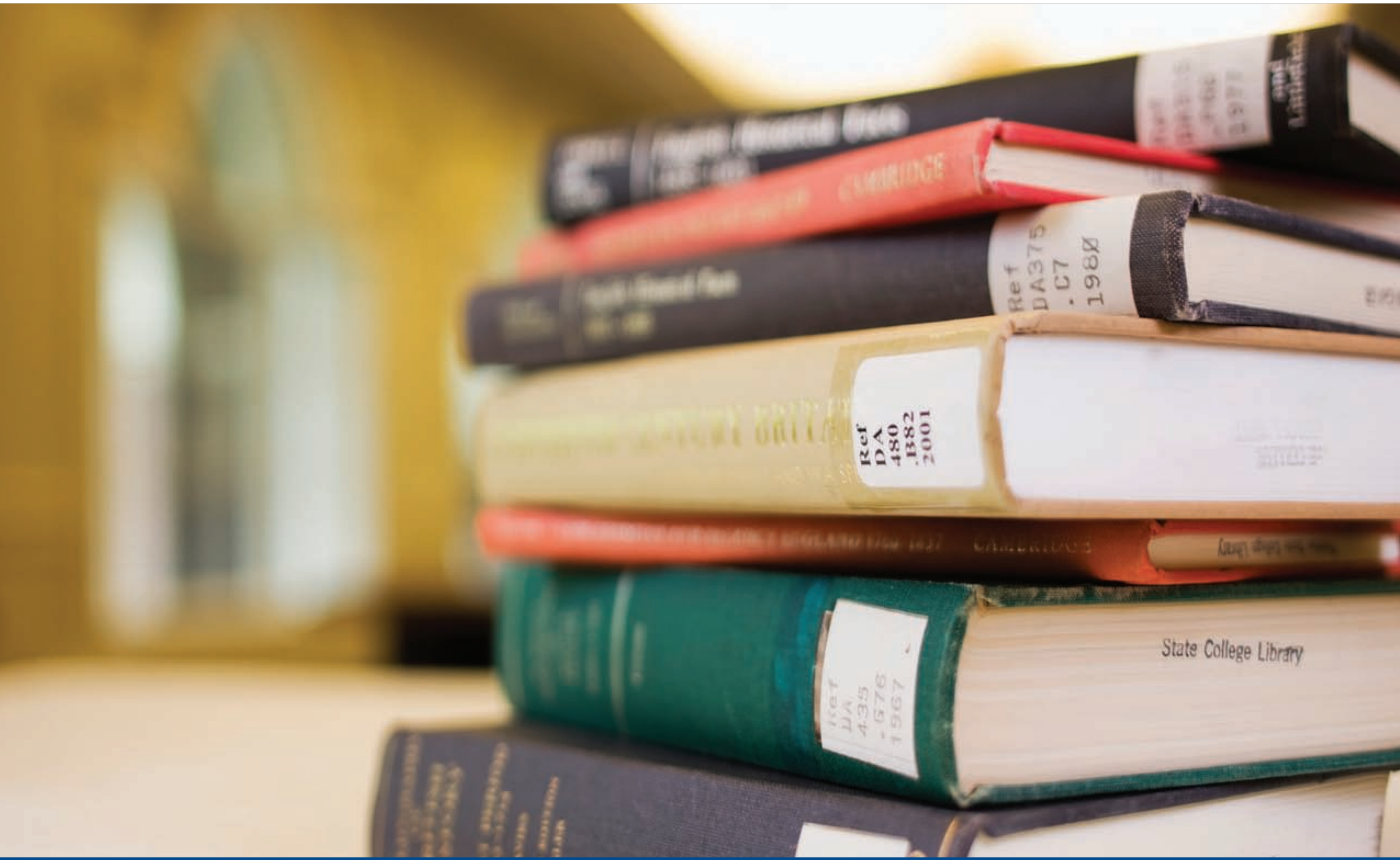
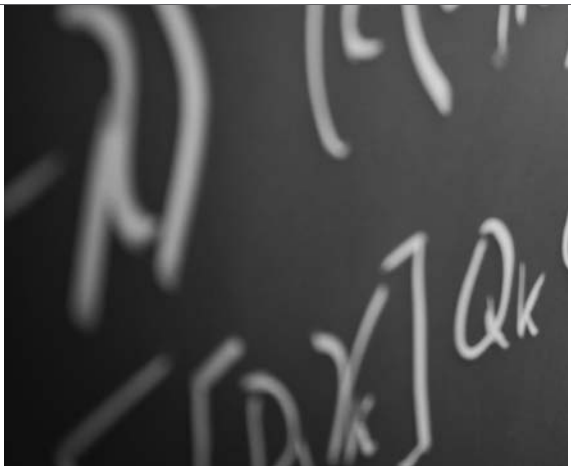
Citi Personal Wealth Management



