Guide to 529 Plans

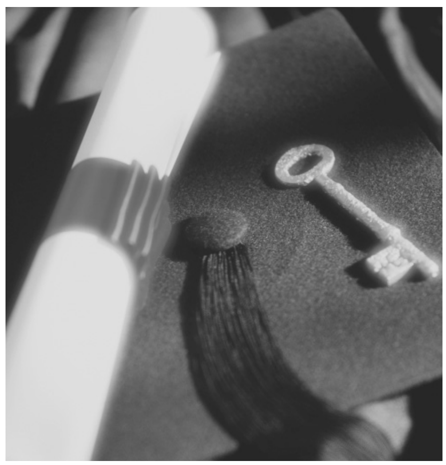
MUTUAL FUND SERVICES

OPPENHEIMER

TRENDS IN COLLEGE TUITION

The importance of a college education is a fact of life. Yet, for most families, the prospect of paying the rising cost of a college education can be a daunting task. The rate at which college costs are rising continues to be high, but by saving early, smartly and diligently, it is possible to diminish the burden of these rising costs on you and your children.

An important first step in saving for college is determining how much you will need in order to pay for future costs of college. While predicting the exact amount needed to finance future college education costs is difficult, many projections assume that average costs will rise between 5-8% annually.[1] The challenge to meet these rising tuition costs can be overwhelming and it requires careful planning and full knowledge of the investment options available to meet these expenses.



COLLEGE SAVINGS OPTIONS

Relying on financial aid remains the most popular tool families utilize in funding higher education costs. However, many families due to their financial status do not qualify for financial aid. Those families who do qualify generally receive funding through loans rather than grants.

UGMA and UTMA accounts (Uniform Gift to Minors Act and Uniform Transfers to Minors Act) are a popular way to save, but once the child reaches the age of majority, the account owner loses control over how the money is spent. The control of the account becomes that of the child and the money can be used at his or her discretion and not necessarily to fund a college education. In addition, any earnings are taxable each year.

The Coverdell Education Savings Account, formerly the Education IRA, excludes many families from participating in this type of savings vehicle as income limits restrict investments. For those families that are eligible, a maximum contribution of $2,000 a year per child is allowed, but will gradually be reduced based on the family's income.

This means that parents who start saving the year their child is born would contribute at best $36,000 by the time freshman year begins.

Many families utilize investments that may not be directly and exclusively geared to college savings such as stocks, bonds and mutual funds. These types of investments do not generally offer families the tax advantages and college savings features that 529 savings programs offer in saving for the long-term goal of meeting the rising costs of college tuition.

THE 529 PROGRAM

In 1996, Congress passed legislation to address the rising costs of college tuition, creating section 529 of the Internal Revenue Code. 529 plans are designed to be flexible college savings programs that help families save for their child's college education. With unique features and tax advantages not available through other existing college saving options, 529 plans provide a sound solution in meeting the rising costs of a higher education. Families can participate in 529 plans regardless of their income. Large sums of money can accumulate in a federally tax-exempt account for future college costs. The contributor has full access and maintains control over the 529 plan assets. 529 plans also offer generous gift and estate tax features that reach beyond the purpose of saving for higher education costs. Consider all of the following benefits of investing in a 529 program.

Tax-Free Withdrawals*

With the passing of the Pension Protection Act of 2006, distributions used for qualified educational expenses including undergraduate and graduate school tuition, room, board and books are free of federal income taxes. Distributions used for non-qualified expenses will be subject to federal income tax plus a 10% penalty on the earnings portion of the withdrawal.

Tax-Exempt Growth

529 plan account assets accumulate on a federal tax-exempt basis. Please refer to the previous section "Tax Free Withdrawals" for details on possible tax implications.

High Contribution Limits

Maximum contribution limits vary by state and can adjust upward due to rising college tuition costs. Generally, states impose limits ranging from $100,000 per beneficiary to $350,000 per beneficiary. Once a contribution limit is reached, no additional contributions will be permitted. However, the earnings can continue to grow in excess of the specific program's limit. A contributor may gift $14,000 per beneficiary, per year, under normal gifting rules.

[1] According to The College Board; collegeboard.org

Flexible Investment Options

Investment options vary state by state, but generally families can select an approach that meets their own investment objectives. Generally, states offer baskets of investment options and age-based portfolios allocating money between equity, fixed income and money market portfolios.

Estate Planning

Contributions are considered completed gifts for federal gift and estate tax purposes. Using an "accelerated" gifting plan, in a given year individuals can contribute $70,000 and married couples can contribute $140,000 per beneficiary without incurring federal gift tax consequences, provided no additional gifts are made to that beneficiary over a five-year period. For example, grandparents with seven grandchildren can contribute $70,000 individually or $140,000 jointly and immediately remove $490,000 or $980,000 respectively from their taxable estates. By "gifting away" a greater amount at one time, the investment will have more time to grow tax exempt in the college savings plan for your beneficiary. However, if the donor dies before the end of the five year "accelerated" gifting period, the contribution amount remaining after the year of death will be considered part of the donor's gross estate for federal tax purposes.

Control of Assets

Unlike UGMA or UTMA custodial accounts, the account owner has full access to the assets and control over the account, not the beneficiary. Should the beneficiary not need the 529 funds, or if there are excess funds after paying for higher education costs, the beneficiary can be changed to a selection of qualified relatives of the original beneficiary. Transfers to beneficiaries of a lower generation have additional gift tax implications.

No Income Limit

Unlike an Education IRA, investors of all income levels can participate in 529 programs.

Low Minimum Investments

Minimum contributions are generally as low as $250.

Professional Management

Most states contract with professional mutual fund companies to oversee investments and record keeping.

State Tax Deduction for Contribution

Many states may offer a tax-deduction for contributions to an in-state plan. Some states even allow deductions for contributions made to out-of-state plans. You should consult with your Financial Advisor to see if any deductions are offered by your in-state plan.

THE EVOLVING 529 MARKETPLACE

All states were given the ability to sponsor and develop their own 529 programs, including the ability to offer their 529 programs to non-residents. Prior to the passage of Section 529 in 1996, most college savings programs came in the form of pre-paid tuition plans that generally allow for the purchase of a future college education at a state school within the sponsoring state. Most pre-paid tuition plans are of a limited duration, provide only for undergraduate costs, and are restrictive on changing beneficiaries.

Since 1996, the majority of new 529 plans have been of the savings plan variety. These types of plans have gained popularity not only because of their flexibility of use, but also because of their generous tax and estate planning features. Most states, if not all, currently offer 529 plans and many offer more than one.

With the 529 market rapidly offering new enhancements and expanded features to meet every family's needs, 529 programs are clearly positioned to be prerequisite for any family saving to meet the rising costs of a higher education. For more information contact your Oppenheimer Financial Advisor.

Before buying a 529 plan, you should find out about the particular plan you are considering. Request an offering circular or official statement, which contains pertinent details such as objectives risks and fees, from your Oppenheimer Financial Advisor. Please read it carefully before investing or sending money.

* For non-qualified expenses a 10% federal mandated penalty on the earnings withdrawn will apply.

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