

# CollegeSure® Investor

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*A newsletter for the informed college saver.*

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There are many reasons to establish a 529 account. The obvious ones are tax-free growth and tax-free distributions for eligible college expenses.\*

## NEW PROPOSAL MAY CHANGE TAX BENEFITS. CONSIDER ACCELERATING YOUR 529 FUNDING!

But a little less obvious yet tremendously significant benefit includes the favorable gift and estate tax treatment of 529 plans. Presently, 529 plan owners have the best of both worlds. You may retain ownership of an account (and in the future exercise the prerogative to take the money back) while at the same time treating your contribution as a completed gift so that it can be removed from your estate.

If a pending Joint Tax Committee proposal is approved by Congress, the current favorable gift and estate tax treatment will disappear. Taxpayers establishing 529 accounts will have to choose up front whether they want to: 1) own the assets and keep control whereby the assets are not a gift, or 2) give up control and have the amount gifted and removed from the estate.

“The Joint Tax Committee proposal has a fair chance of making it through Congress,” remarked Joseph Hurley, founder of SavingForCollege.com. He explained, “It would make the gift and estate treatment of 529 contributions more consistent with generally applicable transfer-tax rules, and would eliminate many of the thorny issues IRS has been unwilling to settle under the current rules.”\*\*

Here’s the bottom line: If you’ve already established your 529 account and taken advantage of revocable gift and estate tax benefits, you will most likely be grandfathered. If you haven’t opened or fully funded your account and you value the estate tax flexibility, you may want to consider doing so prior to any tax law changes.

Now’s the time to open that 529 account for your child, your grandchild or even yourself! Here’s a synopsis of the benefits:

- **Tax Advantages Abound:** Deposits grow 100% federal income tax free and distributions for eligible higher education expenses are also 100% income tax free.
- **Generous Contribution Limits:** Unlike Coverdell ESAs, generous maximums allow you to contribute enough to fund a complete higher education.
- **No Income Requirements Like on IRAs:** Families of every income level may establish a 529 plan.

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Millions of middle- and low-income students who were counting on Uncle Sam to dole out Pell Grant money or other federal and state student aid to pay a chunk of their college costs this fall will be forced to rely on old-fashioned savings or student loans due to a recent change in the way financial aid is calculated.



## STUDENTS PAY MORE FOR COLLEGE UNDER REVISED FINANCIAL AID FORMULA

*Students who once qualified for Pell Grants will be closed out this fall. And the majority of those who qualify will receive less under a new calculation.*

in the cost of Pell Grants, a form of financial aid that need not be repaid. The change is expected to save the U.S. government about \$300 million during the 2005-2006 academic year.\*

The adjustment, which takes effect this fall, increases the expected family contribution (EFC) for most students. In other words, under the revised formula families are viewed as having more discretionary income toward college expenses than they did under the old formula.

Since the formula in place is based on decade-old tax data and the new formula is based on 2002 data, the repercussions are far reaching:

Nearly 90,000 students who are currently eligible for Pell Grants under the existing tax tables will lose Pell Grant eligibility completely according to an analysis performed by the American Council on Education (ACE). And ACE estimates that an additional 1.3 million college students will receive Pell Grants that are \$100 to as much as \$300 less than they had received formerly.

Brian K. Fitzgerald, director of the Advisory Committee on Student Financial Assistance commented, "this is the first time in at least ten years where there's been a significant reduction for this magnitude of students."\*\*

### Change Affects Other Forms of Aid

Pell Grants aren't the only form of financial aid affected by the change, "the new rules are

expected to have a domino effect across almost every type of financial aid, tightening access to billions of dollars in state and institutional grants, and, in turn, increasing the reliance on loans to pay for college."\*

### More Students Taking on Debt

Just ten years ago, loans accounted for about forty-seven percent of all financial aid in the nation. In 2003-2004, loans represented fifty-six percent of all financial aid according to the College Board's *Trends in Student Aid 2004*. And, strikingly, an estimated twenty-five percent of college students now use credit cards to help fund their college experience.

