

Dialogues » WEALTH STRATEGIES FOR DISCUSSION



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SHAUN P. MILLER
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Whether you are focused on accumulating assets, preserving capital, generating income or transferring wealth to loved ones, count on us to help you develop an integrated financial plan for life's most important events. Our comprehensive approach to wealth management centers on creating a plan that addresses what is most important to you.

Proceeding with Confidence Amid Uncertainty

If stock market volatility and financial industry turmoil have left you feeling concerned about the economy or maybe a little anxious about your retirement plan, you are not alone. In fact, the two biggest questions clients have been asking as of late are, "Is my money safe?" and "Should I change my investment strategy—or just pull out of the stock market altogether?"

In terms of the first question, you enjoy several layers of account protection as a Smith Barney client. Most notably, your assets belong to you by law, so even in the unlikely event of the Firm's insolvency, your fully paid securities are not available to the general creditors of Smith Barney or to our parent company, Citi. Ask us for more details about account protection.

Being on a big ship when the seas get rough adds an element of reassurance. With its strong balance sheet and strong credit ratings, Smith Barney's parent company, Citi, is one of the largest and most stable financial institutions worldwide. Starting in the fourth quarter of 2007, the company took decisive steps to bolster its base by raising \$49.7 billion in capital. We continue to be strongly positioned to make commitments to—and find solutions for—our clients in these extraordinary times.

As for whether to move your money out of the stock market, one piece of advice bears repeating: Overreacting to events as they unfold can compound the damage as you could end up selling at the bottom or missing a subsequent market recovery. To help protect against the anxiety that volatility can create, we can work together to develop or update a diversified investment plan that reflects your long-term goals and tolerance for risk. Then, by reviewing it on a periodic basis, we can alter it as your needs change—or help you stick to it when the market makes you jittery.

Between account protection, the strength of Citi and a sound investment plan, it is our aim to help you move forward with confidence knowing that you've got the right things in place to enable your wealth to work hard for you. ■

By the Smith Barney Division of Citigroup Global Markets Inc.

The Wandering Mind: 529 College Savings Plans Provide a World of Options

When Kelly Davidson¹ decided she wanted to transition from a career as a high school teacher, she knew she'd have to go back to school to achieve her goal—and it would be costly.

» She also knew that pursuing a graduate degree would potentially impact her ability to save for retirement, so she met with her Smith Barney Financial Advisor to develop a strategy that would help enable her to return to school in five years.

With time being a key factor, the Advisor suggested that a 529 College Savings Plan—named after the section of the IRS code that authorized their creation—would be the best way to meet Kelly's education-funding goals. Using the proceeds from a settlement, Kelly set up a 529 Plan for herself and launched a systematic investment plan to help her potentially maximize the account's value. Kelly's Five-Year Plan was well under way, but there was one thing she hadn't planned for: right before she was slated to return to school, Kelly's husband, an executive at a multinational corporation, received a lucrative job offer—in London. Unfortunately, Kelly's qualifications were not easily transferable, so even if she wanted to continue teaching, she would have to take additional certification courses in England.

Luckily, Kelly had saved for her graduate degree in a 529 account, so she could use the funds at any accredited university in the world. She decided to forgo the additional teachers' certification courses and apply to business schools instead. Kelly is now pursuing her MBA at the London Business School—one of the top three MBA programs in the world²—and using her 529 Plan assets to pay for her tuition and related expenses.

In today's rapidly globalizing economy, Kelly's situation is not unique. Each year, thousands of American students either participate in study abroad programs, or enroll full-time in colleges and universities outside of the United States. In fact, according to a recent poll of college-bound students, 55 percent indicated that they are certain or fairly certain they will participate in a study abroad program, and another 26 percent indicated a strong desire to study abroad.³

In response to the high demand, many higher education institutions now offer a number of international learning programs, ranging from semesters at sea to cultural immersion and multicity programs. However, despite the myriad of international programs available, many students (38 percent) still cite high costs as the top reason for lack of participation in study abroad programs.³ In addition, using financial aid for international studies presents its own challenges: additional eligibility requirements—residency, grades, credit hours and age, to name a few—must be met, and foreign and US semester schedules differ, which can delay loans and other federal aid.

Still, there are options for those who want to finance an education abroad, including 529 College Savings Plans. The plans allow tax-free accumulation of assets and federal tax-free withdrawals for qualified higher education expenses, and the features (flexibility, control, and multiple investment options) that make 529 Plans attractive for

funding stateside education are also available when the plans are used with accredited foreign institutions.⁴

HOW IT WORKS

Over 400⁵ foreign higher education institutions are eligible under the rules permitting federal tax-free withdrawals from a 529 Plan. A list of eligible foreign institutions is available in the Federal School Code Lookup database on the Free Application for Federal Student Aid (FAFSA) website.

