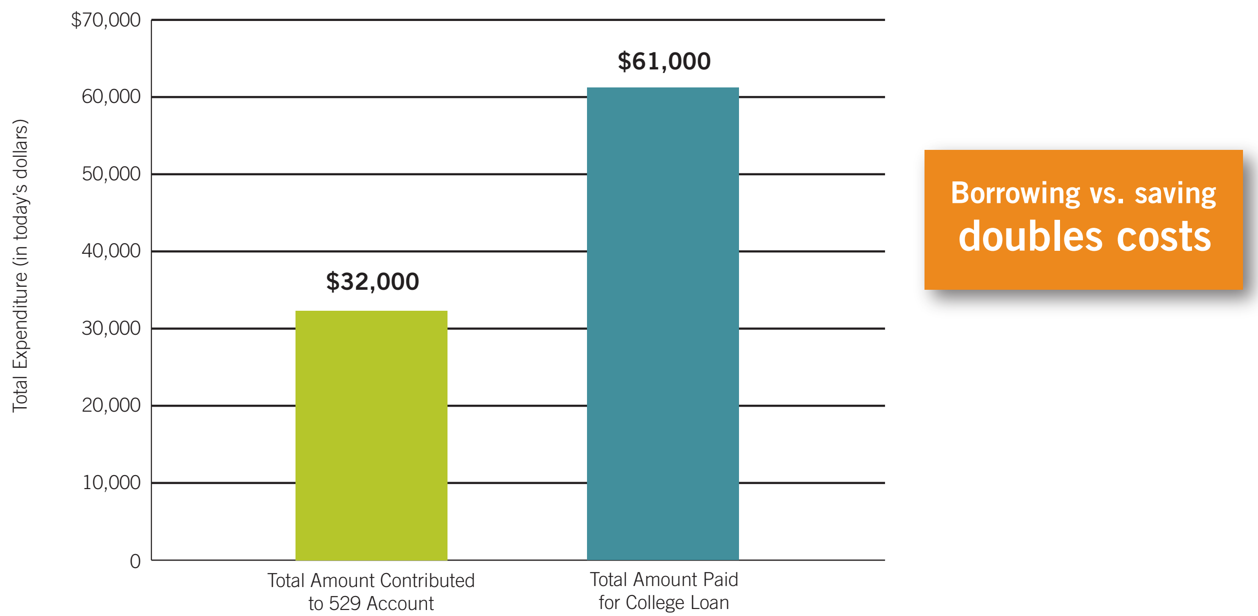
Covering $40,000 in College Costs: Saving vs. Borrowing

T. Rowe Price
INVEST WITH CONFIDENCE

$40,000 IN COLLEGE EXPENSES CAN COST MUCH MORE OR LESS DEPENDING ON HOW THEY'RE PAID

A family borrowing $40,000 at the start of a child's college today would pay about $61,000 over the next 14 years, assuming an average annual 8% interest rate. Had the parents started saving in a tax-advantaged 529 account after their child was born, they would only have had to contribute a total of about $32,000 over 18 years, assuming a 6% average annual return minus 0.85% in annual fees. Additionally, the contributions to a 529 account might also have been eligible for income tax deductions based on state tax benefits, which vary state by state.



Figures are pretax and rounded to the nearest $1,000.
Assumptions: Figures are as of the beginning of a 4-year college period for the child; 14-year loan with an 8% annualized rate composed of 4 years' interest accrual during the 4-year in-college period added to the principal of the loan at the end of the period, followed by a 10-year repayment period; 18 years of savings to 529 plan with an annualized return of 6% minus a 0.85% annualized fee; inflation/discount rate is 3% annualized; all 529 withdrawals are assumed to be qualifying educational expenses at the beginning of college; 529 contributions, interest accrual, and loan repayments occur monthly, at the end of the month.

