Saving For College? Or Retirement?

If you're a parent, you want to do everything you can to help your children succeed in life. Therefore, you might think that one of the best things you can do is to save for your children's college education. And this is certainly admirable, but could it conflict with your ability to prepare for another key goal — your own retirement?

Of course, this would not be a problem if you had unlimited means, but most of us don't fall into that category. So, given the financial resources and income you do have, how should you approach the college-versus-retirement issue?

Fortunately, it's not necessarily an "either-or" scenario. However, it may make sense to prioritize saving for retirement over college, for two reasons.

First, your children have a lot more time to pay for college than you have to save for retirement. In addition to any grants or scholarships your children may receive, they might need to take out loans. While it's a good idea to keep this debt load as manageable as possible, it's also true that most student loans can be repaid over a long period of time.

And here's the second point: One of the best gifts you can give your children is to be self-sufficient in your retirement. You could easily spend two, or even three, decades as a retiree, so you will need to build considerable financial resources to pay for all those years. Your adult children will have their own financial needs to address, so you'll be doing them a great favor by relieving them of any financial responsibilities on your behalf.

Taking these factors into account, you may want to direct most of your saving and investing efforts toward achieving a comfortable retirement. Consequently, think about putting away as much as you can afford into your IRA and 401(k) or other employer-sponsored retirement plan.

Even with this focus on retirement, though, you may find opportunities to save and invest for your children's education. For example, if you receive bonuses or income tax refunds, or your salary goes up, or you're able to free up money from your budget by reducing your debts, you could use these funds to invest in an education savings vehicle, such as a 529 plan. When you invest in a 529 plan, your earnings and withdrawals are federally tax free, provided the money is used for qualified education expenses such as tuition, room and board, books, and computers. Depending on where you live, you may also get some state tax benefits from your 529 plan. And a 529 plan isn't just for college — it can be used for K-12 private school tuition costs, plus expenses from qualified apprenticeship programs, such as those found at trade schools eligible for Title IV federal student aid.

It might not be easy to save and invest consistently for your retirement and your children's education. But both goals are worthy — after all, retirement can last a long time and college is expensive. So, try to develop a financial strategy that can allow you to make progress in both areas — your efforts may well be rewarded.

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