COLLEGE | PLANNING GUIDE

INVESTING IN YOUR CHILD'S FUTURE

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Whether your child is six weeks old, or 16 years old, it's not too early — or too late — to plan for college expenses. By setting a strategy now, you'll be in a better position to help your child come up with the necessary funds to pay for college when the time comes.

In this *Guide*, we look at the strategies and financial planning steps you can take to be prepared for what's ahead. Of course, this *Guide* is not intended to take the place of our professional advice. You'll want to consult with us before using any of the planning tools and strategies we discuss here.

UNDERSTANDING EXPENSES

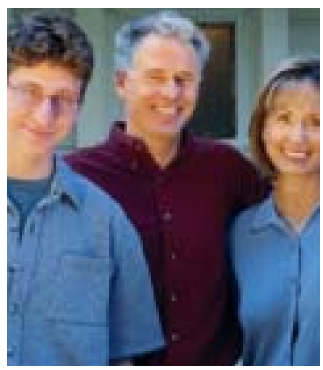
As with any financial planning, the first step in college planning is to set a goal. To do that, consider all the expenses that may be involved. College expenses are not limited to tuition and start even before a child is accepted into a school.

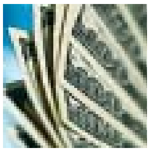
If your child goes away to college, you'll also have room and board expenses. A student living at home will have commuting expenses to and from campus. In addition, most colleges have student activity fees, some courses may have lab or other extra fees, and certain programs may require students to buy special equipment, such as a laptop computer.

To these costs, add miscellaneous expenses such as the cost of furnishing and outfitting a dorm room and spending money. Fortunately, parents have more control over these expenses than over other college costs.

Investigating the Alternatives

Paul and Meryl Watson and their son, John, are beginning to visit colleges. John wants to look at schools several hundred miles away — *lots* of schools. In weighing the colleges, the Watsons look at each school with an eye toward total costs. When talking to the admission counselors, they are careful to ask not only about the "published" costs but also the "hidden" costs of attending the schools. And they are sure to inquire about any scholarships or other financial aid for which John might be eligible.




CURRENT AND FUTURE COSTS

Now that you have an idea of *what* you'll be paying for, the big question is how much will it cost? The answer depends largely on two factors: the type of college you'd like your child to attend and your child's age.

The following survey results from the College Board, a national nonprofit organization, show the cost of attending different types of colleges during the 2007-2008 school year.

Future inflation could make the average total cost significantly greater for parents of young children. While overall inflation has averaged about 3% a year over the past 18 years, college expenses have increased at about twice that rate.

Using an average annual college-cost inflation rate of 6%, a child born today could need at least $216,000 to attend a public college for four years and more than twice that amount — $442,000 — for a four-year stint at a private college. But don't be discouraged. Many students receive financial aid to help with expenses. We'll tell you more about financial aid and how to secure it later in the *Guide*.

Sample Average Undergraduate Expenses 2007-2008

Type of College	Tuition & Fees	Books & Supplies	Room & Board	Transportation	Other	TOTAL
Two-year Public	$2,361	$921	$6,875	$1,270	$1,699	**$13,126**
Four-year Public	$6,185	$988	$7,404	$911	$1,848	**$17,336**
Four-year Private	$23,712	$988	$8,595	$768	$1,311	**$35,374**

Two-year public college expenses assume student commutes; all others assume resident student. Room and board costs for commuter students are average estimated living expenses for students living off-campus but not with parents. Total expenses are based on estimated average student expenses. These are enrollment-weighted averages, intended to reflect the average costs that students face in various types of institutions.
Source: Trends in College Pricing 2007, the College Board, *www.collegeboard.com*

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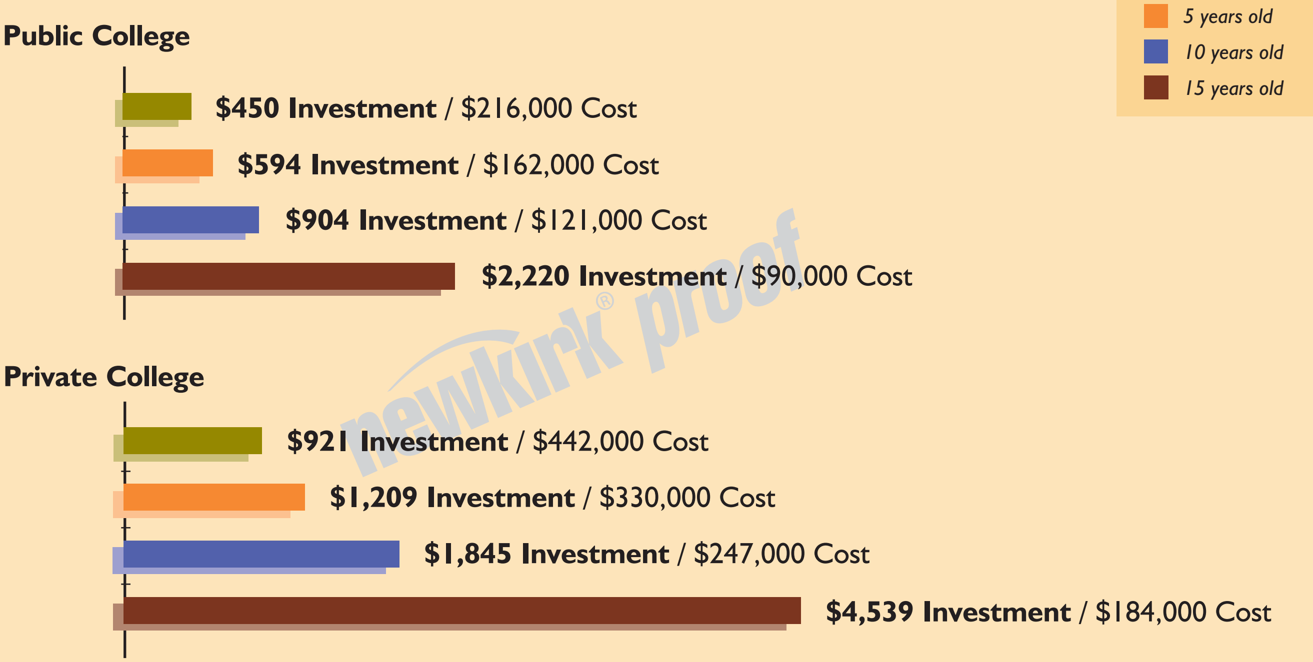
If You Start Today

