

Paying for College

Q. I'm 43 and planning to further my studies in Australia in 2004. I've invested \$8,000 in Smith Barney Allocation Growth and tucked away \$2,300 in a savings account. I add \$1,100 each month, splitting it between the two. My goal: reach \$40,000 by the time I enter school while maintaining good liquidity. Should I put more into savings?

STANLEY JACKSON Seattle

A. Using the stock market for short-term savings is very risky and rarely successful, warns Wayne von Borstel, a planner in The Dalles, Oregon. If you don't need all of the \$40,000 by 2004, von Borstel suggests using a Section 529 college savings plan for your more aggressive investments. Inside a 529, your investments grow tax free, and withdrawals for education are also tax free. Assets may be used for graduate study and can be applied to international schools that have received an official federal school code. (Your school, the University of New England, has a code.) For the more conservative half of your portfolio, von Borstel recommends inflation-indexed government I-bonds. Their yield (currently 4.4%) is typically higher than those of savings accounts or money markets, and all income is tax free if used specifically for post-secondary study. If you redeem the bonds within five years, the government will charge you a small penalty, but von Borstel thinks the benefits outweigh that cost. For more information on I-bonds, see www.publicdebt.treas.gov.

THE EXPERT

**WAYNE VON
BORSTEL, CFP**

► Specializing in retirement and estate planning; manages \$30 million in assets. The Dalles, OR 800-600-6669

EDITOR'S COMMENT...

Not all states offer their own Section 529 plans; Washington plans to launch its own this year. Although you are allowed to enroll in another state's plan, it may be worth your while to use Washington's plan, because many 529s offer special tax advantages to residents of the state that sponsors them. (For more information, see "The Big News about College Savings" in our August 2001 issue and check out savingforcollege.com.)