A query by *CollegeSure Investor* about the increasing reliance on student loans brought about by the aid adjustment was addressed by Mark Kantrowitz, a student-aid expert and publisher of the Web site *FinAid.org* in a recent *Colloquy*.† Kantrowitz asserts that the formula change will cause accelerated student borrowing to make up the difference:

*The overall trend is that more students will need to rely on loans to pay for college, and the average cumulative debt will increase. The reduction in Pell Grant eligibility will accelerate that trend. It probably will not increase the percentage of students who are borrowing to pay for their education, but it will likely lead to an additional \$1,000 increase in the cumulative debt of students who borrow.*

*Since Federal education loan limits have not increased significantly in more than a decade, many students are at or near the Stafford Loan limits. This means that more students will be forced to borrow from more expensive private education loan programs, since they have exhausted their Stafford Loan eligibility.*

### Other Factors Drive Loan Demand As Well

Maximum Pell Grant levels have remained static over the past five years at a relatively low \$4,050 per student.†† This erosion of student buying power has helped spark loan demand. Adding fuel to the fire are the vast numbers of students attending college. Enrollment is now at record levels according to the U.S. Department of Education. And the need for college money is evident. High interest borrowing from private lenders has more than doubled during the past five years – jumping from seven to sixteen percent of education loan volume as reported in *Trends in Student Aid 2004*.

The U.S. Department of Education National Center for Education Statistics portends that demand for grants and loans will only continue to swell in coming years – adding a heavy burden to students already in debt as well as the institutions trying to keep pace with demand.§

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### TOP 10 DEGREES IN DEMAND BY EMPLOYERS (BACHELOR DEGREE LEVEL)

- Accounting
- Electrical Engineering
- Mechanical Engineering
- Business Admin/ Management
- Economics/Finance
- Computer Science
- Computer Engineering
- Marketing/Marketing Management
- Chemical Engineering
- Information Sciences and Systems

Source: National Association of Colleges and Employers, *Job Outlook 2005*

Thinking of opening a college savings account for a new addition to the family? Consider a CollegeSure® Coverdell Education Savings Account (ESA)!

## IS A COVERDELL ESA RIGHT FOR YOU? TAKE THIS MINI-QUIZ

There are many benefits to establishing a Coverdell ESA. First and foremost, the earnings in Coverdell ESAs grow tax-free. Second, when you use the funds for qualified education expenses such as

tuition, fees, room, board, textbooks supplies and equipment required for the student to attend an eligible institution, the funds may be withdrawn tax-free.\* And, Coverdell ESAs were recently granted favorable financial aid treatment by the U.S. Department of Education which makes these accounts even more attractive.

**If You Answer "YES" to All of the Questions Below, a Coverdell ESA May Make Good Sense for You**

- Yes  No **1. The child I am saving for is under age 18.\*\***
- Yes  No **2. I plan to use money for qualified elementary, secondary or higher education expenses.**
- Yes  No **3. I am married, I file jointly and my income is \$190,000 or less† or**  
**I am single and I have earned income below \$95,000\*\* this year† or**  
**My child meets the income restrictions and can make contributions for himself or herself.**
- Yes  No **4. I plan to use the funds for qualified expenses before my child reaches the age of 30 or I plan to transfer the account at that time to another sibling or other qualified family member.**

### CollegeSure Coverdell ESAs Offer You More Benefits

What's more, CollegeSure Coverdell ESAs have no maintenance or program management fees so every penny you save works hard for you.

And they are safe. Not only are Coverdell ESA CollegeSure CDs designed to meet future college costs but principal and interest are FDIC-insured – backed by the full faith and credit of the U.S. government up to \$100,000 per depositor.

