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A newsletter for the informed college saver.

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Protect Yourself from Identity Theft

In 2005, according to the Federal Trade Commission (FTC), identity theft cost U.S. citizens nearly \$300 million and over 255,000 Americans registered complaints. The Justice Department, however, believes identity theft is grossly underreported because victims can go about their daily lives without knowing their identity has been stolen. In a six-month period in 2004, The U.S. Justice Department's Bureau of Statistics said that 3.6 million households had been victims of at least one type of identity theft.

Granted, statistics like these are generally too large for us to apply to our lives. So consider this, if you regularly access the Internet, or use e-mail, it is likely that you are being approached by criminals almost daily. Imagine the steps you would take to protect yourself from someone who tried to break into your home everyday.

For those that fell victim to identity theft in 2005, the average loss was over \$1,000 according to the FTC. In extreme cases, however, the identity thief may completely take over the victim's identity -- opening a bank account, getting multiple credit cards, buying a car, getting a home mortgage and even working, or committing crimes, under the victim's name. In at least one case, an identity thief reportedly died using the victim's name, and the victim had to get the death certificate corrected.

While the crime of identity theft may be impersonal, the effects can be lasting and very personal. People can spend considerable time and money correcting their credit record. Victims have reported losing job opportunities, loans for education, housing and cars — while others have been arrested for crimes they did not commit.

How do identity thieves operate?

- E-mail scams including viruses or 'phishing' tactics. Phishing e-mails try to trick the e-mail recipient into visiting a phony Web site to divulge personal data, like a trusted bank, credit card company or online service provider. The e-mails look legitimate, appear to come from the company in question, include company logos and try to get the reader to click a link to either correct an account problem or receive a special offer. Virus e-mails can appear to

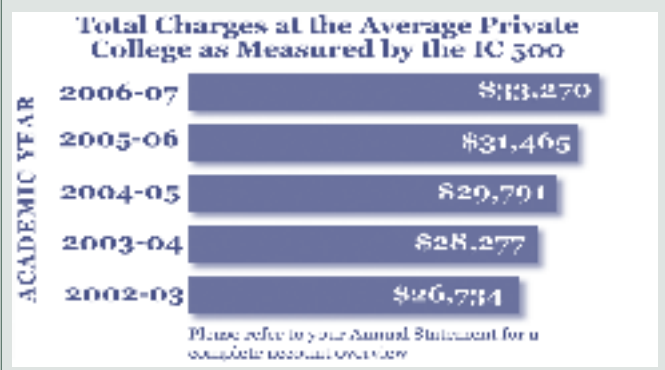
College Board Releases 2006 College Costs

A new academic year is right around the corner and The College Board has released the Independent College 500[®] Index (IC 500) 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 2006-2007 academic year as measured by the IC 500 totaled \$33,270.

The change in college costs from the prior year as measured by the Index was 5.74% — which is 1.42% more than the increase in the 4.32% Consumer Price Index for the like period.

While college costs increased 5.74% this year providing our clients with an attractive return, the total returns on U.S. Treasury bonds and bills were -7.26% and 4.04%, respectively.



Change in Financial Aid

In December 2005, Congress passed a deficit-reduction package that has several ramifications for future college students. Over the next five years, federal funding for student-loan programs will be reduced by \$12.7 billion. This represents the largest cut the federal government has made to student aid and is expected to increase the debt burden of students, as many borrowers of student loans will face higher interest payments.

According to the Wall Street Journal, Congress raised rates on popular Stafford loans to a fixed 6.8%, from the previous variable rate that was as low as 4.7%. Federal Plus loans now carry a fixed rate of 8.5%, up from the previous 6.1% variable rate. Over the term of a typical student loan, the increases will net thousands in higher payments.

Families to be hit hardest are those with annual household income between \$30,000 and \$50,000 and working students who fall outside the narrow range of financial aid support. During the 2006/07 academic year, dependant students are only able to earn \$3,000 and still qualify for a maximum Pell Grant of \$4,050. Pell Grant values are reduced by 50% on each dollar earned above \$3,000.

Working-class students are not well served, financial-aid experts say, by a student-aid system created in the 1960s and 70s. The formula assesses a student's need assuming they come from a traditional two parent family who pay at least a portion of their child's college bills. Any income earned by the student, therefore, is considered largely discretionary and assumes 50% can be used to pay college costs.



According to a 2002 Education Department report, only about 30% of undergraduate students can be considered "traditional"

– meaning they enroll in college straight from high school, depend on their parents for financial support, and don't work.

