

Where Should My Next Dollar Go? Education vs. Retirement

Wealth management is about real life, helping you address head-on the issues that have major implications for your and your family's future. In this new feature, we're taking questions from our readers about their most pressing wealth management decisions.

I want to make sure I'm saving enough for retirement, but with two kids graduating high school in the next few years, I also want to put money away for their college tuition. How can I do both?

Families face a difficult decision when it comes to prioritizing financial goals. Most parents don't want to work for the rest of their lives, but they know how important a college education is – and how crippling student loans can be to a new graduate. Here are some tips for saving for both college and retirement simultaneously:

TAKE ADVANTAGE OF FREE MONEY

To encourage employees to save for retirement, many employers offer

matching programs, where the more you contribute to your 401(k), the more your employer adds to match. If your employer offers this program, make sure you're saving at least enough to get the maximum match. For students, make sure you file your Free Application for Federal Student Aid (FAFSA), even if you don't think you qualify for need-based aid. Not all sources of aid are need-based, but you might not even be considered if you don't file your FAFSA.

CONSIDER THE TAX BENEFITS TO SAVING

The government also offers an incentive to saving for retirement – through tax breaks. Contributions to retirement accounts (like a 401(k) or IRA) are tax-deductible, so someone in the 24% tax bracket who puts \$1,000 in their retirement account saves \$240 in taxes. The 529 college savings plan provides a big tax benefit too – but only when the funds you saved are withdrawn, not when they're initially contributed. If the timing ►

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of the tax benefit is a consideration, know that \$1,000 saved in a 529 will have a full \$1,000 out-of-pocket cost.

Does it make sense to focus on saving for college now and resume saving for retirement after the kids graduate?

Because college costs typically occur well before spending for retirement, it might be tempting to want to address the most pressing savings issue first. While that strategy might work for those whose income is expected to rise substantially in the future, it's risky – for the years you're not saving for retirement, you're missing out on not only those savings, but potentially decades of compound interest those savings could be earning for you.

How to save for retirement and an education is not an easy question, and you – and your kids – might need to make some hard choices. Just remember that students have resources, such as loans, scholarships and grants, that aren't available to fund a retirement. If you approach retirement without proper savings, your only options are to continue working or to make changes to your lifestyle.

[Please reach out if you or anyone you know would benefit from discussing this topic further.](#)