Education Savings Techniques

Saving for education has become a primary concern of parents and grandparents in light of the ever-increasing costs. According to the 2008-09 Annual Survey of Colleges the national averages increased as follows:

College Type	2008-2009	2007-2008	$ Change	% Change
Four Year Public	$14,333	$13,589	$744	5.5%
Four Year Private	$34,132	$ 32,307	$1,825	5.6%

**Annual expenses including tuition, fees, room & board.*

If costs continue to rise 5.5% per year, the cost of a four year degree for a newborn child beginning at age 18 would be approximately $163,000 for public and $388,500 for private! Hopefully these figures won't scare you but will prompt you to start planning if you haven't already. The keys to creating the best chance of success include starting early, investing regularly, and contributing as much as you can. Assuming an 8% rate of return on investments you would need to save the following amounts:

College Type	Newborn	Age 5	Age 10
Public: Monthly	$292	$382	$567
Private: Monthly	$695	$910	$1,350
Public: Lump Sum	$33,600	$37,800	$42,500
Private: Lump Sum	$80,000	$90,000	$101,200

** Rounded*

While there is no single college savings plan that is perfect for every family, there are a number of tax-advantaged plans available to help. Which plan is right for you will depend on your income, the age of the child, the investment options, the associated fees, the level of control available within the plan, and the chances of qualifying for financial aid.

SignatureFD, LLC - Education Savings Techniques Comparison of Key Features

Last Updated 4.21.2009

	College Savings Plans (Section 529)	Coverdell Savings Accounts (Education IRAs)_	Uniform Transfer or Gifts to Minors Act Accounts (UTMA or UGMA)	Brokerage Account in Adult's Name
Tax Benefits	If assets are used for qualified higher education expenses, earnings are exempt from federal taxes_; otherwise tax-deferred and subject to a 10% penalty. States may tax earnings when withdrawn for qualified expenses (Georgia does not).	If assets are used for qualified elementary, secondary or higher education expenses, earnings are exempt from federal taxes; otherwise tax-deferred and subject to a 10% penalty. States may tax earnings when withdrawn for qualified expenses. (Georgia does not)	Earnings are taxed at children's tax rates. Kiddie tax rules apply to children under age 19_. 2008 - $1,800 2009 - $1,900	Earnings are taxed at adult's tax rates.
States allow tax deduction for contributions?	Yes, in some states. Georgia allows up to a $2,000 deduction per beneficiary per year regardless of filing status or income.	No	No	No
High income taxpayers eligible to use this option?	Yes	No, phase-outs begin at: $95,000 (single) to $110,000; $190,000 (married) to $220,000 of modified adjusted gross income.	Yes	Yes
Gifts count towards $13,000 per donor annual gift exclusion?	Yes. Also, a donor can utilize up to 5 years of annual gift exclusions (i.e. $65,000) in one year through a special federal gift tax election.	Yes	Yes	No
Limit on how much can be placed in the account?	Yes. Varies by state. Several 529 plans have contribution limits in excess of $300,000 per beneficiary.	$2,000 per year, per beneficiary	No limit	No limit
Funding	Cash only	Cash only	Cash or securities	Cash or securities
Who Controls Withdrawals?	Owner of the account.	Custodian. Can transfer to child when they reach the legal age (21 in Georgia).	Custodian until child reaches legal age (21 in Georgia), then child.	Owner of the account.

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Last Updated 4.21.2009

	College Savings Plans (Section 529)	Coverdell Savings Accounts (Education IRAs)_	Uniform Transfer or Gifts to Minors Act Accounts (UTMA or UGMA)	Brokerage Account in Adult's Name
Assets transferable to other family members of the beneficiary?	Yes	Yes, as long as new beneficiary is under the age of 30.	No	Yes
Can the contributor take the money back?	Yes, subject to 10% penalty on earnings.	No	No	Yes
Available through most banks, brokerage firms and other financial institutions?	No, each state has its own plan. Typically, administered by mutual fund family (TIAA-CREF, Fidelity, Vanguard, etc.) or professional money manager.	Yes	Yes	Yes
Investment options	Limited to options within the plan. Each plan has it's own options.	Unlimited, but not offered by all custodians.	Unlimited	Unlimited
Can assets be moved between investment options?	Yes, once every calendar year or whenever a beneficiary change takes place.	Yes	Yes	Yes
Can assets be moved between plans/ accounts?	Yes, once in every 12-month period.	Yes, once in every 12-month period.	Yes	Yes
Maximum Account Duration	Unlimited, although many states have imposed their own time limits.	The account must be fully withdrawn by the time the beneficiary reaches age 30 or else it will be subject to tax and penalties.	Until child reaches legal age (21 in Georgia).	Unlimited
Deadline for contributions	None	April 15th of the following year	None	None
Financial Aid Implications	Asset of the account owner. If the account owner is the parent, the value of the account will be assessed at a maximum of 5.64%. If the account owner is the student, the account is not included on the FAFSA and is not counted at all in determining the EFC.	Same financial aid status as 529 accounts.	Asset of the child. High weighting (20%) in financial aid eligibility formulas. Child's income also has high weighting (50%) which can significantly affect eligibility.	Asset of the account owner not the child. Low weighting (5.64%) in financial aid eligibility formulas.

