

# Dialogues » WEALTH STRATEGIES FOR DISCUSSION



- » Review the ABCs of saving for college
- » Develop a customized education plan
- » Survive the college search process
- » Give the gift of education
- » Send yourself back to school

SUMMER  
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## Higher Education: Planning with a Purpose

» “Education is the most powerful weapon which you can use to change the world.” – Nelson Mandela

While your favorite student gets the privilege of tackling SATs and college applications near the end of his or her high school career, your biggest test as a parent or grandparent begins many years earlier when you attempt to answer the question, “How am I going to pay for all of this?”

Like other top financial concerns such as funding your retirement or making sure you have enough to cover unexpected health care costs, one of the best things you can do when it comes to your loved one’s education is to plan early and plan wisely. This advice also holds true if you’re thinking about sending yourself back to the hallowed halls of academia in the spirit of life-long learning.

As with all other areas of your financial life, we can help. You have access to a vast array of expertise and resources at our firm. Tapping these resources, we can help you develop a customized education-savings plan that works in sync with your overall financial plan and gets you on track to help meet your college funding goals. We can also help review this plan on a regular basis to see it continues to make the grade.

Whether it seems too daunting or simply too far down the road to worry about just yet—or both—remember that the time and effort you put into creating a solid education-savings plan today could result in one of the best returns you’ll ever receive on an investment: the satisfaction of giving someone you love an opportunity to realize their full potential. ■

By Morgan Stanley Smith Barney LLC.

# Are You Really Prepared for a New School Year?

You've shopped for new clothes, bought their school supplies, enrolled them in after-school activities and arranged the carpool. Congratulations, you're well on your way to starting the new school year on the right track.

» But what about next year and the years following? If your back-to-school checklist doesn't include a plan for future education needs, you might need to make some additional preparations.

It may seem like college is years away, but waiting to save for those expenses—even for one year—can make a great difference. Children grow quickly, and the cost of a college education is growing at an even faster rate. Today, many of the elite institutions cost upward of \$30,000 annually to attend—and those costs are projected to double in 18 years. The sooner you start thinking about future college costs, the more time you'll have to develop and implement a solid education plan.

Creating an education plan will help you determine how much you'll need to save for your family's future education needs. When it's time to implement your plan, there are several options available, including 529 College Savings Plans. The plans are one of the best ways to save for higher education, since they provide tax-deferred asset accumulation, professional management, flexibility, as well as several other

benefits not available in other education saving options. Most 529 plans also offer systematic investment options, allowing you to make regular, automatic contributions and take advantage of compounding and tax-deferred growth.

As you prepare for a new school year, make an appointment to speak to us about developing a customized education

plan that may help you meet your college-funding goals. Even if you already have a plan, it is still a good time to meet for an annual education review to make sure you are still on the right track.

Whether your child is preparing for kindergarten or studying for the SATs, an education plan should always be a part of your back-to-school checklist. ■

## College Costs Are Rising

**5.9%** Average increase in public university tuition from 2006 – 2007 school year to the 2007 – 2008 school year

**\$148,004** Estimated cost of four-year public university in 2026

**5.9%** Average increase in private university tuition from 2006 – 2007 school year to the 2007 – 2008 school year

**Over \$350,000** Estimated cost of four-year private university in 2026

Source: "Trends in College Pricing," The College Board, 2007.

Please consider the investment objectives, risks, charges and expenses associated with municipal fund securities before investing. The offering statement contains this and other important information. To obtain an offering statement, please call your Financial Advisor or visit [www.smithbarney.com](http://www.smithbarney.com) to locate a Financial Advisor in your area. Read the offering statement carefully before investing.

Investments are subject to market risk and may fluctuate in value.

Before investing, investors should consider whether tax or other benefits are only available for investments in the investor's home state 529 college savings plan.

# Ask Yourself:

## Are You On Course to Fund Your Child's College Education?

Courtesy of Women & Co.<sup>®</sup>, a membership service that provides financial education and related resources.

