




529 101: What is a 529?

MFESP: A State-sponsored 529 Plan

Current as of 11/1/2011





What is a 529 Plan?

What is a 529 Plan?

A State-sponsored 529 plan is a tax advantaged education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs.

Every state now has at least one 529 plan available. It's up to each state to decide whether it will sponsor a 529 plan (or possibly more than one), and what the plan will offer.

529 plans have become an increasingly popular way to save for college over the past decade and according to a Financial Research Corporation article in February 2011, 529 plan assets have increased by 18.1% over the last twelve months, reaching an estimated \$138 billion in the last quarter of 2010.

Who can participate?

Any US taxpayer can open a 529 plan for anyone – even themselves.

Account Owners do not need to live in the state that sponsors their 529 plan. Most 529 savings plans have no state residency requirements. You can open accounts in as many of these states as you want.

In-state plans, however, may offer significant state tax advantages and other benefits, such as matching grant and scholarship opportunities, protection from creditors and exemption from state financial aid calculations, for investors who invest in 529 plans within their state of residence.



529 Benefits

529 Plan Benefits

- **Availability:** 529 plans are open to anyone, regardless of income level. You don't need to be a parent to set up an account.
- **High contribution limits:** The total amount you can contribute to a 529 plan is \$350,000.
- **Professional money management:** 529 plans offers management from industry professionals.
- **Rollovers:** You can take an existing 529 plan account and roll it over to a new 529 plan once every 12 months without incurring any tax penalties.
- **Simplicity:** It's relatively easy to open a 529 plan account, and most plans offer electronic funds transfer from your bank account or automatic payroll deduction.

State Tax Benefits

- Many states offer tax advantages or tax credits based on contributions to their State-sponsored 529 Program, including MFESP.
- Earnings grow tax-free
- Distributions to pay qualified college expenses are tax-free
- Anyone can participate
- Tax-free gifting
- The current maximum contribution limit for MFESP is \$350,000
- Assets are not treated as part of the federal taxable estate of the Account Owner who is not a designated beneficiary

Federal Tax Advantages

- Federal and state tax-deferred growth: The money you contribute to a 529 plan grows tax deferred each year.
- Federal tax-free earnings if the money is used for college: If you withdraw money to pay for college, the earnings are not subject to federal income tax.
- Favorable federal gift tax treatment: Contributions qualify for the \$13,000 annual gift tax exclusion. And with a special election, you can contribute a lump sum of \$65,000 to a 529 plan, treat the gift as if it were made over a five-year period, and completely avoid gift tax.
- Favorable federal estate tax treatment: Your plan contributions aren't considered part of your estate for federal tax purposes. You still retain control of the account as the account owner but you don't pay a federal estate tax on the value of the account.

Cost of College

5-Year Increases in College Costs

Total Charges at the Average Private College as Measured by the IC 500

Academic Year	Average Cost	Year over Year Increase
2005-2006	\$31,465	\$1,674
2006-2007	\$33,270	\$1,805
2007-2008	\$35,272	\$2,002
2008-2009	\$37,208	\$1,936
2009-2010	\$38,799	\$1,591
2010-2011	\$40,408	\$1,609



What is the MFESP?

What is the MFESP?

The Montana Family Education Savings Program (MFESP) is Montana's 529 college savings plan.

The MFESP is overseen by the Montana Board of Regents of Higher Education (the program trustee). They have contracted with College Savings Bank to serve as the Program Manager of Montana's 529 plan. Upromise Investments, Inc. and Upromise Investment Advisors, LLC (together, Upromise Investments) provide distribution, recordkeeping, and administrative services for the Investment Plan which features Vanguard investment products.

Are there In-State Advantages?

There are several reasons to consider investing in the MFESP, but one of the biggest advantages in-state participants enjoy is a deduction to taxable income.

- If you are a Montana resident you may deduct up to \$3,000 (\$6,000 if married and filing jointly) annually from your Montana adjusted gross income based on deposits.

Montana residents may invest in any state 529 plan they choose; however, a resident may only receive a reduction to their state adjusted gross income when they invest in MFESP.

- If a participant chooses to leave the MFESP and have taken advantage of the tax benefits, they may be subject to recapture tax.

What are the MFESP Investments?

The MFESP currently offers two avenues for saving; the MFESP Bank Plan and the MFESP Investment Plan.


- The Bank Plan offers three Certificates of Deposit (CD) and can be purchased either directly, through a financial advisor and are even offered in some of your local financial institutes.
- The Investment Plan offers five portfolios featuring underlying funds managed by Vanguard. Portfolio models range from Conservative to Aggressive and can be purchased directly from the Investment Plan.

Are there Fees Associated?

There are a few fees associated with the MFESP.

