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Paying for college doesn't have to hurt your retirement plans

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Many parents and grandparents view funding their children's education as one of their most important priorities.

It certainly was for Beth, one of my clients. Beth, an attorney, and her husband live in a Baltimore County suburb with their three pre-teen kids. Beth came to me with a firm request – we want to save as much as we can, as soon as we can, for college.

I find the best way to move forward is not to treat college savings as though it is in a vacuum. Any financial decision is best made when it's rooted in a comprehensive financial plan. Responding to Beth, I asked her to take a step back and consider a few big-picture questions:

▶If you died today, could your spouse afford to pay for college?

▶If you couldn't work due to extended health issues, could your family make ends meet and afford to pay for college?

▶What's the current strength of your retirement plan?

▶If you had to choose between the soundness of your own financial future and fully funding your children's education, which do you feel is the wiser choice and why?

For Beth, the pause to consider her overall plan helped her think through her family's financial needs holistically and start saving for college without sacrificing her other goals, like retirement. After all, children have options to fund their education with loans and scholarships. Retirees don't. These questions and others help to crystalize what a person's priorities are in order to make the best possible decision.

Once parents understand their priorities, they can begin to think about possible ways to pursue college savings as part of a comprehensive financial plan. Every college savings strategy has its own positives and negatives. Here are some examples:

Educational savings plans like 529 Plans and Coverdell Education Savings Accounts enable your savings to grow tax free, and you pay no taxes on withdrawals. But if the savings are spent on items unrelated to college, the funds will be taxed and you can be further penalized.

Uniform Gift to Minors Act (UGMAs) and Uniform Transfer to Minors Act (UTMAs) custodial accounts have tax advantages and there are no restrictions on how the funds can be used. However, at the child's age of maturity (18 or 21 in most states), those savings become the property of the child.

The Maryland Prepaid College Trust allows you to pay for tuition and mandatory fees at today's prices for any Maryland state institutions and offers flexible payment methods. However, if the child goes out-of-state for college, parents might run into unforeseen issues.

While the primary benefit of permanent life insurance is the death benefit, there are a number of "living benefits" that might be attractive to parents, too. Life insurance cash values can grow tax-deferred and can be accessed income-tax-free to pay for college. However, withdrawals could decrease the policy's death benefit.

Roth IRAs can provide some means for paying for college by accessing qualified contributions. However, investment earnings that are withdrawn are subject to taxes and penalties.

Non-qualified investment accounts in a parent's name are extremely flexible, but are among the least tax-advantaged financial tactics available.

In my experience, with college savings or any other financial goal, it all comes down to personal values. It is critical for parents to consult with a financial expert so they can share their vision, better understand their own priorities and build a financial plan that's best for them. There's no one-size fits all answer – everyone deserves a custom plan that fits their custom needs.

Daniel J. Schiffman, a Northwestern Mutual financial advisor, says saving for college must be part of your financial planning.

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