Monthly Investment To Meet Total Cost



The graph assumes that, on average, college costs will increase 6% a year between now and when your child starts college. The calculations assume an average annual return of 8% on your investments compounded monthly. This is a hypothetical illustration, and the performance shown does not represent the performance of any particular investment. Your investment returns and savings balance will be different.
Source: NPI

For preliminary goal setting, the accompanying graph estimates the monthly amounts you would have to invest, starting at various ages, to meet the future costs of sending a child to college.

As professional planners, we can give you a more definite personal projection based on your individual situation. Our analysis takes into account the number of children you have, when each child will begin college, the types of colleges they may attend, your current and planned education investing program, and your other financial goals. And we can help you devise a plan to meet those projected costs.

GETTING THERE

Once you've set a goal for your college savings plan, you need to consider how to reach it. But, before you do, take a moment to view that goal alongside your other financial planning commitments, such as saving for your own future retirement. We can help you choose college savings strategies that can meet your student's future needs without compromising yours.

SECTION 529 COLLEGE SAVINGS PLANS

For many families, Section 529 college savings plans are an attractive planning option. Section 529 plans are tax-favored college investment programs sponsored by most states and the District of Columbia.

Contributions. You can contribute to a Section 529 plan regardless of your annual income or age. You are not limited to the plan sponsored by your state — most state plans are open to nonresidents as well as residents. Currently, each state sets its own maximum limit for lifetime contributions.

Starting To Save Can Be Easy

Martha Lee knows she needs to start saving for her five-year-old daughter Alyssa's college expenses. Martha decides that a tax-advantaged Section 529 plan can help. She is starting off by putting $150 a month in the account. Whenever she gets a raise, she plans on increasing her contribution. While the Section 529 account balance may not be enough to cover all of Alyssa's future college expenses, Martha hopes it will put a good dent in the amount Alyssa will need for her higher education.

Tax-free 529 Savings Plan versus Taxable Investments

Potential Account Balances with a $450 a Month Investment

This hypothetical example assumes an average annual return of 8% compounded monthly over 18 years with income-tax payments on the taxable account earnings withdrawn annually. Your return, account balance, and tax rate will be different.
Source: NPI

Tax Advantages. The money you invest in a Section 529 college savings plan grows free of federal income tax and, often, state income tax. Some states allow state income-tax deductions for investments in Section 529 plans, up to certain annual limits. Note that out-of-state residents may not qualify for state tax advantages. When the account beneficiary reaches college age, the funds in the account can be used to pay qualified education expenses, such as tuition, fees, reasonable room and board, books, supplies, and certain equipment. Withdrawals for qualified expenses are not subject to federal income tax.

The income-tax benefits of a Section 529 savings plan can make a significant difference in the actual amount available to pay your child's college expenses, as illustrated in the accompanying graph. However, as you'll read later, Section 529 plans are not the only planning strategies that offer tax relief for college expenses.

