

## The Juggling Act

### *Balancing college and retirement savings*

Are you trying to save for both retirement and college? Jim and Megan, a hypothetical couple, are a classic case in point. Currently in their early 30s, they want to start saving for when their children (Billy, 7, and Jenny, 5) start college—with a 529 plan for each. At work, Jim already contributes \$10,000 a year to a retirement savings plan. The couple doesn't want to short-change their retirement by diverting all their savings to the 529 plans.

### **What to consider**

Retirement savings should be the top priority. Part of the cost of college can be covered by financial aid and education loans. Furthermore, Jim's retirement account contributions reduce the family's annual income tax bill and grow tax-deferred, too.

Megan's parents want to help. They are allowed to contribute as much as \$130,000 (\$65,000

individually) in 2012 to each account—the equivalent of five times the maximum they can give without being subject to gift taxes. Megan's parents will need to file a gift tax return and treat the gift as if it were made in equal payments over five years. To avoid gift tax, Megan's parents should make no additional gifts to each child during that five-year period. Although there's no up-front federal tax deduction for 529 plans, savings will grow tax-free.

### **What they decided**

Jim will continue to contribute 10% of his salary to his retirement savings plan. His plan offers an automatic savings increase feature that boosts his contribution each year when he gets a raise. Megan's parents will contribute \$1,000 a year to each child's plan and can increase that amount substantially over time if they so desire.

The couple agrees to contribute \$1,500 a year to each child's 529 plan. Future bonuses and tax refunds will go to the 529 plans as well. Their contributions may also save them money on their state income taxes.

When Billy and Jenny reach college age, they can begin withdrawing their 529 plan assets tax-free to cover expenses like tuition, room and board, and books, while their parents continue to save toward retirement. Be sure to consult your tax, legal or accounting professional regarding your particular situation.