The seven reasons NOT to save for college

No, it won't make you bad parents. It's fiscally irresponsible to spend your retirement money on your children's education. Conventional wisdom tells us college is very expensive, so we'd better start saving if we want our kids to get an education and a good job.
A child born in 2011 that begins kindergarten in 2016 will attend college from 2029 to 2033. If annual increases continue at the same rates (6.2%) as over the past 30 years, the aggregate cost of the average four year private college education, including tuition, fees, room and board, would total $501,000, or $125,000 per year (source: College Board). Few if any people can come up with that kind of money without planning far ahead.

But are we really in deep trouble if we don't have a college fund set up for our 5-year-old? How should we balance saving for college with other financial goals?

Sometimes, putting money into education funds can be a mistake -- or at least not the best use of your money. Here's why:

1. You can't get a loan for retirement

Other financial goals come first. It's heresy to some, but it's true: Your retirement plans are more important than your children's college funds. Your kids can get through college somehow, and you will probably find a way to help them, but it's more important to plan for your retirement. Many experts are forecasting that Gen Y parents will need to accumulate as much as $2 million in their retirement plans in order to be able to retire. At a sustainable 4% withdrawal rate, $2MM will hopefully generate $80,000 per year for life, perhaps enough to replace one's salary. Thus, college or retirement will probably be an either/or proposition for most parents. Remember, your kids can get student loans, but there's no such thing as a retirement loan.

If you have to choose between putting money in the kids' college funds and a 401(k), invest in the 401(k). You'll gain significant tax breaks and often your savings will be matched up to a certain amount. This is free money. If necessary, you may be able to pay tuition by taking loans from 401(k)s, though it is not recommended. If you are not self-sustainable in your retirement, your children will shoulder another burden.

2. Education funds not always the best way

Typical education savings plans may have drawbacks, such as:

- **Limited investment options.** Many education funds pay only interest; others let you invest in the stock market, but you need to keep a close eye on those fees and expenses, and reallocate periodically. Also, you can't use the typical education fund to invest directly in real estate or start a small business, for example. Compare the rate of return you expect with what you could receive in alternate investments.
- **Difficulty predicting future tax benefits.** Tax rules can change, and it's hard to predict future income levels.

Sometimes by the time kids reach college age, their parents' income level is too high for certain tax advantages they'd been counting on.

- **Financial aid considerations.** Students are expected to contribute a higher percentage of their savings to their college education than their parents are, so placing money in your child's name may hurt their chances of getting financial aid. You may be better off keeping the money in your name.

3. Students should invest in their own education

Every year a number of freshmen trek off to college on their parents' hard-saved dime, only to spend more time the first few semesters partying than studying. Would they crack the books more if they were paying the bill? Even the most responsible kids seem to do better in college when they help pay for it. Helping your kids through college is wonderful and demonstrates that you value their education. Give enough to help, but not enough to lessen their investment in the outcome, aka they should always have “skin in the game”.

4. Education doesn't have to cost as much as we're told

One college can easily cost twice as much as another, but is it worth it? Not necessarily, according to Kiplinger's annual college values report. The best education is not always the most expensive.

Students can start at a community college at relatively low cost. And living at home for an extra year or two under the watchful eye of concerned parents could prove to be an added benefit. Part-time jobs should be more available too. After two years, a student can transfer to a four-year college and graduate with the same degree as a student who started there. And nobody will ever ask them where they started college, only where they graduated from. Recent trends, such as taking courses online or getting college credit before graduating from high school, can also help cut the total cost of a degree. Advanced Placement courses could also help.

5. You may find it easier to pay for college when the time comes

It's great if you can start saving for your kids' college tuition 10 or 15 years before they need it. But the early years of raising children can be the most financially challenging. Parents' careers are not as far along, and one parent may stay home full or part time. You may be just getting into a home or starting to invest.

There's a high probability the family will have more disposable income when the kids are older, especially if both parents plan to work full time then.

6. Holding out graduate school as 'the carrot'.

If your child really wants a degree from a private college, why not defer helping until graduate school? For one thing, this should motivate undergraduate students to attain better grades. And grad school is a shorter program with a specific focus, one likelier to be completed on schedule. Not only would it provide more time for you to save, but many employers offer tuition reimbursement programs for attending graduate school, often with a pre-determined GPA required.

7. College is not the only route to success

One of the biggest reasons not to put all of your investing efforts into your children's education funds is that they may choose not to go to college. Although according to the U.S. Census Bureau, those with a college degree earn 60% more on average than those without, will it be OK with you if they decide to pursue a career that doesn't involve college, or if they drop out to start a business? Don't put so much emphasis on saving for college that you unintentionally create a conflict if your kids choose to do something else.

A child who reaches age 18 without a college fund can still get an education, but if you decide to set up education funding for your children, make sure you ask your tax professional about the options that will give you the most flexibility and the best after-tax return for your situation. If s/he happens to be a Certified College Planning Specialist, all the better.

In closing, always remember to pay attention to your own overall financial picture first. It's a good idea to keep some investments accessible for projects such as paying college tuition, but designated college funds are not the only way to go. Whatever your family's needs may be in the future, the best way to be sure you can meet them is to make sure you are on the right track for all of your financial goals.