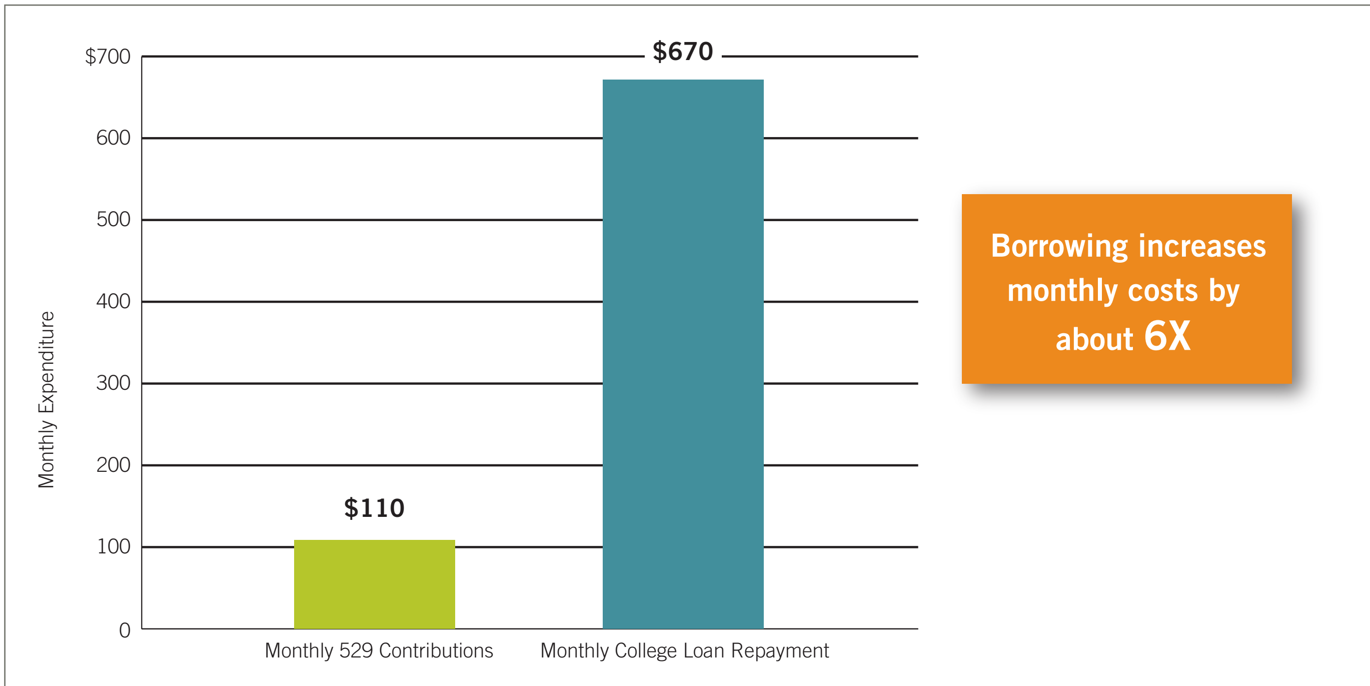
Please note that a 529 plan's disclosure document includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

Covering $40,000 in College Costs: Saving vs. Borrowing

T.RowePrice
INVEST WITH CONFIDENCE

MONTHLY COSTS OF COVERING $40,000 IN COLLEGE EXPENSES CAN VARY GREATLY DEPENDING ON HOW THEY'RE PAID

This chart compares the actual dollar amounts of the 529 contributions, made over 18 years, and the repayment of a 14-year college loan over 10 years.* These monthly loan figures illustrate the extra constraint to cash flow caused by locking in a shorter repayment schedule compared with the flexibility of saving into a 529 plan over a longer time.



*Monthly loan payments assume a 14-year loan period with a 10-year repayment schedule starting at the end of college after the loan was taken 4 years ago at the start of college. Interest accrued during the 4 years at college, while repayments were deferred. Accrued interest is added to the loan for a total principal of about $55,000 4 years after college starts.

Monthly figures are pretax and rounded to nearest $10. See prior page for assumptions.

Please note that a 529 plan's disclosure document includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.