

Clash of the Goals: Save for College or Retirement?

It doesn't have to be an either/or decision for retirement plan participants.

Retirement for you or college for your kids? Which financial goal should you focus on the most? Many parents feel conflicted because they want to help their kids get a good college education but know they need to save for their own retirement years. While it may not be easy to pull off, it's important to tackle both goals at once and not put off saving for retirement.

High Stakes Battle

If your kids go to college before you retire, they're going to need the money first. So it might seem like common sense to save for college first and then save for retirement after they're done with school. However, that's a risky approach.

It's no secret that it costs a lot of money to go to college these days. And who knows how much tuitions will increase by the time your kids are ready to enroll. But even so, you're probably going to need a lot more money for your retirement. Your retirement could last well over 20 years, inflation will likely increase your costs during that period, and your retirement health care costs could be significant. If you put saving for college first, you may not have enough time to save for retirement once the tuition bills are paid. Instead, set aside money for both college and retirement.

Your Plan Can Be Your Ally

Your employer's retirement savings plan can help you to save for both goals. Since your plan contributions are deducted from your pay before you receive it, saving for retirement is convenient. You don't owe federal income taxes on your pretax contributions or on any earnings from investing those funds until you withdraw money from the plan.¹ And since you're saving for retirement through your plan, you can focus your saving outside the plan on future college costs.

¹ Source/Disclaimer: Some retirement plans also offer a Roth contribution option. Unlike pretax contributions, Roth contributions do not offer immediate tax savings. However, qualified Roth distributions are not subject to federal income taxes when all requirements are met.

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Set Your Sights on Your Savings Goal

If you save, in 30 years you could accumulate:

- \$68.92 a week -- \$300,000
- \$137.84 a week -- \$600,000
- \$206.76 a week -- \$900,000

Source: DST Systems, Inc.

This is a hypothetical example used for illustrative purposes only and does not represent any specific investment product. It assumes a 6% average annual total return, monthly deposits into the plan, and monthly compounding. Your investment performance will be different. Tax-deferred amounts accumulated in a retirement plan are taxable upon withdrawal, unless they represent qualified Roth distributions.

Focus on Your Target

Even while you're saving for your kids' college costs, it's important to save as much as possible for retirement. While your kids will have a number of potential sources of college funding, such as scholarships, grants, loans, and part-time employment, you may be on your own with limited resources for retirement. Your Social Security benefits probably won't be enough to live on comfortably, and few employers offer pensions. Your plan account may be a very important source of retirement income.

Contributing more to your retirement plan may help you achieve your goals.

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