_ This exemption is scheduled to expire on December 31, 2010. Congress may or may not extend the tax benefits of these plans beyond this date.

_ Certain ESA benefits expire after 2010. K-12 expenses will no longer qualify, the annual contribution limit will be reduced to $500, and withdrawals will not be tax-free in any year in which a Hope or Lifetime Credit is claimed by the beneficiary.

_ New Kiddie Tax rules state that this tax applies to dependants under the age of 19 and dependant full time students under the age of 24.

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Our team has compared the main education savings vehicles below and has provided summary charts for your convenience. Please note that SignatureFD, LLC receives no direct or indirect compensation for assisting clients in placing assets in college savings plans. We are providing this information because we want you to be aware of the options available. Please contact your advisor to discuss your individual circumstances and to review which investment options are appropriate for your family before placing money into any plan.

COLLEGE SAVINGS PLANS (529 PLANS)

Section 529 Plans are state-sponsored investment programs that are given special tax status under Section 529 of the Internal Revenue Code. All 50 states and the District of Columbia offer some type of qualified state tuition plan. However, you can open accounts in states other than your own and the account beneficiary may attend college anywhere in the U.S. with the invested funds. The account is usually managed by professional money managers selected by the state and the assets in the account are targeted for educational expenses for a specified beneficiary. The money managers generally offer you a choice of several investment approaches such as self-directed, manager-directed and target-date. Following is a brief summary of major advantages and disadvantages of 529 College Savings Plans:

CSP (529) ADVANTAGES

Tax-Free Earnings – Earnings from qualified tuition programs grow tax-deferred. Qualified distributions from College Savings Plans are also free from federal taxation if they are used to pay for qualified education expenses. Qualified expenses include, but are not limited to tuition, student activity fees and expenses for course related books, supplies, and some room and board. (Note: This exemption is scheduled to expire on December 31, 2010. Congress may or may not extend the tax benefits of these plans beyond this date – we think that they will.)

Control – Full control of the account is maintained by the owner. Unlike UGMA/UTMA (Uniform Gifts to Minors Accounts), the assets do not become the unrestricted property of the beneficiary at age 21. If a child or grandchild decides not to go to school, you can change the beneficiary on the account to another family member. There may be tax consequences in changing beneficiaries between different generations (i.e. child to a grandchild), so please consult with SignatureFD, LLC on your specific situation.

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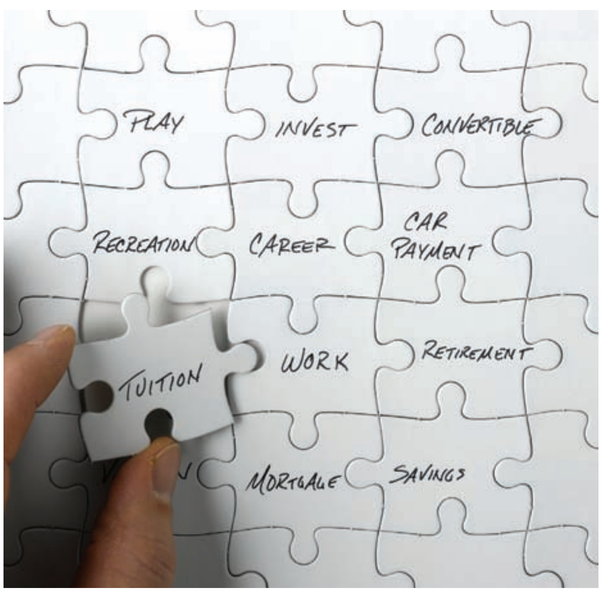
Flexibility – A Section 529 plan also permits the owner to "change his/her mind," and close out the plan, and take back the assets. This may cause earnings to be subject to tax and a 10% penalty.

