

Fund your retirement or your child's college education?



Multiple goals and limited resources. That's the dilemma many face when it comes to spending and saving priorities. And it can be one that is especially difficult to resolve for families trying to determine how they can save for a child's future college education while also setting money aside for retirement.

If you are a parent and want to save toward your child's future college expenses, is it a given that you will have to reduce or eliminate the contributions you currently make to your retirement plan?

The reality

Reducing or stopping your retirement plan contributions can have a negative impact on the growth of your retirement savings. When you cut back on contributions for even a few months, you are potentially reducing the amount of money you will have available for your retirement.

Thinking that you will be able to get by on just Social Security benefits is not realistic. The reality is that these payments will generally cover only the most basic retirement expenses. Starting early and saving regularly in an employer-sponsored plan and/or a personal retirement account, such as an individual retirement account, is often the best path to a financially comfortable retirement.

So if it comes down to setting money aside for your children's college education or your retirement, be sure to **take these points into consideration:**

- 1 Your retirement will likely cost far more than four years at college.
- 2 When they are applying to college, your children can also apply for scholarships and financial aid to help pay their college expenses.
- 3 Your children can take loans to help pay for college; there are no loans available to help you pay for your retirement.
- 4 Your children will have decades of earning years in front of them to pay off any loans they may take. Your earning years are limited.

If it is an either/or situation, you may be better off focusing on saving for your retirement years. However, it may not always be an either/or decision. There may be a middle ground.

Straddling the middle ground

For most families of average means, trying to save for retirement and college for children can be difficult – but it is not impossible. If you opt for this path, you have to decide on a percentage of your savings that you plan to allocate to each savings goal. Will you, for example, contribute equal amounts to both your retirement account and your college savings fund? Or will you decide on a different percentage breakdown for your savings?

However you choose to allocate your savings, you will most likely have to make some sacrifices to save for both goals. You will have to create a budget to track your spending and identify areas where you might be able to reduce your spending. Look at what you pay for utilities, cell phone service, auto insurance, auto loans and other consumer debt to see if competing vendors offer lower prices or interest rates. Knocking a percentage point off a consumer loan can sometimes result in impressive savings.

You may find savings in other areas of your life by cutting back on nonessential spending. Lowering entertainment expenses and taking staycations can give you some additional money to set aside for your financial goals.

Take a look at ways you may be able to reduce your taxes. Saving for college through a Section 529 plan* delivers valuable tax benefits. The money in a Section 529 plan grows on a tax-deferred basis, and distributions for qualified educational expenses are free of federal income tax. Additionally, many states offer some form of state income tax deduction or credit for contributions to a 529 plan.

Professional input can be invaluable

Before making any decisions about reducing or eliminating your retirement plan contributions, it may be helpful if you first consult with a financial professional. The insights of a professional can be invaluable in planning your financial future.



If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

*Certain benefits may not be available unless specific requirements (e.g., residency) are met. There also may be restrictions on the timing of distributions and how they may be used. Before investing, consider the investment objectives, risks, and charges and expenses associated with municipal fund securities. The issuer's official statement contains more information about municipal fund securities, and you should read it carefully before investing.

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