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Paying for your kids' college vs. your own retirement

By Christine Dugas, USA TODAY

The shaky economy and sickly housing market have prompted some parents to engage in risky financial behavior: raiding their retirement savings to pay their children's college tuition.



By Joshua Anderson, for USA TODAY

Randy Nelms and his son Jordan Nelms, 17, outside their Franklin, Tenn., home.

"Because of the loss of home equity and the tighter credit market, families are eyeing their retirement funds for other uses," says Kent Allison, a partner at PricewaterhouseCoopers' financial education practice. But that, say financial planners, is not a good move because:

- There are a number of ways to fund a college education, such as loans, scholarships and financial aid. Saving for retirement should be a bigger priority.

- There are potential penalties for tapping a 401(k) retirement plan. You are subject to income tax and a 10% early-withdrawal penalty if you withdraw money from the plan before you are 59½. And halting 401(k) contributions means losing the tax benefits and company match.

Yet last year the number of parents who withdrew or took a loan from their 401(k) plans more than doubled, to 7.4% from 3.4% in 2009, according to a recent [Sallie Mae](#) and Gallup study.

"It is a shocking statistic," says Sarah Ducich, senior vice president of public policy at Sallie Mae, the USA's leading provider of student loans.

People are willing to go to extreme measures because they value a college education so highly, Ducich says. Among parents who are planning for their children's college, 24% say that they tap their retirement accounts. And that doesn't reflect people who reduce or halt retirement contributions. "Saving for college can occupy more of your life than retirement," she says. "But you are digging yourself in a hole."

Tough decisions

Last October, Randy Nelms and his wife, Leigh Anne, stopped putting money into his 401(k) plan, partly because of college tuition bills for their sons, Mitchell, 19, who will be a sophomore, and Jordan, 17, who just graduated from high school. "You do have to make some decisions," says Nelms, who lives in Franklin, Tenn. "And for the moment, you might unplug your 401(k)."

Families don't all say that they will raid their retirement savings, but many say that they will have to delay retirement to pay for college, says Eric Greenberg, director of Greenberg Educational Group in New York City.

Cameron and Jodi Beattie, who live near St. Louis, have a daughter, 8, and son, 3, and say they already have had long discussions about how they will pay for college and retirement. Because they waited until later in life to have children, they can't afford both — especially after watching their home's value plunge and big losses in stocks drain their retirement savings. The couple say they don't know what their future will be like or if they can rely on [Social Security](#). "We have saved some money for college, but we had to stop and put it towards retirement," says

Cameron, 43, a construction company project manager. "We will be in our late 50s when our kids are in college. We hope things turn around and that we will be able to help with college."

The home used to be a piggy bank, but the collapse of the housing market changed that: People with no home equity to tap can't get home equity loans to pay for college, and without that option, many families are eyeing their retirement savings, Allison says.

Parents are often willing to put their children's needs before their own. "If you look at human behavior, they are going to address the issue of concern that is most immediate," says Jean Setzfand, financial security director at AARP.

Ken White, and his wife, Joy Carlson, who live near Cincinnati, are both 56 and have a daughter who is a high school senior and a son who is a freshman. Over the years, the parents have focused on funding their retirement plans instead of a college fund. But they plan to pay for at least half of college. "There is no way I want to burden my kids when they graduate," White says. "Instead of taking money out of the 401(k) plan, we'll probably be forced to put less money in."

Even parents who stashed money in a 529 plan or savings account when their kids were young may not be able to handle the cost of college.

Rising costs

The total annual cost to attend a public four-year college in 2010 averaged about \$16,000, the [College Board](#) says, up 6.1% from 2009. A private non-profit four-year college averaged about \$37,000, up 4.3% from 2009. "Colleges have increased tuition and room and board much faster than the actual inflation rate," says Nelms, 52, who works for Farm Bureau Insurance of Tennessee. "I don't know if you can save enough for it."

Parents don't want to saddle their children with debt. But retirement savings should be a last resort, if used at all, Setzfand says. A big reason is students have many ways to borrow money, and retirees don't. "There will be more opportunities to get through college than there are loans to live on in retirement," says Cameron Beattie.

Tapping retirement savings is too often a knee-jerk reaction, as parents don't take time to consider all of their options, Greenberg says. On top of college loans and a variety of merit scholarships and grants, there are other alternatives. High school graduates can take a year off to work and save money before going to college, he says, as long as it can help them save money and make them stand out in the application process.

Some parents may decide that their child should spend the first two years at a lower-cost college and then transfer to a higher-cost school. "My concern is that it is not an easy way to start college," Greenberg says. "The transfer process has become increasingly competitive."

Parents may have to use several different options. Nelms is stopping his 401(k) contributions to help pay for college, and both his sons will spend summers working full time. And both will receive the Tennessee Hope Scholarship, as well as student loans and the tuition-assistance program that Nelms gets from his employer.

Nelms hopes to resume contributing to his 401(k) this summer. Because he is 52 and wife Leigh Anne is 51, they know that they also have to focus on their golden years. "With 75 million Baby Boomers heading towards retirement, we all have a concern of, 'Will we have enough to live on and enjoy the retirement years?'" he says.

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