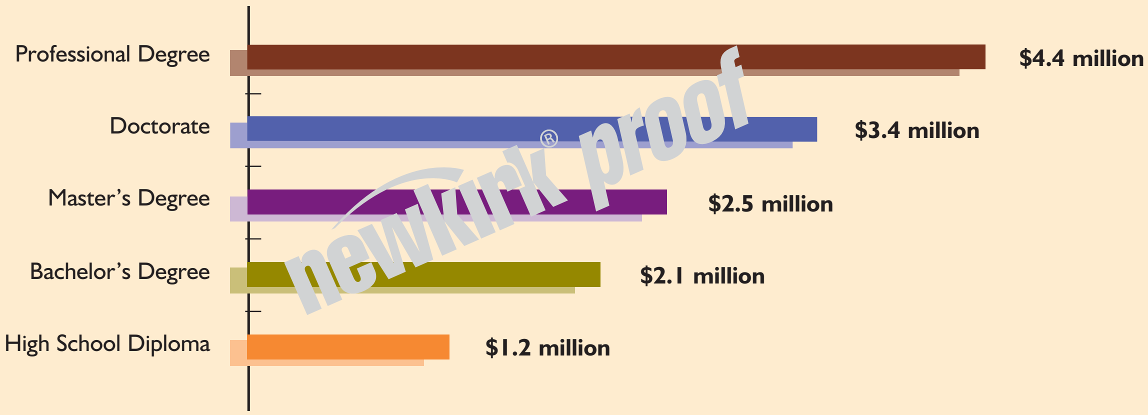
Other Advantages. What happens if the designated child decides not to attend college? The Section 529 savings plan will be returned to you (income tax and penalties may apply). Fortunately, with Section 529 plans — unlike some other college savings accounts — you have the option of changing the designated beneficiary of the account to another family member, such as the beneficiary's sibling.

Section 529 savings plans are professionally managed under the direction of the sponsoring state, with the management frequently handled by a mutual fund company or other investment firm. You choose an investment option when you establish the account. You may be able to change your investment option as frequently as once a year or if you change beneficiaries. Even though these accounts generally are invested conservatively, higher income families may find that their income-tax savings compensate for the plan's conservative returns, making a Section 529 savings plan an attractive investment choice.

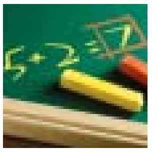
Before investing, consider the investment objectives, risks, and charges and expenses associated with municipal fund securities. The issuer's official statement contains more information about municipal fund securities, and you should read it carefully before investing.

Is It Worth It?

A college education is an investment in your child's future. Look at the difference in estimated lifetime earnings (between ages 25 and 64) college degrees can make.



Source: U.S. Census Bureau

Assets held in a Section 529 savings plan generally are not considered student assets and, thus, may be counted less heavily than student assets in calculating the "expected family contribution" used to determine a student's financial aid package. We'll talk more about the expected family contribution and financial aid later on.

Estate Planning Benefits. The money you invest in a Section 529 plan qualifies for the federal gift-tax annual exclusion. This exclusion allows you to make tax-free gifts of up to $12,000 a year ($24,000 if your spouse joins in the gifts) to each of as many people as you choose. The gift-tax annual exclusion may increase in the future because of IRS inflation adjustments.

A special tax provision lets you contribute up to $60,000 in one year to a Section 529 plan and treat the contribution as if it were made over five years so it will qualify for the annual exclusion. Thus, you and your spouse could contribute as much as $120,000 in one year — free of any gift tax — for each of your children or grandchildren.

As for federal estate taxes, the money you contribute to a Section 529 plan and any future appreciation on that money generally are removed from your estate.

Workplace Savings Plans. You may be able to participate in a Section 529 savings plan at work. More and more employers are offering this opportunity as an employee benefit. With a workplace Section 529 plan, your contribution is deducted from your pay before you receive your paycheck and deposited in the plan. Many people find such automatic payments the easiest way to save.

PREPAID TUITION PLANS

A Section 529 prepaid tuition plan offers the same tax and estate planning benefits as the Section 529 savings plan. However, it works quite differently. A state prepaid tuition plan promises to cover the cost of tuition and fees at a state college or university — in effect locking in today's tuition cost. Money in prepaid plans also can be used to pay tuition at many private colleges and universities and out-of-state public schools, but there is no assurance that the full cost of the tuition will be met.

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Prepaid tuition plans generally do not cover other expenses, such as books and room and board, which may be as costly as tuition.

Positives. Although they are less flexible than Section 529 savings plans, a prepaid plan may have a place in your college savings program. Prepaid plans tend to have advantages when the investment markets are doing poorly (since losses won't affect your tuition guarantee). One strategy you might want to consider is to invest in a prepaid plan to cover tuition and use other investments, such as a Section 529 savings plan, to meet non-tuition expenses.

Another strategy is to switch existing college investments to a prepaid tuition plan when the student gets close to college age (if the plan allows). Given that college-cost inflation typically has been much higher than overall inflation, a prepaid plan can be a better investment than the low-risk investments you might use to preserve your principal during the last few years before college.

Private Prepaid Plans. Private educational institutions also may sponsor Section 529 prepaid tuition programs that feature tax-free withdrawals.

We would be happy to help you evaluate the various Section 529 plans available.

COVERDELL EDUCATION SAVINGS ACCOUNTS

If you're eligible, you may want to use a Coverdell Education Savings Account (ESA) to help you save for your child's or grandchild's higher education. These accounts may be set up with a bank, mutual fund company, or other financial institution. You direct the management of the account's assets. Contributions and account earnings generally can be withdrawn from the ESA tax free to pay the child's qualifying education expenses.

An ESA lets you contribute up to $2,000 a year toward a child's primary, secondary, or college education expenses until the child reaches age 18, or perhaps longer if the child is considered to have special needs. If a grandparent wants to contribute to an ESA as well, be aware that the total amount contributed to all ESAs for any one child currently cannot exceed $2,000 a year.

