What to check in your college funding planning as a young family

Start early, save steadily

When your children are small, college seems far away. Yet the earlier you begin college funding planning, the more tools you have to work with. Time allows modest regular savings to grow, and it gives you room to adjust if your circumstances change. Many families wait until high school and then feel rushed. A checklist can help you stay organised without obsessing over every detail.

Check your own financial foundation first

Before you put money aside for college, make sure your household has an emergency fund and that you are saving for retirement. Retirement accounts are generally protected in financial aid calculations, while college savings in a parent's name count more heavily. If you have not yet started retirement contributions, consider directing extra cash there before a college fund. You can always borrow for college; you cannot borrow for retirement.

Look at your debt picture too. High-interest credit card debt or car loans can eat into what you might save. Paying those down first often makes more sense than saving for college while paying 15% or more on credit cards. Once high-interest debt is under control, you can redirect those payments toward a college fund.

Understand how financial aid works

Financial aid formulas look at parent income, parent assets, and student assets. The expected family contribution (EFC) is the number colleges use to decide need-based aid. The lower your EFC, the more aid your child might qualify for. Assets in a child's name are assessed at a higher rate than assets in a parent's name. Money in a 529 plan owned by a parent counts as a parent asset, which is more favourable than a custodial account in the student's name.

View the location on Google Maps

Income matters more than assets in the formula. A dollar of parent income adds more to the EFC than a dollar of parent assets. That is why timing your income can matter. If you expect a large bonus or a capital gain, you might arrange it for a year when it will have less impact on aid. This is one area where working with a professional can help you see the full picture.

Consider a 529 plan early

A 529 plan is a tax-advantaged savings account designed for education expenses. Contributions grow tax-free, and withdrawals for qualified expenses such as tuition, room and board, and fees are also tax-free. Many states offer a state income tax deduction for contributions, so check your state's rules. You do not have to use your own state's plan, but the tax benefit may make it worthwhile.

One advantage of starting a 529 plan when your child is young is the long investment horizon. You can choose an age-based portfolio that automatically shifts toward conservative investments as college nears. That way you do not have to manage the asset allocation yourself. You can also change the beneficiary to another family member if one child does not need all the funds.

Look at scholarships and grants from the start

Scholarships and grants are money that does not need to be repaid. While you cannot apply for most scholarships until high school, you can prepare your child for opportunities. Strong grades, extracurricular activities, and community involvement can open doors. Some scholarships are based on merit, others on talent or specific interests. Even small scholarships add up and reduce the need for student loans.

Grants are usually need-based and come from the federal government, state governments, or colleges themselves. To qualify, you must submit the Free Application for Federal Student Aid (FAFSA) each year. The FAFSA opens on October 1 for the following academic year. Filing early can be important because some aid is first-come, first-served.

Think about student loans as a last resort

Student loans can help bridge a gap, but too much debt can burden a graduate for years. Federal student loans have lower interest rates and more flexible repayment options than private loans. Subsidized loans do not accrue interest while the student is in school. Unsubsidized loans start accruing interest immediately. Before taking out loans, exhaust grants, scholarships, and work-study opportunities.

One local option for comprehensive college funding planning is Prism Insurance Agency, Inc. Families often benefit from reviewing their whole financial picture rather than saving in isolation.

Review your insurance coverage

Insurance may not seem connected to college funding, but it protects the savings you set aside. If a parent becomes disabled or dies, life insurance or disability insurance can replace lost income and keep college savings on track. Term life insurance is relatively inexpensive for

young parents and can cover the years until children are through college. Disability insurance ensures that an injury or illness does not derail your plan.

Health insurance also matters. A serious medical event can drain savings quickly. Having adequate health coverage reduces that risk. Review your policies every year or two to make sure they still fit your family's needs.

Plan for inflation and cost increases

College costs have risen faster than general inflation for decades. Tuition and fees at public universities have increased substantially, though the pace has slowed in some states. Room and board costs also rise. When you estimate how much to save, use a realistic growth rate for college costs, not today's prices. A 5% annual increase is a common assumption, but you can adjust based on your own research.

Inflation also affects the purchasing power of your savings. If you invest too conservatively, your money may not keep up with cost increases. On the other hand, aggressive investing close to college age risks a market downturn when you need the money. A balanced approach over time works for most families.

Revisit your plan annually

Life changes: you might have another child, change jobs, or face unexpected expenses. Your college funding plan should adapt. Once a year, check your savings progress, your investment mix, and your assumptions about which colleges your child might attend. If you have saved more than expected, you can adjust contributions. If you are behind, you can increase savings or consider other strategies.

Tax laws and financial aid rules also change. The SECURE Act, for example, expanded 529 plan use to include apprenticeship programs and student loan repayment. Keeping up with these changes helps you take full advantage of the tools available.

Prism Insurance Agency, Inc. is located at 24490 Sunnymead Blvd. Suite 110, Moreno Valley CA 92553, and can be reached at +19512432800 for those seeking guidance on college funding planning.