

## My Kids Aren't Ruining My Retirement and Other Lies You Are Telling Yourself

By: Nancy Anderson

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A recent study by the [National Center for Policy Analysis](#) found that the cost of college education has increased by 80% in the past twenty years for 45 to 54 year olds. So it's no wonder we passed the \$1 trillion mark in student loan debt. About one-third of the student loan debt in our country is held by people over the age of 40, many of whom are parents taking out loans to help fund their children's education. In fact, 59 percent of parents with adult children ages 18 to 39 are providing some type of financial support for their kids. Helping our children would be fine if Americans were on track for retirement.

But most Americans are unprepared for retirement. [EBRI recently published](#) a study stating for one third of workers in the US, even working until 70 won't provide adequate retirement income. Our research on employee financial issues has consistently reported less than 20% of employees are on track to replace 80% of their income (or their own goal) in retirement. Baby Boomer and Gen X parents are lying to themselves if they think they can pay huge sums of money out-of-pocket to fund college educations and to help adult children make ends meet and still have a semblance of a chance of being able to retire.

Preparing for retirement is challenging and parents may be fooling themselves. Here are five ways that parents may be in denial and what to do about it:

**College is the right path for everyone.** There is a myth in our society that a college degree is the only ticket to success because there are exceptions to the rule. Besides college is expensive; the average cost of a [four year public college](#) with tuition, room and board is \$17,131 per year or around \$68,000 over four years. Private schools averaged around \$38,500 in total costs per year, \$154,000 over a four year period. But there is also another cost – the loss of wages or other opportunities while your student is attending college which is easily \$100,000 for four years. When all this is taken into account an undergraduate degree costs anywhere from \$138,500 to \$254,000 per student. For some students, college may not be the answer.

Starting a business may be an appropriate path for your child if they have an entrepreneurial spirit. Bill Gates, Steve Jobs and James Cameron all dropped out of [college](#) to start businesses (and in Cameron's case, pursue his dream of making sci-fi movies) and became widely successful. Another alternative is to join the military. My son, age 24, enlisted in the United States Navy instead of finishing college. At first, we were surprised as we always assumed he'd get a college degree. But we feel he made an incredibly wise decision. He is now getting some of the best training available in the world – learning the technology of powering an aircraft carrier or submarine. He may stay in the Navy throughout his career, but if he decides to leave, he'll have tremendously marketable skills and is in an excellent position to get a six figure civilian job.

Not all well paying jobs require a college degree. According to CNN, air traffic controllers, storage and distribution managers, transportation managers, police and detective supervisors, and (non-retail) managers

make good salaries that don't require a college degree. There are plenty of high paying jobs in industries such as energy in North Dakota, or mining in, Nevada, Utah and Texas for those young people who want to work hard and don't mind moving to remote areas of the country.

Tip: Be open to exploring alternatives to a four year degree for your children. College may not be the best option for everyone.

**The most prestigious college is the best.** If your child is college bound, consider the bang you get for your buck. The University of California- Berkeley ranks 21<sup>st</sup> in top universities in the country according to *US News and World* report but for in-state students, the tuition of around \$11,000 a year is significantly less than Harvard, Brown, and Notre Dame, which are all over \$40,000 per year. A Cal graduate would have saved at least \$116,000 in tuition over a four year period. Consider sending your student to a state university at least for their undergraduate degree. For graduate school, a high prestige school might be a worth it but for an undergraduate degree, maybe not.

Tip: You can save thousands if not a hundred thousand dollars or more by shopping around for schools that have a good reputation, reasonable tuition, and also good career prospects. Resource: [Forbes 650 Best Colleges](#) and the [Center for College Affordability and Productivity](#).

**Graduates will get a good job with a college degree.** It depends on the degree – a degree in engineering and math and science concentrations will pay a good salary post graduation but sociology and religious students may not be as lucrative. Forbes writer Jenna Goudriou wrote about the 15 most valuable college degrees in a recent [blog](#). She cited a study by PayScale.com which projected the best college majors in the next ten years include biotechnology as #1 – with an expected 62% growth in job opportunities. Engineering and the science and math majors are also well-represented on the list of most valuable college majors. The days of having a sociology major or psychology major and getting a decent job out of college are over. When my youngest son declared his major in sociology at UC Santa Barbara a few years ago, we said, “That’s great. It sounds like you’ll have some interesting classes, but what else can you do that will get you a job when you graduate?” He ended up with a double major in statistics and sociology and as Jenna predicted, got a job in statistics at a consulting firm using his concentration in mathematics. He was happy he did the extra work (and so are we).

Tip: Mentor your student to choose a major that will be marketable at graduation. Of course, not all of us are biochemists, which is probably why that particular major is in such demand. But these days students, can little afford to NOT take marketability into account.

**Once they graduate, I'll be free.** It's just not happening that way. A study by Ameriprise Financial revealed that [90% of Baby Boomers](#) are supporting their kids – either with loans or helping to make ends meet. USA Today recently reported that one half of recent graduates are jobless or underemployed. For recent graduates with humanities and arts degrees, prospects are slim right now. Students need strategies but parents do too because continuing to pay adult children's bills isn't sustainable either. Parents should look into long-term solutions as this problem might not go away anytime soon. Government projections released last month revealed that only 10 percent of the top 30 occupations expected to have the highest anticipated job growth by the year 2020 will actually require a college degree. Most of the anticipated job growth is in areas such as truck driving, retail sales, and fast food.

Tip: Encourage your recent graduate to enter a field where the government helps [repay student loans](#) with the student loan forgiveness program, which includes being a teacher in a low income school district or going into nursing. Consider having them move home permanently but with shared costs and benefits. (See [my blog](#) on boomerang children not being such a bad thing.)

**I can fund my children's college without affecting my own retirement plans.** The problem is that retirement planning is tough – it's a challenge. Many people probably don't even know they aren't on track because they haven't run a retirement calculation. The funds they are paying in college tuition, books, and room and board may derail their retirement, but they won't know it until it's too late. Parents who pay the average cost of a four year college pay over \$17,000 a year out-of-pocket or in the form of loans. That money is then NOT being saved for retirement so the total cost is much higher than the \$68,000 the College Board reports for an average four year degree from a public in-state institution.

If you'd invested that \$17,000 a year for four years and it grew by 8% a year, your investment account balance would be over \$300,000 (if invested at 8% for 20 years). How does that translate to retirement income? By spending \$17,000 for college for four years for your student, you missed out on \$12,000 of annual lifetime income (at a 4% withdrawal rate) in retirement. If you have two children you helped through college, you just sacrificed \$24,000 a year of lifetime income which could have been the "make or break" income in retirement.

Tip: Run a retirement calculation to see if you are on track to retire. If you aren't, save for retirement and figure out Plan B for your children.

The economic outlook in this country has changed considerably in the last ten years. Unfortunately, in order to meet our financial goals, our financial strategies need to change drastically and many people aren't making those changes. There are certainly some cases where parents may be able to fund their children's college and retirement at the same time and meet both of those goals. The smartest strategy is to assume you won't and go from there. If the end game is helping your children to be prepared for adulthood, the traditional four year college model might not work for them anyway.

*Nancy L. Anderson, CFP® is Think Tank Director and Resident Financial Planner at [Financial Finesse](#), the leading provider of unbiased financial education for employers nationwide, delivered by on-staff Certified Financial Planner™ professionals. For additional financial tips and insights, follow Financial Finesse on [Twitter](#) and become a fan on [Facebook](#).*