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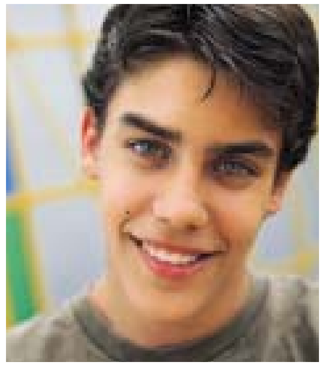
Helping Out a Grandchild

Juan Escobar's grandson Ernesto started high school this year. Juan wants to help Ernesto's parents fund Ernesto's higher education. He sets up a Coverdell Education Savings Account and contributes the maximum allowable for his income level. While the money is in the account, no taxes are due on the earnings. And when Ernesto starts college, the money his grandfather saved for him can be withdrawn to pay tuition and other qualifying expenses without any tax cost.



Eligibility Rules. To contribute to an ESA, you have to meet specific income eligibility rules. To make the full $2,000 per child contribution, your adjusted gross income (AGI) must be $95,000 or less if you are single, and $190,000 or less if you are married and file a joint return. Once those income levels are reached, the $2,000 maximum contribution is phased out. No contributions are permitted when AGI is $110,000 or more ($220,000 or more for joint filers).

If your income is too high to contribute to an ESA for your child or grandchild, you have alternatives: Provide money to a trusted relative who does qualify and who can contribute on the child's behalf. Or give it to the student to contribute to his or her own ESA.

Drawbacks. The biggest drawback to an ESA may be the low limit on contributions in comparison to the high cost of college. Some parents choose to contribute the first $2,000 a year in college savings to an ESA, and then invest the rest of their planned savings in a Section 529 plan.

With an ESA, if the child chooses not to attend college, the account balance will not be returned to you. Instead, it will be distributed to the child when he or she turns age 30 — unless you name another family member under age 30 as the ESA's beneficiary or roll the account over for another eligible family member. Any distributions of ESA earnings not used for qualified education expenses are subject to federal income tax and a possible 10% penalty.

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SAVINGS BONDS

U.S. Series EE and Series I Savings Bonds are another tax-advantaged investment some parents use for their children's education. Savings bond interest is exempt from state and local income taxes. If you're eligible, you can use these bonds to pay for a child's qualified education expenses and exclude all of the income earned on the bonds for federal tax purposes.

Requirements. Note that an income limitation applies to this benefit (in 2008, only those with AGI of $67,100 or less — $100,650 or less for joint return filers — can take the full interest exclusion). Moreover, only bonds issued after 1989 can be used, and you cannot exchange older bonds for newer ones to gain the exclusion. Other requirements apply.

CUSTODIAL ACCOUNTS

Custodial accounts — such as accounts established under the Uniform Gifts to Minors Act and the Uniform Transfers to Minors Act (UGMAs/UTMAs) — are a traditional way to invest for a child's college education. With these accounts, the assets are held in the name of the minor student, but are managed by the custodian, often the parent.

However, these accounts do have drawbacks. First, the child must be given the right to all account income and assets at age 18 or 21, depending on your state. Second, because the assets are in the student's name, they will count more heavily toward the expected family contribution for financial aid purposes. Last, changes in the tax law's "kiddie tax" rules have made custodial accounts less beneficial for higher income families. (For more information on the "kiddie tax," see your tax advisor.)

INVESTMENT CONSIDERATIONS

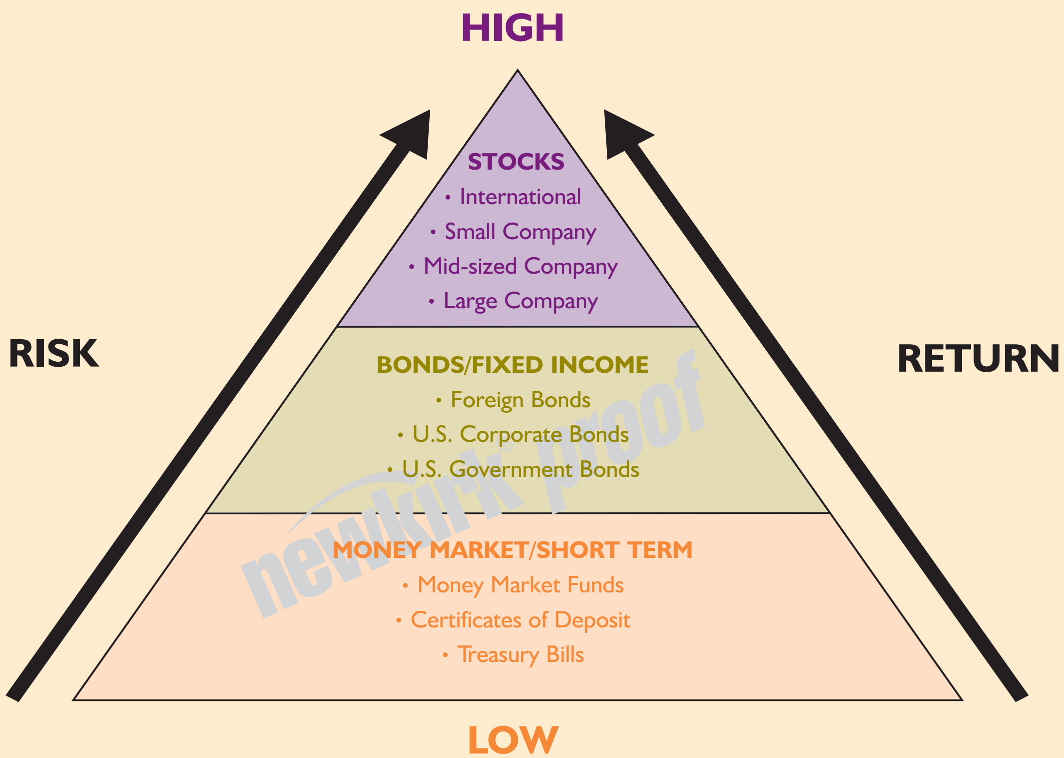
Two basic axioms of investing are:

