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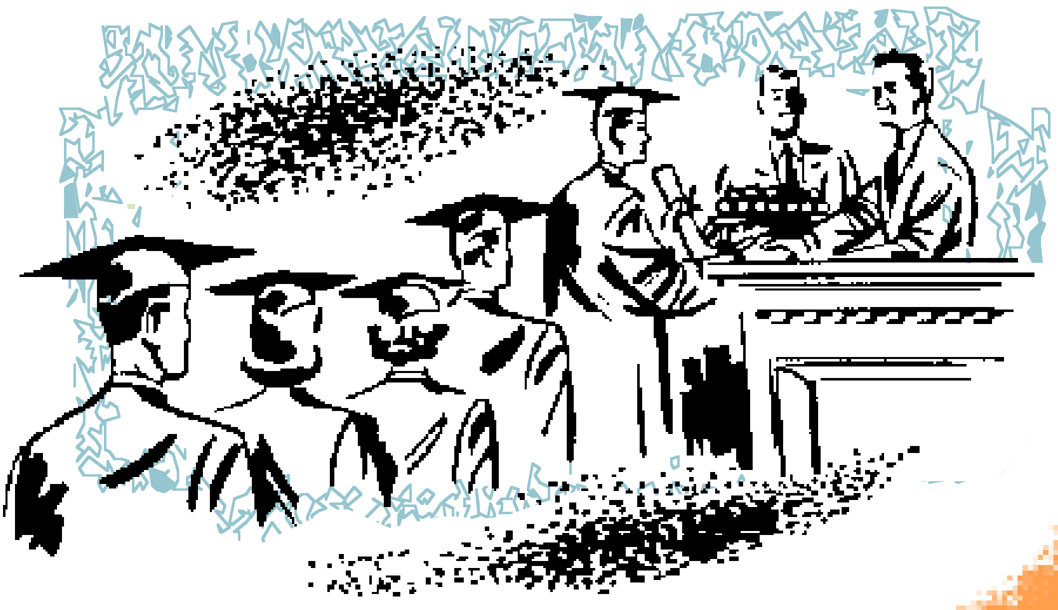
College Funding

FOCUS ON 529 PLANS



SUPPLEMENT TO THE APRIL 2002 INVESTMENT ADVISOR MAGAZINE

College Funding

FOCUS ON 529 PLANS

College Planning 101

Section 529 college savings plans aren't new, but many of their tax benefits are. College funding is just one way for advisors to increase their array of offerings—and even help existing clients with estate planning.

The cost of a college education goes up every year leaving many families wondering how they can afford a college education for their children. With the tax changes instituted by the Economic Growth and Tax Relief Reconciliation Act of 2001 now in effect, the popularity of section 529 plans is growing—and for good reason. The complexity of these plans makes them tailor-made for advisors, adding to the array of financial solutions an advisor can offer clients.

By Angela Hollis Finch

With the cost of a college education spiraling ever higher, there are few families who can't use some college savings advice. According to the National Commission on the Cost of Higher Education, between 1976 and 1996, the average tuition at public 4-year universities increased from $642 to $3,151 (390%) and from $2,881 to $15,581 (440%) at private four-year universities. In contrast, according to the U.S. General Accounting Office, median household income rose by only 82%. That's quite a gap—especially when you consider that it is getting bigger every year.

Section 529 plans may not provide the total college funding solution for all of your clients, but the new tax law makes it the most attractive option by far, according to Sidney Poretsky, an independent financial advisor affiliated with Tomorrow's Financial Services in Lincroft, New Jersey. "The biggest benefit of a 529 plan is that when the money is withdrawn, it is tax-free as long as it is used for the purpose of higher education"—at least until December 31, 2010.

Because of the so-called sunset provision, this is the date this tax provision will disappear, unless it is extended. Many believe it is likely to be extended given the growing popularity of 529 plans, and the realization that college funding isn't getting any easier for families. But, that said, this still a political issue—and one never knows.

While the 529 plan was added to the Internal Revenue Code back in 1996, its benefits were enhanced with the tax law passed last summer moving them to the fore. Now investors can contribute up to $305,000 per student (maximums vary by state), can have accounts in multiple state plans, and the account grows tax free—or at least tax deferred—which gives you the power of compounding. According to the Internal Revenue Service, "you may put up to $11,000 per year per child or grandchild into a state-sponsored qualified tuition program or 529 plan. The investment grows income tax free and the plan need not be one from your own state. There is no estate tax penalty so assets can be passed along to heirs. There is a federal income tax and a 10% penalty on earnings if you use the money for any purpose besides your child's education."

In addition to the college funding advantages, the new tax law also gives a boost to estate planning, as contributions made to a 529 plan are no longer a part of an estate once they are contributed to the plan (unless your client makes a five-year contribution of $55,000, and dies before the end of the five years). But, the funds in the account are controlled by account owner, not the beneficiary. Also new for 2002 is the ability to transfer plan benefits to first cousins. This makes 529s an even more attractive estate planning tool, as older clients can reduce their estates by contributing to their grandchildren's educations.

529 Benefits

- Tax-deferred earnings
- No income limits
- Assets transferred out of an estate making it an effective estate planning tool
- Account owner controls disbursements
- Professional money management

529 Disadvantages

- Non-taxable deferrals may expire in 2010
- If the plan in overfunded, at withdrawal it is subject to taxes plus a 10% penalty (as is a Coverdell Savings Account)

New for 2002

- Benefits transferable to first cousins
- Portability – Can be rolled into another state one time each year if desired.
- Higher contribution limits for Coverdell Savings Plans (was $500, now $2,000)

What About Education IRAs?

Also newly expanded for 2002, is the newly named Coverdell Education Savings Account (ESA). And while it is better than it has been in previous years, it still offers fewer benefits than 529 plans. For starters, the maximum—while recently expanded to $2,000 from $500 per year—is still low. According to the IRS, "In 2002, the new tax law lets you contribute up to $2,000 per year per child if you are single with an income up to $95,000 or $190,000 for married couples." There are no income limitations for 529 plans. With the Coverdell savings plan, assets are still transferred out of the estate and, like 529s, if they are cashed out early the entire withdrawal is taxed at the account owner's regular rate plus a 10% penalty. Coverdell plans must be used by age 30, while there is no such limit on 529 plans. One advantage of the Coverdell plan, however, is that funds can be withdrawn for qualifying elementary and secondary school expenses, while a 529 plan is specifically for "higher education" and cannot be used prior to college.

Pre-Paid 529 Plans

Section 529 also allows for a "pre-paid" college savings plan, and as you will see in our listing (see page S-13), most states offer them. However, they are state specific, meaning that if you are paying for your child to go to school in that state and are "pre-paying" the tuition, as opposed to a 529 "savings" plan, which is a true savings vehicle. If your client decides not to send their child to the school they prepaid, they can get their money back, but the rules are complex and different for each plan. Additionally, prepaid plans reduce financial aid dollar-for-dollar, as opposed to savings plans, which reduce financial aid by 5.6%. (For more information on how different investment/savings vehicles affect financial aid contributions, see page S-9.)