Making the Grade

Ten Essential Lessons

for Funding a Child's College Education



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It's No Wonder Paying for College Is a Top Priority.

We all know what college means. It's the chance for our children to set themselves firmly on the path to success. It's the education they need to improve themselves and the world, too. Talk about return on investment.

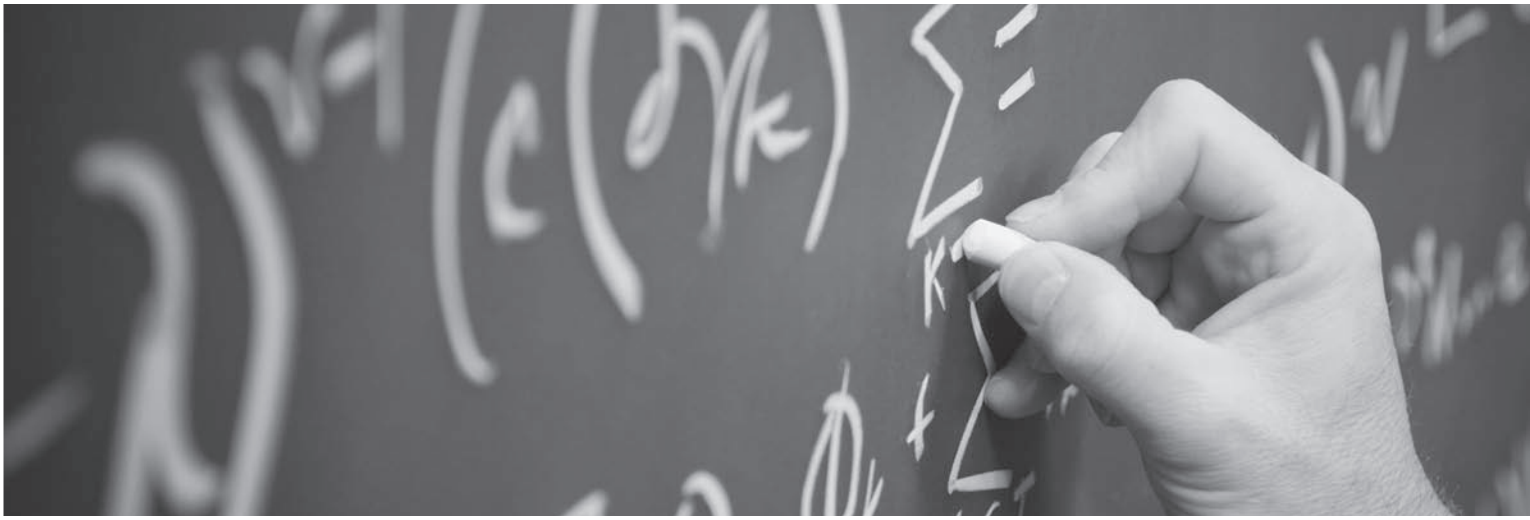
But which education funding option is appropriate for you? The answer is as individual as each of your children.

The good news is, you don't have to figure it out alone. We can present your options, help choose the ones that make sense for your situation and show you how they could affect other aspects of your financial plan, such as retirement. We will help you:

- Estimate what college might cost when your child is ready to enroll.
- Design and implement an education funding program from among the many available options, including Section 529 College Savings Plans and Coverdell Education Savings Accounts.
- Monitor and adjust your strategies periodically, particularly as tax law, funding options or your family situation may change.
- Develop a strategic plan to withdraw funds to pay for education expenses.

