

## The importance of starting early

Compounding can help parents save for their children's higher education costs. By starting early enough, you can reach your goal even saving relatively small amounts.

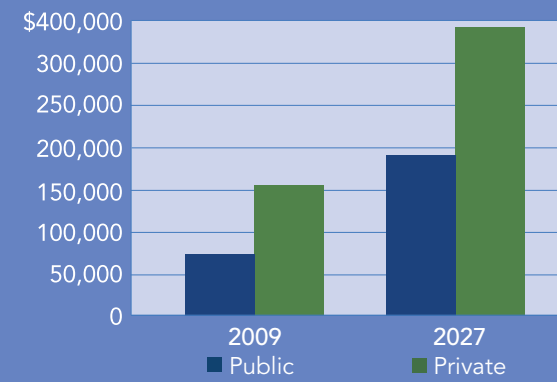
Child's age	Years until college	Public college 4 year cost*	Monthly savings
Newborn	18	\$103,728	\$200
6	12	\$77,404	\$269
10	8	\$63,680	\$355
17	1	\$45,256	\$904

\*This illustration was developed using a hypothetical annual college cost of \$10,000 increasing at 5% each year, and assumes that investments earn an average annual return of 7%, and monthly investments will continue until the start of the last year of college. This is a hypothetical example for illustrative purposes only, and is not indicative of any particular investment. If investment costs were factored, results would be less. Investments will fluctuate and when redeemed may be worth more or less than originally invested.

## Costs are rising

If a college education is the goal, you must first consider the cost.

Four years of college could cost...



Source: Annual Survey of Colleges, "Trends in the Cost of Higher Education," The College Board, 2008  
Costs include tuition, fees, room and board. Estimate assumes 5% inflation rate. Current average annual cost to attend four-year institutions: \$37,390 (public) and \$18,326 includes room and board (private). Source: www.savingforcollege.com college cost calculator.

A 529 college savings plan is a tax-advantaged investment program designed to help pay for qualified higher education costs. Participation in a 529 plan does not guarantee that the contributions and investment returns will be adequate to cover higher education expenses. Contributors to the plan assume all investment risk, including the potential for loss of principal, and any penalties for non-educational withdrawals.

Your state of residence may offer state tax advantages to residents who participate in the in-state plan. You may miss out on certain state tax advantages should you choose another state's 529 plan. Any state-based benefits should be one of many appropriately weighted factors to be considered in making an investment decision. You should consult with your financial, tax or other advisor to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You may also wish to contact your home state's 529 plan Program Administrator to learn more about the benefits that might be available to you by investing in the in-state plan.

This information should not be considered as specific legal/tax advice. You should consult your tax/legal advisor regarding your own specific tax/legal situation.

College funding

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## Getting Started

If you have college-bound children start a savings strategy as soon as possible. The best time to begin is when your child is born. But even if your child is already in school, it's not too late. No matter how little or how much you put aside, the sooner you develop a systematic savings strategy, the more time you'll have to accumulate the funds you need. When you set up your funding strategy, make sure that it's:

- **Realistic.** You'll need to know a rough estimate of the total amount your child will need for college. You will also need to decide how much you intend to pay towards your child's college education.
- **Flexible.** A good strategy offers a choice of funding vehicles to accommodate your risk tolerance, time frame and financial goals. Some are tax-deferred or offer other tax-related benefits.
- **Inflation-Adjusted.** Your college funding goal may be a moving target. Over the past decade, tuition and fees have risen an average of 4.2% (after inflation at public four-year institutions).<sup>3</sup> Your strategy will need to be adjusted accordingly as college costs change (most likely increase) over time.

<sup>1</sup>U.S. Census Bureau Press Release (March 15, 2007)

<sup>2</sup>FinAid (2007)

<sup>3</sup>Trends in college pricing, The College Board, 2008

### College funding considerations

*Carefully consider:*

- **Control** - Who should have control of the account now and in the future, you or your child?
- **Flexibility** - Who can contribute, how much, and for what purpose? Are you unsure what the future holds or do you know that your children or grandchildren are going to attend a specific school?
- **Financial Aid** - Assuming you can qualify, will there be an impact on financial aid eligibility?
- **Investment Options** - Are they broad or limited? And what types of investments do you prefer?
- **Estate Planning** - Some plans will not reduce your taxable estate even if you have given away the money. Others offer significant estate planning benefits.
- **Taxation** - Are the contributions tax-deductible? Tax-deferred? How will the distributions be taxed?

These are just some of the factors you need to consider when looking for an appropriate college savings vehicle.