Gift Tax Advantages – Up to $65,000 (5 times the annual exclusion gifting) can be contributed to a Section 529 plan in a single year for each child or grandchild without being subject to gift taxes. Up to $130,000 can be contributed if both parents (and grandparents) make contributions. A special election allows the gift to be treated as if it were made over a five-year period, but the contributor must file a gift tax return. This means each parent or grandparent can contribute $65,000 to an account tax-free (assuming that no other gifts are made during that five-year period). However, if you die within the five-year period, any pro-rated amount is included in your estate.



Estate Tax Advantages – Contributions are considered completed gifts and are removed from the taxable estate of the contributor even though the owner/contributor maintains control.

Unlike other planning strategies, Section 529 Plans are open to anyone regardless of income or the age of the beneficiary. The contributor does not have to be a parent, grandparent, or relative.

Section 529 account owners can roll plan assets over into a new Section 529 plan once a year for the same beneficiary, without triggering federal tax or penalties. In addition, owners can switch between investment options within the plan twice a year.

Asset Protection – 529 Plans and Coverdell Education Savings Accounts (ESA) are protected under the 2005 (BAPCA) Bankruptcy Law. However, similar to IRA's, there are a few rules surrounding this protection. Full protection is provided for funds contributed to 529 plans and ESA accounts more than two years prior to the bankruptcy filing. The account beneficiary must be the debtor's child, stepchild, grandchild, or step-grandchild. You are not able to take advantage of the new protection by establishing a 529 account for yourself.

CSP (529) DISADVANTAGES

Some states still tax the earnings from these plans when they are withdrawn to pay for qualified higher education expenses (Georgia does not). The state income tax liability should be small since the earnings are taxed at the beneficiary's tax rate, which is typically lower than that of the donor's.

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Owners are limited to the investment options that are available within the College Savings Plan that they choose. For example, the Georgia plan currently has seven investment options and investors must allocate their contributions between one or more of those options.

Also, owners have limited ability to move money between investment options within the plan. Account owners can move assets between investment options twice per year. However, there are also a few other ways that an account owner can alter his/her asset allocation:

> Owners can move money between state plans once a year on a tax-deferred basis. For instance, if a Georgia owner is not comfortable with the investment option that he or she selected, the owner could move money to Nebraska's plan on a tax deferred basis and select new investment options under the Nebraska plan.
>
> Most plans have an age-based asset allocation investment option available that automatically moves their plan's assets to lower-risk investments as the beneficiary moves closer to the date that they would attend college.

If assets are not used to fund higher education expenses, then the earnings are subject to federal and state income tax and a 10% federal penalty upon withdrawal.

CSP (529) VARIABLES TO CONSIDER

The following are key variables to consider before selecting a 529 plan:

Investment Options – College savings plans are investment accounts and they are not all created equal. You will need to carefully review the investment options available within the plan before making your selection. You will want to choose a plan that has a wide range of options and uses independent funds. We typically try to stay away from a plan that has all of its investment options directed to one mutual fund family or manager.

Fees – Stay away from plans sold by brokers (up to 5% front-end load) and plans with high administrative charges. Ideally, the total fees should be in the 1% range.

Tax Benefits – Many states offer additional tax benefits on contributions and withdrawals for residents. Look at your home state first to see if there is a state income tax deduction available. For Georgia residents, there is a state tax deduction for contributions to the Georgia 529 plan up to $2,000 per beneficiary regardless of filing status or income.

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Flexibility – Look for plans that have high contribution maximums and low minimums, have wide eligibility standards for both account owners and beneficiaries, latitude in changing owners and beneficiaries, no penalties on rollovers to other states, no time limits on how long an account can stay open, etc.

OUR PREFERRED 529 COLLEGE SAVINGS PLANS

We have reviewed the various state plans available and have selected the College Savings Plan of Nebraska (through Union Bank and Trust) as our preferred plan. In addition to having one of the most comprehensive investment platforms in the 529 marketplace, this plan also has relatively low fees (average of 1.145%) and has gone out of its way to be as flexible as possible regarding plan options and features. Please note that Nebraska also offers broker-sold plans through TD Waterhouse and AIM, *neither of which is recommended*.

In addition, we also use the Georgia Higher Education Savings Plan (through TIAA-CREF) and The Nevada Vanguard 529 Savings Plan depending on the clients' particular situation and preferences.

Please see attached chart for a comparison of the key features of each of these plans.