UGMA/UTMA

Prior to 529 plans, it was somewhat commonplace to use Uniform Gifts to Minors Act (UGMA) accounts and Uniform Transfers to Minors Act (UTMA) accounts to pay for a college education. While this approach is certainly an option, it has several drawbacks. First of all, the beneficiary gets control of the money when he or she turns 18. So, if Billy would rather have a shiny new car than a college education, there's nothing you can do about it. Additionally, there is no ability to change the beneficiary and, while the taxes are at a lower rate, there is no tax deferral—thus no compounding.

Assets in a UGMA/UTMA account are subject to a 35% assessment when it comes to qualifying for financial aid.

Great Web Resources

www.savingforcollege.com

www.cfionline.com - College Funding Inc.

www.collegesavings.org

www.nast.net - National Association of State Treasurers

www.aimfunds.com - AIM Funds (features a helpful college cost calculator to determine how much a client should contribute to a 529 plan.)

www.collegeboard.com – Features financial aid calculators, expected family contribution calculator, college savings calculator, student loan calculator, parent debt calculator, and parent loan repayment calculator.

www.salliemae.com

www.ed.gov - Department of Education

www.review.com - Princeton Review ranks top colleges and includes a wealth of information, including tuition, and financial aid information.

How to Choose?

There's good news and bad news about 529 plans. The bad news is that they are complicated, change often, and vary drastically from state to state. The good news is that's why investors need you—the advisor—to guide them through the process. Poretsky says he often recommends 529 plans. However, finding the right plan is a little more challenging. To help narrow your search, we've provided a listing of each state and some information that will make the selection process a little easier (see page S-13).

We also recommend checking out *savingforcollege.com*. It's a great Web site and tool for comparing plans. Also, check out *aimfunds.com* for a college cost simulator. This site allows you to determine the future cost of a specific college based on the child's age and return assumptions you enter. Once you determine the cost of the college the child is likely to attend, that's the first step in selecting a 529 plan. If you are fortunate enough to live in a state that offers state tax benefits for 529 plan contributions, that should be the first to go on your comparison list. Surprisingly, according to *savingforcollege.com*, more than 30 plans offer no tax incentives (however, some states like Alaska, Florida, Nevada, Washington and Wyoming have no state income tax). Also note that most states offer more than one plan. And, they are frequently added. In fact, Delaware Investments will be managing a new 529 savings plan for the state of Pennsylvania beginning this spring, and Bank of America just launched a plan for South Carolina in March.

Other Incentives

In an effort to get consumers to sign up for 529 plans, some banks and retail institutions are joining in offering rebates that go directly into established 529 plans or Coverdell ESAs. You may want to check out *BabyMint.com* and *Upromise.com* to help your clients earn even more towards college. Currently, Upromise (*upromise.com*) is available to investors in the Delaware College Investment Plan, The U.Fund College Investing Plan of Massachusetts, The UNIQUE College Investing Plan of New Hampshire (which are managed by Fidelity Investments) and The Bright Start Program of Illinois and The Scholars Choice Program of Colorado (managed by Salomon Smith Barney). Investment participants in *BabyMint.com* include, Pacific Life, AIM Funds, Alliance Capital, Phoenix, MFS Investment Management, and Putnam Investments.

Other managers, such as Waddell and Reed, place assets in a fund of funds, so investors can follow their 529 as they would a mutual fund.

An Exception to the Rule

As with any tax law, there are many exceptions that you must take into consideration with 529 plans. While there are many commonalities, each state is vastly different. There is simply not enough space to explain all of the tax benefits each state offers to its residents regarding 529 plans. But hopefully, we've given you a place to start.

Educating Clients on 529 Plans

Despite the growing popularity of 529 plans, many investment advisors are still at the short end of the 529 learning curve. Even if you're not one one of them, you may want to become more familiar with how the plans work, how they fit into someone's total financial picture, and the comparative features of the growing number of products available. Here are some questions about 529 plans, as well as some answers that may help you sort things out.

Q: My client has a younger child who will be starting college after 2010, when the sunset provisions of the new tax law kick in. Does it still make sense for him to use a 529 plan?

A: The sunset provisions of the recent tax changes apply to 529 plans, so it is possible that the withdrawal of earnings, even if they are used for qualifying education expenses, will be subject to income tax.

But that should not necessarily dissuade you from recommending a 529 plan. With all their advantages, they can still be a good bet—even for kids still in diapers. "The worst thing that can happen is that the federal government does nothing, and the earnings in the account become taxable at withdrawal," says Gary Samela, a financial advisor with Legg Mason Wood Walker in Worcester, Massachusetts. "During the accumulation phase, the money will still grow tax-deferred."

Still, some clients who have reservations about the uncertain tax treatment of account earnings may gravitate toward other education savings options. "I had one client who could only afford the maximum $2,000 annual contribution for a Coverdell Education Savings Account and who had some concerns about the sunset provisions," says Samela. "So she decided to use the Coverdell instead of a 529 plan. If her contributions go above the maximum allowed for the Coverdell, she can later establish a 529 plan."

Q: My client's daughter is only a couple of years away from college enrollment. Is it worthwhile to establish a 529 plan for her at this point?

A: "The age of the beneficiary definitely comes into play when considering a 529 plan," says Diane Pearson, CFP, of Legend Financial Advisors in Pittsburgh. "Most of the plans we've looked at have not done too well over the last couple of years because of the weak stock market. We see a lot of large company growth funds in 529s, which have been particularly hard-hit. I'd say that if you're investing for someone who has four years or less until college, you should approach 529 plans cautiously because of the relatively short time horizon. But they are certainly worth a look for younger children who have more time until college."

By Marla Brill

Q: Can the account owner change the beneficiary on the 529 plan if the child decides not to attend college?

A: The account owner can change beneficiaries whenever he wants, as long as the new beneficiary is a member of the previous beneficiary's family. Otherwise, withdrawals will be treated as a non-qualified distribution and will be subject to tax and penalties. The list of qualifying relatives who can become new beneficiaries is quite encompassing, and includes the designated beneficiary's siblings, stepsiblings, parents, stepparents or stepchildren, in-laws, and even first cousins.

Q: Do the beneficiary and the account owner need to be related?

A: No. The beneficiary need not be related to the account owner.

Q: Can an account owner transfer ownership of the account to someone else?

A: Things get a bit more complicated here. "In many states, the original account owner can transfer ownership to someone else without penalties or taxes," says Samela. "And there is usually no requirement that the new owner be a family member. But some states do not allow such transfers, so you need to find out the provisions of your client's particular plan first."

In one applicable scenario, a grandparent who is an account owner might request an ownership transfer when he or she becomes ill and no longer wants the responsibility of maintaining the account. Generally, though, Samela reports that such requests are atypical because "as a general rule, people don't like to give up control of their money."

> "The age of the beneficiary definitely comes into play when considering a 529 plan," says Pearson

Q: My client established an account for his child under the Uniform Transfer to Minors Act (UTMA) years ago, before 529 plans were even around. Can he transfer that account to a 529 plan?

