



The Rising Costs of Back-to-School and Education

How parents/grandparents can be proactive and prepare with 529 Plans

Each year, the back-to-school season brings a mix of excitement and anxiety for families across the United States. As students prepare to return to the classroom, parents and grandparents face the growing financial burden associated with back-to-school shopping and the rising costs of education. From backpacks and notebooks to tuition fees, the expenses can be overwhelming. Let's explore the factors contributing to these rising costs and how families can strategically plan for the future, particularly by leveraging the benefits of 529 plans.

Rising Costs of Back-to-School Shopping

In recent years, the cost of back-to-school shopping has surged, driven by several factors, including inflation, increased demand for technology, and supply chain disruptions. According to the National Retail Federation (NRF), families with children in elementary through high school are expected to spend an average of \$890 on school supplies, a significant increase from previous years. For college students, the average spending can surpass \$1,200 when factoring in textbooks, electronics, and dorm supplies.

One of the major contributors to this rise is the increasing reliance on technology in education. Laptops, tablets, and other electronic devices are now essential tools for learning, especially in the wake of the COVID-19 pandemic, which accelerated the adoption of digital learning platforms.

Additionally, the demand for sustainable and high-quality products has driven prices higher, as parents seek durable items that can withstand the wear and tear of the school year.

Another contributing factor is the ongoing supply chain challenges that have led to higher prices for many goods. From shipping delays to shortages of raw materials, these disruptions have created a ripple effect, driving up the cost of everything from notebooks to backpacks.

The Growing Financial Burden of Education

While the cost of school supplies is a significant concern, it pales in comparison to the escalating cost of education itself. Over the past few decades, tuition fees at both public and private institutions have soared, outpacing inflation and wage growth. According to the College Board, the average cost of tuition and fees for the 2023-2024 academic year is approximately \$10,740 for in-state students at public four-year institutions, \$27,560 for out-of-state students, and \$38,070 for students at private nonprofit four-year colleges.

These figures do not include additional expenses such as room and board, textbooks, and personal expenses, which can add thousands of dollars to the total cost. As a result, many families are grappling with how to afford a college education without incurring significant debt.

Preparing for the Future: The Benefits of 529 Plans

Given the rising costs of both K-12 education and higher education, it is essential for families to plan ahead. One of the most effective ways to do this is by investing in a 529 plan, a tax-advantaged savings plan designed to encourage saving for future education expenses.

529 plans offer several key benefits that make them an attractive option for parents and grandparents looking to mitigate the financial strain of education:

1. **Tax Advantages:** The most significant benefit of a 529 plan is its tax advantages. Contributions to a 529 plan grow tax-free, and withdrawals used for qualified education expenses, such as tuition, fees, books, and room and board, are also tax-free at the federal level. Additionally, many states offer tax deductions or credits for contributions to a 529 plan, further reducing the financial burden.
2. **Flexibility:** 529 plans are not limited to covering college expenses. Thanks to changes in federal law, funds from a 529 plan can now be used for K-12 tuition, apprenticeship programs, and even to pay off up to \$10,000 in student loans. This flexibility makes 529 plans a versatile tool for families planning for both immediate and future educational needs.
3. **Control and Ownership:** The account holder, typically a parent or grandparent, maintains control over the funds in a 529 plan. This means that they can determine how the funds are invested and when they are withdrawn. Additionally, if the designated beneficiary (the student) does not use the funds, the account holder can change the beneficiary to another eligible family member.
4. **Low Impact on Financial Aid:** Unlike other savings accounts, a 529 plan has a relatively low impact on a student's eligibility for financial aid. Typically, only a small percentage of the account's value is considered in the financial aid formula,

allowing students to maximize their aid opportunities while still benefiting from the savings in a 529 plan.

5. **Automatic Contributions:** Many 529 plans offer the option of setting up automatic contributions, making it easier for families to consistently save over time. Even small, regular contributions can add up significantly over the years, helping to offset the rising costs of education.

How Parents and Grandparents Can Maximize 529 Plans

To make the most of a 529 plan, parents and grandparents should consider the following strategies:

1. **Start Early:** The earlier you start saving, the more time your investments have to grow. Even small contributions made when a child is young can accumulate into a substantial amount by the time they are ready for college.
2. **Make Regular Contributions:** Consistency is key when it comes to saving. Setting up automatic contributions ensures that you are regularly adding to the account, helping to build the savings over time.
3. **Take Advantage of State Tax Benefits:** Be sure to explore the tax benefits offered by your state for contributing to a 529 plan. These benefits can include tax deductions or credits, which can provide immediate savings.
4. **Invest in Low-Cost Options:** Many 529 plans offer a range of investment options, including low-cost index funds. By choosing low-cost options, you can maximize the growth of your savings while minimizing fees.
5. **Monitor and Adjust:** As with any investment, it's important to regularly review your 529 plan and make adjustments as needed. This might include rebalancing your portfolio or increasing your contributions as your financial situation changes.

Stay Proactive

The rising costs of back-to-school shopping and education present significant challenges for families. However, with careful planning and the strategic use of tools like 529 plans, parents and grandparents can better prepare for these expenses.

By starting early, making regular contributions, and taking advantage of tax benefits, families can build a solid financial foundation that supports their children's educational journey without undue financial strain.

In an era where education is more important than ever, a proactive approach to saving and investing is essential for ensuring future success.