Note: Investment products are subject to market risk and fluctuate in value.

LESSON ONE:
What Does College Cost?



The Price Tag May Be Much More—or Much Less—Than You Think

Increases in college costs have historically exceeded the general rate of inflation. Parents of a child born recently can expect the cost of college to double or even triple from current levels, depending on the institution chosen.

According to the College Board, the average cost of tuition, fees, on-campus housing and meals for four years at an in-state public university can run $65,000 per child, based on figures for the 2010-2011 academic year. At a private college, that cost could be two or even three times higher.

College Costs Encompass More Than Tuition
Your child will incur certain costs that go beyond tuition at college. Your Financial Advisor will add in these costs when projecting the total price tag of a higher education:

- **Direct costs:** These fixed costs are charged directly by the college and include tuition, fees, and room and board.
- **Indirect costs:** These expenses vary from student to student and include personal expenses, a computer, books and transportation. Many colleges have a formula to help students estimate their indirect costs.
- **Caveat:** Not all education savings alternatives allow you to use the funds for all college costs. Some education savings plans will allow tax-advantaged distributions for tuition and fees only.

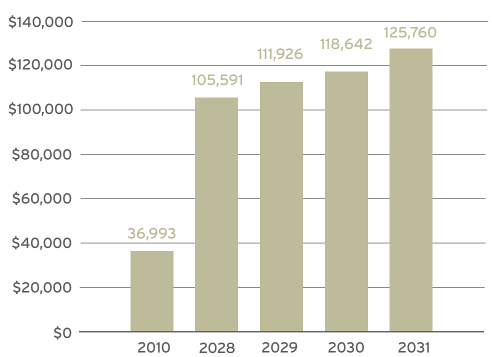
Key factors we can discuss when forecasting future college costs and your ability to meet them:

- What school or schools do you feel are within reach, both financially and academically?
- How many children do you have to send to college and how will any savings be divided among them?
- Will you encourage your children to attend a comparatively inexpensive in-state public school? What will you do if they are accepted to a more expensive out-of-state or top-tier institution?
- Will you expect your children to contribute to their own education expenses?

While the total cost of your child's college education may seem impossibly high, establishing and funding a college savings plan in your child's early years can go a long way toward meeting these expenses. Even if you've lost some time, there are still things you can do to help close the gap.

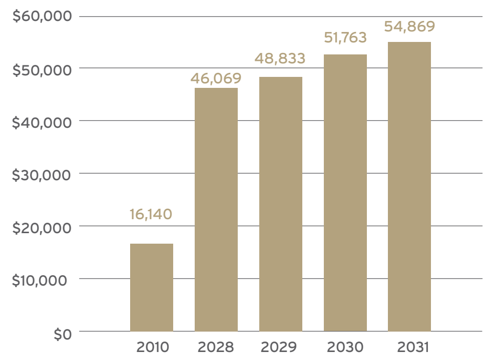
AVERAGE COLLEGE COST PROJECTIONS FOR A CHILD BORN IN 2010

Private Four-Year School Tuition, Fees, Room & Board



Savings Goal = **$461,919**

Public Four-Year School Tuition, Fees, Room & Board



Savings Goal = **$201,534**

For illustrative purposes only. Assumes 6% inflation rate. Data Source: Citi calculations using College Board (2010) data.

LESSON TWO:
Section 529 College Savings Plans

A Section 529 College Savings Plan is a tax-advantaged investment account that is specifically designed to encourage saving for higher education expenses. A 529 Plan offers flexibility, control and multiple investment options and allows tax-free accumulation and federal tax-free withdrawals, as long as the funds are used for qualified college expenses. You may also receive special tax benefits on your state tax return for contributing to a 529 Plan, though you may need to contribute to an in-state plan to get those benefits.