A: While many plans allow transfers from an UTMA to a 529 plan, the money is still considered an irrevocable gift. This usually means your client cannot remove the child as the beneficiary on the account, and the child will assume ownership once he or she reaches the age of majority. And because a 529 plan only accepts cash, your client will need to liquidate the account and report any capital gains on appreciated securities.

Even with those restrictions, it may be worthwhile to make such a transfer because of the benefits associated with 529 plans. As a practical matter, Samela suggests that anyone establishing a 529 plan with money from a UTMA account keep those monies separate from other 529 contributions. With all the other education savings options now available, he also discourages parents from opening new UTMA accounts if they intend to use the money for qualified education expenses.

Q: How does a 529 plan figure into financial aid formulas?

A: To answer that question, it helps to break the time frames down into two separate parts, says Rick Darvis, a certified public accountant and principal of College Funding Inc., Plentywood, Montana: when your client applies for financial aid before the child attends college, and when your client begins making withdrawals to pay for it beginning in the child's sophomore year.

Under the savings-type 529 plan, the assessment rate is a maximum of 5.6% of the value of the account, assuming that a parent is listed as the account owner and the child as the beneficiary. This means that on a 529 plan with an account balance of $30,000, the child would lose $1,680 in financial aid in the first year of enrollment. But the financial aid forfeiture would be much greater after that year because the earnings portion of any withdrawals are treated as the beneficiary's financial aid income and assessed at a rate of 50%. So if the earnings portion of a withdrawal were $6,000, the beneficiary could forfeit $3,000 in financial aid eligibility.

Financial aid formulas figure a dollar-for-dollar reduction of financial aid under arrangements known as pre-paid tuition 529 plans. This means that if your client takes $10,000 out of such a plan to pay for college, his financial aid eligibility is reduced by that amount.

Q: Should we consider other college savings options if the client may be eligible for financial aid?

A: There may be some better options if financial aid is a possibility. For example, a Roth IRA receives more favorable treatment in financial aid formulas because it is considered a retirement asset of the account owner. Your client gets tax-free accumulation of earnings if the money stays in the account for at least five years, and doesn't incur a penalty on withdrawals before age 59½ if he uses them to pay for college expenses. Plus, there is a much broader palette of investment options than with a 529 plan.

Contribution limits are also fairly generous. An investor eligible to make the maximum contribution could open a Roth IRA and contribute up to $3,000 this year, and that limit increases to $5,000 in 2008. "This means a married couple could contribute up to $6,000 to Roth IRAs in 2002," says Darvis. "If their child has earned income, he or she can contribute to a Roth IRA as well."

Q: My client's income and assets are probably too high to qualify for financial aid. Why should I factor it into my recommendation?

A: Don't discount the possibility of receiving financial aid, even if your client's income is relatively high, says Darvis. "A family with household income of $150,000 and assets of $100,000 outside of a retirement plan and home equity could qualify for financial aid at an expensive private college," he says. "And if there are two or more family members attending college, the formula could be even more generous than that."

Of course, parents with young children who are many years away from college might have trouble predicting whether they will be eligible for financial aid 10 or more years down the road. For them, Darvis offers this rule of thumb: "If you are eligible for financial aid now, chances are good you will be eligible for financial aid in the future because college expenses are increasing at double or triple the rate of inflation."

Beginning this year, investors can contribute to both a Coverdell ESA and a 529 plan without incurring any penalties

Q: Given my client's level of income and assets, I am fairly sure his child will not be eligible for financial aid. Does that make a 529 plan a good bet for him?

A: Section 529 plans are relatively more attractive for families who will not likely be receiving financial aid than families who have a good shot at getting it. "Just be careful about overfunding the plan," says Darvis. "If your client ends up not using the money for education expenses, he may have to pay income taxes and penalties on withdrawals."

Q: What happens if the child decides not to attend college, or drops out? Can you withdraw the money from the account and use it for other purposes?

A: You can, but the earnings portion of the withdrawals may be subject to federal income tax, plus a federal tax penalty of 10%. Withdrawals due to a beneficiary's death, disability, or receipt of a scholarship are not subject to the 10% penalty.

To avoid taxes and penalties, your client could choose another beneficiary—say, a brother or sister of the original beneficiary—who he thinks will be going to college. (*For more information on re-designating beneficiaries, see the question on the previous page.*) Or, he could simply leave the money in the account and hope that a few years in the working world opens his child's eyes to the value of a college education.

Q: The last time I checked into section 529 plans, account owners were prohibited from changing their investment options. Is that still true?

A: Thanks to recent clarification by the IRS, account owners can now switch investment options once each calendar year, assuming their plan permits it.

Q: Can you contribute to both a Coverdell Education Savings Account (ESA) and a 529 plan?

A: Beginning this year, investors can contribute to both a Coverdell Education Savings Account and a 529 plan without incurring any penalties. Your client may want to do this, for example, if his child attends a qualifying elementary or secondary school and is planning to attend college in the future. That's because under a Coverdell plan, you can withdraw funds for pre-college expenses, while a 529 plan can only be used for "higher education." Keep in mind that in 2002, investors can contribute up to $2,000 per year per child if they are single with annual income of up to $95,000 ($190,000 for married couples) to a Coverdell. There are no income restrictions for 529 plans.

Q: How do 529 plans figure into estate planning?

A: Gifting money to a 529 plan allows your client to reduce the size of his taxable estate, and by doing so, reduces the likelihood that the estate will be subject to taxes. Because 529 plans allow much larger contributions than many other college savings options, they are an excellent way to fund a gifting program if your client wants the money to be used for higher education. And as the account owner, your client retains control of the funds. This feature compares favorably with other gifting options that require the grantor to relinquish control.

One way to approach a gifting program is for your client to contribute up to $11,000 ($22,000 for married couples) per beneficiary—the maximum amount he can give away without incurring the federal gift tax. Another option would be to gift up to $55,000 in a single year to each beneficiary ($110,000 for married couples), suggests Pearson. This will not trigger federal gift taxes, she says, as long as your client doesn't make any more gifts to the same beneficiary for four years after the year in which he makes the gift. A married couple who are grandparents, for example, could gift three grandchildren a total of $330,000 in one year as part of a plan to reduce the size of their taxable estate.

A Guide to 529 Plans

Let's face it. The differences in 529 plans are so vast, how do you compare plans? Some states, like New Jersey, North Carolina, and Ohio have residency restrictions, while other states do not. Some states offer tax benefits to their residents, others do not, while still others have no state income tax at all.

Identifying the most important criteria to make a helpful list really depends on what you're looking for in a 529 plan. If you have a high-net-worth client and are looking for estate planning options in addition to college funding, you want a plan with high account maximums and no residency requirements. On the other hand, if your client knows where his child is going to college, a pre-paid contract may be the answer. To help you narrow your search, we have attempted to list every 529 plan in each state—whether it is pre-paid or savings. We listed account minimums and maximums, investment managers, phone numbers, Web addresses and more.

