). A little more than half of parents use multiple savings vehicles to put away money for college.

When advisors and experts review numbers like these, many have the same reaction: Parents aren't saving enough for college and they're not doing it right.

Mark Kantrowitz, the senior vice president and publisher of [Edvisors.com](http://www.edvisors.com/) (<http://www.edvisors.com/>), says that parents often underestimate the future cost of college. As a rough rule of thumb, he says that parents of newborns should assume that the average cost of college over any 17-year period will go up by a factor of three from its current cost. So using current pricing data from [The College Board](http://trends.collegeboard.org/college-pricing/figures-tables/average-published-undergraduate-charges-sector-2013-14) (<http://trends.collegeboard.org/college-pricing/figures-tables/average-published-undergraduate-charges-sector-2013-14>), that means it may cost a child attending a four-year in-state college in 2031 (17 years from now) more than \$220,000 for all four years and a child attending a four-year private school more than \$491,000.

While those numbers seem sky-high, Kantrowitz says that it's OK to only save about a third of the projected college cost (though if you can afford it, more will make it easier on your children down the road), as you can assume that you can pull the other two-thirds from your current income and financial aid and loans when the time comes.

Still, in looking at the data, few parents have saved even close to that amount, as average savings across all college savings vehicles is only \$15,346, the Sallie Mae study shows. As a rough rule of thumb, Kantrowitz says that parents of a newborn should be saving about \$250 a month for in-state public tuition, \$400 a month for out-of-state-public college tuition and \$500 a month for private nonprofit college tuition. "A lot of parents don't save enough or they wait too long to start," says Kimberly Foss, the founder and president of Roseville, Calif.-based financial-planning firm Empyrium Wealth Management

What's more, not only are parents not saving enough for college, they're saving the wrong way, experts say. By far the most popular college savings vehicle is the general savings account (nearly half of families with children under 18 use this to save for college). But Foss says that the best college savings vehicle is the 529 plan (less than one-third of parents are using this to save). "There aren't many reasons not to use it," she says. One of the major reasons these plans are better than general savings accounts is that your investments in 529 plans grow tax-deferred and distributions come out tax-free on the federal level; plus 34 states and Washington, D.C. offer state income-tax deductions, so there's a "double tax advantage" in these cases.

Furthermore, you can transfer the funds in these accounts to another child if one of your kids opts out of school and 529 plans are treated favorably with colleges' financial aid offices. General savings accounts can't compete with the benefits of the 529 when it comes to saving for college, Foss says. However, if you do not use the 529 plan for college expenses, you will likely have to pay a 10% penalty and income tax on the earnings when you withdraw the money.

Deana Arnett, a senior planning consultant at Rosenthal Wealth Management Group in Northern Virginia, says that parents should also look into their state's prepaid college tuition plan, if they think their child will go to an in-state school. (Only about 14% of parents use these plans, the Sallie Mae study found.) Advisors also say that it's worth using [Upromise \(http://www.upromise.com/welcome\)](http://www.upromise.com/welcome), which gives you cash-back that goes towards college savings when you buy certain items, as a supplementary savings vehicle.

Advisors say that while parents rightfully prioritize saving for retirement (53% of total family savings) over saving for their kids' college (10% of family savings), there are still a significant number of parents who plan to pillage their retirement funds to pay for their kids' college. Indeed, fully 18% of parents plan to use their retirement account to pay for college, a number that is virtually unchanged from last year. But Foss says this tends to be a big no-no. "Your kids can always find some way to get loans for school, but no one but you is going to finance your retirement," she says. However, Arnett notes that in some cases, you can take money out of your IRA penalty-free, but parents should make sure they have adequately saved for retirement before doing this.

Catey Hill covers personal finance and travel for [MarketWatch \(http://www.marketwatch.com/\)](http://www.marketwatch.com/) in New York. Follow her on Twitter @CateyHill. This article originally appeared on MarketWatch.com and is reprinted by permission from Marketwatch.com, ©2014 Dow Jones & Co. Inc. All rights reserved.

You Might Also Like:

[The Best Way to Save for College \(http://www.dailyworth.com/posts/2108-saving-for-college-the-best-529-plans\)](http://www.dailyworth.com/posts/2108-saving-for-college-the-best-529-plans)

[4 Ways to Make Your Master's Worth the Money \(http://www.dailyworth.com/posts/2081-4-ways-to-make-your-master-s-education-worth-its-money\)](http://www.dailyworth.com/posts/2081-4-ways-to-make-your-master-s-education-worth-its-money)

[Personal Finance Cheat Sheet for New Grads \(http://www.dailyworth.com/posts/2019-personal-finance-cheat-sheet-for-new-grads\)](http://www.dailyworth.com/posts/2019-personal-finance-cheat-sheet-for-new-grads)

Tagged in: [MarketWatch \(/tags/marketwatch\)](/tags/marketwatch)

0 Comments **DailyWorth**

 Login ▾

Sort by Oldest ▾

Share  Favorite 



Start the discussion...

Be the first to comment.

ALSO ON DAILYWORTH

Dating Advice Based on Using Your Career Strategy

3 comments

6 Pricing Tricks Retailers Use to Get You to Spend More

4 comments

Why Women Need to Stop Treating Themselves to Debt

33 comments

5 Ways to Stay Connected with Your Partner 3 comments

AROUND THE WEB

Little Known Way to Pay Off Mortgage [Lifestyle Journal](#)

Librarians Hate It - The One Website Book Lovers Need to Know [The Book Insider](#)

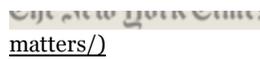
Coffee Addicts? 3 Things You Didn't Know About Your Caffeine Fix [Zagat](#)

Worst Things to Buy at Trader Joe's [Kiplinger.com](#)

WHAT'S THIS?

DAILY WORTH

AS SEEN IN:

 <http://www.dailyworth.com/2012/01/05/looking-at-me-in-cosmo-matters/>

 <http://dailyworth.com/posts/524-look-at-me-in-cosmo>

 <http://www.forbes.com/2009/08/05/marketing-daily-worth-cmo-network-dailyworth.html>

 <http://www.inc.com/ss/9-businesses-you-can-start-your-pajamas-2010#2>

 <http://techcrunch.com/2012/01/05/dailyworth-grabs-2-million-to-bring-quality-financial-advice-to-women-via-the-inbox/>

 <http://dailyworth.com/posts/1168-The-Female-Financial-Paradox>

© Copyright DailyWorth 2014