When planning for college expenses, it is important to research all avenues, including the possibility of applying for financial aid, scholarships and grants. A 529 Plan offers several advantages over other savings vehicles:

- **High contribution limits.** Most 529 Plans have maximum contribution limits in excess of $200,000, though gift taxes will apply above certain limits. You may contribute up to $13,000 in 2011 without worrying about the gift tax. If you contribute between $13,000 and $65,000 to one beneficiary, you may treat the contributions as if they were made over five calendar years. Your spouse could also contribute up to $65,000. That means the money is working sooner for you in a federal tax-free investment. If you are thinking about estate planning, it also means the money leaves your taxable estate faster than if you made the contributions each year.*

- **No income limits.** Unlike Coverdell Education Savings Accounts, 529 Plans do not consider income when determining a donor's eligibility to contribute.

- **Control over the assets.** As the owner of the 529 Plan, you have complete control over how the assets are distributed. You can use a 529 Plan at any in-state, out-of-state or international institution (as long as it's an accredited program). The plan can pay for a range of qualified expenses including tuition, fees, room and board, books, supplies and approved equipment.**

- **Investment flexibility.** You can choose from several professionally managed investment options, such as age-based portfolios that become more conservative as the beneficiary's college attendance date gets closer. What's more, you can take advantage of other programs at the same time: Enrollment in a Section 529 College Savings Plan does not disqualify a parent from claiming the American Opportunity Credit or the Lifetime Learning Credit, or contributing to a Coverdell Education Savings Account.

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. Read the offering statement carefully before investing.

Investments are subject to market risk, fluctuation in value and possible loss of principal. Before investing, investors should consider whether tax or other benefits are only available for investments in the investor's and designated beneficiary's home-state 529 College Savings Plan.

* Contribution limits vary by state. Refer to the individual plan for specific contribution guidelines. In 2011, gifting limits for married couples are $26,000 annually or $130,000 over a five-year period. If the donor dies within five years of making the contribution, the estate will recapture a portion of the assets.

** Please remember that funds not used for qualified educational expenses are subject to applicable taxes and penalties.

LESSON THREE:
Coverdell Education Savings Accounts

The Coverdell Education Savings Account is an education account that allows for tax-free withdrawals to pay for qualified expenses for all school levels—kindergarten through high school, as well as college and graduate school.

Contribution Eligibility
Anyone who meets the adjusted gross income restrictions can contribute to a Coverdell that is set up for a child under the age of 18 (waived if the child is a special-needs beneficiary). A contributor does not have to have earned income to make a contribution, as is required with an Individual Retirement Account. These contributions grow tax-deferred and may be withdrawn tax-free for qualified education expenses.

Parents who are not eligible to make Coverdell contributions may ask relatives or friends who are under the income limits to do so on their behalf. Several people can contribute to a child's Coverdell, as long as the total amount in any given year does not exceed $2,000. Contributions to a Coverdell are not tax-deductible.

A Coverdell must be depleted by the time the beneficiary reaches age 30 (except for a special-needs beneficiary).

If the beneficiary of a Coverdell does not use the proceeds in the account for qualified education expenses, or if the account is not transferred to another eligible child, taxes and a 10% penalty will be owed on the earnings. Taxes are incurred at the beneficiary's rate.

Coverdells and 529 College Savings Plans
Contributions may be made to both a Coverdell and a 529 College Savings Plan for the same beneficiary. If you anticipate contributing $2,000 or less in any one year for a child's education, you may want to place that money in a Coverdell and reap the flexibility of using those funds for qualified education expenses in all grades from kindergarten through graduate school. But if you intend to save more than $2,000 annually, you may want to consider a 529, with its higher contribution limit.

You can make a tax- and penalty-free transfer of Coverdell assets to a 529 College Savings Plan. If your Coverdell balance is small and you do not intend to continue making annual contributions to it, you should weigh your Coverdell investment options and account fees against the same variables in a 529 College Savings Plan.

ELIGIBILITY FOR
COVERDELL CONTRIBUTIONS (2011)

AGI	CONTRIBUTIONS
$0 to $95,000 Single Filer	$2,000
$95,000 to $110,000 Single Filer	Pro rata phaseout of contributions
Over $110,000 Single Filer	Not eligible to contribute
$0 to $190,000 Married Filing Jointly	$2,000
$190,000 to $220,000 Married Filing Jointly	Pro rata phaseout of contributions
Over $220,000 Married Filing Jointly	Not eligible to contribute

Data Source: IRS.

