Why Retirement Saving Trumps College Tuition

Retirement investments should be prioritized above your child's college fund.

By David Ning April 25, 2012 | 10:43 a.m. EDT + More

Many parents give their children financial support to attend college. Helping them to earn a college degree without taking on debt will certainly give your children a great start in their adult life. But too many parents lend support without considering their own financial circumstances, which could turn out to be a huge mistake. While living frugally to pay for college tuition is a worthy goal, it's not a good idea to fully fund your child's college costs if you need to neglect your retirement savings plan to do so. Here is why you shouldn't sacrifice your retirement finances to pay for your child's college tuition:

Teach your children about money. Having your children pay their own college expenses will help them learn the value of money more quickly. We all have difficulty learning about money until we have to pay our own bills. Learning to budget for college bills will force your children to appreciate how hard it is to earn a living. The sooner you can teach your children that money needs to be earned, the better off your kids will be down the road.

Student loans are one of the best kinds of debt. With low interest rates and generous tax deductions, student loans are probably the lowest cost loan that doesn't require collateral. If someone in the family has to borrow money, student loans are a great option to get funds. Some loans, such as Federal Subsidized Stafford Loans and Federal Perkins Loans, remain interest free until a few months after your kids graduate. Where else can you find an interest free loan?

You can't delay bills in retirement. Your children may have the option to delay making payments on their student loans. You certainly won't have that option with your retirement expenses, such as your property tax or even your cable TV bill.

Avoid depending on your kids in retirement. Parents who have no retirement assets can potentially be a much bigger burden on their children than college loans that need to be paid off.

Having debt right out of college is stressful, but the predictable monthly bill pales in comparison to supporting elderly parents. It’s likely to cost a lot more to support your parents in retirement than paying off a student loan bill, and retirement costs are far more unpredictable.

More time for investments to grow. Money you save for college tuition has a shorter time horizon than your retirement savings, and should be invested more conservatively. Retirement funds are earmarked for decades down the road, so a prudent investor can grow the funds to a larger amount.

Greater flexibility. The year your child goes to college is generally fixed, and that means a higher risk of needing to draw down your assets while an investment is temporarily performing badly. Yet, you don't really have a choice if your kids are going to college just when the stock market is in crisis mode.

Retirement is more flexible for most people. Sure, you can be laid off at a bad time. But you can also look for part-time work and other sources of income to tide you over until your investments rebound. Sometimes being laid off when you are extremely close to the time you were planning to retire anyway could even be a blessing because you might get a severance package that's worth more than the salary you would have gotten for those months of work. And you may also be able to collect unemployment benefits. This is not to say that being laid off is a good thing, but your retirement date is generally more flexible than the bill your child's college is likely to send you beginning right around age 18.

***David Ning** runs MoneyNing, a personal finance site that shares money moves you can make to significantly increase your chances of having a comfortable retirement. He likes to share simple changes that anyone can make, such as picking the best online savings account and figuring out whether a 0 percent balance transfer* credit card makes sense.