MarketWatch

Opinion: How to balance saving for both college and retirement

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By Jerry Inglet

An intentionally planned path can help mitigate the emotional highs and lows of important funding strategies

Do you remember the last time you were on a plane? It may have been a while, so as a refresher, before takeoff, the flight attendant always reminds you to position your own oxygen mask before helping others. When it comes to saving for retirement vs. college saving, many college planners and financial advisers will take a similar approach—prioritize a parent's retirement fund before the children's college fund.

Although practical, this cut-and-dried analogy does not fully prepare a family for the psychological, emotional, and behavioral finance components of this important decision.

According to research identified in a 2017 study by University of California – Berkeley professors Cowen and Keltner, there are 27 different human emotions. It can be argued that families with college-bound children experience almost every one of these during the college selection process. Balance is often cited as a parameter of health when engaging emotions and the same can be said for the tension between saving for retirement and funding for a child's education. A quality balance prioritizing both education and retirement is possible when certain actions and conversations are considered, such as the following.

First, do the math

There will always be unknown variables when projecting the resources needed to retire and maintain a desired lifestyle. No one knows with certainty how long they will live or what inflation rates will prevail at the age of their retirement, but many financial professionals will still recommend examining the rate of savings and estimating if those funds will support retirement aspirations.

The same financial projection exercises can be applied to the world of undergraduate college. Every college is required to provide an online net price calculator that allows a family to input their income and assets (and, for some calculators, grades and standardized test scores) to uncover an estimated net cost to attend that college.

However, be mindful as a user of these tools that not all college net price calculators are created equally. For instance, grades and standardized test inclusions are the factors that usually reveal estimated merit aid. So while the income and assets input allows the computation of the approximated need-based aid, a net price calculator is not always accurate for those that do not include the merit aid side of the estimate.

Most college net price calculators can be uncovered at The U.S. Department of Education Net Price Calculator.

Gaining a sense of college cost estimates — same as retirement projection — is the first step to achieving a balance on these matters.

Be intentional and incremental in your savings

Time horizons, compound interest and tax efficiency play a role in both retirement accounts and those earmarked to pay for college. If possible, consider saving for college early and compare that rate of savings against the estimated net price of a particular college or aggregated college cost data. In the same way a researcher projects retirement savings and goals, a family planning for college costs can also use utilize historical higher education inflation rates in concert with savings rates and the net price estimates to determine whether they are on track to meet their educational funding goals.

Set college cost limits as a parent and make them known early

To balance emotions during the college planning life cycle, determine exactly what can be paid for and borrowed for a college experience and let the children know by sophomore year of high school. The time frame is early enough to motivate a student to improve high school performance with the financial reach schools in mind (merit aid) while simultaneously setting financial expectations so that any disappointment is tempered if merit aid is not achieved.

Engage college choice as a consumer finance decision
Even though post-pandemic research has demonstrated a shift in focus of saving toward college funding over retirement, as demonstrated by a 2021 M&T consumer study, many families are not afforded their first, second, or even third choice of college, based on cost. Keeping an open mind and avoiding fixation on one or two colleges will allow a family to select a college that is a social, academic and financial fit for all parties.

With relation to costs, there is sometimes confusion on what other students with comparable grades, standardized test scores, and financial circumstances are paying for a particular college. In those cases, there are several tools available to uncover this data, such as The U.S. Department of Education College Scorecard and Tuition Fit.

Leverage the opportunity as a lesson of financial literacy

Involving college-bound children in the review of the college financial award letters and the projection of any possible pending debt is a quality way to enhance conversations around money, values, and responsibility.

When retirement and college funding are balanced, two of the best gifts a parent can give to their children are made possible —the opportunity of a college education and a free conscience of knowing that their parents are financially secure in retirement. This is made much easier when the parties involved develop an intentionally planned path that mitigates emotional highs and lows with a funding strategy.

Jerry Inglet creates and facilitates customized family workshops for family members seeking engagement and preparation for the present and future roles within their families as part of the Wilmington Trust Emerald Family Office & Advisory team. These workshops are designed to assist families with communication, personal legacy planning, wealth transition, and financial education.