

# Paying for an education may be a better investment

By [Karin Price Mueller/The Star-Ledger](#)

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**Q.** My son has been working for several years since graduating from college and he is currently waiting on responses from several graduate programs. Should he invest his 2009 bonus check in a Roth IRA or set it aside to pay for grad school?

*CT in Summit*

**A.** It's great that your son is interested in investing so young, but education costs are not to be taken lightly, either. First, it should be noted that student income cannot be sheltered from any expected family contribution (EFC) calculation by contributing to a retirement account, said Shelley Parish Nord with Insight Financial Services in Flemington.

"While it is true that a Roth IRA is not considered an asset for purposes of the EFC calculation, adding to the Roth will not create an advantage for calculating financial aid," she said.

The real consideration here should be the ability to pay for education, Nord said. You did not say, but one can imagine that loans for graduate school might be on top of loans for undergraduate school, and quite possibly repayment of all loans might be concurrent rather than successive.

"Using the bonus, however modest, to pay graduate school costs will reduce the need to borrow now; and, no matter how high the bonus, contributions to a Roth IRA in any given year for someone who has earned income and is in their early 20s can only be, at maximum, \$5,000, Nord said.

When your son graduates and gets a job in his chosen field, he will have plenty of opportunity to contribute to retirement accounts. Electing not to contribute money to a retirement plan this year and for two successive years will not create a tremendous dislocation in his plan for retirement savings, but that same bonus money used wisely now to reduce loan costs might be a tremendous advantage to a young man starting out in the world on his own.

It is better to be safe than sorry, said Margaret O'Meara, certified financial planner, O'Meara Financial Group, Red Bank "Since your son is unsure of the graduate program that he will be attending and the financing he will get, put the money in a safe place for now," O'Meara said. "We always want to plan for the future and we need to save, but furthering one's education and building skills pays greater dividends than a Roth IRA. "

The less debt he has upon graduation, the better.

O'Meara added he shouldn't pull money out of his current Roth to pay education bills, even though there are special tax considerations when paying for higher education.