A college education continues to be one of the smartest investments you can make – for you and your children. College enriches a young person's life in many ways, generating important intangible benefits – new ideas, broader experiences, cultural awareness and self-confidence – as well as the tangible ones that accompany higher earning power.

It's hard to find an investment that delivers better value than a college education. Studies show that, on average, people with at least four years of college earn hundreds of thousands of dollars more over their lifetimes than those who never attended college.<sup>1</sup>

While most parents realize the value of a good education, helping their children pay for college is a different matter. Currently, tuition costs are increasing at about twice the rate of inflation, making sound college savings strategies all the more important.<sup>2</sup>

## College funding options

Mounting college costs have forced parents and students to become more creative in their search for funding. There are three main ways to pay for college.

**1. Grants and/or Scholarships.** Financial grants are an unpredictable source of funds. Grants are usually based on financial-need tests that exclude many middle-income families. Also, it's difficult to know whether or not your child will be eligible for scholarships in the future.

**2. Loans.** Banks, civic organizations, colleges, and federal and state governments sponsor loan programs. There are, however, two main drawbacks to borrowing for college: The amount of the loan is limited by the family's (or the student's) ability to repay, and the loan (plus interest) becomes a long-term financial burden.

**3. Family Resources.** This category includes personal savings by students, parents or other family members.

## Do Your Homework

Detailed information about private and public college tuition, financial aid options, available scholarships and college planning calculators are available at your fingertips. Some helpful online resources:

[www.finaid.org](http://www.finaid.org)

[www.collegeboard.com](http://www.collegeboard.com)

[www.savingforcollege.com](http://www.savingforcollege.com)

[www.irs.gov](http://www.irs.gov)

Determining the anticipated cost for your children's college education will help you develop a successful savings strategy. Once you determine your college funding requirements, a financial advisor can help devise a strategy that's right for you and your family.



	Control	Flexibility	Federal Taxation	Federal Financial Aid Treatment	Investment Options	Estate Planning	Contribution Maximum Per Beneficiary
<b>UTMA/UGMA</b>	Custodian until child reaches age of termination	Use for any expense that benefits the child	Depending on child's age. Sales generally taxed at capital gains rates.	Considered asset of the child (high impact)	Virtually unlimited	Asset of custodian until child reaches age of termination	May be gift tax implications
<b>Coverdell ESA</b>	Responsible individual named on the account	Use for primary, secondary, or higher education <sup>2</sup>	None if used for qualified education expenses	Considered asset of account holder (high impact)	Virtually unlimited	Contributions are removed from estate	\$2,000 per year, per child (eligibility to contribute depends on modified adjusted gross income)
<b>529 Prepaid Tuition Plan</b>	Account owner	Qualified college expenses	None if used for qualified education expenses	Considered asset of parent, even if student-owned (low impact)	Tuition units or contracts	Contributions are removed from estate	Varies by state
<b>529 College Savings Plan<sup>1</sup></b>	Account owner	Qualified college expenses <sup>3</sup>	None if used for qualified education expenses	Considered asset of parent, even if student-owned (low impact)	Portfolios consisting of a variety of securities	Contributions are removed from estate	\$200,000 to \$300,000 or more, depending on state
<b>Non-Qualified Account</b>	Account owner	Any purpose	Earnings are fully taxable with sales generally taxed at capital gains rates	Considered asset of owner	Unlimited	Included in estate of owner	None
<b>Roth IRA</b>	Account owner	Primarily for retirement, can also be used for other purposes such as education	Contributions may be withdrawn tax-free any time. Earnings subject to federal income tax. If used for qualified higher education expenses, no early distribution penalty will apply. <sup>4</sup>	Not considered an available asset of the account owner. Distributions will be included in annual income for purposes of the financial aid income formula.	Unlimited	Included in estate of owner	Contribution limit: \$5,000 for 2009 (\$6,000 if age 50 or older). Eligibility to contribute depends on modified adjusted gross income.

<sup>1</sup>Distributions for qualified educational expenses are not counted as parent or student income in the determination of federal financial aid eligibility.

<sup>2</sup>Scheduled to sunset in 2011. Beginning in 2011, "qualified expenses" do not include elementary or secondary education expenses.

<sup>3</sup>The American Recovery and Reinvestment Act of 2009 expanded qualified expenses to include the purchase of any computer technology, equipment and related services for 2009 and 2010 only.

<sup>4</sup>Earnings subject to 10% early distribution penalty unless exception applies or past age 59½ and the five-year holding period is met.