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YOUR MONEY | RETIRING

Save for Retirement First, the Children’s Education Second

By ANN CARRNS FEB. 28, 2014

A HALF-DOZEN years ago, Brian Appelbaum’s savings plan was focused mainly on his own retirement. But now he is married and the father of two young children.

So Mr. Appelbaum, 53, has reassessed his outlook, as he and his wife try to save money for their retirement as well as for their children’s education. The couple are contributing regularly to a college fund — and are planning for Mr. Appelbaum to work longer, since the children will be college age when he is in his 60s.

“The overall package of things you have to consider at my age is different,” said Mr. Appelbaum, owner of a Scottsdale, Ariz., business that makes cutting blades for the construction industry.

Saving for retirement and a college education at the same time is a challenge for many families, but financial planners advise that if funds are limited — and for most people, they are — it is crucial to fund retirement first before contributing to an education fund.

The reasoning? You, or your child, can always take out loans for college, but you cannot borrow for retirement. Planners liken the approach to the instructions given to air travelers: Put the oxygen mask on your own face, before putting it on your child’s. While many parents balk at the idea of burdening their offspring with student debt, shortchanging yourself now to help pay for college can backfire. You may simply be increasing the likelihood that your children will have to support you later in life.

"It sounds coldhearted, but you have to put yourself first and not derail your retirement money," said Carrie Schwab-Pomerantz, a senior vice president at Charles Schwab & Company, who has a book coming out this spring on finances for those over 50.

She advises that those with a workplace 401(k) plan should contribute at least enough to get the maximum employer match, and preferably up to the maximum annual contribution. A fund for emergency expenses and paying off nondeductible debt, like credit card debt, also should take priority over saving for college, she said. She even suggests that putting additional money away, outside of a formal retirement plan, should take precedence over a college fund.

If that is hard to accept, consider this, says Richard S. Kahler, an investment adviser in Rapid City, S.D.: Retirement costs do not just include money to pursue hobbies or travel. The cost of leaving the work force to care for an elderly parent can top $300,000, according to a study from the MetLife Mature Market Institute. And the cost of having professional caregivers and nursing homes do the job over a typical five-year period can be more than double that amount, according to an analysis by CarePlanners, which helps families coordinate care. By comparison, the cost of attending a public university as an in-state student now averages about $23,000 a year — or almost $100,000 over four years.

"It costs kids way more to take care of a parent who hasn't taken care of themselves," Mr. Kahler said.

Still, many parents have a visceral emotional attachment to the notion of paying for their children's college education, which can interfere with realistic decision-making.

A common mistake parents make when their children are in high school is to take them to see schools that cost $60,000 a year or more, without knowing if they can really afford it, said Cheryl A. Costa, a principal with Forteris Wealth in Framingham, Mass. Those campuses tend to look quite different from state schools with more affordable tabs. "We all know which one they'll like best," Ms. Costa said, so parents should do some homework before visiting a school that could break the bank.

If, after analyzing the numbers, parents do find a shortfall in their retirement savings, they face tough choices — including spending less now, working longer before retirement or looking at less expensive schools. Ann Garcia, a financial planner with Beacon Rock Partners in Portland, Ore., said parents needed to zero in on their priorities and ask themselves: "Am I willing to work a year longer, to let my kids have the education I want them to have and graduate with less debt?"

Lynda Gordon, 47, said she and her husband recently took a hard look at their finances with Ms. Garcia's help, to see if they were sufficiently prepared for college costs for their three children, including a high school junior. The couple have been diligent about saving for retirement in a 401(k) plan, and they want to continue maximizing those funds, particularly because Mr. Gordon, a computer consultant, is 58 — relatively close to retirement age.

The couple have been contributing to tax-favored 529 college savings plans for their children, but they have also decided to make changes to save more money. After 16 years as a stay-at-home mother, Ms. Gordon has begun working at a local business. And while they used to enjoy foreign travel, recent vacations been more likely to involve domestic excursions (often to college campuses). Ms. Gordon said they would weigh both private schools and state schools for their children.

"We want to bridge the gaps and create opportunities for our children, without ruining our retirement," Ms. Gordon said.

Derek T. Kennedy, a financial planner in Knoxville, Tenn., said that rather than butting heads with clients who are adamant about financing their child's college education, he suggests they tweak their goal: Perhaps parents might aim to save for 50 to 75 percent of college costs and pay for the rest out of current income at the time, or with some contributions from the child's own employment.

That made sense to Dr. Brandon E. Smithey, a Knoxville pathologist and father of two young children. He and his wife, a pediatrician, decided to set a goal of saving two years' of tuition at a state university for each child. Once they reach that level, he said, they will stop and "let the money work for us." They can re-evaluate as their children grow older. That allows the couple to focus on saving for retirement, while allowing for a degree of uncertainty over where their children will attend college. "I don't know what they're going to be happy with," he said.

In addition to 529 plans, some financial planners say Roth I.R.A.s can be a good tool for families that qualify, because they can be used for either retirement or college. Rules vary depending on age and other factors. You can withdraw contributions you've made to a Roth I.R.A. at any time, without paying taxes or early-withdrawal penalties, to pay for college expenses.

If you tap the earnings before age 59 1/2, however, you'll pay taxes on that money, but not an extra 10 percent early-withdrawal penalty, if the withdrawal is used for education. Taxes and penalties on the earnings may be avoided, too, if the funds are used for education. (However, Ms. Garcia at Beacon Rock Partners noted, funds withdrawn from the Roth for college may count as income in calculating eligibility for need-based financial aid; money withdrawn from 529 plans does not).

Along those lines, others advise saving some funds in a taxable account, like a brokerage account, for maximum flexibility. You may lose some tax breaks, but you have the option of spending the funds for either retirement or college, as needed. "Save for yourself, and earmark it for education," said Mitchell Reiner, an investment adviser near Atlanta.

Mr. Appelbaum, the Arizona business owner, said that he continued to contribute to his 401(k) plan through his company, and that he and his wife had opened 529 savings plans for their children. They initially put in $100 a month per child, but recently raised that to $300 a child each month. "Yes, it detracts from the money I would normally put away for myself," he acknowledged. He said he thought it was unlikely he would retire until he was close to 70, but was comfortable with that: "We'll get by, and my goal is to get them off to the best start that I can."

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