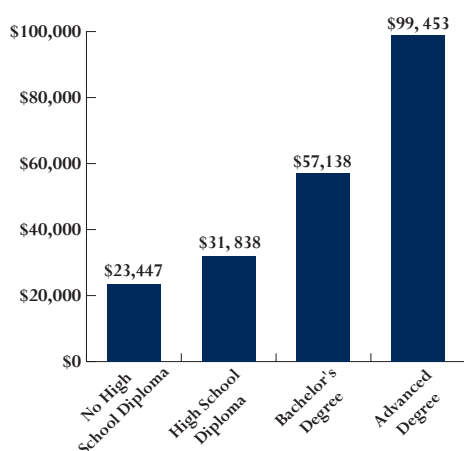


Financing Education: New Options, New Opportunities

In a knowledge-driven economy, education can have a profound and lasting impact on your career and your income. The benefits of education are clear from the graph below. Yet it can be hard to focus on those benefits when the path to a diploma requires years of serious saving. But thanks to recent changes in several education savings programs, the incentives are greater than ever.



Based on those employed full-time aged 18 and over.
Source: U.S. Census Bureau – Current Population Survey, 2000.

529 PREPAID TUITION PLANS: FOR A SPECIFIC STATE OF MIND

If the beneficiary of your education savings is likely to stay in-state, Section 529 Prepaid Tuition Plans may be the choice for you. In these plans, you actually pre-pay tuition credits which can be used at eligible public colleges or universities included in the plan. This plan comes with many advantages, including:

- No federal income tax on qualified distributions
- Tuition cost locks
- No age limits
- Beneficiary transfer flexibility
- Gift-tax exclusion

The downside? If the student selects a private or out-of-state institution, you may not receive the full value of your credits.

529 COLLEGE SAVINGS PLANS LET YOU GO ANYWHERE

For those who aren't sure in what state they'll attend college, a different Section 529 option may be more appropriate. The 529 College Savings Plan allows you to pre-save rather than pre-pay tuition. Your contributions to the plan may be withdrawn tax-free (federal) if the proceeds are used to attend any accredited post-secondary school in the U.S.* Many states offer taxpayers a tax incentive to use in-state plans, so carefully consider these benefits before investing out-of-state. Most plans allow low minimum and high maximum contributions, and let the donor maintain account control. Special rules allow you to combine five consecutive annual gift-tax exclusions (\$60,000 from an individual or \$120,000 for married filing jointly) to make a single, tax-advantaged contribution, provided you do not make any other gifts to the recipient for five calendar years. Such a provision can be an important part of estate planning.



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CUSTODIAL ACCOUNTS: ANOTHER GIVING OPTION

Another often overlooked way to invest in a child or grandchild's education is to bestow the money through the Uniform Gift to Minors Act (UGMA) or Uniform Transfer to Minors Act (UTMA). You can give up to \$12,000 per year, per child, tax-free. The child's custodian controls the money until a designated age of majority at which point the funds revert to the control of the minor. Since capital gains are taxed at the time of sale of any securities held within the UTMA/UGMA, these plans may have tax implications that are not optimal to financing education.* In addition, saving for college with a UTMA/UGMA may have an adverse impact on a student's federal financial aid eligibility, as up to 35% of a student's assets, which include UTMA/UGMA assets, are assumed to be available to pay for college costs. On the other hand, the assets held in 529 College Savings Plans are regarded as assets belonging to the parents. Relative to financial aid eligibility, at most 5.6% of the parents' assets are available to pay for college costs.

EDUCATION SAVINGS ACCOUNTS: NEW & IMPROVED

The Coverdell Education Savings Account provides another option. The limit per beneficiary rose to \$2,000 from \$500 starting in 2002. And unlike 529 Plans, Coverdell Education Savings Accounts can be used for both K-12 and higher education expenses. These accounts also offer flexibility about who can contribute, a broad range of investment options from several fund companies and the opportunity to change beneficiaries. Coverdell Education Savings Accounts also qualify for the annual \$12,000 Gift Tax exclusion.

THE DECISION IS IN THE DETAILS, SO STUDY HARD

When selecting an education savings program, make sure you understand each plan's particulars. Indeed, each option provides varying investment options, estate planning benefits, ownership structures, beneficiary transfers, early withdrawals, and income limits provisions*. You'll also want to consider your chances for obtaining financial aid — since these assets will likely affect your prospects. It is recommended that you also work with the financial aid office of the higher education institution the beneficiary may attend.

INVEST IN A CHILD'S FUTURE TODAY

Although it's daunting to see the costs of education, try to focus on the value it delivers.

Find a way to start saving as early as possible — since the gains from appreciation over time can be substantial. To find out more about education planning, call your RBC Wealth Management™ Financial Consultant.

**RBC Wealth Management does not provide tax or legal advice. We will work with your independent tax/legal advisor to help create a plan tailored to your specific needs. Accelerated gifts are normally subject to an add-back feature in the event of death of the giftor.*

***For more information regarding college savings plans, please visit www.collegesavings.org. Participation in a 529 Plan does not guarantee the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses. State programs vary, therefore you should carefully review individual program documents before investing or sending money. Federal income tax and a 10% penalty on the earnings of distributions for non-qualified expenses may apply. State taxes may apply.*

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