- The Investment Plan accounts are charged a \$25 annual maintenance fee. However, the fee is waived for any account owner who is a Montana resident, anyone who uses an automatic investment plan (AIP) or payroll deduction, or for any account with a balance of \$25,000 or more. College Savings Bank does not charge an annual fee.
- The MFESP has low ranging fees beginning at 0% for the Bank Plan. The fees are outlined by product below:

MFESP Product	Cost/Fees
CollegeSure CD	0%
InvestorSure CD	0%
Fixed Rate CD	0%
Vanguard LifeStrategy Conservative Growth Portfolio	0.95%
Vanguard LifeStrategy Moderate Growth Portfolio	0.95%
Vanguard LifeStrategy Growth Portfolio	0.96%
Vanguard Total Stock Market Index Portfolio	0.83%
Vanguard Total International Stock Index Portfolio	0.99%



Savings solutions from the MFESP Bank Plan

MFESP Bank Plan

The MFESP Bank Plan is managed by the MFESP's Program Manager, College Savings Bank.

College Savings Bank, has been helping families fund education for more than 23 years. They have been a part of the MFESP since inception of the program.

The MFESP Bank Plan offers unique savings options including the CollegeSure[®] CD, the InvestorSure[®] CD and a series of Fixed Rate CDs.

The CollegeSure® CD

- 1 to 22 year maturities available.
- Annual Percentage Yield (APY) over the term of each CD is not less than the prior year's college inflation rate less a stepped-rate margin and up to a maximum APY of 3% greater than the year one APY.
- Is affordable with multiple deposit options. You can get started by mailing in a check for as little as \$250, or enroll in direct deposit. Direct deposits from your bank or brokerage account start as low as \$25 per month. Payroll direct deposits are as little as \$25 per pay period.
- Funds less than \$250 are held in an “accumulator” account until the balance reaches \$250 and then a CD will be automatically purchased.
- Is safe. Each account is FDIC-insured to at least \$250,000 per depositor and offers principal protection.
- Is free of enrollment fees or other management charges that may erode a return on an investment.

The CollegeSure[®] CD

Current CollegeSure CD Pricing

CD Term	1–2 Years	3–4 Years	5+ Years
CSCD Margin	3.60%	3.00%	2.25%
CSCD Interest Rate Cap	3.00%	3.00%	3.00%
CSCD Yield	0.55%	1.15%	1.90%
Maximum CSCD Interest Rate	3.55%	4.15%	4.90%

Annual Percentage Yield (APY). The annual APY of each CollegeSure CD is the lesser of the prior year's college inflation rate as measured by the IC500 index minus an issue margin, or the first year's interest rate paid on the CD plus an interest rate cap. The APY could be zero percent.

Interest Rate. CollegeSure CDs pay interest annually on July 31st each year they remain outstanding. The interest rate is equal to the prior year's college inflation rate as measured by the College Board's Independent College 500 index change less an issue margin, and is subject to a maximum interest rate which is equal to the first year's interest rate plus an interest rate cap. The interest rate on the CollegeSure CD is reset annually on July 31 based on the change in the IC500 index. The issue margin and the interest rate cap are determined on the contribution date.

***Assumes the College Inflation Rate is 4.15%**

The InvestorSure[®] CD

- Is a 5-year, variable rate certificate of deposit indexed to the Standard & Poor's 500[®] Composite Index. Unlike equity-based funds, the InvestorSure CD does not risk your principal.
- Earns from 70% to 100% of the average increase in the S&P 500 at maturity, based on a specific formula.
- Is affordable with multiple deposit options. You can get started by mailing in a check for as little as \$250, or enroll in direct deposit. Direct deposits from your bank or brokerage account start as low as \$25 per month. Payroll direct deposits are as little as \$25 per pay period.
- Is safe. Each account is FDIC-insured to at least \$250,000 per depositor and offers principal protection.
- Is free of enrollment fees or other management charges that may erode a return on an investment.

InvestorSure CD

The InvestorSure CD: 20-, 10- and 5-Year Historical Rate of Return*

Issue Date Range	Maturity Date Range	Number of CDs Issued	Average APY @ 70%	
			Average APY	Taxable Equivalent**
2/86–11/05	2/91–11/10	80	3.79%	5.27%
2/96–11/05	2/01–11/10	40	2.44%	3.38%
2/01–11/05	2/06–11/10	20	1.73%	2.40%

*The InvestorSure CD was introduced to the market on February 1, 2008. Historical analysis is purely hypothetical and applies the current product upside payment formula to a period of time in which the product was not available. See the Disclosure Statement for additional information.

**Taxable equivalent analysis assumes the product is within a 529 plan and the investor is within the 28% federal tax bracket.

Fixed Rate CDs

- Are offered with both 1- and 3-year maturities.
- Allow you to begin earning interest the next business day after deposits are received. Interest is calculated and credited annually and there are no application, maintenance or other fees.
- Rates are posted to the Bank Plan website and updated as necessary. The simple interest method is used to calculate interest.
- Great for families seeking a stable investment. Account holders can lock in a posted CD rate by opening and funding a CD online or mail in a check to fund the CD, and it will be opened at the highest available rate for the term selected when that check is received.
- Is affordable with multiple deposit options. You can get started by mailing in a check for as little as \$250, or enroll in direct deposit. Direct deposits from your bank or brokerage account start as low as \$25 per month. Payroll direct deposits are as little as \$25 per pay period.
- Are safe. Each account is FDIC-insured to at least \$250,000 per depositor and offers principal protection.

