

CollegeSure® Investor

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A newsletter for the informed college saver.

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WHY COLLEGE COSTS RISE



In good economic times and in bad, one thing remains certain: the price of a college diploma continues to spiral upward.

Even so, students will patronize America's universities in record numbers this year.

Why?

Because obtaining a college degree is an excellent investment!

According to the Employment Policy Foundation, a bachelor degree holder can expect to earn \$2.1 million over his or her lifetime. A high school graduate will earn \$1.3 million. And research shows that most jobs in the future will require a highly educated workforce. The majority of jobs that now require less education will slowly fade away.

Factors That Fuel Price Hikes

The higher education industry is highly complex. There are a myriad of factors that contribute to college cost inflation. Here's a look at just a few elements that make up the rising price of education:

More Students Are Attending College:

Educational attainment in the United States is at an all-time high according to the American Council on Education. This is due, in part, to the fact that more jobs require workers with higher education levels than in the past and, further, that the economic benefits of higher education have continued to grow over the last twenty-five years according to the U.S. Census Bureau.

This unparalleled increase in enrollment has put ongoing pressures on colleges and universities. In order to meet demand, colleges must expand. And, to increase capacity, institutions must beef up their resources. That means more classes, more professors and administrators, more buildings and more technology. The list goes on. These adjustments have an enormously high price tag.

Knowledge Is Expensive: Universities constantly require new and cutting-edge resources for teaching and research. Information flows quickly. Higher education institutions are what the market and the public rely on to churn

A new academic year is right around the corner and the College Board has released the Independent College 500® Index which allows College Savings Bank to credit your account accordingly for the year.

The average cost of one year's tuition, fees, room and board for the 2004-2005 academic year as measured by the IC 500 totalled \$29,791. The change

COLLEGE BOARD RELEASES 2004 COLLEGE COSTS



in college costs from the prior year as measured by the Index was 5.35%, that's more than double the 2.27% increase in the Consumer

Price Index for the like period. (While college costs increased 5.35% this year providing our clients with an attractive return, the total returns on U.S. Treasury bills and long-term bonds were .89% and -4.32%, respectively.)

The chart below shows the rise in college costs for the past five years.

Total Charges at the Average Private College as Measured by the IC 500

Academic Year	Total Charges
2004-05	\$29,791
2003-04	\$28,277
2002-03	\$26,734
2001-02	\$25,340
2000-01	\$24,088

Please refer to your Annual Statement for a complete account overview.

You have just established your Montana or Arizona CollegeSure® 529 account at College Savings Bank.

What next?

WHAT YOUR 529 PLAN CAN DO FOR YOU

The tax-free nature of your CollegeSure® 529 account allows you to keep more of your college savings than does a taxable account, but there's more!

Now you can start making the most of your account! Here is a recap of the benefits:

Tax-Free Growth for the Account Owner*

Earnings on amounts deposited in your CollegeSure 529 plan accumulate

free of federal income tax. There are no income restrictions for account owners (like there are for Traditional or Roth IRAs) and 529 plans have high contribution limits. (You may contribute up to \$275,000 for the 2004-2005 academic year.)

Assuming an annual percentage yield of 2.35%, monthly deposits of \$500 over an eighteen-year period would grow in an annually taxable account subject to a 31% tax rate to \$114,935. In a CollegeSure 529 account, the same monthly contributions would grow tax free to \$133,953. That's a savings difference of \$19,018!

Guaranteed CollegeSure CD Growth

Unlike stocks or mutual funds, your CollegeSure CD's tax-free growth is indexed to rising college costs every year. CollegeSure CDs are guaranteed to meet the future cost of college and are backed by the full faith and credit of the U.S. Government up to \$100,000 per depositor.

And saving is flexible. Save for all or part of the cost of a public, private or Ivy League institution. If you have certain goals or even a specific institution that you would like to target, simply call a College Savings Adviser. He or she can recommend how much you would need to save to reach those goals.