For families funding college, the best approach remains an early start in a tax-advantaged college savings account. The alternatives for most are less than favorable and include a student overworking while attending college or carrying a considerable student loan, with now higher interest rates.

Analysts at the American Council on Education believe a student should not work more than 15 hours a week while attending college as it can have a negative impact on degree completion. Furthermore, students who carry loans to pay for college are financially saddling themselves for years to come.

CollegeSure News Bites

Pennsylvania Offers Parity to 529 Plan Investors; Maine and Kansas to Follow

Pennsylvania Governor Rendell signed a bill on July 6, 2006 making PA residents the first in the nation to receive a state income tax deduction for contributions to any state's 529 plan. Pennsylvania residents can deduct up to \$12,000 per beneficiary per year from state income tax. Maine and Kansas have enacted similar legislation that will become effective next year.



This means that Pennsylvania residents may now invest in an out-of-state 529 plan such as the Montana or Arizona CollegeSure Plan and still may take advantage of the state income tax deduction.

Changes to the Kiddie Tax Rule

The age limit for the Kiddie Tax has been increased from 14 to 18 for 2006. The Kiddie Tax now requires children under 18 who have more than a small amount of investment income to pay tax at their parents' tax rate. The only exception to this rule is married children filing jointly.

The Kiddie Tax was created by Congress to prevent families from limiting their tax burden by transferring investment assets to minors and, therefore, paying tax on the investment income at the child's lower tax rate. The first \$1,700 of investment income is still taxed at the child's lower rate, but any additional investment income is taxed at the parents' rate.

For Example: In 2006 your child has \$5,000 of interest income and no other income. The first \$850 of investment income is not taxed due to the child's standard deduction. The next \$850 is taxed at the child's rate of 10% (or \$85). This leaves \$3,300 to be taxed at the parents' rate. Let's assume this to be 28% (or \$924). Therefore, the total federal tax on the \$5,000 of interest income will be \$1,009.

MT and AZ Renew Contracts with College Savings Bank

In 2006 College Savings Bank was awarded a new contract in Montana to continue to serve as program manager for the State's 529 plan. Also in 2006, the Bank's contract with Arizona was renewed so they can continue to offer the CollegeSure CD as part of its 529 Plan.

To the people of both great states, and all plan participants, we would like to extend our appreciation for your ongoing support and, we look forward to continuing to provide first-class 529 programs on behalf of the Montana Family Education Savings Program and the Arizona Family College Savings Program.

CollegeSure News Bites (continued from page 2)

BREAKING NEWS:

The Sun Rises on 529 Plans

On July 28, 2006 the U.S. House of Representatives passed the Pension Protection Act of 2006 (H.R. 4). The bill contains a provision eliminating the 2010 'sunset' of the federal tax exclusion for qualified distributions from a 529 plan.

HR 4 is expected to be approved by the U.S. Senate and, therefore, should be enacted shortly.

Additional details will be posted to the research section of our Web site, www.collegesavings.com as they become available.

529 Account Balance Limits Increase

Effective August 1, 2006, account balance limits to the MFESP have been increased to a maximum of \$304,000 per beneficiary, up from \$289,000 in 2005. The AFCSP limit will likely be increased to \$304,000 effective October 1, 2006.

Remember, however, no contribution may be made to an account if it would cause the sum of all Section 529 accounts for the same designated beneficiary to exceed the lesser of the balance limit, \$304,000, or the cost in current dollars of the qualified higher education expenses that the account owner reasonably anticipates the designated beneficiary will incur.

FDIC-Insured Deposits for Retirement: Now Insured Up to \$250,000

For the first time in more than 25 years, Congress has raised the limit on the federal deposit insurance coverage that protects retirement savings accounts. The new law provides up to \$250,000 of deposit insurance for retirement accounts, including Roth and traditional IRAs. This increase includes College Savings Bank IRAs used to save for college.

Time Your IRA Withdrawal Carefully

A 2005 Tax Court case decision said distributions from your IRA to pay for higher education are free from the 10% additional tax only to the extent that they

Protect Yourself from Identity Theft (continued from page 1)



come from anyone, even people you know. In almost all instances, the message of the e-mail persuades you to open an attachment containing a virus. These malicious programs, when opened, will scan your computer for personal information and report it back to the identity thief.