LESSON FOUR:
Custodial Accounts

To save in a child's name, you could open an account under the Uniform Gift to Minors Act (UGMA) or Uniform Transfer to Minors Act (UTMA), depending on which provision your state has adopted. There are no costly legal fees or reporting requirements for these accounts, other than having to file an income tax return for your child to report income over a minimum amount generated through the account. With an UGMA/UTMA account, you also have complete funding flexibility. Still, these accounts have some serious drawbacks.

Features of Custodial Accounts

You have to keep in mind a few rules if you want to open and fund an UGMA/UTMA account for a child:

- The maximum amount each person may contribute to the account without worrying about the gift tax is $13,000 per year or $26,000 per couple. There is, however, no minimum or maximum amount that may be placed in the account.
- The child owns the assets and will gain full control of the account upon reaching the age of majority.
- Cash and/or securities may be transferred into the account.
- The transfer of assets into the account is irrevocable.
- Money may not be used to fulfill parental obligations, such as food, clothing and housing.

Taxation of Custodial Accounts

The tax benefits of using a custodial account for education savings have become less attractive recently. Before taking any action, talk to us about whether other alternatives, such as a 529 College Savings Plan or a Coverdell Education Savings Account, might better serve your needs. In fact, you may wish to convert an existing custodial account to a 529 College Savings Plan. We can show you how.

- Children with investment income are subject to specific tax rules that include the "kiddie tax," which equals the parent's highest marginal tax rate. Children with earned income from employment may be taxed differently. In all cases, you should check with your tax advisor before putting money in a child's name.
- Money in custodial accounts may be assessed more harshly for financial-aid purposes than money in 529 Plans or Coverdell Education Savings Accounts. For more on financial aid, check out the websites www.finaid.org and www.savingforcollege.com.

CUSTODIAL ACCOUNT TAXATION (2011)

The following rates apply in 2011 on investment income earned by a child who is under age 19 OR a full-time, dependent student under age 24:

Tax free	Under $950
Taxed at child's rate	$951 to $1,900
Taxed at parent's highest marginal tax rate (known as "kiddie tax")	Above $1,901

Data Source: IRS (2010). Consult with your tax professional for the tax liability that applies to you and your family on custodial account investments.

LESSON FIVE:
Education Trusts

A car or college tuition? Many parents worry that assets earmarked for education, but held in UGMA or UTMA accounts, will be squandered by the beneficiary who gains control of these funds at the age of majority (most commonly between ages 18 and 21). One way to gain some assurance that these funds will be used for their intended purpose is to establish a formal trust arrangement.

Before you set up a trust, consider the components of a trust arrangement:

- Determine the beneficiary who will benefit from the trust.
- Evaluate the tax issues that will impact the trust.
- Select the trustee who will control the funds within the trust.

Trusts can allow for flexibility in the managing and distributing of assets. However, trusts should be set up with the help of a qualified professional, and they can be more complicated to administer than other education funding alternatives.

Use of Assets

While your intent may be to establish a trust to pay for educational expenses for your children or grandchildren, there is no requirement under current law that the proceeds from an "education trust" must be used solely for this purpose. If the trust agreement allows, the trustees may release funds for other purposes that would benefit the beneficiaries as well, such as starting up a business or buying a home.

Taxes on Trust Income

An income tax return must be filed each year for a trust. The tax rates for trusts can be higher than the rates for individuals, and income generated may be subject to the "kiddie tax" depending on the age and status of the beneficiary. Please see your attorney or tax advisor to discuss trust tax returns.

Estate Planning Tip

If your purpose is to pay for a child's tuition and also to remove assets from your potential estate, you could accomplish this by paying tuition directly to the educational institution. There is no limit on how much you can send for tuition directly to the educational institution. The tuition payment will not be subject to gift taxes.

LESSON SIX:
Investment Strategy

Developing an investment strategy is among the most critical components of your college funding plan. We can help you choose particular investments that take into consideration the potential cost of college, your time horizon and your risk tolerance. Generally, the longer you have until your child begins college, the more risk you may be able to assume. We'll carefully monitor how your assets are invested.

