

Can You Invest for College and Retirement?

You most likely need to save and invest for retirement. But if you have children, you also may want to put money away for their college education. Are these two goals mutually exclusive?

They don't have to be — but achieving them both can be challenging. Over the past generation, the responsibility of paying for retirement has largely shifted from the employer to the employee. At the same time, college prices have skyrocketed and show few signs of slowing down.

Consequently, you face a delicate balance when it comes to preparing and saving for both college and retirement. Perhaps you may be facing large college bills in your prime retirement savings years. Or if your child graduates with college loans and you plan on helping to pay for them, your cash flow may fall short of the amount needed to meet your monthly bills during retirement.

But as you think about the college vs. retirement issue, keep one overriding fact in mind: *You have less time to save for retirement than your children have to pay for college.* If your children do take out some loans, they will likely have decades in which to repay them.

Ultimately, the amount of financial assistance you provide for your children's college education is a personal and emotional decision, as well as a financial one. Still, you can take steps to help out your children without shortchanging yourself.

One possible strategy is to contribute to your 401(k) and your IRA, and then use whatever money you still have available to fund a college savings plan. If your employer offers a match for your 401(k) or other retirement plan — such as a 403(b) or 457(b) — you should, at

the very least, contribute enough to earn the match. And if at all possible, you'll want to “max out” your IRA, which offers significant tax benefits. Your contributions to a traditional IRA may be tax-deductible, and your earnings grow on a tax-deferred basis. Depending on your income level, you may be able to contribute to a Roth IRA, which provides tax-free earnings, provided you meet certain conditions. In 2009, you can contribute up to \$5,000 to your IRA, or \$6,000 if you're 50 or older.

Once you've earned your employer's 401(k) match and then, if possible, contributed the maximum amount to your IRA, you can begin looking more closely at college savings vehicles, such as a Section 529 plan or a Coverdell Education Savings Account, both of which offer tax-free earnings and withdrawals as long as the money is used for qualified education expenses. (Withdrawals for other types of expenses may be subject to federal and state taxes plus a 10 percent penalty.) Also, Section 529 plan contributions may be tax-deductible in certain states for residents who participate in their own state's plan. To make sure you understand the tax ramifications of a Section 529 plan, you'll want to consult with your tax advisor.

By committing yourself to regular investing, and by taking advantage of the various investment accounts available, you can make progress toward your retirement goals while still tackling the high costs of higher education. That's a “win-win” situation.

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