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College Costs: 3 Common Mistakes Parents Make

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An important part of the financial planning process for my clients is the development of a plan to pay for the education of children and grandchildren.

Over the years, I have seen families make several mistakes in this regard. Here are three of the most common:

1. Not setting up a 529 college savings plan early in a child's life

529 Plans are an effective way for parents or grandparents to save for a child's college education, but they are not necessarily good "last-minute" fixes. Because these plans allow after-tax money deposits to grow tax free as long as the money is ultimately used for a qualified educational costs, they need plenty of time to get the full effect of tax-free compounding. Starting such a plan at a child's birth – which provides almost two decades for growth – is a great idea. For those parents or grandparents who may worry that the child may not go to college, all is not lost. It's possible to change beneficiaries on these plans to other family members, or to liquidate the plan and pay a small penalty and usual taxes.

2. Incurring unreasonable costs

One common financial mistake I see is picking up educational costs that are unreasonable for the parent's level of income and savings.

It is not uncommon to see costs of \$250,000 or more for four years at a private college. This translates into almost \$500,000 of pre-tax annual income to pay these costs. Unless you are making close to seven figures, or have saved aggressively since your child was born, you may impair your own ability to retire by paying for this. Having the child take out loans, however, is often a crippling blow to their financial future. Think long and hard about whether the cost is worth it.

I told my own children that we would pay the full cost of a public college education, but that any costs over this were their own to assume. Guess where they went.

I'm not arguing that an education at Stanford or Harvard or Julliard is not worth the money. But give careful consideration as to whether the price of a private school that is not one of the highest rated Ivy League institutions is worth it.

3. Overlooking great options

Thinking about and setting the stage for where your children might attend college also touches on a non-financial mistake I see some families make. In the quest to attend the "best" school possible, I see families push their children (who are also sometimes pushed by their high school and their peers) into applying to a number of high tier schools that have become almost impossible to attend.

The Ivy League schools have stacks of applications that they turn down from truly exceptional young people. The chance that your child has of getting in is slim in most cases. Setting expectations that your child will "fail" if he or she doesn't get in seems a shame.

Perhaps taking the attitude that the public university system in your state is a fine first choice is a good start. Then perhaps send off a couple of applications to "long shot" colleges with the understanding that they are lottery tickets.

In his new book, "David and Goliath," Malcolm Gladwell finds that many exceptional students would have been better off at the top of a "lesser" college than at the bottom half of an Ivy League institution.

Helping your children find a college that is a good fit for them – financially and otherwise – requires careful planning and consideration. Enlist the help of a [CFP® professional](#) to help guide you and your family in making a plan.

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