- |   |      |       |
|---|------|-------|
| 1. <b>You are familiar</b> with the current average annual cost of public or private colleges.  | True | False |
| 2. <b>You have researched</b> how much college will cost by the time your child is ready to attend.   | True | False |
| 3. <b>You know how</b> prepaid tuition plans work, and you understand their pros and cons.  | True | False |
| 4. <b>You have met</b> with your Financial Advisor to review college saving options and discuss the implications they could have on other financial goals (e.g., retirement, elder care expenses, etc.).    | True | False |
| 5. <b>You understand</b> how financial aid works and where you can learn about options that may be available to your child.   | True | False |
| 6. <b>You have implemented</b> a college savings strategy.  | True | False |
| 7. <b>You have examined</b> other sources of funding, such as student loans or home equity loans.   | True | False |
| 8. <b>You understand</b> what will happen with the college saving investment options you've selected if your child decides not to go to college, receives a scholarship, or goes to an out-of-state school. | True | False |
| 9. <b>You have weighed</b> the benefits and drawbacks of saving in your child's name.   | True | False |
| 10. <b>You are aware</b> of education tax breaks and have researched which ones may be available to you.  | True | False |

If you answered "True" to these questions, you are well on your way! If you didn't, it's time to meet with your Financial Advisor to review the ABCs of saving for college. Call us today to learn more about how to save for your child's education or about the complete benefits of Women & Co. membership. ■

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# How to Survive the College-Search Process

These days, the college-search process has taken on a life all its own. In addition to stellar grades, kids now need extracurricular activities, sports, multiple Advanced Placement classes and sometimes a little SAT tutoring thrown in for good measure.

» If you're thinking that family vacations will provide some respite, think again: That's when you need to hit the road to find a few campuses that "feel right" for your child.

With 3.2 million Americans turning 18, the high school class of 2009 is expected to be the largest in U.S. history, according to *The New York Times* (July 30, 2006). Based on an enrollment rate that has been rising steadily for decades, the competition for places in the freshman class at the best colleges will remain intense next year, even with a sharp contraction in the availability of student loans following the collapse of the subprime market.

To partially offset this pressure, some of the wealthiest schools are finding ways to make college more affordable, at least for students with the greatest financial needs. The University of North Carolina, the University of Virginia, Harvard and Yale are among the schools offering to cover more of the tuition costs for low-income families. Some schools are replacing loans with grants, which do not have to be repaid. Behind the generosity are ballooning endowments, with Harvard's \$34.9 billion fund the largest of all.

## A PLACE TO START

Is the college-search process really as daunting as it sounds in all the press reports? Yes and no. Your child is going to feel the pressure whether you voice it or not, but it will help to keep an open mind and a sense of humor as you go along. If your child is mature enough, you might introduce the possibility of taking a gap year. In Europe, most students take a year off before college, dividing their time between work, travel and community service. The idea is beginning to gain acceptance in the U.S.—and college-admissions officers look favorably on gap years. For information about planning a gap year, *Taking Time Off* by Colin Hall and Ron Lieber is a good resource; there are several helpful Web sites as well, including [www.takingoff.net](http://www.takingoff.net) and [www.wheretheyouheaded.com](http://www.wheretheyouheaded.com).

In a perfect world, a conversation about college takes place in the office of the school's guidance counselor, a person with years of experience placing students they know well in the school that perfectly fits their needs. In the real world, however, counselors are sometimes inexperienced, often overwhelmed and may not know your child well enough to provide very

good advice. If you're lucky, you can leave the process up to your child and his or her counselor; if not, be prepared to monitor the process.

Sophomore year of high school is a good time to begin looking around. You don't need to make any special trips—if you happen to be in Chicago with your 10th grader, take an hour to walk around the University of Chicago's campus. Encourage your child to think about personal likes and dislikes: Does it seem too big? Is it nice to be near a city? If you find yourself in the neighborhood of a smaller school in a more rural setting, stop off there, too. Getting guidance on these big-picture issues can help direct decisions about where to apply later on.

If you are not planning any road trips, there are plenty of other ways to get information about colleges. Almost any basic information you need is available from the National Center for Education Statistics, and you can narrow down a search at <http://nces.ed.gov/collegenavigator/>. Other Web sites, including [www.campustours.com](http://www.campustours.com) and [www.petersons.com](http://www.petersons.com), also give key information about schools as well as links to school sites. Helpful print guides include:

information about schools as well as links to school sites. Helpful print guides include: *The Insider's Guide to the Colleges* (put out by *Yale Daily News* staff), *Fiske Guide to Colleges*, and *Cool Colleges: For the Hyper-Intelligent, Self-Directed, Late Blooming, and Just Plain Different* by Donald Asher. If your child wants to research specific teachers, he can read student reviews on [www.ratemyprofessors.com](http://www.ratemyprofessors.com).

