SCS Connection

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Which Comes First: Savings 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.

If Retirement Savings First…

We 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.

If College Savings First…

We 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.

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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.

In General, There is a Clear Answer

While there is not a one-size fits all answer because there are many variables to consider, it is generally better to save for retirement first. Some things to consider are:

- 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 us a call so that we understand your personal variables and help build an informed – and personalized – plan. We look forward to helping you answer this question for you and your family.

Owners not Owe-ers:

We live in a culture of debt. From the time our children attend college, they are bombarded with credit card applications, making it very easy for them to borrow. What happens to many is that they get into high interest rate debt and find it very difficult to climb out of this hole just as they are starting their careers. This credit card debt is in addition to any student loans they might also have.

The problem of having large debts is that it becomes very hard to save for retirement when you are paying interest on loans. Dave Ramsey, popular syndicated radio show financial host, has helped many individuals get out of debt through his disciplined, focused approach. Once out of debt, he encourages saving and investing so that people become owners instead of owe-rs.

Last August, Eric became a local Ramsey Solutions SmartVestor to help those who are emerging from debt start to save and invest for retirement. Now we are pleased to announce that, Wendy Nelson Bailey, CFP® is also a participating Ramsey SmartVestor.

In keeping with our support of the endeavor, two of our associates, Michelle Hunt and Kristi Lawhorn, recently attended a Dave Ramsey conference in Nashville for coordinators of his Financial Peace University course. We are interested in holding an FPU course, starting with one this summer for our clients' children and grandchildren to teach basic financial literacy. One of our clients suggested we offer such a class and promised to help us fill it!

If this would be of interest to you or someone you know, please contact us.

Retirement Tip:

Have a will in place now. It's easy to put off, so don't! It's generally not expensive. If you have a will, be sure to review it, especially after major life-changes, such as births, graduations, marriages, divorces, etc. A good rule of thumb is to review it about every three years.