### Learn More

Even if you already have a 529 account for your child you may still make contributions to your 529 plan and a Coverdell ESA for the same beneficiary in the same year. If you are interested

### Arizona 529 Plan Update

Due to recent revisions of the Arizona enabling statute, College Savings Bank is not establishing new Arizona Family College Savings Program accounts until further notice. We are awaiting guidance from the FDIC regarding the deposit insurance coverage of new accounts. In the meantime, as a current Arizona client you may continue to purchase additional CollegeSure® CDs for your existing Arizona accounts under the prior statutory structure and guidance on deposit insurance coverage. Deposit slips and other forms are available online at: <http://www.collegesavings.com/aztempdfforms.shtml>. If you do not have internet access please call 800-888-2723 any weekday between 9 a.m. and 6 p.m. ET and a College Savings Adviser will be happy to assist you.

### CDs Maturing in 2005?

There's no need to worry! We will inform you by mail prior to your CD maturity date so that you have time to reinvest or provide us with your distribution instructions. Notifications will be mailed as follows:

- Regular CollegeSure Accounts: At least 30 days prior to maturity.
- 529 Accounts: At least 60 days prior to maturity.

You may also visit us on the web to obtain the forms that you will need to authorize distributions from your 529 accounts when you are ready to pay your child's college expenses. Just click on PDF FORMS ONLINE at <http://montana.collegesavings.com> if you participate in the Montana 529 plan or <http://www.collegesavings.com/aztempdfforms.shtml> if you participate in the Arizona 529 plan.

You may also download other forms as needed from the web. See the sidebar at right for more information.

### Make Your 2004 IRA or Coverdell ESA Contribution in 2005

If you haven't gotten around to making your Traditional IRA, Roth IRA or Coverdell ESA contribution for the 2004 tax year, there is still time to do so! Contributions may be made until the tax filing deadline of April 15, 2005.

in opening a CollegeSure Coverdell ESA, call a College Savings Adviser toll-free at 800-888-2723 any Monday through Friday between 9 a.m. and 6 p.m. Eastern time.

\* Tax advantages discussed do not take state taxes into consideration. 2010 Federal Sunset Provision applies. See the Sunset Provision on the back panel.

\*\* Or I'm saving for an older, special needs child.

† The contribution limit is gradually reduced for individuals with modified adjusted gross incomes of over \$95,000 but less than \$110,000 (over \$190,000 but less than \$220,000 for married joint-filer taxpayers).

### NEED A DEPOSIT SLIP, TRANSFER FORM OR 529 PLAN DISTRIBUTION AUTHORIZATION FORM?

For your convenience, forms for routine transactions are available online in PDF format.\* Simply go to the web site then click on PDF FORMS ONLINE on the bottom of the home page to find the form you need.

• For regular CollegeSure Accounts, IRAs and ESAs go to: [www.collegesavings.com](http://www.collegesavings.com)

• For MFESP accounts go to: <http://montana.collegesavings.com/forms.shtml>

• For AFCSP Accounts go to: <http://www.collegesavings.com/aztempdfforms.shtml>

\* PDF documents require Adobe Acrobat Reader which is available as a download from our web sites.

## New Proposal May Change Tax Benefits

(Continued from page one)

- **Use the Funds at Your Choice of Higher Education Institutions:** Most families typically use the funds to pay for eligible expenses at a four-year college or university. However, the funds may also be used at eligible vocational schools, two-year junior colleges and even graduate schools – worldwide!
- **You Can Use the Funds Yourself:** Use the tax-free distributions for a child/beneficiary or to further your own education.
- **Even if the Account Has a Beneficiary You Can Still Control the Assets:** When you open a CollegeSure® 529 account, you can choose to own the account assets and control the distributions. Even though you may choose to control the account, you can still save for anyone as beneficiary: a child, grandchild, a niece or nephew, a friend or even yourself.
- **Your Deposits Are Safely Invested:** Just like traditional CollegeSure accounts, CollegeSure Certificates of Deposit (CDs) held in a 529 plan are indexed to college costs and designed to meet future tuition, fees, room and board. And they are safe. CollegeSure CDs are FDIC-insured – backed by the full faith and credit of the U.S. government up to \$100,000 per depositor.
- **Use Your Account as an Estate Planning Tool:** The value of your account generally will not be treated as part of your taxable estate for purposes of the federal estate tax thereby lowering your estate tax liability while you still maintain control over the assets.
- **No Need to Worry About Gift Taxes:** Make a contribution of up to \$55,000 single (\$110,000 for married couples filing jointly) per beneficiary in one year without incurring federal gift tax. This will use up five years' of tax-free allowances – the standard is \$11,000 single or \$22,000 for married couples filing jointly per year per beneficiary – but it places the money in all at once for immediate tax-advantaged growth. If you take the maximum five-year exclusion, other gifts made during this time would not be covered by the annual gift tax exclusion.†