Whether your campus tour is virtual or live, remember this cardinal rule: Don't fall in love with anything. This applies both to students and parents—especially to parents. The current avalanche of applicants means there is no sure thing these days. Even the most qualified student may not be accepted by his or her first choice. It is your job to keep reminding your child that there are *many* good schools to choose from.

### TESTING, TESTING

Standardized and Advanced Placement testing is a reality of life for college-bound high school students. Most colleges accept either the SAT or the ACT, though the two tests are actually quite different (kids who don't do well on one often score higher on the other). Many of the best colleges also require anywhere from one to three SAT IIs, which focus on particular subject areas.

When it comes to preparing for standardized tests, there are plenty of resources. The company that publishes the test, the College Board, has review materials ([www.collegeboard.com](http://www.collegeboard.com)). There are also many college preparatory services, such as Kaplan Test Prep and Admissions ([www.kaptest.com](http://www.kaptest.com)) and *The Princeton Review* ([www.princetonreview.com](http://www.princetonreview.com)). If your child doesn't seem to be getting the hang of the test after a few practice runs,

you may be able to track down a tutor through the school.

Students prepare for Advanced Placement exams by taking a full-year course in the subject during junior or senior year. These tests are scored on a scale of one to five—a score of four or five will often earn college credits for the student.

### A SUMMER WRITING ASSIGNMENT

The summer before senior year is a good time to get a preliminary idea of what schools your child is going to apply to, gather the necessary materials and begin thinking about the essay questions. More than 300 schools now accept the Common Application ([www.commonapp.org](http://www.commonapp.org)) but many request additional essays as well. One of the best things for your child to do before they return to school as a senior is to write the personal essay for the Common Application. This is an important exercise that requires reflection and plenty of time—both of which will be in short supply once senior year begins.

Come September, it's time to finalize the list and draw up a calendar of application deadlines, including when teacher recommendations and other materials are due. Most applications are now submitted online. Some schools have a rolling admissions policy, so you hear back within a certain number of weeks from when you apply. If there is a school that is a clear favorite, a student may consider applying either early decision or early action. An application for early decision can only be submitted at one school and it is binding: The student is notified in December and, if accepted, must withdraw all other applications. Early action is nonbinding and students may apply to more than one school on this basis.

### D-DAY ... MAYBE

The student who applies early and gets accepted is finished with the college process in December. The parents of that child may face a new challenge: keeping their teenager focused and out of mischief once the pressure has eased. For students who apply regular decision, it is a long wait until April 1, when most decisions are announced—and even then, it may not be over. This year, colleges accepted many more students than usual from wait lists. Notification of wait-list decisions begins in May and continues into the summer.

The road to the right school is marked with many unanticipated twists and turns, which your family must navigate as gracefully as possible. As you make your way through the college process, try to stay calm and have confidence that your child will find a school that really does feel right. Chances are it will be the one where he or she will flourish.

Getting your child into the right school also requires the right college funding. Talk to us. We can help you develop a comprehensive education-planning strategy to help meet your goals. ■

Please note that we do not conduct ongoing independent review or due diligence of the individuals, companies or publications named. The references to the individuals, companies or publications named should in no way be considered to be a solicitation by Morgan Stanley Smith Barney LLC on behalf of the named parties, or an endorsement of the named parties at Morgan Stanley Smith Barney.

# Ten Things You Should Know About 529 College Savings Plans

As a consumer, you are probably aware that the cost of living is steadily increasing, and college costs are no different.

» As a matter of fact, many Americans cite paying for college as one of their top financial concerns, second only to saving for retirement. There are several options available to help you prepare for this important milestone; however, 529 College Savings Plans have revolutionized the way investors save for college. The plans offer both flexibility and control and provide benefits that other education savings programs don't offer. Here's what you should know if you are considering a 529 savings plan:

## 1. THEY'RE NOT JUST FOR KIDS.

Although most 529 savings plans are used to fund higher education for children, they are ideal for anyone with college funding needs. Whether you're a retiree who wants to pursue lifelong learning or a professional who is returning to school to advance your career, 529 savings plans may have a place in your investment portfolio.

