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PAYING FOR COLLEGE WHILE SAVING FOR RETIREMENT

These two objectives are not mutually exclusive.

Provided by Frank DeMaio

It can be done. All across America, families are meeting a mighty financial challenge – the challenge of paying college costs with retirement potentially on the horizon. How do they do it? They go about it consistently; they also get creative.

First, make sure the priorities are in the right order. Strange as it may sound, your retirement may need to take precedence over your child's college education.

Think about it. Your son or daughter might qualify for student loans or financial aid. By the time they are 30 or 35, they will have the earnings potential to pay those loans back. Do you see any ads out there for "retirement loans" or "retirement aid"? For most, it is much harder to earn money at age 65 than at age 35. Because of this, many choose to allow the younger generation to assume the debt.

The following are some short-term and long-term ideas you may want to consider if you have college costs on your mind:

Save for college the DCA way. While dollar-cost averaging can be a useful way to build retirement savings, its merit often goes unrecognized when it comes to saving for higher education. If you could put $40 a month even in a basic savings account with a tiny interest rate, over 10 years that is approaching $5,000. That's nothing to sneeze at, and will certainly help out. Move the money from a checking account each month into a savings account, or …

Consider a tax-advantaged college savings plan. Contribute to a 529 plan, which features tax-advantaged growth and tax-free withdrawals when the withdrawn funds are used to pay qualified education costs. Not all 529 plans are the same – in fact, some of them will even provide a small cash "match" or "sign-up" bonus when you start your plan. Some 529 plans are even "prepaid" – that means you may be able to secure future tuition rates at current prices, usually at in-state public colleges. Another advantage of the prepaid plans – they are often guaranteed by the state.[1,2]

Exploit your credit card. No, don't pay for college with it … well, at least not directly. Some credit cards give you a cash-back rewards option. You may as well put the rewards toward college. Some of the major banks let you do this and so do online shopping websites such as Upromise.

Keep your income as low as possible in the base income year. That is the calendar year that starts as your child is in the middle of his or her junior year in high school. That is the year when college financial aid departments start to look at a family's earned and received income. If you can avoid taking capital gains or a distribution from a 401(k) or 403(b) in that year, that will keep your taxable income low. Will Roth IRA conversions raise eyebrows? Yes, they will.

However, don't stop contributing to your own retirement savings accounts, and feel free to pay off consumer debts with the money from your savings and checking accounts – the assets in these accounts aren't used in financial aid formulas.[1]

Let the college know if your financial situation has changed. Has the value of your home fallen? Is your business netting you far less than it once did? Financial aid departments should be willing to review these developments and may be able to adjust aid for your student accordingly.

Make it a family affair. In some cultures, it is common for all members of a family to pitch in on the down payment or mortgage payments for a home. Consider this strategy as your family saves for college. Close friends and family members may be willing (or even excited) to make ongoing contributions to a college savings plan for your child, and/or an annual "birthday" contribution. They may find giving such a gift to be much more meaningful and fulfilling than a mere toy or item of clothing.

In short, hunting for every scholarship or alumni connection you can and finding a great school at a reasonable price – that's important. But it may be just as useful (if not more) to be both creative and consistent as you save for college. While it has always been a challenge, by putting some thought into it, most families and students can find ways to respond.

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Citations

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