- The greater the risk, the greater the potential return, and
- The longer your time frame, the more risk you can take since your investments will have the opportunity to recover from short-term market downturns.

Applying these principles, you might start investing for a young child's college education just as you would for any other long-term goal — by investing largely in stocks and stock mutual funds with high potential for growth.[1] As your income increases, try to increase

the amount you're investing. Once the child reaches middle school age, you might begin balancing the growth orientation of your college savings by adding some income-producing investments, such as bonds and money market funds.[2] When a child reaches high school age, you'll probably want to begin moving your college investments out of high-risk long-term investments into lower risk choices. You should have all or nearly all of the student's college funds in shorter term income investments by the student's senior year of high school.

Relative Risks of Different Investments



Source: NPI

[1]*Mutual funds are sold by prospectus. You should consider the fund's investment objectives, risks, and charges and expenses carefully before investing. The prospectus contains this and other information about the fund. To receive a current prospectus, contact your registered representative. You should read the prospectus carefully before investing.*

[2]*An investment in a money market fund, as opposed to a money market account, is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund.*

As we pointed out earlier, the majority of college students receive some sort of financial aid. So, even if the financial aid application process seems confusing and burdensome and you have doubts about your student qualifying, it is usually worth the effort to apply — especially if you have more than one child in college.

UNDERSTANDING WHAT'S AVAILABLE

Student financial aid comes primarily from three sources: the federal government, state government, and the college. Financial aid packages can include "gift" aid, which neither the student nor the parent has to work for or repay. Some examples of gift aid are:

- Merit scholarships awarded for academic achievements or excellence in sports, music, drama, or art
- Scholarships based on need
- Grants

The other type of assistance your student may receive is "self-help" aid, such as:

- ROTC
- Cooperative and other federal and college-sponsored work-study programs
- Loans, which we'll discuss in more detail in the next section

In addition to applying for regular financial aid, you should check to see if your or your student's employer offers any tuition assistance and seek private scholarships and grants.

APPLYING FOR FINANCIAL AID

Most financial aid is based on the student's financial need, which is determined from information you provide on financial aid applications.

First Comes FAFSA. Nearly all colleges, both public and private, require you and your student to complete the Free Application for Federal Student Aid (FAFSA). The FAFSA should be available from your student's high school guidance office or the financial aid office at any college. As the name suggests, there is no fee for filing this application. Some private colleges may require an additional form if you're applying for financial aid.

Make a copy of the completed FAFSA for your records before mailing it. You'll need to have the information from the FAFSA to compare with the information on the Student Aid Report (SAR) your student will receive and to explain certain figures or answers if requested. You'll also want to have a copy on file for preparing additional financial aid applications (required by some private colleges) and for filing FAFSA forms in subsequent years.

Expected Family Contribution. Approximately four weeks after the FAFSA is processed, your student should receive his or her SAR with the all-important expected family contribution (EFC) shown in the upper right hand corner of the report. The EFC is the amount the student and his or her parents are expected to contribute to college costs for the year. The financial aid offices at the colleges your student is applying to will use the SAR in determining your child's eligibility for financial aid. Talk with us if you would like assistance completing financial aid forms or estimating your EFC.

PROFILE. Many private colleges and universities require the FAFSA and another form, the PROFILE, to determine the EFC. Filing both the FAFSA and the PROFILE often results in a higher EFC than the FAFSA alone because the PROFILE considers assets the FAFSA does not. The PROFILE also requires a minimum student contribution.

Deadlines Are Important. Check with the colleges your student has applied to, and find your state's deadline on the FAFSA. Missing a filing deadline can mean missing out on financial aid. Be aware that your child doesn't have to be accepted at a college to apply for financial aid to attend that college.


INCREASE YOUR STUDENT'S ELIGIBILITY FOR FINANCIAL AID

If you plan ahead, you may be able to take steps that could enhance your student's financial aid package.