Tax-Free Distributions for College*

Not only do your deposits grow tax free, but your 529 plan withdrawals are tax-free when used to meet qualified higher education expenses of a designated beneficiary. This beneficiary may be a child, grandchild, nephew, niece or even yourself! Qualified expenses include tuition, fees, room, board, textbooks, supplies and equipment that are required for the beneficiary to attend the eligible institution of higher education.

Added Benefits of CollegeSure 529 Plans

For families with complex money management requirements, CollegeSure 529 plans can play a valuable part in estate planning.

Asset Control: As the account owner you have complete control. You can:

- Change the beneficiary to certain other family members;

- Have some or all assets distributed whenever you want and for any purpose;** and
- Choose to make withdrawals that are qualified or nonqualified.**

Financial Aid Treatment: When you choose to retain control, assets are treated more favorably as those of the parent (rather than those of the child/designated beneficiary) for purposes of financial aid. Your 529 plan qualified distributions may also be excluded from income considerations for financial aid purposes.

Annual Gift Taxes: Assets contributed to your 529 plan qualify for the federal gift tax exclusion. Currently, you may give up to \$11,000 per year per beneficiary without incurring gift tax (\$22,000 per beneficiary if your spouse also contributes). You can also take advantage of accelerated giving with your 529 plan. This means you can deposit up to five years' worth of gifts at one time. So, in a single year, you may give as much as \$55,000 per beneficiary (single), \$110,000 (married filing jointly) without incurring gift tax. However, the contribution must be treated as five separate annual gifts and you cannot make additional gifts to the beneficiary during the five-year period.

Estate Planning: The value of your 529 plan is generally not treated as part of the taxable estate of the account owner who is not a designated beneficiary. In regard to accelerated giving, one-fifth of the total gift is excluded in each of the upcoming five years starting with the year the contribution was made. If you die before the end of the five-year period, any amount not yet excluded will be put back into your taxable estate, but all earnings would be excluded.

Benefits at the State Level

For Arizona and residents of many other states, earnings from CollegeSure 529 plans are state tax free when used to pay qualified higher education expenses.† If you are a Montana resident, there is also a \$3,000 (single) or \$6,000 (married filing jointly) annual state tax deduction on contributions to the program.

Want to Start Planning?

If you are ready to make the most of your account and you'd like to find out how much to contribute to reach your goals, try our college cost calculator on the web at www.collegesavings.com. To arrange a complimentary account review, call a College Savings Adviser toll-free at 800-888-2723 any weekday between 9 a.m. and 6 p.m. ET.

* Tax benefits do not take state taxes into consideration. See back panel for 2010 sunset provision.

** Nonqualified withdrawals affect the tax benefits associated with 529 plans. Earnings are treated as ordinary income and you will be subject to income tax as well as a 10% federal penalty for the nonqualified withdrawal. Of course, CD penalties will also apply should the withdrawal be made prior to maturity.

† Not all states follow the federal code. Check with your tax adviser and read the offering circular and account terms and conditions carefully before you invest or send money.

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THE MOST IMPORTANT CRITERION FOR GETTING INTO COLLEGE IS...

A student's academic record. And standardized admission tests like the ACT and SAT rank second according to the 2003-2004 annual *State of College Admission Report*.

The report, which discusses issues of concern among college-bound students, parents and educators, also detailed these other trends:

- More students are applying to college than ever before in history;
- On average, colleges and universities accept 7 out of 10 applicants; and
- Increases in early decision applications may be slowing.

Source: *National Association for College Admission Counseling*

Saving early and saving often is always the best strategy when it comes to planning for higher education costs.

HOW TO TAKE A BITE OUT OF COLLEGE COSTS

However, if you find that funds are coming up a little short when your child is ready to apply,

there is another way to help ease the college cost burden.

College partnerships, also known as articulation agreements, are agreements between community colleges and full-fledged universities that allow students to transfer from one school to the next with little or no hassle.

