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CULLEN

## College Graduation Frees Up Cash Cache for Some Parents

April 22, 2004

For John and Jeanne Norberg, the stress of paying college costs has finally come to an end.

The Norbergs' third and youngest child, Beth, graduated from state college in December. Now the Lafayette, Ind., couple faces the happy problem of figuring out what to do with the thousands of dollars of income they had been spending each year on college-related costs.

In addition to the thrill and pride the couple feel in knowing they've helped their three kids obtain college degrees, the middle-income empty-nesters also are relieved that they can finally start bulking up their own nest egg.

"Including room and board, we were paying around \$13,000 a year," in addition to other cost-of-living expenses, for Beth's college education, Mr. Norberg says. "We've taken that money, and we've drastically increased our investing for retirement."

Depending on where they went to college, a graduating college senior is the equivalent of a sudden financial windfall for some parents. Tuition with room and board averaged \$10,636 at four-year public colleges in 2003, and as much as \$26,854 for private universities, according to the College Board.

This week, I'll look at various ways to best reallocate these newly freed-up funds, particularly if paying for your kids' college costs had required you to scrimp on your own financial needs over the years.

**Survey the Damage First**

Paying off the last of your children's college bills is an enormous financial feat, but it's likely other areas of your finances have been neglected to get you

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there. So now what?

First you need to re-evaluate your future goals, and see how they mesh with the current state of your finances. For example, if your savings have been depleted by college costs, or you tapped retirement savings or home equity to help pay the bills, you may need to work for a few more years than you had planned before you retire.

#### A BURDEN LIFTED

**Write to me** with comments and questions about how your financial life has changed now that you're not supporting your kids at [fiscallyfit@wsj.com](mailto:fiscallyfit@wsj.com).

"One of the most

important things to do as soon as possible is to commit to paper some of the life goals the empty-nesters might have," says Donald Whalen, a fee-only financial planner with Versailles Financial LLC in Alpharetta, Ga. By setting goals, you can help to identify suitable investments and give yourself something to work toward, he says.

And know that the day your youngest child graduates and leaves home for good can be a wrenching crossroads that may spark the urge to make radical changes in your life. For example, a parent currently working in an extremely stressful, yet well-paid position may feel more willing to make a change to a lower paying job that provides a better quality of life. Or perhaps a parent will want to flee the loneliness of a now-empty larger home for something smaller.

Putting your goals in writing also can prevent from making bad financial moves based on emotion.

#### Create a New Plan

As you approach retirement age you'll find that there are many financial issues that will quickly need to be addressed if paying for college has sidetracked you, says Mark Calisti, managing director at Alexandria Financial Associates, a financial-planning firm in Alexandria, Va.

"Are you saving enough for retirement? Do you have a lot of debt? Do you have enough insurance? These are all questions that need to be considered right away," he says.

Indeed, saving for retirement took a back seat to preparing for their kids' college costs for the Norbergs.

"When our first child started getting close to college age, we focused on paying off our mortgage, so that when the time came we would have that extra money to help pay for college expenses," he says. With college costs behind them and no monthly mortgage to pay, Mr. Norberg, 56 years old, now is focusing on catching up on the couple's retirement savings by maxing out savings in his employer's retirement-savings plan.

If you're worried about whether you're on track to meet your retirement goals, or you know that you need to bulk up your savings and investments but you're uncertain how to proceed, spend a little of that enhanced cash flow on some quality time with a financial planner. An experienced planner can help you decide on a plan of action that will give you peace of mind.

#### ABOUT TERRI CULLEN

Terri writes the "Fiscally Fit" column every Thursday for the Wall Street Journal Online, in addition to Ages & Stages and other weekly personal-finance articles and features you can find collected at [Cullen Corner](#).

Terri is an assistant managing editor and one of the original team of editors who helped launch the Online Journal. In 2002, she won the Medill School of Journalism Financial Writers and Editors Award for best national financial columnist. Terri also is a contributor to the book, "The Wall Street Journal Online's Guide to Online Investing," which was published in 2000.

Send your comments about "Fiscally Fit" to Terri at [fiscallyfit@wsj.com](mailto:fiscallyfit@wsj.com).

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### **Direct Cash Where It's Most Needed**

Funneling all your available cash into retirement savings isn't always possible for 40- and 50-somethings, particularly when they're saddled with debt.

"If there's any dumb-debt -- high-interest credit cards or loans -- I would be attacking those things right away," says Sheryl Garrett, founder of The Garrett Planning Network of fee-only financial planners in Shawnee Mission, Kan.

Ration your disposable income to funnel enough money into your employer-sponsored 401(k) or other retirement plan so that you contribute enough to get the employer's matching contributions (if offered). Then use the remaining cash to pay down your high-interest debts until they're gone. [This article](#) explains how. Once your debts are gone, focus on your savings by contributing the maximum allowed, as well as catch-up contributions, to your retirement-savings accounts.

If you're debt free and you've got retirement savings taken care of, your next step should be to work toward paying off your mortgage, says Ms. Garrett. Making additional principal payments each month can drastically lower the interest you pay as well as the number of years you'll be paying the loan.

"That's not typically something a lot of financial planners advise, particularly with interest rates so low," she says, "but if you look at the concept of financial security, being debt free with [no] mortgage in retirement is essential."

### **Splurge With an Eye to the Future**

If years of saving have paid off by allowing you to fund your kids' educations with college-savings accounts without stretching your finances, some splurging may be in order. For some, an expensive vacation or new car might top the list.

But Anthony J. Manziano, a certified public accountant in West Orange, N.J., suggests that higher-income couples think long-term instead and buy or build a vacation home in a resort community where they may one day want to retire.

"Real estate is generally a good investment ... interest rates are still low, and vacation home/second home mortgage interest is tax deductible up to \$1 million of debt, as well as points and real-estate taxes," he says. And, he adds, if you decide to rent the property during the year, it may help defray some or all the carrying costs.

There's no doubt, though, that landlording can be taxing business. Also, while real estate undoubtedly continues to be a hot commodity in most areas of the country, there's no guarantee you'll recoup your investment. [Read an article](#), which explains why the house doesn't always win. [And this one](#) on first-time landlords to learn more about the issues involved with renting vacation property.

Investing in yourself may be a more fulfilling venture. If your finances allow, now may be the right time to follow a dream you've always had -- perhaps start your own business or take time off to write a book.

And finally, just because kids finally leave home doesn't mean the Bank of Mom and Dad should close for business. Now that your kids are on their own, it doesn't guarantee they won't return to ask for a loan to buy a car, rent an apartment or supplement further study.

You also may want to consider putting aside some money that will help them as they start their careers. Ms.

Garrett suggests funding retirement-saving accounts for your kids.

"It's great to set an example early to teach the kids the value of saving for the future," she says. "Tell them you'll match their contributions dollar-for-dollar, just like a 401(k), which may get them interested in investing in their own employer's plan."

If the child has earned income and makes less than \$95,000 a year, consider funding a Roth IRA in his or her name with the maximum \$3,000 contribution this year.

\* \* \*

**What would you do** if a big chunk of change suddenly freed up in your budget and you could spend or invest it anyway you'd like? Write to me at [fiscallyfit@wsj.com](mailto:fiscallyfit@wsj.com).

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