Older Parents: Paying For College

Did you have children relatively late in life? The recent trend of postponing the child-rearing years can have an unexpected impact when your children are ready to enter college. You could find yourself in a tight money squeeze at the same time you're trying to squirrel away more funds for your looming retirement—if you haven't retired already. Assuming you were savvy enough to plan well in advance, you may not encounter any significant financial problems. For those who are not as fortunate, however, you may want to consider possible alternatives to sinking deep in debt. Here are a few possible sources of education funding:

Social Security benefits. If you're age 62 or older, you can opt to receive early Social Security benefits. The amount you'll get is 25% lower than what it would be if you wait until you reach full retirement age—66, if you were born between 1943 and 1954.

Also, if a parent is retired (or disabled or deceased), a dependent child who is younger than 18—or up to age 19 if he or she is a full-time high school student—can receive a monthly payment equal to as much as half of your benefit. Though such payments won't continue when your child is in college, you might be able to salt away some of the money he or she received while still in high school. But the total amount the family may receive generally is limited to 150% to 180% of your retirement benefit, and you'll be locking in your future retirement benefit at a lower level.

Another possibility for those who have reached full retirement age is to file for Social Security benefits and suspend them. A dependent child will be able to collect benefits on your earnings record, while your benefit will rise with delayed retirement credits until age 70. That not only boosts your overall benefit, it ultimately increases the amount a surviving spouse would receive.

401(k) plans. If you're still working, you can take a loan from your 401(k) account, if your plan allows such borrowing. You may borrow as much as half the account balance, up to $50,000, and repay yourself at a low interest rate. The loan must be repaid within five years.

However, if you lose your job, the loan must be repaid within 60 to 90 days. Otherwise, it will be treated as a distribution taxable at ordinary income rates. Besides this risk, the distributions could affect your child's eligibility for financial aid.

Roth IRAs. When your child enters college, you can take withdrawals from a Roth IRA to help pay tuition bills. For a Roth in existence at least five years, distributions that are made after age 59½ are completely exempt from tax, regardless of the purpose. Although a Roth is designed to be a retirement-saving tool—and should stay that way—you might choose to tap it in a pinch.

None of these alternatives is ideal, but at least you know you have some options at your disposal.

This article was written by a professional financial journalist for Pension Parameters Financial Services, Inc. and is not intended as legal or investment advice.

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