Stocks, Bonds or Cash? Asset Allocation Changes as Your Child Ages

Stocks may make attractive investments for funds held in a younger child's name. But by the time you are ready to write that first college tuition check, you may want to have a good part of your funds in short-term Treasuries, certificates of deposit or cash investments. These allocations could also be adjusted, depending on your risk tolerance. The less comfortable you are assuming risk, the more conservative you would want your education fund to be.

We can provide an asset allocation analysis that will help determine how your education savings might be invested based on your unique situation. This analysis will also take into account how all your financial assets are invested and how education funding can dovetail with your plans for retirement and your ability to achieve other family goals.*

U.S. Savings Bonds: Another Source of Tax-Advantaged College Savings

Even though they typically carry a relatively low interest rate, Series EE and Series I U.S. Savings Bonds are nevertheless popular gifts for children and the way many families save for education expenses.

Strategy: You may be able to exclude from your gross income all or part of the interest received on the redemption of some U.S. Savings Bonds if you use the proceeds to pay for tuition. You may also redeem the bonds and contribute the proceeds tax-free to a 529 College Savings Plan or Coverdell Education Savings Account. The Savings Bonds must be in either your name or held jointly with your spouse and issued after 1989. You also must fall under current income limits for this special tax advantage.

*Asset allocation does not guarantee a profit or protect against loss.

LESSON SEVEN:
College Loans

Even after years of saving diligently, parents with children preparing to enter college may face a funding shortfall. If this describes you, rather than liquidating assets to raise cash, you might consider borrowing to help bridge the gap, possibly using the equity you've built up in your home or leveraging the value of your securities portfolio to establish a line of credit or a loan. Before borrowing against your home or portfolio, you should carefully consider the risks involved, including whether you will be able to make the required principal and interest payments and what happens if the assets you're borrowing against decline in value.

A strategic plan for borrowing can also help you fund unqualified college expenses—such as transportation, clothing and entertainment—not covered by 529 Plans or Coverdell accounts. Interest on some loans can be income tax-deductible up to certain limits. And tuition checks written from these accounts directly to an educational institution incur no gift tax, even if the amount is above the gift-tax exclusion limit.

We can help you evaluate your borrowing options, so you can select one that makes sense and complements your overall wealth management plan. Adding debt may not be suitable for everyone.

Federal Loans

If your child is eligible for academic or needs-based aid from the college of his or her choice, you will likely discover that grants, scholarships, work-study and other forms of gift aid do not cover the full cost of a college education. You may also discover that one component of a financial aid package offered by a college is a federal loan.

Federal education loan programs offer lower interest rates and more flexible repayment plans than most consumer loans, making them an attractive way to finance a college education. There are two types of federal loans for education: those offered to students and those offered to parents.

Student Loans

Many students rely on federal government loans to finance their educations. These loans have low interest rates, do not require credit checks or collateral, and also provide a variety of deferment options and extended repayment terms. Student loans include the Stafford and Perkins loans.

Parent Loans

Parents of dependent students can take out loans to supplement their children's aid packages. The federal Parent Loan for Undergraduate Students (PLUS) lets parents borrow money to cover any costs not already covered by the student's financial aid package, up to the full cost of attendance. There is no cumulative limit.

Federal education loans are offered by the government and are no longer available through private lenders. College financial aid offices can help you find more information on the types of loans available to you or your child.

The Higher Education Opportunity Act of 2008 and the Student Aid and Fiscal Responsibility Act of 2010 contain a number of provisions affecting lending for education. Contact your tax professional, lending source or college financial aid office for more information.

LESSON EIGHT:
Individual Retirement Accounts

Individual Retirement Accounts (IRAs) can be a source of education funding for parents with children preparing to enter college in the near term. But there are both advantages and notable disadvantages.

Advantages

The funds within an IRA can be used penalty-free for several long-term goals, including the payment of higher education expenses. Using IRA funds as an emergency source of funding for college expenses not covered by savings or financial aid should not be a first choice, but may have some advantages:

- Distributions for college expenses from Roth or traditional IRAs are penalty-free, and in some cases, tax-free from a Roth IRA.
- Control of the assets remains with the IRA holder, not the child.
- Federal financial aid formulas, and most college aid formulas, do not consider retirement plan assets in determining eligibility. But any withdrawals from these plans are subsequently included in the aid formulas as income, and this can badly hurt aid eligibility.