How College Partnerships Work

Students can save substantial tuition dollars by simply completing freshman and sophomore years at a community college. Those first two years' credits are transferred over and the third and fourth years are then completed at a four-year school. Some colleges have dual-admission programs that allow students to apply to both schools simultaneously so that the student is guaranteed a place in junior class lecture halls.

For more information including a list of states and programs available, visit <http://www.finaid.org/othersaid/partnerships.phtml>.

Source: *Finaid.org*

JOB PROSPECTS LOOK BETTER FOR GRADS

This year's crop of college grads can look forward



to better career opportunities than graduates in previous years.

According to a survey released by the National Association of Colleges and Employers, (NACE), employers expect to hire 11.2% more college grads than they did in 2003.

Competition will be fierce, however, as 5% of the class of 2003 is still actively searching for work. Geographically, the largest number of entry-level positions can be found in major markets such as Los Angeles and New York City, followed by Philadelphia, Boston and Chicago.

Sources: *American Demographics*, June 2004 issue and *2004 MonsterTrak Survey*

Important Notice About Your AFCSP Account

Modifications to the Arizona Family College Savings Program (AFCSP) enabling statute have been approved by the State of Arizona that affect the plan's structure. These changes impact all of the participating financial institutions including College Savings Bank. A summary of some of the major provisions is as follows:

- An Arizona Family College Savings Program Trust Fund has been established that will hold the assets of the program in trust for the benefit of the State of Arizona and the Account Owner. This Trust Fund is a public instrumentality of the state.
- The Arizona Commission for Postsecondary Education (ACPE) administers and acts as sole trustee of the Fund.
- The Arizona Commission for Postsecondary Education is the entity responsible for the deposit and investment in the Trust Fund.
- Payments to the Fund for participation in the Program will be made by Account Owners pursuant to their college savings plan agreements.
- Definitions of account, account owner, designated beneficiary, program and qualified higher education expenses have changed.

The full impact of these statutory amendments has yet to be determined. The ACPE is in the process of proposing program rules to implement the statutory changes. Once the rules are promulgated, you will be notified how these changes may affect your account.

The amended statute may be found at <http://arizona.collegesavings.com/azstatute.html>

New 529 Account Contribution Limit

The maximum contribution amount for the Montana Family Education Savings Program and the Arizona Family College Savings Program has been raised from \$262,000 to \$275,000 effective July 31, 2004. The limit has been adjusted to reflect the increase in college costs for the upcoming academic year.

How we determine the account balance limit:

The new balance limit is equal to seven times the enrollment-weighted average one year's undergraduate tuition, fees, room and board at the ten, 4-year higher education institutions included in the College Board's Independent College 500® Index that have the largest total direct charges.* Since the weighted average for the 2004-2005 year is \$39,356, the new balance limit is \$275,000 when rounded down to the nearest multiple of \$1,000.

* *Total direct charges are the product of the school's undergraduate enrollment and its tuitions, fees, room and board.*

HAVE YOU OPENED YOUR COVERDELL ESA?

There has never been a better time to establish a Coverdell Education Savings Account (ESA) at College Savings Bank! Coverdell ESAs offer tax-free growth and distributions for a child's qualified education expenses. ESAs may be used for higher education as well as for elementary and secondary school expenses.

What's more, the U.S. Department of Education recently upgraded the way assets in Coverdell ESAs are treated for financial aid purposes. Coverdell ESA assets are now considered a parental asset which is much more favorable than a student asset.

You may establish a Coverdell ESA even if you already participate in a 529 plan. However, your income must meet the requirements. To find out if you qualify, call one of our College Savings Advisers at 800-888-2723.

Why College Costs Rise (Continued from page one)

out scholars and workers who produce ideas and solutions. New sciences emerge and grow rapidly. Colleges must be equipped to keep pace with important trends and specialties.

Technology Is a Dynamic Expense: The use of technology in colleges is widespread and necessary. Institutions must provide professors, students and administrative staff with new technology as well as support it with adequate infrastructure.

