

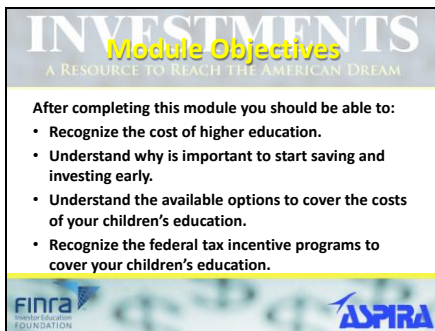
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INVESTMENTS
A RESOURCE TO REALIZE THE AMERICAN DREAM

Is investing in a 529 plan right for me?

- Before you start saving specifically for college, you should consider your overall financial situation.
- Instead of saving for college, you may want to focus on other financial goals.
- Remember that you may face penalties or lose benefits if you do not use the money in a 529 account for higher education expenses.
- If you decide that saving specifically for college is right for you, then the next step is to determine whether investing in a 529 plan is your best college saving option.



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What questions should I ask before I invest in a 529 plan?

- Is the plan available directly from the state or plan sponsor?
- What fees are charged by the plan? Under what circumstances does the plan waive or reduce certain fees?
- What are the plan's withdrawal restrictions? What types of college expenses are covered by the plan? Which colleges and universities participate in the plan?
- What types of investment options are offered by the plan? How long are contributions held before being invested?
- Does the plan offer special benefits for state residents?
- What limitations apply to the plan?
- Who is the program manager? When does the program manager's current management contract expire? How has the plan performed in the past?

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How does investing in a 529 plan affect federal and state income taxes?

- Investing in a 529 plan may offer college savers special tax benefits.
- Earnings in 529 plans are not subject to federal tax, and in most cases, state tax, so long as you use withdrawals for eligible college expenses.
- However, if you withdraw money from a 529 plan and do not use it on an eligible college expense, you generally will be subject to income tax and an additional 10% federal tax penalty on earnings.



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What fees and expenses will I pay if I invest in a 529 plan?

- Fees and expenses will vary based on the type of plan.
- Prepaid tuition plans typically charge enrollment and administrative fees. In addition to "loads" for broker-sold plans, college savings plans may charge enrollment fees, annual maintenance fees, and asset management fees.
- Some of these fees are collected by the state sponsor of the plan, and some are collected by the financial services firms that the state sponsor typically hires to manage its 529 program.


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INVESTMENTS
Fees for broker-sold 529 plans
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- Many broker-sold 529 plans offer more than one class of shares, which impose different fees and expenses:
 - Class A shares typically impose a front-end sales load (i.e. 5%). Front-end sales loads reduce the amount of your investment.
 - Class B shares typically do not have a front-end sales load. Instead, they may charge a fee when you withdraw money from an investment option, known as a deferred sales charge or “back-end load.”
 - Class C shares might have an annual distribution fee, other annual expenses, and either a front- or back-end sales load. But the front- or back-end load for Class C shares tends to be lower than for Class A or Class B shares, respectively.

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INVESTMENTS
Is there any way to purchase a 529 plan but avoid some of the extra fees?

- **Direct-Sold College Savings Plans.** States offer college savings plans through which residents and, in many cases, non-residents can invest without paying a “load,” or sales fee. This type of plan, which you can buy directly from the plan’s sponsor or program manager without the assistance of a broker.

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INVESTMENTS
What restrictions apply to an investment in a 529 plan?

Withdrawal restrictions apply to both college savings plans and pre-paid tuition plans. With limited exceptions, you can only withdraw money that you invest in a 529 plan for eligible college expenses without incurring taxes and penalties.




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INVESTMENTS
Does investing in a 529 plan impact financial aid eligibility?

- While each educational institution may treat assets held in a 529 plan differently, investing in a 529 plan will generally reduce a student’s eligibility to participate in need-based financial aid.
- The 529 will be treated as parental assets in the calculation of the expected family contribution toward college costs.

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INVESTMENTS
Coverdell Education Savings Accounts
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Coverdell accounts are trusts created exclusively for the purpose of paying the qualified education expenses of the designated beneficiary of the trust. They are exempt from federal taxation and have the following characteristics:

- **Contribution Amount:** Maximum of \$2,000 per beneficiary from all sources per year.
- **Account Ownership:** Coverdell accounts may be owned by the student or the student's parent.
- **Contribution Age Limit:** Contributions may be made until the beneficiary reaches age 18.
- **Withdrawal Age Limit:** The money must be used by the time the child reaches age 30 or the earnings will be taxed as ordinary income plus a 10% penalty.