Report Special Circumstances. Sending a letter to college financial aid officers outlining any special family circumstances that occurred during the preceding year that may affect your ability to meet college expenses can be an effective way to increase the financial aid your student will receive. Examples of special circumstances include:

- Unusual expenses that weren't covered by insurance, such as medical and dental payments, funeral expenses, and personal legal fees for divorce, adoption, or death
- Your divorce or separation from your spouse
- Spouse's death
- Contributions to support a relative, such as your elderly parent
- Loss of income due to illness, disability, unemployment, or fewer hours

Scholarship Timeline

SPRING JUNIOR YEAR
- Get Information
- List Scholarship Requirements
- Check Application Deadlines
- Talk with School Counselors

SUMMER
- Send for Applications

FALL SENIOR YEAR
- Recheck Deadlines
- Complete and Mail Applications

WINTER/SPRING SENIOR YEAR
- Follow Up on Applications
- Submit Additional Information
- Receive Results
- Research for Second Year of College

Source: NPI

Time Income. You may be able to decrease your EFC and improve your child's financial aid package by timing income to keep it as low as possible for the base year, which is used to initially determine financial need. For most students, the base year is the calendar year that ends during their senior year of high school. Timing strategies to consider:

- If you plan to cash in investments that will have taxable gains to pay for college, do so before the base year.
- Try to avoid receiving retirement plan distributions during the base year.
- Pay all federal and state income taxes for the base year during the base year, through withholding or estimated tax payments. Assets are valued on the day you sign the FAFSA, so holding funds in a bank or money market account to pay the taxes when you file your tax return may inflate the value of your assets.

Spend Down Assets. If you are thinking about buying a big-ticket item, such as new furniture or a recreational vehicle, consider using money from a savings or money market account, rather than taking out a loan. Make the purchase during the financial aid base year rather than later. You also might spend down your student's assets during the base year to purchase items he or she will need at college — a computer or car, for instance. Both of these strategies will leave you with lower assets to report for financial aid purposes.

Manage Debt To Minimize Reportable Assets. For the most part, financial aid determinations do not take family debt into consideration, unless incurred due to special circumstances. However, federal aid formulas subtract investment debt from the value of your investments. If you have substantial investment assets, it may make sense to use a margin loan against your brokerage account to cut reportable assets.

Similarly, while the FAFSA doesn't count home equity as an asset, private schools often do. Using a home equity loan to pay off credit cards, car loans, and other personal debt might reduce your monthly payments and the amount of home equity colleges will use in your student's aid determination.

We would be happy to help you analyze these and other college planning strategies in terms of your overall financial picture.

Loans are a large component of many financial aid packages. College loans come in many forms. Some delay payment of principal and interest until after the student has finished college, some delay principal repayment only, and others require principal and interest payments to begin immediately. (See the accompanying table.) Interest on qualifying student loans may be tax deductible, within limits. (For more on this deduction, refer to page 20.)

STAFFORD LOANS

Stafford loans are probably the most common student loan. There are two types. The Direct Stafford Loan is a loan directly from the federal government. The Federal Family Education Loan (FFEL) is a bank loan guaranteed by the federal government.

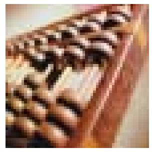
Stafford loans can be either subsidized or unsubsidized. With a subsidized loan, the federal government pays the interest on the loan while the student is in school and for six months afterwards. Subsidized loans go to the neediest students. With an unsubsidized loan, the loan accrues interest immediately and the student borrower has the option to pay interest as it accrues or to allow it to accumulate and be added to the principal amount of the loan.

PLUS LOANS

Under the Parent Loans for Undergraduate Students (PLUS) program, parents can borrow to pay the education expenses of a dependent student who is enrolled at least half-time at an eligible school. Like Stafford loans, PLUS loans are available through the federal Direct Loan and FFEL programs. However, they are not part of the student's financial aid package. With a PLUS loan, you can borrow up to the full cost of your child's education expenses — including the EFC — minus any financial aid for which the student qualifies. PLUS loans are based on your creditworthiness, not your student's need.

FEDERAL PERKINS LOANS

These loans are for undergraduate and graduate students who demonstrate substantial financial need. While the loans are funded primarily by the federal government, the



Comparing Federal Loan Programs

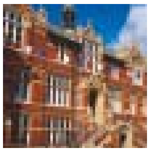
	STAFFORD LOANS	PLUS LOANS	PERKINS LOANS
BORROWER	**STUDENT**	**PARENT** **GRADUATE/PROFESSIONAL DEGREE STUDENT**	**STUDENT**
NEED BASED	Subsidized: **YES** Unsubsidized: **NO**	**NO**	**YES**
LIMITS	**Dependent Undergrad:** · 1st year = $3,500 · 2nd year = $4,500 · 3rd & 4th years = $5,500 Cap* = $23,000 **Independent Undergrad:** · 1st year = $7,500 *(only $3,500 subsidized)* · 2nd year = $8,500 *(only $4,500 subsidized)* · 3rd & 4th years = $10,500 *(only $5,500 subsidized)* Cap* = $46,000 *(only $23,000 subsidized)* **Graduate Student:** $20,500/year *($8,500 subsidized)* Cap* = $138,500 *(only $65,500 subsidized)*	Up to full cost of college expenses minus any other financial aid	**Undergrad:** $4,000/year *$20,000 total* **Graduate:** $6,000/year *$40,000 total* *(including amounts borrowed as an undergrad)*
INTEREST	6.8% (for loans first disbursed on or after July 1, 2006)**	8.5% (FFEL) 7.9% (Direct) (for loans first disbursed on or after July 1, 2006)	5%
REPAYMENT	Begins six months after graduation, leaving school, or dropping below half-time enrollment	Begins 60 days after payment to college	Begins nine months after graduation, leaving school, or dropping below half-time enrollment

* Total debt outstanding from all Stafford loans combined.