## 2. IT'S THE ONLY COLLEGE SAVINGS VEHICLE THAT ALLOWS TAX-FREE ACCUMULATION OF SAVINGS AND TAX-FREE WITHDRAWALS.

Money in a 529 savings plan accumulates free of federal taxes, and as long as funds are used for qualified college expenses, the withdrawals from your account are also tax-free.

## 3. YOU MAY BE ELIGIBLE FOR ADDITIONAL TAX BENEFITS BY OWNING THE 529 SAVINGS PLAN OFFERED BY YOUR STATE.

Many states offer tax deductions to residents who contribute to their own state's plan, but may only allow you to invest in

an out-of-state plan with after-tax dollars. A few states offer a state tax deduction, regardless of which 529 plan you invest in. We can help you select the right plan from the available options.

## 4. IF YOU'RE THE ACCOUNT OWNER, YOU HAVE COMPLETE CONTROL OVER HOW 529 ASSETS ARE USED.

Some education funding vehicles require that the assets be turned over to the beneficiary at a certain age. With a 529 plan you maintain control. This means that if the beneficiary decides not to go to college, you can choose another beneficiary or use the plan for yourself.

## 5. PLANS HAVE HIGH MAXIMUM CONTRIBUTION LIMITS, WHICH ALLOWS YOU TO SAVE MORE FOR HIGHER EDUCATION EXPENSES.

Most 529 plans have contribution limits in excess of \$200,000 per beneficiary<sup>1</sup>—much higher than any other education funding option available today.

## 6. CONTRIBUTING TO A 529 PLAN CAN REMOVE TAXABLE ASSETS FROM YOUR ESTATE, WHICH MAY REDUCE YOUR TAX LIABILITY.

Although your contribution is treated as a gift to the named beneficiary (for gift-tax and generation-skipping transfer-tax purposes), it also qualifies for the \$12,000 annual gift-tax exclusion, allowing you to make fairly large contributions without incurring the gift tax. What's more, if you make a contribution between \$12,000 and \$60,000<sup>2</sup> for a beneficiary, you can elect to treat the contributions as if they were made over a five-calendar-year period for

gift-tax purposes. This means the money gets out of your estate faster than if you made contributions each year. And the best part? Even though the asset leaves your estate, it doesn't leave your control if you are the owner of the 529 plan.<sup>3</sup>

## 7. THEY'RE NOT JUST FOR IN-STATE COLLEGES AND UNIVERSITIES.

Whether the goal is to spend a semester abroad or pursue a degree stateside, you can use a 529 savings plan at any in-state, out-of-state or international institution, as long as it's used with an accredited program.

## 8. THERE ARE NO INCOME OR AGE LIMITATIONS.

Some education funding vehicles have age and income restrictions, which limits the amount you can save. Generally, anyone can fund or use a 529 savings plan for education purposes.

## 9. PLANS ARE PROFESSIONALLY MANAGED AND OFFER A RANGE OF INVESTMENT OPTIONS.

With 529 savings plans, you have access to professional money managers with years of experience managing assets. Most plans also offer several investment options, such as age-based portfolios that become more conservative as the beneficiary nears their college attendance date.

## 10. ONLY A SMALL PERCENTAGE OF 529 ASSETS ARE INCLUDED IN FINANCIAL AID CALCULATIONS.

Although the rules may vary slightly by state, generally a 529 account owned by

a parent for a dependent student is reported on the federal financial aid application (FAFSA) as a parental asset and is assessed at a (maximum) 5.64% rate in determining the student's Expected Family Contribution (EFC).

As you can see, 529 savings plans have many features and benefits that can address your education funding needs. Call us to help you develop a comprehensive

education-planning strategy that may put you on the right track to meeting your goals. ■

<sup>1</sup>Contribution limits vary by state. Refer to the individual plan for specific contribution guidelines.

<sup>2</sup>Contribution limits double for married couples to \$24,000 annually or \$120,000 over a five-year period. Please remember that funds not used for qualified educational expenses are subject to applicable taxes and penalties. If the donor dies within five years of making the contribution the estate will recapture a portion of the assets.

Investments are subject to market risk and may fluctuate in value.

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Before investing, investors should consider whether tax or other benefits are only available for investments in the investor's home state 529 college savings plan.

# Funds for School

## Give Your Grandchildren and Beneficiaries the Gift of Education

» With college costs rising faster than both wages and inflation year after year, it's not surprising that thousands of parents have seized the tax advantages of 529 savings plans to ease the strain of educating their children. But parents aren't the only ones. Thousands of grandparents are finding that 529s provide both an efficient estate-planning tool and a way to help their loved ones surmount one of life's greatest economic challenges.

