SAVING FOR COLLEGE SHOULD NOT MAKE YOU STRESSED ABOUT RETIREMENT

By Robert E. Whitney, Jr., CFP®, Vice President, Senior Financial Planner

For many families, saving for retirement and college at the same time can be a financial juggling act. Each life experience comes with a hefty price tag—and the sticker shock on both just keeps going up. That's why saving for your retirement years and a child's higher education as early as possible is key to achieving your financial goals. But it's also important to pay close attention to the risk factors you'll encounter along the way.

YOU NEED A PLAN.

When you consider using your hard-earned dollars to help anyone—including your children—you need to see where you stand with your own financial plan. Periods of market volatility and economic uncertainty are great opportunities to revisit your financial plan. However, if you are like many Americans who have not quite gotten around to establishing a financial plan because retirement seems so far away, now is a terrific time to complete the task with your advisor.

KEEP AN EYE ON RISK.

Likely you've got some ideas about when you want to stop working and the lifestyle you want to enjoy in your retirement years. As you think about how much money you'll need to live comfortably in retirement, be sure to consider the impact of rising health care costs, the future of Social Security benefits, a higher cost of living due to inflation, and the potential of outliving your assets.

WHAT DOES COLLEGE COST THESE DAYS?

According to The College Board's "Trends in College Pricing 2020," the average annual cost (tuition and fees, room and board, books and supplies, transportation and other expenses) for a private four-year school is $54,880. For public four-year in-state schools, the average annual cost is $26,820; for public four-year out-of-state institutions, the average annual cost is $43,280.[2]

The longer you are in retirement, the greater the risk that inflation—the rising cost of goods and services over time—can significantly affect your purchasing power. For example, an individual who retires at 60, with monthly expenses of $10,000, assuming 3% annual inflation, would need $13,400 at age 70, $18,000 at age 80, and $24,000 at age 90, to cover that same initial $10,000 monthly expense. While 3% inflation is a reasonable assumption for everyday goods and services, many financial professionals assume higher inflation for health care and education expenses.

If you have children and are also trying to plan for their higher education expenses, you need to account for inflation when projecting the annual cost of sending your students off to a four-year college someday. Tuition often outpaces general inflation, increasing about 8% per year according to Finaid. That means the cost of college doubles every nine years.[1]

WHAT CHOICE DO YOU HAVE?

The numbers are staggering—and depending on a family's financial situation, often hard choices have to be made. For many parents who would do anything to make sure their children succeed, retirement often ends up taking a back seat to their children's higher education.

But it doesn't have to be that way—you don't have to choose one goal over the other. With a little planning, budgeting, and discipline, you can save enough to turn both dreams into reality. Here's how.

FIRST, PAY YOURSELF. Contribute 10%-15% of your income every paycheck to your 401(k), 403(b), or other employer savings plan. At the very minimum fund your retirement account to get the full employer match if offered.

PAD YOUR SAVINGS WHEN YOU GET A RAISE, BONUS, OR A CASH WINDFALL LIKE AN INHERITANCE. For example, if you receive a 3% raise or bonus, put 1% in your retirement account, 1% towards a college savings account, and direct the remaining 1% towards an after-tax savings or investment account, if you do not already have an emergency fund to cover 3 to 6 months of expenses.

INVEST IN A 529 SAVINGS PLAN. Talk with an advisor about opening a 529 Savings Plan with your child as the beneficiary. These investment accounts provide tax-free growth. If your child is a newborn or very young, he or she won't be needing college funds for some time—if you make deposits on a regular basis you can take advantage of years of compounding growth. The account's earnings are also potentially tax-free as long as you use the withdrawals to pay for the beneficiary's qualified higher education expenses.

OPEN TWO ROTH IRAS. One is for your retirement fund and the other is for your child's college expenses. There's an annual combined contribution limit of $6,000 ($7,000 if you're 50 or older). You can take an early withdrawal without penalty for qualified expenses such as tuition. Again, talk with an advisor to determine if this is a good savings and investment alternative for you.

SUGGEST OTHERS CONTRIBUTE MONEY RATHER THAN GIVING GIFTS. If your child gets more than enough gifts on holidays and special occasions, suggest relatives and friends give money to put toward your child's college education instead.

A Commerce Trust advisor can address your concerns and help you answer important questions regarding how to handle the ongoing effects of inflation and other risk factors affecting your savings and investment plans. We will listen and offer solutions tailored to help you achieve your retirement and education goals.

[1] Source: Tuition Inflation by Finaid https://finaid.org/savings/tuition-inflation/#:~:text=A%20good%20rule%20of%20thumb,college%20doubles%20every%20nine%20years

[2] Source: The College Board, "Trends in College Pricing 2020," Figure CP-1, https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf, February 2021.

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Rob is a senior financial planner for Commerce Trust Company. He is a member of the financial advisory services team — a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, Rob develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax, and investment strategies along the way. With more than 20 years of experience, he specializes in building relationships with clients and providing comprehensive financial planning services to business owners and individual investors to help them achieve their goals. Rob holds the CERTIFIED FINANCIAL PLANNER™ designation. He received his bachelor of administration degree in business finance from Loyola University in Maryland and his master of business administration degree from the University of Delaware. Additionally, he is an Eagle Scout.