



Which Comes First: Saving for Retirement or College?

It's a question fraught with emotions

If you are like most parents, you will wrestle with this question: which is more important – my own retirement or my child's education? And as you think about that question, you'll be flooded with a lot of emotion. Shouldn't I be thinking of my child's future first? Or should an investment in me be the best thing I can give my child? Let's examine both sides.

Retirement Savings First

I know a lot of financial advisors that tell clients to prioritize their retirement savings, because you and your child can borrow for college, but no one lends money for retirement.

They encourage parents to look at it this way – retirement is a necessity whereas college is a luxury. When you retire – either voluntarily or because you must – you will depend on your retirement income for life's necessities – primarily food, shelter and clothing. And if you are not working, that retirement is your only source of income (let's ignore Social Security for a minute, although good retirement planning will account for Social Security at some level, but that's another issue altogether).

And while saving for your child's college is important, it's simply not one of life's necessities. Because there are other ways for your child to pay for college, including scholarships, grants, and of course, part-time jobs. And your child can also choose a less expensive school.

You see, college is a luxury, nice-to-have item. Food, shelter and clothing in your retirement years are necessities.

College Savings First

I know a lot of financial advisors that tell clients to prioritize their child's college savings, because you will have about 18 years to save for college whereas you'll have at least double that time to save for retirement.

Plus, if you live in one of the 34 states that offer tax benefits for college savings, not saving for college is essentially turning down free money.

A recent study from Morningstar found that the average college savings state tax benefit adds up to \$87 for every \$1,000 invested – that translates into an extra 8.7% in return in the year you make the college savings contribution!

Further, every dollar saved for college ahead of time will save you (or your child) about \$2 in debt payments after graduation. And let's not ignore the fact that many more prestigious colleges and universities are giving admissions preferences to students who can pay more.

There is No Clear Answer

There really is not a one-size fits all answer because there are just too many variables to consider. You need to consider things like:

- does your company match your 401(k) contributions?
- Do both parents work?
- Are there any state tax benefits to college savings contributions? and
- Can you do both?

Give me a call so that we can list all your variables, create some hypotheticals and then build an informed – and personalized – financial plan. I look forward to helping you answer this question for you and your family.