

Ownership for Married Couples When Children Arrive

By Casey Neuman, Esquire

In general, young couples should maximize contributions to a qualified retirement plan and invest their savings in jointly-owned property. However, when a child arrives, there are new considerations. In some cases, one spouse stays home to raise the child and future children. If so, will there still be surplus income? Will the working spouse be able to continue maximizing contributions to a retirement plan? Should the couple begin saving for the newborn's college education rather than saving for retirement?

Children also bring with them many new costs and responsibilities. Couples who are able to save on two incomes may find added financial pressures which sometimes dampen what otherwise is a very joyful time of their lives.

Perhaps the greatest gift we can give our children is the ability to live a productive life by providing the best education we can afford. So, if a parent has the choice of contributing to a 401(k) retirement plan or contributing to a child's qualified college savings plan, what does he do? Clearly, the parent should first contribute to a 401(k) retirement plan at least to take full benefit of any matching contributions by the employer. Not only are these contributions generally matched by an employer in some percentage, but they reduce the parents' taxable income. Assuming there is insufficient income from one or both working spouses to continue some level of retirement savings, then the couple can use savings, if any, to allow the working spouse(s) to continue retirement savings to take advantage of the matching contributions.

While qualified college savings plans enjoy tax-free build-up and distributions currently are free of federal income tax, that doesn't compare to the matching contribution generally applicable to 401(k) plans. If income is sufficient to provide substantial contributions to retirement and still provide a surplus over living expenses, then contribute to a good qualified college savings plan.

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