

Financial Q&A: Paying to launch children, and still saving for retirement

By *Steve Dinnen*, from the March 31, 2008 edition

Q: As a teacher, I have been able to save approximately \$21,000 in two tax-sheltered annuity accounts for my retirement. With one daughter getting married and the other in college, I am finding myself strapped for cash. Last year, I stopped depositing into these accounts because I'm barely making payments on my first mortgage, second mortgage, the wedding dress, college tuition, and credit cards. I am scared that with the continued rising costs of living (gas, food, mortgage, etc.), I won't have enough to remain solvent upon retirement. And yet, the immediate situation is that in order to pay my bills, I am tempted to withdraw money from my tax-sheltered annuities. What could be the penalties, tax wise and on my retirement? What are the financial repercussions if I withdraw money from my TSA accounts early? I am only 53. I won't retire until at least 2013 when I am 60-½ years old in order to get maximum retirement benefits from the State Teacher Retirement system. - M.J., via e-mail

A: This is one of those times when a financial planner – in this instance Jim Suits, president of Summit Capital Advisors in Tacoma, Wash. – must tell a client what they need to hear and not what they may want to hear. It also is a situation he says he runs into far too often.

The fact is, you have about seven years to save for a retirement that should last over 25 years. In retirement, you'll have \$21,000 in those TSAs, the pension, and Social Security, which combined will probably produce less cash flow than what you're currently earning.

Adding to the difficulty are your mortgages and consumer debt. If you cash out those TSAs this will create a \$2,100 tax penalty and ordinary income taxes of \$5,250 (at 25 percent). This means that of the original \$21,000, you'll receive only about \$13,650.

This is expensive money, says Mr. Suits. And tapping into it now compounds your retirement problem because then there will be no funds in the TSA to grow for retirement, in addition to no current contributions.

His advice: Shift the financial burden of college and the marriage to the daughters. They're young and have the stamina to support themselves. They also have a lifetime to repay any loans needed to finish college or pay for a wedding.

"Our teacher needs to focus on getting the consumer debt paid off and saving for retirement – not how to fund more major expenses," says Suits. As difficult as it may be, you need to choose between your retirement and continuing to take care of children who are now adults.