The idea behind 529 plans is simple. Similar to a 401(k) retirement plan, a 529 is an investment account in which savings can grow on a tax-deferred basis until they are needed. The difference between 529s and IRAs, though, is that 529s enable you to designate a beneficiary who will ultimately use the money for educational expenses. When the money is withdrawn, there are no federal income taxes, as long as the money is used for qualified expenses, such as tuition, room and board, or textbooks.

Many states offer tax breaks as well. Legislation allowing for the plans was enacted in 1996 by the federal government but the plans are sponsored by state governments and available through brokers or direct.

Many grandparents are finding that 529s allow a convenient and tax-effective way to pass money along to their descendants—money that might otherwise have remained in their estates and been subject to hefty estate taxes before their descendants could inherit it. One of the primary advantages of 529s is that the person setting up the plan (the donor), not the person who will receive the money (the beneficiary), maintains control of the assets. With a trust, a child assumes complete control of the assets at a predetermined point in time.

If the beneficiary decides not to go to college, the 529 plan assets can be transferred to a new beneficiary. In fact, there are no restrictions on the number of times the plan can be transferred to a new beneficiary. If a donor ultimately decides not to use the money for education, capital gains must be paid, plus a ten percent penalty, but only on the gain, not the principal.

### FLEXIBILITY MATTERS

One misconception about 529s is that they are just for in-state colleges and universities. In fact, many 529 savings plans are administered through individual states and can be used at any approved educational institution. While all plans offer relief from federal capital gains taxes, some states further sweeten the pot by offering reductions in state taxes. Also, each state has a different cap on the total that can be invested in a single plan. Donors can purchase plans offered by any state, whether they live there or not, and can buy plans for as many beneficiaries as they like.

So why stop at the grandkids? After all, there's no limit on when the plans can be used. A beneficiary may use the money at any time, as long as it goes toward qualified expenses. With retirees living longer and more vibrantly than ever before, donors might even want to establish a 529 to go back to school themselves. ■

“One misconception about 529s is that they are just for in-state colleges and universities.”

# Yearning for Learning: Send Yourself Back to School Using a 529 Plan

» A few years ago, retirement used to be about—well, retiring. Moving to Florida, buying a condo and enjoying the slow, relaxing pace of retirement were the things to do. These days, retirement has taken on a whole new meaning.

Just ask one of the 77 million baby boomers who will begin retiring in 2008. Some will start businesses, some will travel the world and others will pursue new hobbies. What's more, an increasing number of boomers list "continuing education" or "lifelong learning" as one of their retirement goals. In fact, the number of college students 40 to 64 years of age has increased by almost 20% in the last decade<sup>1</sup> and is expected to continue growing.

Of course, boomers want to remain competitive in their current careers, and that can mean going back to school. But their higher rate of enrollment is also about

what they want to do when that part of their life is over. Some use retirement as a springboard into a new career altogether, while others return to college to pursue degrees they put off getting when they were younger. Marketers have caught on to this trend. Many online schools now offer programs that are designed for older adults, and many adult communities that once might have been built around a golf course now are popping up on or near college campuses.

If you are looking into returning to school, then you will definitely be interested in the 529 College Savings Plan. Traditionally, 529 plans have been used to help fund a child's or grandchild's education—but now the 529 plan is a great option for meeting your own educational needs. Also, if you have a plan in place for one of your children or grandchildren and they receive a scholarship or decide not to go to college, you can put that money toward your own continuing education.

Whether you want to get an advanced degree, enter a professional program like nursing or teaching, take a cooking class or learn a new language, a 529 plan can help provide the funding you need.<sup>2</sup> Ask us about education-funding options—it just might help you get to the head of the class. ■

<sup>1</sup> "Heading Back to College" by Kim Clark, *U.S. News & World Report*, Oct. 26, 2007.

<sup>2</sup> Student must be enrolled at an accredited school to use 529 assets to pay for qualified higher-education expenses.

State tax laws and treatment will vary. Earnings on nonqualified distributions will be subject to income tax and a 10% federal-income-tax penalty tax. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. The offering statement contains this and other important information—read it before investing. Consider any tax or other benefits only available for investments in the home state's 529 College Savings Plan.