



College Funding or Retirement Funding?

A few weeks ago, I purchased my first pair of bifocals. Actually, due to the lack of the line defining the lenses, they are now called "progressive" lenses. "It is simply a part of getting older," my doctor told me. While I am not terribly sensitive to milestones like this one, it has occurred to me that I am looking at my three-year-old child through bifocals. The blueprint that I envisioned for my life in my early twenties did not consider my eyesight specifically, but it did assume a longer period of time between my child's graduation from college and my retirement. This complicates my plan somewhat. ...or does it?

Achieving our financial goals requires addressing conflicting objectives. One of the most common conflicts as identified by clients is that between *funding college goals for my loved ones and retirement goals for me*. Let us consider each. The information below is meant more to show the number of options than to educate you on each option.

COLLEGE FUNDING

There are many sources of college funding. Many students benefit from financial aid packages. These packages include some combination of grants, scholarships, loans, and work-study. Additionally, expenses can be offset by student employment (non-work-study). Finally, the savings of the student and parents can be used.

Grants and scholarships offer funds that do not have to be paid back. Grants are awarded by federal or state sources, and are usually based on financial need. Scholarships are awarded by government, school, or private sources and are based on merit or a combination of need and merit. Merit scholarships are awarded for a wide variety of achievements, but include such things as community involvement, academic and/or athletic achievements, and leadership.

There are a number of loan options available. The federal government offers Stafford Loans, PLUS Loans, and Perkins Loans. Some student loans allow the borrower to defer payments until after the student is no longer in school. Parents may also consider home equity loans. Finally, financing may be available from private lenders.

Student employment may be arranged as a work-study program or the student can get a job that is not part of work-study.

Finally, savings can be accessed. Savings can be accessed from checking and savings accounts, investment accounts, tax free-education accounts, and some retirement accounts.

Improving the efficiency of these funding mechanisms urges disciplined spending. Some methods of reducing spending include beginning at a community college and then transferring, more economical housing options, and, of course, buying used books.

If the college funding goal is not reached, the other alternatives will likely provide the difference. Most likely, this would occur in the form of larger student loans. The education can still be obtained. You likely know someone that went to college without parental financial assistance. About 69% of graduates graduated with student loan debt in 2013. The average amount of debt varies widely from state to state, but in some states exceeds \$30,000.¹

RETIREMENT FUNDING

Meeting retirement needs can be achieved by a combination of income and savings.

Historically, Social Security paired with a good pension provided most of the retirement income necessary. For many of those nearing or in retirement, Social Security income is the reliable base on which your retirement plan is built. For those further from retirement, the future viability of Social Security continues to be debated. Additionally, the number of companies offering pensions has decreased significantly over the past few decades as employers shift the responsibility and risk to the individual.

Generating investment income has become challenging in recent years as interest rates have hit record lows. The U.S. 10-year Treasury rate has not hit 2.5% in 2015 and currently sits around 2.1%. While rates are largely expected to rise over the next number of years, it is widely believed that the increases will be slow.

Savings will likely provide much of your retirement need. The bulk of these will likely be provided by retirement plans. It may seem that there are many types of plans, but each individual likely only has access to two or three types. Employer-sponsored plans and IRAs allow employees and/or employers to contribute assets to an account that receives tax benefits.

If inadequate retirement savings are accrued, there is no fallback, unlike the college funding shortfall. There is no loan. There are no grants or scholarships. The alternatives are to drastically decrease living expenses, request assistance from family members, and, perhaps, government assistance.

THE EMOTIONAL DECISION

For most, when we pose an "either-or" question in terms of something for a loved one OR something for us, the loved one usually wins. That is likely the most powerful motivator when education funding is chosen as a higher priority than retirement funding. But if we choose education funding over retirement funding, are we really doing what's best for our kids? In fact, if retirement assets are depleted, we will likely rely on the very children for whom we sacrificed our retirement security.

An acquaintance of mine recently asked me, "My mother moved into an assisted living facility that required a large up-front payment. I had to pay that out of my retirement funds. How much longer will I have to wait to retire, considering that withdrawal?" Incidentally, he was not at all

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bitter. I do happen to know that his parents sacrificed for him in some ways (not college) and it would likely devastate them to know that he is posing this question.

The emotional weight of this decision cannot be ignored. Picturing your child at 18 years old filling out the financial aid forms may tug at you a bit. That loan, being paid down by that same child, now 28 years old, may seem like a huge financial imposition. Now consider the effects on that same child at 58 or even 68 years old, if you have not adequately saved for your retirement.

The consequences of an unfunded retirement are catastrophic. Failure results in results that are unpleasant, at best. Before writing that check to the university or making that deposit to the college fund, consider the status of your retirement plan.

"Your neutral state should be looking further out. To see things that are close, move your eyes to the closer object, but maintain your outward-looking posture. It is important that you keep your chin up."

- Brad, my optician, when describing how to acclimate my eyes to progressive lenses. (August 14, 2015)

Perhaps Brad missed his calling as a Financial Advisor.

Sincerely,

Christopher M. Trainor, CFP®
Financial Advisor

¹ Bidwell, Allie. "Average Student Loan Debt Approaches \$30,000." *Usnews.com*, US News & World Report, November 13, 2014, Web. August 24, 2015.

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