Disadvantages

- Income taxes would be due on the withdrawal.
- Withdrawing funds from your retirement accounts to fund a child's education may jeopardize your own plans for retirement, and should be used only after careful consideration of other alternatives.

What If the IRA Is in the Child's Name?

A child who has income from, say, a summer job can contribute up to $5,000 of those earnings annually to a traditional IRA that could then be used to pay for college expenses. The portion used for qualified higher education expenses is exempt from the 10% early distribution penalty, but taxes would be due on any taxable portion of the distribution. What if the child funds a Roth IRA? Regular annual contributions to a Roth can be withdrawn at any time tax-free for any purpose. Taxes, however, could become an issue if the Roth's investment earnings are withdrawn. A student who is eligible to make Roth contributions may find the account is an attractive source of funds for college, including graduate, medical or law school.

Education Funding Using Your 401(k) Plan

In most cases, employees can borrow up to 50% of their vested 401(k) account balance up to a maximum of $50,000 to pay for education expenses. The funds would have to be paid back in order to avoid taxes and a possible penalty on premature distributions. Borrowing from your 401(k) may also reduce the amount of money available for your retirement.

Talk with us before you decide to use retirement funds for education.

LESSON NINE:
Education Tax Credits

Parents who are paying for college expenses may benefit from specific government-sponsored programs. Programs that offer immediate tax benefits include the American Opportunity Credit and the Lifetime Learning Credit.

American Opportunity Credit (2011)

- Maximum $2,500 tax credit per year per student. Credit can be taken for multiple students.
- Applies to the first four years of higher education. Students must be enrolled at least half-time.
- Covers tuition, fees and course materials.
- Completely phased out at modified adjusted gross income above $90,000 if filing singly and $180,000 if married filing jointly.

Lifetime Learning Credit (2011)

- $2,000 maximum total tax credit per year, no matter how many students in school.
- Can be used for an unlimited number of years.
- Covers tuition and related expenses, including costs for part-time study.
- Completely phased out at modified adjusted gross income above $60,000 if filing singly and $120,000 if married filing jointly.

You cannot take the American Opportunity Credit and the Lifetime Learning Credit for the same student in the same year. For more information, consider consulting your tax advisor, if you have one. You might also check out www.finaid.org, a website devoted to college funding, financial aid and related topics.

LESSON TEN:
Financial Aid

Even if the cost of college seems large compared to your income and assets, you may be disappointed by how much financial aid you qualify for—and by the type of aid you receive. While you might hope that your child will be awarded grant money that never has to be repaid, you may find that the aid package consists mostly of loans.

How Much Is Your Family Expected to Pay for a Child's College?

While you may have heard other parents refer to the financial aid formula, there isn't just one. Indeed, your application for financial aid may be assessed not only under the federal formula, but also under the formula used by each school your child applies to.

The Free Application for Federal Student Aid, or FAFSA, is the financial aid application form used to apply for federal and state student grants, work-study and loans. The data collected is used to determine your Expected Family Contribution (EFC), which takes into account both your income and assets and your child's. Normally, the EFC formula looks at income received during the most recently completed calendar year. For example, for the 2010 to 2011 school year, the formula uses information about 2009 calendar-year income. When compared to his or her parents, the dependent student is expected to use a higher percentage of income, as well as a greater portion of savings and other assets, to pay for educational expenses.

Earned income holds the most weight in the FAFSA formula for determining EFC. Even if there are no financial assets, if the parents' salaries are above a certain level (subject to adjustments), then the formula assumes that funds should have been saved for education. If no money is earmarked for education, the EFC in many cases is expected to come from current income or loans.

Some colleges may ask that you fill out a second form with additional information. For instance, while the federal formula ignores the value of your home, some colleges take it into account in awarding their own aid. The formulas used by the individual colleges are important, because the colleges themselves are a key source of grant money, especially at elite private schools. Your tax advisor can help you with the information from your most recent tax return, which is needed when you fill out the FAFSA and other forms.

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