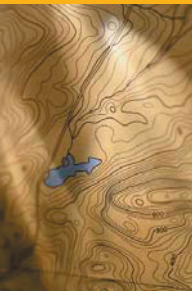


Strategic Insights



A New Idea for College Funding: Section 529 Plans

Cost of Higher Education

The escalating costs of college education can be frustrating for parents trying to save money for their children's education. Total college costs (including tuition, housing, books and miscellaneous expenses) for the 2001-2002 school year are averaging \$10,458 a year for public institutions and \$22,533 for private institutions, according to "Paying for College: What You Need to Know," The College Board 2001.

Section 529 Plans are not new, but changes made by The Economic Growth and Tax Relief Reconciliation Act of 2001 have made them attractive. Contribution limits are high, there are limited restrictions, and almost no income tax consequences.

What is a Section 529 Plan?

A Section 529 plan is a higher education savings program, run by the states, that provides federal tax benefits. Although each state's plan is different, they all have basic features in common.

The program allows individuals to save for the future education costs for a designated beneficiary. One of the key advantages is that the beneficiary may live in any state and use the funds to attend school anywhere in the country.

Contribution Limits

Depending on the state, maximum contribution amounts range from a low of \$100,000 to over \$250,000. There are no federal tax deductions for contributions. However, all earnings grow tax-deferred.

The account is owned by the adult who creates it, not the student. Anyone can contribute to a designated beneficiary's 529 plan until the total value (contributions and earnings) of all accounts for that beneficiary equals the maximum amount. Once the limit is reached, no additional contributions are permitted. However, the earnings can continue to grow in excess of this limit.



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Withdrawals

Beginning in 2002, withdrawals taken for qualified higher education are tax-free. This is a major improvement in these plans and makes them very attractive.

If the money is not used for higher education by the designated beneficiary, the account owner may direct to another beneficiary or reclaim the money. However, account withdrawals not used for qualified higher education are taxed as ordinary income on the earnings at the ordinary income tax rate (if you established the account). There is also a 10% penalty on earnings withdrawn for reasons other than higher education.

Flexibility

If the designated beneficiary decides not to go to college, you may leave the money in the account for use either by the designated beneficiary, who may eventually decide to pursue a higher education, or by the designated beneficiary's child. You may also change the beneficiary to a family member of the original beneficiary.

There are no age or time limitations imposed by federal law in terms of when the money must be taken or used.

Gift Tax and Estate Planning Benefits

Contributions to a 529 plan are considered completed gifts for federal gift and estate tax purposes and are excluded from your taxable estate

You can generally contribute up to \$55,000 for a beneficiary in a single year (\$110,000 for married couples) without federal gift tax consequences, provided you do not make any additional gifts to that beneficiary over a five-year period. This accelerates use of the annual gift tax exclusion for the next four years. As the account owner, you (not your beneficiary) choose how the money is initially invested and withdrawn.

Your beneficiary will not have the ability, regardless of age, to make withdrawals from the Section 529 plan. A portion of this gift may be brought back into your estate if you die within this period.

Action Now

Next to purchasing a home, saving for their children's education is the primary expense for many couples. Grandparents are often anxious to contribute to plans for their grandchildren's education. Section 529 Plans can be a good door option.



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