[401(K) PLAN NAME]

› Save for Retirement or Your Child's Education?

Most parents want to provide as much as possible for their kids – a comfortable home, fun vacations and the best possible education. But let's face it. The budget in most households can make it difficult to do it all.

According to the U.S. Department of Agriculture, raising a baby born in 2013 will cost middle-income parents roughly $300,000 until age 18, accounting for inflation.[1]

Add in the cost to send a child to college – about $80,000 for a four-year in-state public university and nearly $180,000 for a private four-year school.[2] – and it's easy to see why parents are forced to make difficult decisions about how much they can save.

A recent survey found 52 percent of parents said it was more important to save for their kids' college rather than their own retirement.[3] We disagree.

PAY YOURSELF FIRST

Sending your kids to college should not come at the expense of your own retirement plans. Your kids have a variety of options to fund their education. Scholarships, work-study programs and low-interest loans can all help families bridge the gap. But no one is going to loan you money for retirement.

A better alternative may be to fully fund your 401(k). [One of the best ways to do that is to contribute at least enough to take full advantage of your employer's matching dollars. The match is FREE money and you shouldn't even consider other savings goals until you're contributing enough to get all of it.]

Not sure how much to contribute? A good rule of thumb for retirement savings is to contribute at least 10 percent of your annual salary to your 401(k).

FIND A HAPPY MEDIUM

Once you have your retirement funds in order, focus on college savings. It ***is*** possible to save for both with a smart savings strategy:

1. Contribute to an education fund such as a 529 account – These accounts allow you to save for a child's education tax advantaged through an array of investment options. Make regular contributions, no matter how big or small, and encourage family members to contribute instead of giving presents for birthdays or holidays.*

2. Start saving early – The sooner you start saving, the less you have to save overall. If you start putting away money when each child is born, a little investment has time to grow into a substantial investment. (over)

** All investing involves risk including possible lost of principal. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan.*

FIND A HAPPY MEDIUM (CONT.)

3. Talk to your kids about their futures and teach them about money – Even if you can afford to fully fund a 529 for your kids, it's best to involve them in the process and have them contribute. Whether they contribute a flat amount each month or a percentage of what they earn, having them involved in their future savings will help them learn valuable money management skills.

The basic idea of this dual savings strategy is to accumulate as much cash in as many ways as possible.

If you have a 401(k) plan, set up automatic savings that increase your contribution if you get a raise. You can also do automatic withdrawals for 529 accounts. Either approach will work, but using both vehicles is ideal.

"Families who have a plan to pay for college save 46 percent more than families without a plan and are 3x more confident that they will meet the cost of college."

– Sallie Mae, How America Saves for College, June 2015

THE BOTTOM LINE

Saving for college to the detriment of your own retirement can easily backfire: If you can't save enough money to support yourself, you may end up relying on your kids during retirement.

And with many of today's college graduates returning home and still requiring some support until age 30, that's not a burden you want your kids to bear.

[1] U.S. Department of Agriculture, August 2014. The study defines middle-income as households earning approximately $61,000 to $106,000 per year. Families that earn more can expect to spend more than $500,000 until age 18. Note that this projection excludes higher education.

[2] Average charges for full-time undergraduates in the 2015-16 academic year from Trends in College Pricing 2015, The College Board

[3] T. Rowe Price's 2014 Parents, Kids & Money Survey

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