** The College Cost Reduction and Access Act of 2007 gradually reduces the interest rate on subsidized undergraduate Stafford loans. For loans first disbursed July 1, 2008, through June 30, 2009, the rate is 6%.

Source: *Funding Education Beyond High School: The Guide to Federal Student Aid 2008-2009*, U.S. Department of Education





college is the lender. Consequently, the maximum loan granted by one college may be different than the maximum loan at another. The student repays the loan to the school. Perkins loans can be forgiven in full or in part under certain circumstances.

PRIVATE LOAN PROGRAMS

Various financial institutions offer private college loan programs for parents and students. You also may find that some of the colleges your student is applying to participate in the Guaranteed Access to Education (GATE) loan program. This program provides loans with relatively low interest rates. The college can recommend any loan amount it would like the student to receive.

OTHER LOAN SOURCES

Federal, college, and private student and parent education loans are not your only borrowing options. You may want to consider these other loan sources.

Home Equity. Borrowing against the equity in a home is a popular way to finance college. You may find home equity borrowing less expensive than college loans. Interest rates generally are low compared to many types of consumer loans, and the interest on home equity borrowing of up to $100,000 may be tax deductible.

Retirement Account. You also might consider a loan from your employer-sponsored retirement savings plan. Or you may be able to take penalty-free withdrawals from your individual retirement account before age 59½ to pay for qualified higher education expenses you, your spouse, your children, or your grandchildren incur. Be aware, though, that you have to pay income tax on some or all of the money withdrawn from a traditional IRA. Use caution when borrowing or withdrawing money from any retirement account. You don't want to shortchange your retirement.

Life Insurance. Many life insurance policies offer an investment component along with the insurance component. If you choose such a policy, you'll have access to the policy's cash value as it accumulates. When your child is ready for college, you can borrow against the cash value to pay education expenses. In addition, adequate life insurance on both your and your spouse's lives can ensure your children will have the needed funds for college should something happen to either one of you.

College planning doesn't stop when your student starts his or her freshman year. Consider the following tax breaks and strategies that can help you meet expenses after your child begins college.

TAX CREDITS

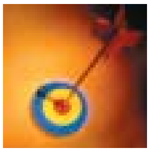
Tax credits can make a difference in your college planning because they reduce your federal income tax dollar-for-dollar.

Hope Scholarship Credit. A Hope Scholarship credit may be available for the first two years of post-secondary education. The credit is 100% of the first $1,200 of qualified expenses and 50% of the next $1,200 of expenses (maximum credit of $1,800) and is available for each eligible student's expenses. The student must be enrolled at least half-time.

Lifetime Learning Credit. The Lifetime Learning credit is available for undergraduate and graduate education and for courses taken to acquire or improve job skills. The credit is 20% of up to $10,000 of expenses for a maximum credit of $2,000 per taxpayer return. So, even if you have more than one eligible student, you cannot claim a Lifetime Learning credit of more than $2,000 a year.

Both credits are available for qualified tuition and related expenses (but not books or room and board) paid for by your dependent student, your spouse, or yourself. You cannot claim the credits for expenses paid with tax-free assistance, such as a federally funded Pell Grant, certain scholarships, excludable distributions from an ESA or 529 plan, or tax-free employer-provided educational assistance.





Both credits are subject to income restrictions, including a phaseout. Neither credit is permitted for 2008 where AGI exceeds $58,000 (single and head-of-household filers) or $116,000 (joint filers). Married persons filing separately cannot claim the credits.

If your income is too high to qualify for the Hope Scholarship/Lifetime Learning credits, your child may be able to claim a credit for expenses you paid on his or her behalf. Of course, this strategy is only effective if your child has enough taxable income to benefit from the credits, and you won't be able to claim the child as your dependent.

TAX DEDUCTION

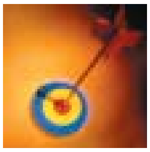
While a tax credit reduces your tax liability, a tax deduction reduces the income on which you'll be taxed. Certain deductions, like the one described next, are deductible in determining adjusted gross income ("above-the-line"), so you can claim them even if you don't itemize deductions.

Student Loan Interest Deduction. Up to $2,500 a year of interest paid on qualified education loans may be tax deductible. A qualified education loan is one taken solely to pay qualified education expenses for your dependent student, spouse, or yourself. For 2008, the deduction is phased out when modified AGI is between $55,000 and $70,000 (single and head-of-household filers) or between $115,000 and $145,000 (married filing jointly).

ANOTHER STRATEGY

In addition to taking advantage of any available tax credits and deductions, you may want to consider this strategy.