529 COLLEGE PREPAID TUITION PLANS

Approximately 13 states have prepaid tuition plans – Georgia does not. Basically, these plans let you buy future tuition credits or certificates at local public colleges at today's prices. Typically, you must be a resident of the state from which you are purchasing the plan. Prepaid plans are guaranteed to rise in value at the same rate as college tuition. The colleges take the market and inflation risk — if a prepaid plan's investments grow faster than tuition, the schools (or state governments in the case of state plans) get the excess return. But if tuition grows faster, they cover the difference. These plans may be worth considering if you do not want to worry about fluctuating investments and you are confident your child will attend one of your state's public schools. Before you use one of these plans make sure you understand the refund policy. There are typically penalties associated and/or investment returns are limited.

Originally, prepaid plans could only be offered by a state and used to pay expenses at in-state public schools. The 2001 tax law lets individual schools (or groups of schools) offer prepaid plans. The Independent 529 is the only one started thus far.

THE INDEPENDENT 529

The Independent 529 Plan is a group of 270+ private colleges offering a prepaid plan. It operates similar to the state pre-paid plans described above. It is for conservative investors whose families are confident

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their children will be accepted and attend one of the private schools within the program.

If you invest in the Independent 529 plan and your child does not attend a participating school, you have three options. You can cash it in, use it for another member of your family or roll it into a 529 college savings plan and then use the money to pay for tuition, room and board at any school, public or private. If you cash it in or roll it over, you will receive your original investment, plus whatever earnings it has accumulated but - by law— not more than 2 percent per year. If your investment has lost value, you could lose money, but not more than 2 percent a year.

US SAVINGS BONDS

Savings bonds are a safe, low-risk savings investment that is tax advantaged for middle-income to low-income households if used for higher education purposes. In order to qualify for the income exclusion, your adjusted gross income must be less than $82,100 ($130,650 if married filing jointly or qualifying widow(er)). The bond must be issued in your name (as the sole owner) or in the name o f both you and your spouse (as co-owners) and you must be at least 24 years old on the issue date. Series EE Savings Bonds issued on and after May 1, 2005, will earn fixed rates of interest. The new fixed rate will apply for the 30-year life of each bond - which have an original maturity of 20 years, and an interest-bearing life of 30 years. Series EE savings bonds have a rate of 1.3% through April, 2009. With a college inflation of 6%, savings bonds may not be the best alternative other than for the most conservative of investors.

COVERDELL EDUCATION SAVINGS ACCOUNTS (FORMERLY KNOWN AS EDUCATION IRA'S)

Up to $2,000 per year, per child under age 18 can be contributed to the Coverdell Education Savings Account (CESA). This operates similar to the 529 plans, but with some distinct differences.

Control of Investments – Custodian has full control over the investment choices. Unlike a 529 plan, you are not limited to the options available within the plan.

Pre-College Education – Unlike 529 plans, funds can be used for elementary and secondary school expenses.

Limited to Changing Beneficiaries – Unlike 529 plans, the contributor is not treated as the owner of the account. Your contribution goes into an account that will eventually go to your child if not used for college. This means you cannot simply refund the account back to yourself like you can with most 529 plans and will lose some degree of control. The custodian/contributor can, however, change the beneficiary of the account to a different family member, similar to 529 plans.

The $2,000 annual contribution is limited based on adjusted gross income of the contributor (married AGI under $220,000, single AGI under $110,000).

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CUSTODIAL ACCOUNTS – UGMA/UTMA ACCOUNTS

Once a child reaches the age of majority, they can do what they please with the assets in a custodial account – no hedge against adolescent misjudgment. The positive aspect of this type of account is that the custodian controls the investment choices, the utilization of the kiddie-tax exemption on the first $950 of interest and dividend income, and reduced rates on the next $950 of interest and dividend income.

A custodian for a Uniform Transfers/Gifts to Minors Act (a.k.a.UTMA or UGMA) account can liquidate the current investments and transfer assets to a custodial 529 account; however, donors should weigh the benefits of such a move with the tax cost of liquidating the investments.

RECOMMENDED ORDER OF EDUCATION SAVINGS PLAN SELECTION AND EXECUTION

Depending on your individual situation, you may want to use the following as a guideline in choosing amongst the alternatives:

1 – Georgia 529 Plan – Contribute $2,000 annually per beneficiary in order to obtain a Georgia income tax deduction regardless of income or filing status. It is hard to pass up a guaranteed 6% rate of return. ($2,000 annual per beneficiary contribution X 6% tax savings).

2 – Coverdell Savings Accounts – Contribute up to the $2,000 annual maximum limit, if income limitations are met (married AGI under $220,000; single AGI under $110,000).

