For Academics, Prioritizing Savings Isn't Always Academic

Wealth advisers can play key role in helping college professors plan for retirement and education

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Jonathan Brandt is the founder of Journey Tree Financial Planning & Investments in Eugene, Ore. Voices is an occasional feature of edited excerpts in which wealth managers address issues of interest to the advisory community. As told to Kim Eckart.

Jonathan Brandt, founder of Journey Tree Financial Planning & Investments in Eugene, Ore. … People in academia tend to place a high priority on college for their children, so we acknowledge that priority, but we also try to educate them on the importance of saving for retirement first. PHOTO: STEVE SMITH

College and university faculty members tend to follow a certain life trajectory: They spend four years as undergraduates, then several years in graduate school, and by the time they land a research or tenure-track position, they're in their 30s.

That's a long period of time during which they're setting up their career and not making a lot of money.

Consequently, many of them postpone having children and they find themselves in their late 30s or early 40s when they start saving for retirement and college. If a client has waited to start saving and has a child going off to college at around the same time he or she wants to retire, that's a tremendous amount of pressure.

People in academia tend to place a high priority on college for their children, so we acknowledge that priority, but we also try to educate them on the importance of saving for retirement first. If you want to have $1 million when you retire, there's a big difference between having 30 years and 15 years to save that money.

To save for both education and retirement goals concurrently, taking advantage of tax benefits is key.

Let's say a family has $10,000 available to save for college and/or retirement, and they're in a 25% federal tax bracket and a 10% state tax bracket. If they put all the money into a 529 college-savings plan, they may get a state tax deduction for some of that contribution depending on the state. If the state tax rate is 10%, and they can deduct, say, $5,000 of the contribution, this creates a tax benefit of $500.

Instead, if they contribute $10,000 to a tax-deductible retirement account, they would be able to get both federal and state tax benefits on the entire amount, which would yield a tax benefit of $3,500. That's seven times the benefit. Multiply that by 20 years, and along with increased contributions over time, the difference can easily reach into the hundreds of thousands of dollars.

Each year that goes by is an opportunity to maximize tax benefits, and the money saved in taxes can be put back into retirement, or clients can take that savings and put those into the college plan.

There's a tendency for clients to want to help their children first, and that's understandable. But clients can pay for college through a combination of sources: They can borrow money, there are student loans and scholarships, and children can work while they're in school or maybe a grandparent can help out. From a rational, logical standpoint, there's really only one way to pay for retirement—to save.