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INVESTMENTS
Coverdell Education Savings Accounts (2)
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- **Rollovers:** Coverdell accounts may be rolled over to the Coverdell account of a family member of the previous beneficiary.
- **Income Phase outs:** Contributions are phased out for incomes between \$95,000 and \$110,000 (single filers) or \$190,000 and \$220,000 (married filing jointly).
- **Corporations May Contribute:** Corporations, including tax-exempt organizations, may contribute to an individual's Coverdell account, regardless of income level.
- **Contributions in Cash:** Contributions must be in the form of cash. Contributions of stocks, bonds, and other savings vehicles are not permitted.

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INVESTMENTS
Coverdell Education Savings Accounts (3)
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- **Investment Restrictions:** No part of trust assets may be invested in life insurance contracts.
- **Exceptions:** There are no age limits for special needs beneficiaries.
- **Financial Aid Impact:** Treated as an asset of the account owner. If the account owner is the student, this has a high impact on financial aid eligibility.
- **Income Tax Implications:** Contributions are not deductible on federal or state income tax, but earnings accumulate tax-free.
- **Estate Tax Implications:** Contributions are removed from the donor's gross estate but included in the beneficiary's gross estate.
- **Qualified Expenses:** Primary, secondary, and postsecondary education expenses, including tuition, fees, tutoring, books, supplies, related equipment, room and board, uniforms, transportation and computers.

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INVESTMENTS
Coverdell Education Savings Accounts (4)
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- **Coordination with Section 529 Plans:** You can contribute to both a Coverdell account and a section 529 plan in the same year, but there may be gift tax implications if you give more than \$12,000 per beneficiary.
- **Coordination with Education Tax Credits:** You can claim a Hope Scholarship and/or Lifetime Learning tax credit in the same year as you withdraw funds from a Coverdell Account.
- **Qualified Education Expenses:** In addition to higher education expenses such as tuition and fees, Coverdell Education Savings Accounts can also be used to pay for elementary and secondary education.

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INVESTMENTS
U.S. Savings Bonds – A Reliable Way
For Saving For Your Children Education

- **What Is A U.S. Savings Bond?**
 - A bond is a loan to a company or government agency, which agrees to pay it back at a fixed rate of interest over a fixed period of time. When you purchase a U.S. Savings Bond, you're lending money to the United States.
- **Where Can I Buy U.S. Savings Bonds?**
 - Through any bank or financial institution that serves as a Savings Bonds Agent.
 - Through a payroll savings plan offered by many employers.
 - Online, through the U.S. Treasury Department's [TreasuryDirect](#)



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U.S. Savings Bonds(2)
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- **What Interest Rate Does a US Savings Bond Pay and when do they mature?**
 - US Treasury Department offers a free software program called the [Savings Bond Wizard](#) which will help determine bond maturity and interest rate.
 - Series EE Savings Bonds continue to earn interest for 30 years.




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U.S. Savings Bonds(3)
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- **How Can I Redeem (Cash-in) My Savings Bonds?**
 - Series E and EE Bonds can be redeemed at most banks and financial institutions.
- **Using U.S. Savings Bonds to Cover Tuition Costs**
 - EE and I bonds purchased after 1989 by someone at least 24 years old may be redeemed tax-free when the bond owner or the bond owner's spouse or dependent pays for college tuition and fees.



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INVESTMENTS
IRAs to Cover for Educational Costs
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Early withdrawal penalties are waived when Roth IRAs and traditional IRAs are used to pay the qualified post-secondary education costs of yourself, your spouse, your children, or your grandchildren. (Taxes may still be due on the withdrawals, however.)

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INVESTMENTS
Income Tax Deductions
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- **Hope Scholarship Credit**
 - A parent may claim a tax credit for 100% of the first \$1,100 and 50% of the next \$1,100, of a dependent child's college tuition and mandatory fees, for a maximum \$1,650 annual tax credit per child.
- **Lifetime Learning Credit**
 - A taxpayer may claim a tax credit for 20% of up to \$10,000 in combined tuition and mandatory fees for himself, his spouse, and his dependent children. This equates to a \$2,000 tax credit.

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INVESTMENTS
Income Tax Deductions (2)
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- **Tuition and Fees**
 - An above-the-line deduction (this means you do not have to itemize your deductions) for up to \$4,000 of the college tuition and related expenses of yourself, your spouse, or your dependent is available in 2007 if your income is \$65,000 or less (\$130,000 or less if you are married filing jointly).
- **Deduction for Student-loan Interest**
 - Up to \$2,500 in student loan interest may be deducted above-the-line as long as the debt was incurred to pay the college costs for yourself, your spouse, or your dependent, while enrolled as a student at least half-time in a degree program.

