RETIREMENT

Gen X Parents: Saving for Retirement and College?

Saving for retirement and college at the same time is tough. As you prepare to send your kids to college, don't neglect your nest egg.

(Image credit: Getty Images)

If you're raising kids, you may feel squeezed as you save for both your own retirement and college expenses for your children. Plus, there's the pressure that comes with staying on top of your other financial obligations, from paying the mortgage to covering the cost of extracurricular activities.

Retirement and college saving

If your children are getting close to entering college or are already there, the balancing act can feel especially precarious. Here are a few tips to help you navigate this challenging time.

We see you, Generation X

Many members of Generation X, who are now in their mid-to-late forties and fifties, fall squarely in the group of parents who are making the final push toward paying for college while making sure their retirement accounts are adequately funded, too. And they face their share of challenges. According to the Education Data Initiative, Generation X college graduates have the highest student loan balance of all generations, at $44,290 per borrower. Those who entered the workforce in the 1990s experienced a transition from company-funded pensions to 401(k) plans, shifting more retirement-saving responsibility to employees. Plus, some Gen Xers are taking care of their aging parents, which can come with significant financial costs.

Prioritize retirement savings

Understandably, many parents want to ease the financial burden on their kids. But you shouldn't put your retirement savings on the back burner.

Alissa Krasner Maizes, a 55-year-old Gen Xer and Florida-based attorney and registered investment adviser, recognized the importance of saving for retirement over the years as she and her husband, Jay, 57, prepared to send their sons Zachary, 22, and Joshua, 20, to college.

The Maizeses have contributed to both Roth IRAs and traditional IRAs and made the maximum contributions to their workplace 401(k) accounts. Plus, they've funded brokerage accounts earmarked for retirement, says Maizes. To stay on track, they implemented dollar-cost averaging, setting up regular, automatic contributions of a fixed dollar amount into their brokerage accounts.

Mari Adam, a certified financial planner in Boca Raton, Fla., suggests that you aim to save six to eight times your salary for retirement. While that may seem daunting if you're behind on saving, Adam insists that you can catch up. "The most powerful thing on your side is time," she says. Even if you're a Gen Xer, "you still have about 10 to 20 years to save," she says.

She recommends fully funding your IRAs, if you can. For 2024, the standard maximum IRA contribution is $7,000 — and if you're 50 or older, you can make catch-up contributions of up to $1,000, for a total $8,000. If you have access to a 401(k) or other workplace retirement plan, make sure to save at least enough to capture any match that your employer offers on contributions.

If you're looking for wiggle room in your budget to increase your retirement savings, track your cash flow to see where you may be able to trim expenses. Consider delaying major purchases, says Adam — you may be able to get a few more years out of an aging car or appliances. She also suggests that once you're an empty nester, you could downsize your home and direct the money you save on housing expenses toward retirement.

Saving and paying for college

Once your retirement plan is on track, you can focus more on saving for college. For many parents, the first stop is contributing to a 529 college-savings plan. This type of account offers tax-free investment growth and no taxes on withdrawals if you use the proceeds for qualified higher-education expenses, such as tuition, room and board, books and supplies, and computers and internet access.

Nearly all states offer a 529 plan, and depending on where you live, you may get a state tax deduction or credit on contributions if you use your own state's plan. If your state doesn't offer a tax break, or if it is among the few that offer a break no matter which state's plan you use, you may want to check whether plans from other states provide lower fees or better investment options. You can compare 529 plans at Saving for College.

These days, fewer than ten states accept new investors for 529 prepaid tuition plans, which allow you to purchase tuition for future schooling (typically at in-state public colleges) at today's prices. You buy units or credits either as a lump sum or in installments, and the plan invests the money. The Maizeses made monthly contributions to Florida's 529 prepaid plan to help cover the costs of their children's future tuition. Even though their sons didn't attend college in Florida — Zachary graduated from Northeastern University, in Boston, and Joshua is currently a junior at the same college — Maizes says that the Florida prepaid plan "still had some value for out-of-state tuition," funding about 10% of their children's education expenses.

Savings in a taxable brokerage account can act as a source of funding for both retirement and college, depending on your needs. These accounts don't provide the same tax benefits as a 529 plan, but you can withdraw from them for any reason without penalty. And if your retirement savings are on course, it can make sense in some situations to use funds that you can spare from your Roth IRA to help pay for college. You can withdraw contributions anytime without paying taxes or penalties, and withdrawals of investment earnings are tax- and penalty-free if you've had the account at least five years and are age 59½ or older.

As your kids approach their college years, involve them in the planning process. In high school, Maizes's sons took Advanced Placement courses that supplied them with college credits, saving them money by allowing them to spend fewer semesters in college. Zachary and Joshua also had jobs and were awarded scholarships. Maizes and Adam believe that parents and their children should temper their expectations when it comes to the prospects of attending pricey colleges. If your student would need to take on substantial debt to attend his or her school of choice, it may be worth considering more affordable schools.

Should you take on debt?

Along with loans for students, the federal government offers Direct PLUS loans (also known as parent PLUS loans), which parents of dependent undergraduate students can use to help their kids pay for school. Interest is significantly higher than for student loans — 8.05% for PLUS loans disbursed from July 2023 through June 2024, compared with 5.5% on direct subsidized and unsubsidized student loans.

Generally, it's not advisable for parents to take out loans for college. "Although your parental instinct may be to take care of your child by paying for college, leaving yourself with debt in retirement is not ideal for you or your children," says Maizes.

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