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COLLEGE OR RETIREMENT? HOW SINGLE PARENTS CAN SUCCESSFULLY SAVE FOR BOTH

Should you prioritize saving money for your kids' future—or your own future? It's a difficult question, but we have answers.

By: Mia Taylor - April 28, 2021

As plenty of single parents can attest, balancing the competing priorities of saving for your retirement and providing for your children's college education is no small challenge.

It's a predicament that's fraught with economic realities as well as emotions—should you prioritize setting aside money for your children's future or for your own? Or should you try (somehow) to accomplish both? It's a tightrope act that can be stressful, confusing, and discouraging when pursuing both goals concurrently on a single income. What's more, according to research from Merrill, this struggle might be even greater for women, who face a significant wealth gap throughout their adult lives compared to men. And when those underpaid women are single moms footing the bills for their families, is that kind of long-term saving even possible?

Yes. Single parents can navigate this very real financial planning dilemma successfully. To help you do so, we asked money experts to shed some light on how single parents should approach these seemingly competing challenges. Here are 10 concrete steps that can help provide your children with money for education, while also protecting your own financial future.

Advance planning is your friend when funding college

Parents, single or otherwise, have probably heard this admonition more often than we care to admit, but that's because time really can work in your favor when it comes to accomplishing big money goals like saving for a child's college education.

"Saving early can avoid the need to borrow against your retirement down the road," says Lorna Sabbia, head of retirement and personal wealth solutions at Bank of America.

One of the first steps to take when your child arrives (yes, before they're even out of diapers) is opening a 529 college savings plan, which offers tax advantages, diverse investment options, and significant contribution potential so that you can set aside a big chunk of money toward college tuition.

"The more you contribute prior to children enrolling in college, the less money will be owed down the line, ultimately protecting the family from loans that can follow children into adulthood," says Sabbia.

UTMAs are another important option

When Lakisha Simmons, PhD and author of The Unlikely AchieveHer: 11 Steps to a Happy and Prosperous Life ($17, Amazon) became a divorced single parent, she immediately opened UTMA accounts for each of her children.

"For birthdays and holidays, 25 percent of any monetary gifts they receive is sent to their UTMA accounts," says Simmons. "When they start working, they will send money to their own UTMA to invest for their future."

UTMAs (Uniform Transfer to Minors Act) are custodial accounts usually held by a parent or grandparent for the benefit of a child. The assets (which can include money or property) are passed to the child when they reach the age of maturity, which is usually 18. And here's the beauty of UTMA accounts (as opposed to perhaps a 529): usage of the money or assets in these types of accounts is not limited strictly to education expenses.

"The UTMA allows me to invest money for their use outside of just college," explains Simmons.

Additional facts to bear in mind about UTMAs: There are no contribution limits on these accounts (good). However, the growth is not tax deferred (not so great). The account will be subject to taxes as the income, whether it's in the form of interest or dividends, accrues each year. In addition, withdrawals are not tax-free.

Maximize the value of your 401(k)

Taking full advantage of 401(k) and 403(b) plans can be critical to building your retirement nest egg as a single income household thanks to the matching contributions provided by many employers (which, let's all say it together: is essentially free money.) The tax benefits associated with these accounts, meanwhile, can help you fund your child's college savings.

"Single mothers face a particular challenge of a single income and that income is a lower wage than the white male," says Simmons. "The wage gap makes it harder to make ends meet. That's why it's important to maximize workplace tax-deferred accounts because these contributions reduce [the account holder's income] tax burden and ultimately allow for saving a little bit more."

Contributions to workplace accounts like a 401(k), or a 403(b) are taken from your salary before income taxes are calculated, thus reducing your overall tax burden. That income tax savings shows up in your paycheck, money that can be directed into a child's college savings account, whether it's an UTMA, 529 or something else.

"Maximizing my workplace retirement accounts allowed me to become financially independent and contribute to my children's future college expenses because of the tax savings," says Simmons.

Roth IRAs can also be a valuable tool

Ideally, you also have a Roth IRA where you're putting aside some money for retirement. And if you don't have enough free cash to max out your annual Roth contributions (the annual limit is $6,000 for those earning less than $125,000) you probably should not be putting any money into a fund for a child's education just yet, says Scott Butler, financial planner with Maryland-based Klauenberg Retirement Solutions.

However, if you really want to save for your child's future and your retirement simultaneously, it's worth noting that a Roth can be a solid tool to help accomplish both goals more effectively.

"You can use the money contributed to your Roth for qualified education expenses tax-free. So if you contributed $30,000 into a Roth over five years, you could use up to $30,000 for education expenses and leave the growth in the account to help with retirement," explains Butler. "Also, if your student does not end up needing your Roth funds, the funds are already where you're going to want them to be for your retirement."

Save your raises

It's human nature to want to splurge or live a little larger after earning a raise or receiving an unexpected lump sum of money. Brian Walsh, a CFP with SoFi, advises single parents to do their best to ignore such impulses when there are more important goals on the horizon.

"Save your raises and extra money, such as tax refunds, instead of increasing your spending," says Walsh. "This will keep your spending fairly constant while your income increases."

Another important point with regard to raises: single parents need to make it a habit to regularly look for ways to increase their income, whether through a bigger salary, a side hustle, or some other proactive move.

"The best way for a single parent to save for retirement and save for college is to simply make more money. There usually is nowhere else in our budgets to make cuts to reallocate the savings," says Amanda McDonald, founder and president of Unbound Disability Claims and single mom to two children. "Start small. Think about what you spend your time doing when you have free time. That's likely your passion. Now figure out a way to make money doing that."

Read the whole article at https://bit.ly/3gHRy7r

Scott Butler, CRC, is a financial planner with Klauenberg Retirement Solutions. Using his background as a former teacher, Scott breaks down financial topics to levels that clients can more easily understand, believing each person should have a basic understanding of the wealth strategies and products that work for them.

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