## Don't Wait! Start Saving Today.

Open your account for as little as \$250. Or to get in before the possible estate tax changes, contribute the maximum. Call toll-free 800-888-2723 any weekday between 9 a.m. and 6 p.m. Eastern time to learn more.

### Endnotes:

\* Earnings on non-qualified withdrawals are subject to federal income tax and a 10% federal tax penalty. Tax benefits are effective through 2010 unless extended by Congress. (See *Sunset Provision* at left.) Consult your tax adviser prior to establishing an account.

\*\* *529 Pro Solutions Update 2005-05* by Joseph Hurley, Feb. 3, 2005.

† If the donor dies before the end of the 5-year period, the contribution amounts allocable to the calendar years after the date of death are included in your estate for estate tax purposes.

## Students Pay More For College Under Revised Formula

(Continued from page two)

## Hope for Change Lies Ahead

Congress, concerned about reduced access to higher education and the complexity of the entire student aid process, has asked the Advisory Committee on Student Financial Assistance to propose cost-effective measures to smooth out the financial aid process and make aid available to more students in the future. Suggestions include using electronic forms rather than paper, expanding the income range for Pell Grant eligibility, eliminating the state and local tax allowances used in calculating student financial need and easing the work penalty so that students can earn more without forfeiting aid.§§

## The Need to Save for College

All in all, a college education is still very valuable despite the high costs. According to a report from the College Board, the reason is clear: “over their working lives a college graduate generally will earn seventy-three percent more than a high school graduate. A student with an advanced degree can earn double or triple that of a high school graduate.”||

More than ever, it is important to save for your child's college years well in advance as there is no certainty that today's government loans and grants will be in place in the future.

One thing remains certain: College Savings Bank's tax-advantaged programs provide extraordinary incentives for families like yours to save today to help reduce the worries that may lie ahead tomorrow. You will enjoy valuable peace of mind because CollegeSure CDs are designed to meet future tuition, fees, room and board and are backed by the full faith and credit of the U.S. government up to \$100,000 per depositor.

### Endnotes:

\* “Students to Bear More of the Cost of College.” *The New York Times*, Dec. 23, 2004.

\*\* IBID, as quoted.

† Online Colloquy, *The Chronicle of Higher Education*, Jan. 5, 2005.

†† “Impact of Changes to Pell Eligibility Formula Proposed in the Dec. 23, 2004 Edition of the Federal Register,” American Council on Education, Jan. 3, 2005.

§ *Projection of Education Statistics*, U.S. Department of Education, National Center for Education Statistics, Oct. 2003.

§§ “Congress Has Mixed Reaction to Report on Simplifying Student-Aid Process,” *The Chronicle of Higher Education*, Jan. 24, 2005.

|| *Education Pays 2004: The Benefits of Higher Education for Individuals and Society*, The College Board.

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\* Sunset Provision: Changes in tax law affecting 529 plans and Coverdell ESAs enacted under the federal 2001 Tax Bill (EGTRRA) including favorable tax treatment of certain distributions are due to expire in 2010. If Congress does not act to extend the provisions, among other things, all withdrawals and other distributions from 529 plans after 2010 will be subject to tax. The expiration would adversely affect 529 plans funded both before and after 2011.

CollegeSure® CD is a unique investment product the creation and origination of which is covered by one or more patents owned by College Savings Bank. Substantial penalty for early withdrawal. The Montana and Arizona Programs are not insured by the state of Montana or Arizona and neither the principal invested nor the investment return is guaranteed by the state of Montana or Arizona. Please read the Account Terms and Conditions and/or state program offering circular carefully before you invest or send money.