—Angela Finch

	Plan Type	Investment Manager/ Distributor	Residency Requirement	State Tax Benefit	Maximum Account Balance	Minimum Initial Contribution	Web Site	Phone Number
Alabama								
Prepaid Affordable College Tuition (PACT) Program	Prepaid	State Treasurer	n	n			www.treasury.state.al.us	1-800-252-7228
Alabama College Education Savings Program (ACES)	Savings	Van Kampen					Plan Under Development	
Alaska								
University of Alaska College Savings Plan	Savings	T. Rowe Price	n	n/a	$250,000	$50 – $250	www.uacollegesavings.com	1-800-478-0003
Manulife College Savings	Savings	T. Rowe Price/Manulife	n	n/a	$250,000	$500	www.manulifecollegesavings.com	1-866-222-7498
T. Rowe Price College Savings Plan	Savings	T. Rowe Price/Manulife	n	n/a	$250,000	$250	www.manulifecollegesavings.com	1-866-222-7498
Arizona								
Arizona Family College Savings Program (CSB)	Savings	College Savings Bank	n	n	$177,000	$250	arizona.collegesavings.com	1-800-888-2723
Waddell & Reed InvestEd Plan	Savings	Waddell & Reed	n	n	$177,000		www.waddell.com	1-888-923-3355
Arizona Family College Savings Program (SM&R)	Savings	Securities Management and Research	n	n	$177,000	$20 – $500	www.smrinvest.com	1-888-667-3239
Arkansas								
GIFT College Investing Plan	Savings	Mercury Advisors/ Franklin Templeton	n	n	$245,000	$250 res. $1,000 non-res.	www.thegiftplan.com	1-877-442-6553
California								
Golden State ScholarShare College Savings Trust	Savings	TIAA-CREF	n	n	$115,622 - $165,886*	$25	www.scholarshare.com	1-877-728-4338
Colorado								
CollegeInvest / Prepaid Tuition Fund	Prepaid	State Treasurer	n	y			www.collegeinvest.org	1-800-478-5651
CollegeInvest / Scholars Choice College Savings Program	Savings	Salomon Smith Barney	n	y	$235,000	$25	www.scholars-choice.com www.collegeinvest.org	1-888-572-4652
Connecticut								
Connecticut Higher Education Trust (CHET)	Savings	TIAA-CREF	n	n	$235,000	$25	www.aboutchet.com	1-888-799-2438
Delaware								
Delaware College Investment Plan	Savings	Fidelity Investments	n	n	$235,000	$25	www.fidelity.com/delaware	1-800-544-1655
Florida								
Florida Prepaid College Program	Prepaid	Florida Prepaid College Board	y	n/a			www.floridaprepaidcollege.com	1-800-552-4723
Florida College Savings Plan	Savings	TIAA-CREF					Plan Under Development	
Georgia								
Georgia Higher Education Savings Plan	Savings	TBD					Plan Under Development	
Hawaii								
Hawaii College Savings Program	Savings	TBD					Plan Under Development	
Idaho								
Idaho College Savings Program (IDeal)	Savings	TIAA-CREF	n	y	$235,000	$25	www.idsaves.org	1-866-433-2533
Illinois								
College Illinois!	Prepaid	Illinois Student Assistance	y	n			www.collegeillinois.com	1-877-877-3724
Bright Start College Savings Program	Savings	Salomon Smith Barney	n	y	$235,000	$25	www.brightstartsavings.com	1-877-432-7444
Indiana								
CollegeChoice 529 Plan	Savings	State Treasurer/ One Group Admin. Services	n	n	$114,548	$50	www.collegechoiceplan.com	1-866-400-7526

Plan	Plan Type	Investment Manager/ Distributor	Residency Requirement	State Tax Benefit	Maximum Account Balance	Minimum Initial Contribution	Web Site	Phone Number
Iowa								
College Savings Iowa	Savings	Vanguard Investments	n	y	$146,000	$25	www.collegesavingsiowa.com	1-888-672-9116
Kansas								
Learning Quest Education Savings Program	Savings	American Century	n	y	$235,000	$500 Residents; $2,500 Non-residents	www.learningquestsavings.com	1-800-579-2203
Kentucky								
Kentucky Education Savings Plan Trust	Savings	TIAA-CREF	y	n	$235,000	$25	www.kentuckytrust.com	1-877-598-7878
Kentucky's Affordable Prepaid Tuition (KAPT)	Prepaid	State Treasurer	y	n			www.getkapt.com	1-888-919-5278
Louisiana								
Student Tuition Assistance and Revenue Trust Program (START)	Savings	State Treasurer	y	y	$173,065	$10	www.osfa.state.la.us/start.htm	1-800-259-5626
Maine								
NextGen College Investing Plan	Savings	Merrill Lynch	n	n	$235,000	$250	www.nextgenplan.com	1-877-463-9843
Maryland								
College Savings Plans of Maryland - College Investment Plan	Savings	T. Rowe Price	n	y	$175,000	$250	www.collegesavingsmd.org	1-888-463-4723
College Savings Plans of Maryland - Prepaid College Trust	Prepaid	Maryland Higher Education Inv. Board	y	y			www.collegesavingsmd.org	1-888-463-4723
Massachusetts								
U.Fund College Investing Plan	Savings	Fideltiy Investments	n	n	$230,000	$1,000	www.fidelity.com	1-800-544-2776
U.Plan (does not qualify as a 529 plan)	Prepaid	Mass. Educational Financing Authority	n	n			www.mefa.com	1-800-449-6332
Michigan								
Michigan Education Trust	Prepaid	State Treasurer	y	y			www.treasury.state.mi.us	1-800-638-4543
Michigan Education Savings Program	Savings	TIAA-CREF	n	y	$235,000	$25	www.misaves.com	1-877-861-6377
Minnesota								
Minnesota College Savings Plan	Savings	TIAA-CREF	n	n	$122,484	$25	www.mnsaves.com	1-877-338-4646
Mississippi								
Mississippi Prepaid Affordable College Tuition Program (MPACT)	Prepaid	State Treasurer	y	y			www.collegesavingsmississippi.com	1-800-987-4450
Mississippi Affordable College Savings	Savings	TIAA-CREF	n	y	$235,000	$25	www.collegesavingsms.com	1-800-486-3670
Missouri								
Missouri Saving for Tuition Program (MO$T)	Savings	TIAA-CREF	n	y	$235,000	$25	www.missourimost.org	1-888-414-6678
Montana								
Montana Family Education Savings Program	Savings	College Savings Bank	n	y	$177,000	$250	montana.collegesavings.com	1-800-888-2723
Nebraska								
College Savings Plan of Nebraska	Savings	Union Bank & Trust	n	y	$250,000	none	www.planforcollegenow.com	1-888-993-3746
AIM College Savings Plan	Savings	AIM Management Group	n	y	$250,000	$500	www.aimfunds.com	1-877-246-7526
Nevada								
Nevada Prepaid Tuition Program	Prepaid	State Treasurer	y	n/a			nevadatreasurer.com/prepaid	1-888-477-2667
American Skandia College Savings Program	Savings	Strong Capital Mgmt./ American Skandia	n	n/a	$246,000	$250	www.americanskandia.com	1-800-752-6342
America's College Savings Plan	Savings	Strong Capital Mgmt.	n	n/a	$246,000	$250	www.americas529plan.com	1-877-529-5295
New Hampshire								
The Advisor College Investing Plan	Savings	Fidelity Investments	n	n	$233,240	$1,000	www.advisorxpress.com	1-800-522-7297
UNIQUE College Investing Plan	Savings	Fidelity Investments	n	n	$233,240	$1,000	www.fidelity.com	1-800-544-1722
New Jersey								
New Jersey Better Educational Savings Trust (NJBEST)	Savings	State Treasurer	y	n	$185,000	$300 annually or $25 per mo. until acct. reaches $1,200	www.hesaa.org/students/njbest	1-877-465-2378
New Mexico								
The Education Plan's Prepaid Tuition Program	Prepaid	Schoolhouse Capital	y	y			www.tepnm.com	1-800-499-7581
The Education Plan's College Savings Program	Savings	Schoolhouse Capital	n	y	$251,000	$250	www.theeducationplan.com	1-877-337-5268
Scholar'sEdge	Savings	Schoolhouse Capital/ Oppenheimer	n	y	$251,000	$250	www.scholarsedge529.com	1-866-529-7283
CollegeSense 529 Higher Education Savings Plan	Savings	Schoolhouse Capital/ New York Life	n	y	$251,000	$250	www.collegesense.com	1-866-529-7367