3 – Nebraska 529 Plan – This is our preferred 529 Plan from an investment perspective and we recommend this plan as the primary option.

4 – Custodial accounts – Consider converting (above kiddie-tax threshold) to 529 plans in tax efficient manner. Keep assets with low cost basis in this account (large taxable built in gains). Then, convert assets that will not create a tax burden. Depending on the tax costs and the age of the minor, it may not be worth it to pay taxes in order to change the investment vehicle, unless investment reasons already dictate a change. Please note that when you convert a custodial account into a 529 plan, what you will wind up with is a custodial 529 account. The assets will still be owned by the minor, with full access at the age of majority. The difference is that there will be tax-free growth if the proceeds are used for education expenses.

DIRECT PAYMENT OF TUITION

One final thought is that consideration must be given to the best use of annual exclusion gifts. Contributions to a 529 plan count as gifts to the child in the year of contribution. Under Section 2503(e) - direct payments of tuition to a qualified institution for a child's education is not considered a gift. Wealthy parents and/or grandparents who plan to pay tuition directly anyway may want to review gifting strategies other than 529 plans.

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Plan	Path 2 College 529 Plan Georgia	The College Savings Plan of Nebraska (Direct Sold)	The Vanguard 529 Savings Plan of Nevada
Appropriate for:	Georgia residents who want to qualify for the state income tax deduction or very conservative investors who are interested in the guaranteed option.	The depth of investment options, the use of independent funds and overall plan flexibility make this plan our top choice. Asset allocation within target portfolios are most similar to our recommended models.	Slightly lower cost solution compared to the Nebraska plan with fewer investment options and less flexibility in design. Asset allocation on target portfolios divert from our recommended models.
Program Manager	TIAA-CREF Tuition Financing, Inc.	Union Bank and Trust Company of Lincoln, Nebraska	Upromise Investments, Inc.
Summary	This TIAA-managed 529 savings programs features two age-based options, an equity option, a guaranteed option with minimum 3% annual interest and a money market option.	Union Bank & Trust Company as manager of this 529 savings program has assembled a large assortment of age-based and static portfolio options utilizing mutual funds from a number of different fund companies.	This 529 savings program is administered by Upromise Investments but carries the Vanguard brand and features a wide offering of Vanguard mutual funds in its age-based and individual portfolio options.
Investment Options	2 age-based options (Managed and Aggressive), 3 static portfolio options (100/0, 50/50 or 0/100), 1 guaranteed option and 1 Money Market Option.	4 age-based options (aggressive, growth, balanced & conservative); 6 target portfolios offering varying blends of equity/ fixed income (100/0, 80/20, 60/40, 40/60, 20/80 and 0/100); and 20 individual-fund portfolio options.	3 age-based options (conservative, moderate & aggressive); 5 static portfolio options (Aggressive Growth, Growth, Moderate Growth, Conservative Growth, and Income) and 14 individual portfolio options.
Underlying Investments	TIAA-CREF institutional mutual funds; the Guaranteed Option consists of a funding agreement issued by TIAA-CREF Life Insurance Company	Vanguard, American Century, Fidelity, State Street, Goldman Sachs, and PIMCO mutual funds	Vanguard mutual funds
Program Management Fee	0.65% manager fee for age based and .42% for fixed option (none for the guaranteed option)	.60% manager fee	0.50% manager fee for the age-based options, and a range of 0.50% to 0.70% for all other options
Expense of Underlying Investments	0% for age based options and .08% - .34% for the fixed option.	.09% - .40% for age based and static and .05% - 1.04% for individual funds	0% for all investment options - included in asset-based management fee
Account Maintenance Fee	None	$5 quarterly; there is also a one-time fee credit of $10 on accounts enrolled in an automatic investment plan of $25 or more per month	$20 annually on accounts below $3,000
Maximum Contributions	Accepts contributions until all Georgia account balances for the same beneficiary reach $235,000	Accepts contributions until all Nebraska account balances for the same beneficiary reach $360,000	Accepts contributions until all Nevada account balances for the same beneficiary reach $310,000
Telephone	1-877-424-4377	1-888-993-3746	1-866-734-4530
Website	http://www.path2college529.com/	http://www.planforcollegenow.com/	http://www.vanguard.com

Source: www.savingforcollege.com

*SignatureFD, LLC receives no direct or indirect compensation for assisting clients in placing assets in these plans. We are providing this information because we want you to be aware of this excellent college savings vehicle. Please contact your advisor to discuss your individual circumstances and to review which investment options are appropriate for you before placing money into these plans.

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