“The test for any particular school's inclusion is its eligibility to participate in Title IV federal financial aid programs,” says Joseph Hurley, founder of SavingforCollege.com. “Most degree-granting four-year schools, junior and community colleges, and graduate schools will qualify, as will many proprietary and vocational schools.”

¹ This name is a pseudonym. Name similarities to any individual living or deceased are purely coincidental.

² Source: 2008 Global MBA Rankings, *Financial Times*.

³ *College-Bound Students' Interests in Study Abroad and Other International Learning Activities*, CollegeBoard.com, January 2008.

⁴ Assets must be used for qualified higher education expenses. However the pursuit of a degree is not a prerequisite for tax-free qualifying withdrawals. Transportation costs are not considered a qualified expense.

⁵ Search results as of August 15, 2008. Refer to *Searching for Eligible Foreign Institutions* in this article for search methodology.

Searching for Eligible Foreign Institutions

Anyone can conduct a search for a particular school, or view a list of all eligible foreign institutions by querying the Federal School Code Lookup database:

- » Visit <http://www.fafsa.ed.gov/FOTWebApp/FSLookupServlet>
- » Select the school year from the dropdown box, and select "Search" from the options available
- » In the state dropdown box, select "Foreign Country" to view all eligible schools in other countries, or if the school is located in Canada, Mexico or any US territory, you can narrow your search by selecting the appropriate country

IS A 529 PLAN RIGHT FOR YOU?

A 529 Savings Plan is one of the best tax-advantaged ways to save for higher education—whether you plan to study in the US or abroad. Most plans offer several asset allocation options, and also allow you to contribute via lump sum or through a systematic investment plan such as a payroll deduction. You should consider investing in a 529 Plan if you are:

- » A parent concerned about the rising costs of college
- » A grandparent who wants to help save for your grandchildren's future education expenses
- » A retiree who would like to develop an existing hobby into a serious, full-time interest
- » An "Empty Nester" who is still active in the workforce, but needs to return to school to remain competitive
- » A professional who is considering going back to school to pursue a second degree, change careers, or to enhance your professional skills

» An adult who wants to help a child in your life—a niece, nephew, or god-child—save for future college expenses

As more higher education institutions implement international programs to address the growing demand, opportunities to study abroad are more available than they were 20 years ago. If you already have an education plan, consider whether studying abroad is an option you'd like to pursue in the future. If you

need help developing an education plan, a Financial Advisor can help you get started, and can even customize a proposal based on projected costs at the schools you're considering.

Whether you plan to study stateside or beyond the country's borders, one thing is certain: college costs are on the rise, so it's important to start early. The world is your oyster; take advantage of all it has to offer. ■

529 Plans Support International Learning: Three Ways to Use 529 Plans Abroad

Historically, parents have used 529 Plans to fund their children's higher education needs in the US, but children and adults can also use the plans to finance studies abroad. Here are three ways adults can use 529 Plan assets to support their own international learning:

- 1. Turn a hobby into something more.** Many people use retirement to dedicate more attention to their hobbies, and using 529 assets is a great way to do so. If you're passionate about gardening, you could enroll in a horticultural studies program at Agriculture University of Wroclaw in Poland. Or, take your love of cooking to the next level by enrolling in the Ecole Supérieure de Cuisine Française; you could become a master of French cuisine!
- 2. Learn a new language—where it's spoken.** As the world becomes a global village, knowledge of foreign languages is becoming more of a necessity. Language books and tapes can be a great help, but there is no substitute for learning a language in an intensive program in its native environment.
- 3. Continue professional development.** Continuing education is one of the cornerstones of every successful career. If you're seeking to advance professionally in the international arena, you can enroll in continuing education programs, such as those offered at the School of Continuing & Professional Studies at The Chinese University of Hong Kong.

Regardless of your hobbies and professional aspirations, there are likely international learning programs and opportunities that may help to enhance and enrich your life. Visit the Federal School Code Lookup database to see a list of eligible foreign institutions.

Assets can accumulate and be withdrawn federally tax-free only if they are used to pay for qualified expenses. Earnings on nonqualified distributions will be subject to income tax and a 10 percent federal income tax penalty.

Please consider the investment objectives, risks, charges and expenses associated with municipal fund securities including 529 Plans 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 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.

Investors should consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax benefit or other benefits that are only available for investments in such

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 decade¹ 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.² Ask us about education-funding options—it just might help you get to the head of the class. ■

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

² 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. Smith Barney does not provide tax or legal advice; it is important to consult with a tax or legal advisor before investing.

Unless you are otherwise advised in writing, Smith Barney is acting as a broker-dealer and not as an investment advisor.

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