	Plan Type	Investment Manager/ Distributor	Residency Requirement	State Tax Benefit	Maximum Account Balance	Minimum Initial Contribution	Web Site	Phone Number
New York								
New York's College Savings Program	Savings	TIAA-CREF	n	y	$100,000	$25	www.nysaves.org	1-877-697-2837
North Carolina								
North Carolina's National College Savings Program	Savings	College Foundation, Inc.	y	n	$268,804	$5	www.cfnc.org/savings	1-800-600-3453
Seligman CollegeHorizonFunds	Savings	College Foundation, Inc.	n	n	$268,804	$250	www.seligman529.com	1-800-600-3453
North Dakota								
College SAVE	Savings	Morgan Stanley	n	n	$177,000	$25; $300 must be contributed within 12 mos. of opening acct.	www.collegesave4u.com	1-866-728-3529
Ohio								
Ohio CollegeAdvantage Savings Plan	Savings	Putnam Investments	y	y	$232,000	$15	www.collegeadvantage.com	1-800-233-6734
Putnam CollegeAdvantage Savings Plan	Savings	Putnam Investments	n	y	$232,000	$25	www.putnaminvestments.com	1-800-225-1581
Oklahoma								
Oklahoma College Savings Plan	Savings	TIAA-CREF	n	y	$235,000	$25	www.ok4saving.org	1-877-654-7284
Oregon								
Oregon College Savings Plan	Savings	Strong Capital Management	n	y	$250,000	$250	www.oregoncollegesavings.com	1-866-772-8464
Pennsylvania								
Pennsylvania Tuition Account Program (TAP)	Savings	State Treasurer	y	n	$260,000	$5	www.patap.org	1-800-440-4000
Rhode Island								
CollegeBoundfund	Savings	Alliance Capital	n	n	$265,620	$250 res.; $1,000 broker accts	www.collegeboundfund.com	1-888-324-5057
South Carolina								
South Carolina Tuition Prepayment Program	Prepaid	State Treasurer	y	y			www.scgrad.org	1-888-772-4723
FUTUREScholar 529 College Savings Plan	Savings	Bank of America	n	y	$250,000	$250	www.futurescholar.com	
South Dakota								
CollegeAccess 529 Plan	Savings	PIMCO/Amer. Funds MFS, Franklin Templeton	n	n/a	$305,000	$250	www.collegeaccess529.com	1-800-628-1237
Tennessee								
Tennessee's BEST Prepaid Tuition Plan	Prepaid	State Treasurer	y	n			www.treasury.state.tn.us/best.htm	1-888-486-2378
Tennessee's BEST Savings Plan	Savings	TIAA-CREF	n	n	$235,000	$25	www.tnbest.org	1-888-486-2378
Texas								
Texas Tomorrow Fund	Prepaid	State Treasurer/	n	n/a			www.texastomorrowfund.org	1-800-445-4723
Savings plan under development	Savings	Tuition Board					Plan Under Development	
Utah								
Utah Educational Savings Plan Trust (UESP)	Savings	State Treasurer	n	y	$101,650	$25; $300 per yr.	www.uesp.org	1-800-418-2551
Vermont								
Vermont Higher Education Investment Plan	Savings	TIAA-CREF	n	n	$240,000	$25	www.vsac.org	1-800-637-5860
Virginia								
Virginia Prepaid Education Program (VPEP)	Prepaid	State College Board	y	y			www.virginia529.com	1-888-567-0540
Virginia Education Savings Trust (VEST)	Savings	State College Board	n	y	$250,000	$25; $250 first yr.	www.virginia529.com	1-888-567-0540
CollegeAmerica	Savings	American Funds	n	y	$250,000	$250	www.americanfunds.com	1-800-421-4120
Washington								
Guaranteed Education Tuition of Washington (GET)	Prepaid	State	y	n/a			www.get.wa.gov	1-877-438-8848
Savings plan under development	Savings						Plan Under Development	
Washington D.C.								
Savings plan under development	Savings						Plan Under Development	
West Virginia								
West Virginia Prepaid College Plan	Prepaid	State Treasurer	y	y			www.wvtreasury.com	1-800-307-4701
Savings plan under development	Savings	State Treasurer					Plan Under Development	
Wisconsin								
EdVest College Savings Program	Savings	Strong Capital Management	n	y	$246,000	$250	www.edvest.com	1-888-338-3789
Tomorrow's Scholar	Savings	Strong Capital Management	n	y	$246,000	$250	www.tomorrowsscholar.com	1-866-677-6933
Wyoming								
College Achievement Plan	Savings	Mercury Advisors/MFS	n	n/a	$245,000	$1,000 non-residents; $250 residents	www.collegeachievementplan.com	1-877-529-2655

* California's maximum is tied to the age of the beneficiary; Source: Savingforcollege.com, Cerulli Associates

The Hartford

When It Comes to Saving for College, Your Clients Have a Lot to Earn

Pop Quiz

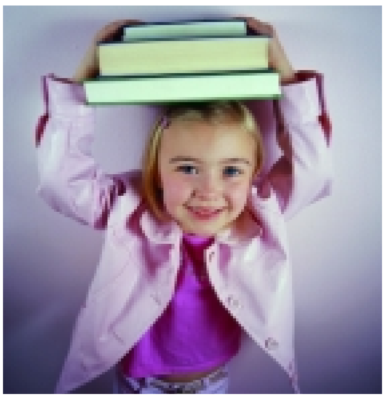
A 529 college savings plan may make sense for your clients who:

(a) Are looking for a tax-advantaged way to invest for college;
(b) Want to avoid making irrevocable gifts to children who may not use the money for its intended purpose;
(c) Have sizable assets they want removed from their taxable estate;
(d) Consider equity investing the best way to keep up with rapidly rising college costs; or
(e) All of the above

Correct answer: (e)

How'd you do? If you passed, congratulations. If not, you'll be tested again soon—by your clients. Given the amount of press these plans have garnered, the questions should come fast and furious. Let's walk through the answers one-by-one:

(a) Named for the section of the Internal Revenue Code that governs them, 529 college savings plans (CSPs) were first introduced in 1996. At that point, assets invested in these state-administered programs grew tax-deferred, and qualifying withdrawals were taxed at the student's rate. EGTRRA '01 changed that: starting in 2002, withdrawals taken for qualified higher education expenses (e.g., tuition, room and board, books and supplies) are federal income tax-free.



