There's No Financial Aid for Retirement

You want to retire comfortably when the time comes. You also want to help your child go to college. So how do you juggle the two? The truth is, saving for your retirement and your child's education at the same time can be a challenge. But take heart--you may be able to reach both goals if you make some smart choices now.

Know What Your Needs Are

The first step is to determine what your financial needs are for each goal. Answering the following questions can help you get started:

For retirement:

- How many years until you retire?
- Does your company offer an employer-sponsored retirement plan or a pension plan? Do you participate? If so, what's your balance? Can you estimate what your balance will be when you retire?
- How much do you expect to receive in Social Security benefits? (You can estimate this amount by using your Personal Earnings and Benefit Statement, now mailed every year by the Social Security Administration.)
- What standard of living do you hope to have in retirement? For example, do you want to travel extensively, or will you be happy to stay in one place and live more simply?
- Do you or your spouse expect to work part-time in retirement?

For college:

- How many years until your child starts college?
- Will your child attend a public or private college? What's the expected cost?
- Do you have more than one child whom you'll be saving for?
- Does your child have any special academic, athletic, or artistic skills that could lead to a scholarship?
- Do you expect your child to qualify for financial aid?

Many on-line calculators are available to help you predict your retirement income needs and your child's college funding needs.

Figure Out What You Can Afford To Put Aside Each Month

After you know what your financial needs are, the next step is to determine what you can afford to put aside each month. To do so, you'll need to prepare a detailed family budget that lists all of your income and expenses. Keep in mind, though, that the amount you can afford may change from time to time as your circumstances change. Once you've come up with a dollar amount, you'll need to decide how to divvy up your funds.

Retirement Takes Priority

Though college is certainly an important goal, you should probably focus on your retirement if you have limited funds. With generous corporate pensions mostly a thing of the past, the burden is primarily on you to fund your retirement. But if you wait until your child is in college to start saving, you'll miss out on years of tax-deferred growth and compounding of your money. Remember, your child can always attend college by taking out loans (or maybe even with scholarships), but there's no such thing as a retirement loan!

If possible, save for your retirement and your child's college at the same time

Ideally, you'll want to try to pursue both goals at the same time. The more money you can squirrel away for college bills now, the less money you or your child will need to borrow later. Even if you can allocate only a small amount to your child's college fund, say $50 or $100 a month, you might be surprised at how much you can accumulate over many years. For example, if you saved $100 every month and earned 8 percent, you'd have $18,415 in your child's college fund after 10 years. (This example is for illustrative purposes only and does not represent a specific investment.)

Help! I Can't Meet Both Goals

If the numbers say that you can't afford to educate your child or retire with the lifestyle you expected, you'll have to make some sacrifices. Here are some things you can do:

- Defer retirement: The longer you work, the more money you'll earn and the later you'll need to dip into your retirement savings.
- Work part-time during retirement.
- Reduce your standard of living now or in retirement: You might be able to adjust your spending habits now in order to have money later. Or, you may want to consider cutting back in retirement.
- Increase your earnings now: You might consider increasing your hours at your current job, finding another job with better pay, taking a second job, or having a previously stay-at-home spouse return to the workforce.
- Invest more aggressively: If you have several years until retirement or college, you might be able to earn more money by investing more aggressively (but remember that aggressive investments mean a greater risk of loss).
- Expect your child to contribute more money to college: Despite your best efforts, your child may need to take out student loans or work part-time to earn money for college.
- Send your child to a less expensive school: You may have dreamed your child would follow in your footsteps and attend an Ivy League school. However, unless your child is awarded a scholarship, you may need to lower your expectations. Don't feel guilty--a lesser-known liberal arts college or a state university may provide your child with a similar quality education at a far lower cost.
- Think of other creative ways to reduce education costs: Your child could attend a local college and live at home to save on room and board, enroll in an accelerated program to graduate in three years instead for four, take advantage of a cooperative education where paid internships alternate with course work, or defer college for a year or two and work to earn money for college.

Can retirement accounts be used to save for college?

Yes. Should they be? Probably not. Most financial planners discourage paying for college with funds from a retirement account; they also discourage using retirement funds for a child's college education if doing so will leave you with no funds in your retirement years. However, you can certainly tap your retirement accounts to help pay the college bills if you need to. With IRAs, you can withdraw money penalty free for college expenses, even if you're under age 59½ (though there may be income tax consequences for the money you withdraw). But with an employer-sponsored retirement plan like a 401(k) or 403(b), you'll generally pay a 10 percent penalty on any withdrawals made before you reach age 59½ (age 55 in some cases), even if the money is used for college expenses. You may also be subject to a six month suspension if you make a hardship withdrawal. There may be income tax consequences, as well. (Check with your plan administrator to see what withdrawal options are available to you in your employer-sponsored retirement plan.)

This article is not intended to be exhaustive nor should any discussion be construed as legal or financial advice.