State Subsidies Aren't What They Used to Be: Public institutions rely on the state for substantial funding. Over the past decade, states have cut back on higher education spending. Moreover, state support has been falling as a percentage of total university budgets for twenty years (from 46% to 34% from 1980 to 2000) and the long-term trend is for reduced state support in the future according to a 2004 report entitled, "Putting College Costs Into Context" from the American Council on Education. In large part, students have been forced to pick up the slack.

The report also highlights these facts:

- Fifteen states made mid-year cuts to their higher education budgets during the 2002-2003 fiscal year.
- Twenty-two states reduced appropriations for higher education overall during 2002-2003.
- Fifteen states held flat or reduced need-based student aid programs.
- Forty-nine states raised tuition at public institutions to compensate for the shortfalls.
- The drop in state spending on higher education averages 4% but goes as high as 26%.

Private Colleges Follow The Lead of Public Institutions: As they say, a rising tide lifts all ships. As public colleges raise costs they, in essence, help lay the groundwork for price hikes among other public and private institutions alike. Since private colleges have also faced many of the same monetary challenges as public schools, they are likely to follow suit and raise prices to a) boost revenues and b) to preserve their stature.

Private Colleges Face Dwindling Endowments And Decreased Charitable Giving: An anemic economy has whittled away at endowments over the past several years. These endowments are relied upon heavily by private institutions. The interest income from shrinking endowments has also dried up as has charitable giving.

More Student Aid Is Funded by Public And Private Institutions: Institutions have increasingly relied on their own resources to fund student aid for low-income students.

The Higher Education Industry Is Heavily Regulated: The higher education system in the U.S. is highly regulated and the burdens these regulations impose are costly in terms of staff, training, technology and legal complexity.

CollegeSure CD Maturity Notice

Effective August 1, 2004, CollegeSure CD maturities will range from 1 to 20 years. The minimum maturity is 7/31/2006; maximum maturity is 7/31/2025.

Moving Soon?

Please keep us apprised of your physical address and mailing address! For your safety, we do not accept address changes by e-mail, telephone and fax. Please send us your address change by written request. Your request must include the account holder's signature (and joint owner's signature, if applicable). Send us a signed letter or use the address change form on your deposit slip or from the website. Mail to: College Savings Bank, PO Box 3769, Princeton, NJ 08543.

How Have Colleges Met These Challenges?

Families often view tuition and other fee hikes as the means by which colleges make big money. In reality, institutions generally are reluctant to initiate steep price hikes although many have been forced to do so in recent years. Colleges often try to find ways to keep costs down for their students. Among the ways schools have tried to control costs are through department cutbacks and pay freezes, reduced course offerings, consolidations, mergers, managed enrollments and tiered-pricing.

What Can Parents And Students Do?

The good news is that the benefits of a college education still outweigh the upfront costs. And there are a variety of places to find funds if need be. Loans, grants, scholarships, and work-study programs can all help. Some families take advantage of college partnerships (see related article on page three entitled, "How to Take a Bite Out of College Costs"). Some students apply to schools with tiered pricing structures whereby the cost is virtually locked in for a two- or four-year period.

Advance planning, of course, is still the best measure and saving as much as possible through tax-advantaged programs such as 529 plans and Coverdell ESAs while your children are young is the most effective tactic for meeting future education goals.

Sources:

"Putting College Costs Into Context," *American Council on Education (ACE)*, 2004 and "Straight Talk About College Costs and Prices," *(ACE)*, 1998.

2004 public opinion survey conducted by *The Chronicle of Higher Education*.

"U.S. Public's Confidence in Colleges Remains High," *Chronicle of Higher Education*, May 7, 2004.

"A Recommendation for Managing Predicted Growth in College Enrollment at a Time of Adverse Economic Conditions," by Randolph Jones. *Online Journal of Distance Learning Administration*, Volume VI Number I, Spring 2003.

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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 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 end money.

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