Buy Your Student Housing. Consider buying a house or condo for your child in the town where he or she attends college and renting spare rooms out to other students. Certain rental property income-tax breaks may be available to you, and the net cost of the housing may be less than the cost of a dorm room. Moreover, when your child graduates, you could sell the property — potentially at a profit.



Cutting Student Housing Costs

Going into her junior year, Jocelyn has had enough of dorm living. And her parents, Richard and Kathy Martin, have had their fill of dorm costs. They decided to purchase a three-bedroom condo near campus and allow Jocelyn and two of her former dormmates to live there. The "tenants" pay rent and their share of the utilities, which go a long way toward paying the monthly costs for the condo. Jocelyn is responsible for managing the condo — collecting the rents, paying the bills, etc. — and receives a reasonable salary. Within tax law limits, the Martins can deduct Jocelyn's salary, the condo's maintenance expenses, mortgage interest, and property taxes. Plus, Jocelyn learns some valuable life lessons.

MONITORING YOUR PROGRESS

Like other types of financial planning, college planning is an evolving process. Each year, you should review your plan to monitor the progress you're making toward your goals and to determine whether you need to alter your college saving strategies. We would be happy to help you with such a review. Or, if you don't have a college saving program in place, we can help you get one started. The sooner you begin, the easier it will be to meet your college saving goals. Remember, every dollar you save is an investment in your child's future.



College Planning Checklist

Infant Through Elementary School Years

- ☐ Project the cost of your child's education
- ☐ Set a monthly or weekly savings goal
- ☐ Compare the different savings and investment options available to you
- ☐ Begin saving and investing
- ☐ Review your progress annually

Middle School Years

- ☐ Determine whether you should be contributing more toward your goal
- ☐ Keep saving
- ☐ Review your progress annually

High School Years

- ☐ Gradually transfer assets from any higher risk long-term investments you hold into more conservative short-term ones
- ☐ Determine whether you need to increase the amount you're saving
- ☐ Encourage your child to start saving for college
- ☐ Encourage your child to take advanced placement classes, if appropriate
- ☐ Talk with your child about his or her career plans and college and non-college options
- ☐ Discuss what you can reasonably afford with your child
- ☐ Look at college catalogs with your child
- ☐ Visit college campuses
- ☐ Keep saving

Senior Year

- ☐ Your child applies to colleges
- ☐ Help your child apply for financial aid
- ☐ Encourage your child to look for private scholarships and grants
- ☐ Check with your employer concerning any educational assistance programs
- ☐ Weigh alternative borrowing sources, such as home equity loans
- ☐ Compare financial aid offers
- ☐ Help your child choose a college
- ☐ Invest conservatively
- ☐ Keep saving

College Years

- ☐ Prepare an annual school budget
- ☐ Monitor college expenses
- ☐ Remind your student to reapply for financial aid, loans, and scholarships each year
- ☐ Take advantage of education tax breaks
- ☐ Encourage your student to work



Glossary of College Planning Terms

Coverdell Education Savings Account (ESA). A tax-favored account that provides potentially tax-free distributions for a beneficiary's qualified education expenses.

Expected family contribution (EFC). The amount parents are expected to pay toward a child's college education under the federal financial aid formula.

Federal Family Education Loan (FFEL). A Stafford or PLUS loan received from a bank, credit union, or other participating lender that is guaranteed by the federal government.

Free Application for Federal Student Aid (FAFSA). The form all students must complete to apply for federal financial aid (available online at *www.fafsa.ed.gov*).

HOPE Scholarship credit. A federal income-tax credit for a portion of qualified tuition and related expenses incurred by a student during the first two years of post-secondary education.

Lifetime Learning credit. A federal income-tax credit for qualified tuition and related expenses incurred for post-secondary education or job training.

Matching grant. Financial assistance from the college that matches part or all of a grant or scholarship awarded by an outside organization.

Pell Grants. Federal grants awarded to undergraduate students based on need.

Perkins loans. Delayed repayment loans for high-need students that are federally funded and administered by the college.

PLUS loans. Federally sponsored loans available to parents to pay education expenses for undergraduate dependent students. Also available to graduate and professional degree students. Not included in the student's financial aid package.

Prepaid tuition plan. A state or privately sponsored college savings plan that, in effect, locks in current tuition costs for a student's future education.



Glossary of College Planning Terms

PROFILE. A form used by many private colleges and universities in addition to the FAFSA to determine a student's expected family contribution and need for financial aid.

Section 529 plan. A prepaid tuition plan or a college savings account (described in Section 529 of the tax code) that provides tax-free earnings if used to pay qualified higher education expenses.

Stafford loans. Federally sponsored low-interest loans with delayed repayment requirements that are available to eligible students. May be subsidized or unsubsidized.

Student Aid Report (SAR). A financial report sent to students and colleges to be used to determine financial aid. Shows the expected family contribution.

The general information in this publication is not intended to be nor should it be treated as tax, legal, or accounting advice. Additional issues could exist that would affect the tax treatment of a specific transaction and, therefore, taxpayers should seek advice from an independent tax advisor based on their particular circumstances before acting on any information presented. This information is not intended to be nor can it be used by any taxpayer for the purpose of avoiding tax penalties.

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