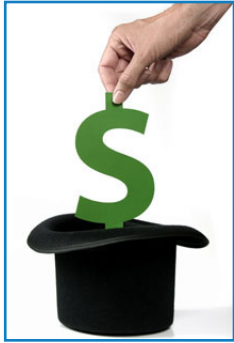


SECOND OPINION



## When It Comes To College Saving, Keep It Simple

**Q:** How about some guidance on saving for college. My daughters both have new babies and want to start saving for college. I recommended mutual funds with Vanguard. One son-in-law wants to fund college through a life insurance program with a fraternity brother. They will listen to you. - D.D., Denton, Texas

**A:** I'm pretty conservative about college savings. I've never seen the 529 plans as particularly useful when tax-efficient index funds and I Savings Bonds are available in every state.

One of the best, and most conservative, things you can do is set a goal of paying off your mortgage before the first child needs the first tuition payment. Having no mortgage payment will liberate cash flow for college expenses. And a new home equity line of credit can provide additional cash if savings in index funds hasn't completed the project.

Funding college educations through life insurance is a very inefficient way to save for college because of the front-end commission costs.

**Q:** I recently retired from civil service under FERS at the age of 61. I have about \$125,000 in my Thrift Savings Plan. Should I leave all of my money in the G fund at the 5% interest it is earning, or should I move over to the L fund, with a current rate of about 7%?

I get about \$2,500 a month in take-home retirement, and my house is paid for. But we did have moving expenses, which we are still paying, when we moved from Seattle to San Antonio to care for my mother-in-law. - R.S., by e-mail

**A:** You've got the right idea. But there are some important details you need to know. First, your G fund is an investment in an index of U.S. government securities with a maturity of four years or more. As such, it

is likely to do better than inflation by about 2 percentage points a year. It is also fairly stable.

The relatively new L funds are different. They are "lifecycle" funds that are pre-built portfolios that combine all five of the individual asset-class funds offered in your plan. Combined in different proportions, you can choose among five L funds. Just as major retail fund firms have simplified investing by creating lifecycle funds pegged to different retirement dates, so has the Thrift Savings Plan.

In theory, you would select the L Income fund because you are now retired. That fund, however, is 80% fixed-income investments and only 20% equities. I believe that is excessively conservative for someone your age. More important, it is unlikely to provide the inflation protection you will need over the decades of retirement ahead of you.

I suggest you invest in the L 2020 fund. It currently has 38% fixed-income and 62% equities. Even nicer, the equities have a nice slug of domestic small-cap stocks (15% of total portfolio) and international stocks (21% of total portfolio). Between now and 2020 it will slowly morph into the L Income fund, becoming more conservative. That will be more appropriate when you are 74.

Whatever choice you make, you should know that you have the best deal going in employee retirement plans. The expense ratio on all these funds is a mere 0.03%. That's a tiny fraction of what private sector employees are

charged in their plans. It means that virtually all of the return on YOUR money is going to you rather than building mega-mansions for Wall Street executives.

It is very important that you understand that your L fund does not have a "yield" of 7%. It has a return that will vary significantly from year to year. The fund has an expected return of about 8%, about 5 percentage points better than the rate of inflation. But that return won't come in like clockwork.

For instance, the return on a nearly identical simulated portfolio has run over 8% over the last 10 years, but in its worst three-month period it lost nearly 10%. (In its best three-month period it gained over 13%.) Living with those ups and downs is the price you pay for the additional return.

You can read more on the lifecycle funds by downloading a PDF file on the TSP Web site at [www.tsp.gov/rates/fundsheets-1funds.pdf](http://www.tsp.gov/rates/fundsheets-1funds.pdf).

{Questions about personal finance and investments may be sent by e-mail to [scott@scottburns.com](mailto:scott@scottburns.com) or by fax to 505-424-0938. Check the Web site: [www.scottburns.com](http://www.scottburns.com). Questions of general interest will be answered in future columns.}

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