State income tax treatment may differ—those that don't exempt earnings may already offer an income tax deduction for contributions to their state's plan. (Though most states' programs are open to investors nationwide, you may want—and some firms may require you—to check out the client's resident state's plan first.)

(b) Unlike gifts to an UGMA or UTMA account, amounts contributed to a 529 CSP remain controlled by the account owner. If the child does not attend college, the account beneficiary can be changed income tax-free to another eligible family member, or the money can be withdrawn (with taxation similar to pre-59 ½ qualified plan withdrawals).

(c) As completed gifts, amounts contributed to a 529 CSP are eligible for the annual federal gift tax exclusion ($11,000 in 2002), and are removed from the donor's taxable estate. Up to five years worth of gifts can be made in a lump-sum by filing IRS Form 709, for a maximum exclusion of $55,000 per donor ($110,000 if electing to split a spousal gift). (In that 5-year period, there is a prorated estate tax recapture if the donor dies, and gift tax implications for other gifts made to the same beneficiary.)

(d) 529 CSPs allow your clients to invest in equity investment options managed by some of the best money managers around. Case in point: SMART 529™, a new program sponsored by the State of West Virginia and managed by The Hartford. Built on a long-standing and successful model, SMART 529 harnesses the talents of Wellington Management, one of the largest independent investment firms focused exclusively on money management.

So when your clients ask, tell them how 529 college savings plans like The Hartford's SMART 529 offer (e)verything they need for higher education investing. And, yes, that is your final answer.

American Skandia

A Revolution in 529 Plans

With its unique multi-manager platform, The American Skandia College Savings Program™ opens up new investment opportunities for advisors and their clients.

Until recently, financial advisors interested in using 529 plans have had to choose among programs that use only one firm's mutual funds. The problem is, history shows it is nearly impossible for one investment management firm to excel in a broad range of investment disciplines. The single-manager approach also falls short for clients who would prefer to see a world-class group of firms—rather than one money manager—working to make their college savings grow.

American Skandia, which sells 529 savings plans for Nevada, believes that the best way to create a well-rounded product offering is, quite simply, to tap the minds and talents of the best managers in the business. They don't all come from the same firm. But they do represent some of the world's leading managers who have a proven record of success in a wide variety of investment disciplines.

Michael Murray, senior vice president and national markets director of mutual funds for American Skandia

Stan Godlewski/Liaison Agency

"The vast majority of 529 plans use a single investment management firm because they have to fulfill a proprietary obligation," says Michael Murray, senior vice president and national markets director of mutual funds. "By contrast, American Skandia has a successful history of using a multi-manager approach. Selecting and managing managers is what we do best, and we've been doing it for a long time."

For over thirteen years, American Skandia has used a carefully selected team of top-tier managers in its variable annuity, mutual fund, qualified retirement plan, and life insurance products. While the industry at first dismissed the idea of using several different external managers, the public quickly embraced the concept as one that gives investors access to "the best of the best" within a single investment.

Today, the firm that popularized the multi-manager platform continues to set the standard by providing advisors with what may well be the best and broadest selection of investment options available in the 529 marketplace today. To achieve this, American Skandia follows a rigorous investment management selection process to find managers that are distinguished for their track records in a particular asset class. This far-reaching mission promotes diversification across a variety of asset classes and investment styles, which can help to minimize risk.

Financial advisors also have an added layer of due diligence through the constant monitoring and tracking of investment managers for performance and style consistency. American Skandia conducts formal manager reviews at least quarterly, while performance is monitored on a daily basis. If a manager falls short of the stated criteria, a new manager may be selected.

The nine managers who participate in the American Skandia College Savings Program represent a broad range of investment disciplines in the 12 funds they manage, as well as some of the most respected names in money management today. They include:

Neuberger Berman
Gabelli Asset Management Company
INVESCO
Marsico Capital Management
Federated
Wells Fargo
PIMCO
Strong
PBHG Funds

American Skandia extends its rigorous selection process of selecting only the best money managers. American Skandia partners with Strong Capital Management Inc., one of the nation's leading investment management firms. Founded in 1974, Strong is headquartered in Menomonee Falls, Wisconsin and manages over $46 billion as of

December 31, 2001. With an award-winning customer service support team of over 30 college specialists, qualified state tuition plan experience, and extensive knowledge of Section 529 compliance issues, Strong brings experience, knowledge, and service to the American Skandia College Savings Program.

A Dedication to Professional Education. As the exclusive sponsor of the 529 Plan centers at the MorningstarAdvisor.com (*www.morningstaradvisor.com*) and *Financial Planning Interactive* (*www.fpinteractive.com*) Web sites, American Skandia has shown its commitment to taking the lead in educating financial advisors and their clients about the complexities and benefits of 529 plans. The information provided goes well beyond the basics to deliver detailed information on topics such as the impact of 529 accounts on financial aid, and estate planning issues. Advisors can also access materials necessary for continuing education credits, as well as sales ideas, industry news, and white papers.

A Choice of Portfolio Structures to Suit Your Clients' Needs. Contributions to American Skandia College Savings Program accounts are placed in a trust, which contains a variety of investment options designed to meet the needs of different investors. Clients may choose from two investment strategy options:

Static Options. These options allow clients to choose an asset allocation that remains constant for the entire term of the investment. The static options are aggressive (75% equity and 25% fixed); balanced (55% equity and 45% fixed); and conservative (25% equity and 75% fixed).

Enrollment-Based Options. This option invests in a series of portfolios that become more conservative as the child nears enrollment. Portfolios for younger children invest more heavily in stocks, while the portfolios of older children contain more conservative bond and money market investments. Once your client selects an option, the account is automatically reallocated to a more conservative position as enrollment draws closer.

The enrollment-based investment tracks are divided into aggressive, moderate, and conservative tracks. The aggressive track starts with a 100% equity allocation for someone with 11 or more years until enrollment. The moderate track starts with an 85% equity allocation, while the conservative track begins with a 65% equity stake.

These portfolio structures, combined with the talents of nine world-class money managers, are designed to help your clients reach their college savings goals. *There's no better present than the future™*. For more information on American Skandia College Savings Program, please contact your American Skandia wholesaler or call 1-800-SKANDIA today.

