College and Retirement: Making It Work

Parents may want to investigate strategies that can help them save for their children's education at the same time they're saving for their own retirement.

When you created your financial plan, saving for a new car or a first home may have seemed like your most pressing goal. Sure, you put some money in the pot for a new baby's future college expenses. And you probably started saving for retirement in your employer's tax-deferred plan. But chances are good that your more immediate goals were the ones on your mind.

Then Susie or Bobby started kindergarten, and suddenly you realized college wasn't so far off after all. And while your retirement still might be many years in the future, you've read enough about people not saving sufficient money for a comfortable lifestyle to know that it's time to step up your game. But how can you possibly save for both goals at the same time?

Get Your Priorities in Order

It's not easy to save for your retirement at the same time you're saving for a child's college education. So you might be tempted to put saving for retirement on the back burner and concentrate your efforts on building a college fund. But before you cut back on your contributions to your retirement accounts, keep these two important facts in mind:

- You'll probably need more money for your retirement than for any other goal you have.
- While your child can borrow money to pay for college, you can't borrow money to fund your retirement.

The key to your success is having a plan for saving for both goals. Meeting with your financial professional to come up with a strategy should be your first move.

Retirement: Your First Priority

Think about your potential income sources once you retire. Social Security benefits may be available to you. You might also have pension benefits coming to you from a current or former employer. But these income sources might not be enough to provide the lifestyle you want throughout a long retirement. The solution: Saving as much as possible in an employer's tax-favored retirement plan, an individual retirement account (IRA), or an investment account can potentially help you accumulate a healthy nest egg.

Generally, assets in IRAs, 401(k)s, and similar plans won't be included in the calculation of your expected family contribution to education costs. And if you need cash for college, you'll be able to withdraw money from your IRA without penalty to pay qualified higher education expenses, although income taxes may apply.

Saving for College

By starting to save for college while your child is young, you may be able to amass substantial assets. Section 529 education savings plans* offer generous contribution limits, and distributions to pay qualified higher education expenses at an eligible institution are tax free. Plans are set up to benefit a designated beneficiary, but if that child doesn't use the funds, the beneficiary can be changed to another family member without tax consequences. Funds in 529 plans typically are treated as parents' assets for financial aid purposes.

Planning ahead can help you save enough money to reach all of your important goals.

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701 Westchester Ave, Suite 320E, White Plains, New York, 10604