- Network 'worm' programs are viruses that travel the Internet from one machine to another. They travel between connected computers and attempt to scan your computer for personal information that can be reported back to the identity thief.
- Other thieves are 'low-tech' and can access your personal information by either stealing your wallet, mail, or rummaging through your garbage.

- Finally, others abuse the access they have to personal information through their employer to steal credit card numbers, bank account numbers or credit reports.

Safeguards to minimize the threat.

- Question the validity of each e-mail you receive. Just because you recognize the sender, does not mean an attachment is safe to open. It is recommended that you first confirm with the sender that they intended for you to receive that attachment.
- Avoid 'clicking a link' within an e-mail, even if you know the sender, as this may actually lead you to a phishing site. Instead, manually type the link into your Web browser. Additionally, once you arrive at a Web page, make sure the site address displayed in your browser is correct.
- Invest in computer security software that protects you against viruses, spyware and spam. Many vendors offer security packages for less than \$100. Once installed, make sure you also keep the software current by downloading updates when prompted to do so.

Victims have reported losing job opportunities, loans for education, housing and cars - while others were even arrested for crimes they did not commit. In at least one case, an identity thief reportedly even died using the victim's name, and the victim had to get the death certificate corrected.

- For better protection, upgrade your Web browser to Internet Explorer 7.0 that includes enhanced security features, or consider using either the Firefox or Opera browser to surf the Web. You can also add an anti-phishing plug in to your Web browser that will warn you before you visit a suspicious Web site.
- Examine the contents of your wallet or purse and don't carry excess information about yourself. Safely store items such as your social security card, birth certificate, bankbook and other personal information that do not need to be with you.

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Please contact your financial adviser or tax adviser for specific information about how this material affects you and your particular financial situation.

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 are 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 disclosure statements carefully before you invest or send money.

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Protect Yourself from Identity Theft (continued from page 3)

- Invest in a home paper shredder to prevent dumpster divers from accessing your personal information.
- Utilize a locking mailbox or door mail slot. You should also report any missing mail immediately. Another tactic used by identity thieves is to request a change of address on your bills so you do not immediately notice erroneous charges.
- Evaluate your financial institution's privacy policy to make sure it is properly protecting your information.

Knowing you have been a victim is also one of your best defenses against identity theft. The sooner you become aware, the less time the criminal has to cause lasting damage. To do so, check your credit reports often. The three leading credit bureaus (Equifax, Experian and TransUnion) will provide you with one free credit report a year. Credit monitoring services, for a fee, will monitor your credit report regularly and alert you immediately to any suspicious transactions.

The FTC has published a booklet to help raise awareness of identity theft. A downloadable version of this booklet can be found at:

www.collegesavings.com/pdfs/ftc.pdf

College Savings Bank also encourages all of our customers to review our privacy policy to understand how we protect your personal information.

www.collegesavings.com/privacy.html

visit us online at:

<http://www.collegesavings.com>
<http://montana.collegesavings.com>
<http://arizona.collegesavings.com>

Call 800-888-2723 today and enroll in automatic deposit through your financial institution or directly from your paycheck.

CollegeSure News Bites (continued from page 3)

do not exceed the education costs for the taxable year of the distribution. In other words, you cannot withdraw money penalty free to pay for previous year expenses or for expenses you anticipate in forthcoming years until that taxable year begins. The higher-education expenses exception applies to qualified costs of both the taxpayer and his or her spouse, as well as those of their children and grandchildren.

The U.S. House of Representatives has Started Monitoring Textbook Prices

Beginning in the summer of 2006, the House's Advisory Committee on Student Financial Assistance will take a one-year look at the rising costs of textbooks and make recommendations to lawmakers and interested parties on ways to make books more affordable. In the meantime, there are several Web sites to get used books, and even free books including:

- www.half.com • www.textbookx.com
- www.freeloadpress.com and
- www.campusbooks.com.

College Savings Trust Moves Helena Operations to Corporate Headquarters in NJ

In 2005, Montana modified the MFESP enabling statute to make the Board of Regents the trustee of the 529 program. Consequently, College Savings Bank has consolidated the operations of College Savings Trust (formerly of Helena, MT) to its NJ corporate headquarters.

This will only affect individuals who visit the Trust Company for information or to convey a deposit. For those individuals, we apologize for any inconvenience this may cause, and ask that you mail deposits directly to College Savings Bank in the future.

For your convenience, a deposit

slip and postage-paid business reply envelope are mailed to you upon receipt of each additional deposit. You may also download additional deposit slips online at:

<http://montana.collegesavings.com>.