PIMCO

The New Look for College Savings Plans

PIMCO's *CollegeAccess 529 Plan* pulls ahead of the pack by tapping the talents of industry leaders.

Part of doing a job well is knowing when to reach out for additional expertise, a philosophy PIMCO—the distribution arm of Allianz Dresdner Asset Management of America LP—kept in mind in designing the new *CollegeAccess 529 Plan*.

"We recognize that no one organization can put together a best-of-breed 529 program alone," says Stephen Maginn, executive vice president of sales. "So—together with the state of South Dakota—we assembled a state-of-the-art team of product and service providers to do it."

The companies that form the foundation of the PIMCO *CollegeAccess 529 Plan* reads like a Who's Who of product and service providers.

Asset allocation strategies from Ibbotson Associates. PIMCO's *CollegeAccess 529 Plan* uses Chicago-based Ibbotson Associates to help design the overall asset allocation of its equity portfolios. Few firms are as renowned for their work in the field as Ibbotson. Founded in 1977 by Professor Roger Ibbotson, a leading authority on asset allocation, Ibbotson has helped investment managers build and maintain strong relationships through its research-driven, cutting edge products and services.


Stephen A. Maginn

A broad selection of funds from some of America's leading mutual fund families. The 26 mutual funds currently comprising the program's investment portfolios come from some of the most trusted and respected names in the industry. Based in Newport Beach, California, PIMCO is widely recognized as the leader in fixed-income investing. And, PIMCO Funds was the second best selling, advisor-distributed fund family last year. To complement the use of the PIMCO Funds, one-half of the funds used in the program's investment portfolios are from outside fund families, including American Funds, Franklin-Templeton, MFS, and Nicholas Applegate.*

A commitment to advisor education continues with the help of Savingforcollege.com. PIMCO has also enlisted the help of Savingforcollege.com affiliates to provide educational seminars and materials designed to keep advisors abreast of 529 plan uses and regulations. Savingforcollege.com LLC was founded by Joseph F. Hurley, CPA, considered by many to be the country's leading authority on 529 plans.

More than just "age-based"—a choice of three types of investment options. Advisors can choose from three different investment options:

Age-based Portfolios. There are five portfolios, each of which bases its strategy on the anticipated number of years a child has until college. The portfolios automatically become increasingly conservative as the child ages.

Customized Portfolios. There are five customized portfolios that range in style from the aggressive Capital Appreciation Investment Portfolio to the conservative Money Market Plus Portfolio.

Individual Fund Portfolios. Advisors can also custom-tailor their own portfolios by choosing from among the 16 "select" portfolios which invest in a single mutual fund—from both PIMCO and outside fund families.

A transfer agent with 529 plan experience. The bottom line for any college savings plan is to have the tuition checks ready when your client needs them. To help ensure that goal, as well as seamless administration during the time it takes to reach it, PIMCO has tapped PFPC to administer its 529 plan. With 29 years of experience and 5,400 employees, PFPC is the largest mutual fund transfer agent in the country. And, just as important, PFPC is currently performing various transfer agency functions for several other well-known fund companies' 529 plans.

Mutual fund-like pricing and more. Other features of the *CollegeAccess 529 Plan* include a competitive, mutual fund-like commission structure, as well as a fee-based option; a direct deposit feature; relatively low underlying fund expenses due to the utilization of institutional class funds; and a high contribution limit of $305,000 per beneficiary—currently the highest in the nation.

For more information on the CollegeAccess 529 Plan, call 1-800-628-1237, or visit www.collegeaccess529.com.

** An affiliate of Allianz Dresdner Asset Management of America, LP*

CollegeAccess 529 Plan is a Section 529 college savings plan sponsored by the State of South Dakota, and managed and distributed by PIMCO Funds Distributors LLC, 2187 Atlantic Street, Stamford, CT, 1-800-628-1237. CollegeAccess 529 Plan accounts are not insured by, and neither the principal deposited nor the investment return is guaranteed by, the State of South Dakota or any other state.

***For broker/dealer information only.** This material is intended solely for professional investment advisors and shall not constitute an offer to sell interests in the investment portfolios of the CollegeAccess 529 Plan.*

Stan Godlewski/Liaison Agency

Questions to Ask Before Selecting 529 Plans for Clients

Liquidity, flexibility, and a broad range of investment options top the list of must-haves for an effective 529 college savings plan.

As a financial advisor, you are familiar with the tax and saving advantages of section 529 plans. With an expanding number of plans on the market today, each with its own unique features, the key issue is how to choose the right one for your clients.

Of particular importance are the underlying characteristics of the investment products themselves. Below are four essential questions that can help advisors to fully evaluate section 529 plans and the unique ways in which the Seligman College*Horizon*Funds' strategy—offered as part of North Carolina's National College Savings Program, which includes a variety of investment options—addresses them.

How does the College*Horizon*Funds' strategy seek to ensure that there will be enough cash on hand when college bills are due?

Seligman College*Horizon*Funds' strategy seeks to reduce the impact of short-term market volatility, by gradually and systematically shifting the portfolio into cash equivalents as the enrollment date draws closer. Seligman College*Horizon*Funds' asset allocation will range from 100% in equities at the beginning of the accumulation period, to 100% in cash equivalents at the time of payment.

The amount of the portfolio invested in cash equivalents depends on how far the beneficiary is from enrollment. A beneficiary who is scheduled to start college in seven years or more, for example, will have no money invested in a College*Horizon*Funds portfolio with an allocation to the Seligman Cash Management Fund, since the account has more time to ride out market swings.[1] By the time college is a year away, the cash equivalent allocation will increase to 28% of the portfolio with 42% in equities and 24% allocated to high-yield bonds and investment grade income. That allocation gradually increases throughout the college years and by the time the beneficiary is ready for his or her senior year, the entire account will be in cash equivalents.

"Seligman recognizes the importance of increasing liquidity as the enrollment date draws closer, and our program reflects that," says Gary Terpening, vice president of business development at Seligman Advisors, Inc. "We are unaware of any other program that will deliver a 100% cash equivalent allocation."

Is the starting portfolio automatically determined by your client's date of birth, or is there a more flexible alternative?

The Seligman College*Horizon*Funds' strategy is based on the anticipated enrollment date, and not the beneficiary's date of birth. This allows a wider range of options if a student delays college due to military service, illness, an additional year of preparatory school or some other reason, and also leaves more room for planning opportunities that may present themselves as the beneficiary gets older, including graduate school or other supplemental courses.

"Let's say you have someone who finishes high school, but wants to take a year or two off to explore the world before starting college," says Terpening. "An age-based 529 plan won't adjust for that. But our plan allows an investor to take this into account."

What research forms the basis for the underlying investments?

Seligman's research shows that the relative risk of asset classes changes dramatically over time.[2] Clearly, over short periods, stocks—especially small-company stocks—have been riskier relative to bonds or cash. Cash is always a prudent investment choice, especially for holding periods of one year or less when liquidity is critical.

But over longer time frames, according to data provided by Ibbotson, the relative risk of stocks and bonds begins to change. Over five- and 10-year rolling periods, the returns for large-company stocks begin to resemble returns from bonds. In fact, in every rolling 20-year period since 1950, the very worst small-cap returns surpassed the very best T-bill returns—dramatic evidence that relative risk among asset classes changes over time. What's risky to invest in and own for one year is not as risky over many years.

How does the Seligman College*Horizon*Funds' strategy seek to manage risk?

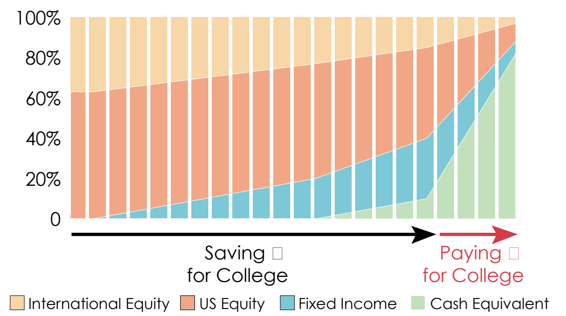
Seligman College*Horizon*Funds takes a strategic approach to asset allocation in an effort to maximize growth opportunities, manage risk, and achieve proper liquidity.

Unless they elect otherwise, participants in the

Seligman College*Horizon*Funds automatically participate in an asset allocation strategy that seeks to manage risk, in a process called "migration." Migration involves reallocating account assets each year from the portfolio they are in to a slightly lower-risk portfolio as the beneficiary gets closer to starting college.

Generally, the further the beneficiary is from starting college, the more heavily weighted the portfolio will be toward equities. As college draws closer, the portfolio will gradually shift toward more fixed-income securities and cash equivalents.

Time and Diversification: Risk Management [3]



To facilitate migration over time, Seligman College*Horizon*Funds offers 22 portfolios based on specified time frames related to the start of college (*see graph on this page.*)

Seligman College*Horizon*Funds takes the guesswork out of asset allocation by applying these research findings for you. Seligman reviews the appropriateness of asset allocations annually. Extraordinary market conditions and dramatic changes in asset class performance are some of the factors that may prompt changes to the asset allocation structure of the portfolios.

"Financial advisors like the broad asset allocation they get through the 14 underlying mutual fund investments in College*Horizon*Funds," says Terpening. "The portfolios represent the full range of asset classes and investment styles we believe are necessary for a strategy designed to save for, and pay for, a financial goal like college."

If you ask the right questions, it's likely you'll find the answer is Seligman. For more information on Seligman College*Horizon*Funds, please contact Seligman at 800-221-2783. To access the Seligman College*Horizon* Illustrator, please visit www.seligman529.com.

Seligman Advisors, Inc., Distributor.

Past performance is not a guarantee of future results. Funds, and their allocations within the Portfolios, are subject to change.

Although Seligman College*Horizon*Funds has many benefits, it may not be right for all investors. There are significant tax-related issues associated with an investment in a Qualified Tuition Program, such as Seligman College*Horizon*Funds. In addition, federal tax law restricts an investor's ability to move the money that he or she may contribute to a Qualified Tuition Program to other investment options.

An offer of interests in Seligman College*Horizon*Funds may only be made by the official Program Description. Investors should carefully review the current Program Description, which contains complete information, including information about fees, expenses, and risks, before making a decision whether to participate in Seligman College*Horizon*Funds. You can obtain a Program Description by contacting 800-221-2783.

For residents of states other than North Carolina, if that state sponsors a qualified tuition (529) program, that program may offer tax benefits not available through the National College Savings Program or Seligman College*Horizon*Funds.

The investments in Seligman College*Horizon*Funds are not guaranteed by any bank, the FDIC, College Foundation, Inc., the North Carolina State Education Assistance Authority, the State of North Carolina or any instrumentality thereof, or any other governmental agency.

An investment in Seligman College*Horizon*Funds does not guarantee that contributions and the investment return on them, if any, will be sufficient to cover future tuition or other higher education expenses. The value of a Seligman College*Horizon*Funds account will fluctuate as the value of the mutual fund shares in which it invests fluctuates, so that an investment, when it is withdrawn, may be worth more or less than its original cost. Investors may lose money by contributing to Seligman College*Horizon*Funds.

1 Although Seligman Cash Management Fund seeks to preserve its per-share net asset value at $1.00, it is possible to lose money by investing in the Fund.

2 Asset classes comprise the following Indices: US Small-Company Stocks: 1979-2000: Russell 2000; 1950-1978: Ibbotson Small Stock Index; US Large-Company Stocks: Standard & Poor's 500 Composite Stock Price Index; US High-Yield Bonds: 1981-2000: Credit Suisse First Boston High Yield Index II; 1950-1980: Salomon Brothers Long-Term High Grade Corporate Bond Total Return Index; US Investment-Grade Fixed Income Securities: 1973-2000: Lehman Brothers Government/Credit Bond Index; 1950-1972: Salomon Brothers Long-Term High Grade Corporate Bond Total Return Index; US Government Bonds: Ibbotson Long-Term Government Bond Index (to the greatest extent possible, each year, a one-bond portfolio with a term of approximately 20 years and a reasonably current coupon, and whose returns did not reflect potential tax benefits, impaired negotiability, or special redemption or call privileges, was used); US Treasury Bills: 90-day US Treasury bills.

The returns of these unmanaged indices, in which individuals cannot directly invest, are for illustrative purposes only, reflect past performance, and do not reflect the performance of any investment account, nor are they any representation of the future performance of common stocks. Also, keep in mind that the securities represented by the indices involve widely varying degrees of income and growth potential and risk to investors. Rates on Treasury bills and Government bonds are fixed, and principal, if held to maturity, is guaranteed. Corporate bonds offer a fixed rate of return and principal value. Although common stocks have produced higher historical returns, they may subject principal to greater risk than other types of investments. The stocks of smaller companies are subject to greater price fluctuations than the stocks of larger companies.

3 Portfolios with fewer holdings may be subject to greater volatility than a portfolio with a greater number of holdings. The products of technology companies may be subject to severe competition and rapid obsolescence, and technology stocks may be subject to greater price fluctuations, government regulation, and limited liquidity as compared to other investments. In addition, investments in one economic sector, such as technology, may result in greater price fluctuations than owning a portfolio of diversified investments. There are specific risks associated with global investing, such as currency fluctuation, foreign taxation, differences in financial reporting practices, and rapid changes in political and economic conditions. Because of the special risks involved, investing in securities of emerging market companies should be considered speculative and not appropriate for individuals who require safety of principal or stable income from their investments. High-yield bonds are subject to greater risk of loss of principal and interest than high-yield, investment-grade fixed-income securities. Investment-grade fixed-income securities are subject to interest-rate risk, credit risk, prepayment risk, and market risk. US Government bonds are guaranteed by the US Government and, if held to maturity, all bonds offer both a fixed rate of return and fixed principal value.