Fixed Rate CDs

Fixed Rate CD Interest Rate 3-Year History*			
	2008**	2009	2010
College Savings Bank 1-Year	3.24%	1.25%	0.63%
Treasury 1-Year	1.74%	0.47%	0.32%
College Savings Bank 3-Year	3.60%	2.46%	1.85%
Treasury 3-Year	2.28%	1.43%	1.16%

Taxable equivalent analysis assumes the product is within a 529 plan and the investor is within the 28% federal tax bracket.

*Reflects the daily average rates for each CD maturity.

**The Fixed Rate CD was first offered on April 22, 2008. Therefore, 2008 rates are presented as of that date forward.

Product Overview

	CollegeSure CD			InvestorSure CD			Fixed Rate CDs		
Yield	The lesser of the prior year's college inflation rate as measured by the IC 500 change minus an issue margin, or the CD's interest rate cap. The issue margin and the interest rate cap are both determined at the time of the CD's issuance. The APY could be 0%.			Receives at least 70% of the average increase in the S&P 500			Earns a fixed rate over the entire term of the CD		
Minimum Deposit	\$250 per pay period			\$250 per pay period			\$250 per pay period		
Minimum deposit when using automatic direct deposit from your financial institution	\$25 per pay period			\$25 per pay period			\$25 per pay period		
Features	Yes	No	Details	Yes	No	Details	Yes	No	Details
FDIC Insurance	X		Principal and accrued interest are FDIC insured to at least \$250,000	X		Principal and accrued interest are FDIC insured to at least \$250,000 although interest is not accrued until maturity	X		Principal and accrued interest are FDIC insured to at least \$250,000 although interest is not accrued until maturity
Principal Protection	X		Investors will never lose principal if they hold the investment until maturity	X		Investors will never lose principal if they hold the investment until maturity	X		Investors will never lose principal if they hold the investment until maturity
Minimum Annual Percentage Yield		X	No guaranteed yield, but principal protection		X	While investors cannot lose money, there is no guaranteed return on investment but principal protection	X		Pays the posted interest rate for the term of the CD
Tax Benefits	X		All state and federal 529 plan tax advantages apply	X		All state and federal 529 plan tax advantages apply	X		All state and federal 529 plan tax advantages apply
Enrollment Fees		X	No enrollment fees or other management charges		X	No enrollment fees or other management charges		X	No enrollment fees or other management charges



Savings solutions from the MFESP Investment Plan

MFESP Investment Plan

The MFESP Investment Plan offers five portfolios. Portfolio models range from Conservative to Aggressive.

Vanguard is a leader in money management and provides its mutual funds as the underlying investment for the Investment Plan.

Upromise Investments is a leader in 529 plan administration and provides distribution, recordkeeping and administrative services for the Investment Plan.

MFESP Investment Plan

Vanguard® LifeStrategy® Portfolios

- Vanguard LifeStrategy Growth Portfolio
 - Seeks to provide capital appreciation and some current income.
 - Maintains an asset mix that, over time, should reflect an allocation of approximately 80% of its assets common stocks and 20% to bonds.
 - Includes Vanguard Asset Allocation Fund, which seeks to maximize long-term returns by strategically adjusting its asset mix.
- Vanguard LifeStrategy Moderate Growth Portfolio
 - Seeks to provide capital appreciation and a low-to-moderate level of current income.
 - Maintains an asset mix that, over time, should reflect an allocation of approximately 60% of its assets common stocks and 40% to bonds.
 - Includes Vanguard Asset Allocation Fund, which seeks to maximize long-term returns by strategically adjusting its asset mix.

LifeStrategy Portfolios

Vanguard® LifeStrategy® Portfolios

- Vanguard LifeStrategy Conservative Growth Portfolio
 - Seeks to provide current income and some current income capital appreciation.
 - Maintains an asset mix that, over time, should reflect an allocation of approximately 40% of its assets common to bonds, 20% to short-term fixed-income investments, and 40% to common stocks.
 - Includes Vanguard Asset Allocation Fund, which seeks to maximize long-term returns by strategically adjusting its asset mix.

Investment Options	Asset Class	Allocation	Category
Vanguard LifeStrategy Conservative Growth Portfolio	Balanced	25% - 50% Stock 30% - 55% Bond 20% - 45% Short-Term Fixed-Income Investments	Conservative Allocation
Vanguard LifeStrategy Moderate Growth Portfolio	Balanced	45% - 70% Stock 30% - 55% Bond 0% - 25% Short-Term Fixed-Income Investments	Moderate Allocation
Vanguard LifeStrategy Growth Portfolio	Balanced	65% - 90% Stock 10% - 35% Bond 0% - 25% Short-Term Fixed-Income Investments	Moderate Allocation

- Short-Term Fixed-Income Investments consist of the bonds held by the Vanguard Short-Term Investment-Grade Fund and any money market instruments held by the Vanguard Asset Allocation Fund, two of the underlying Vanguard funds in which the Vanguard LifeStrategy Portfolios invest.

Total Stock Portfolios

Vanguard Total Stock Portfolios

- Vanguard Total Stock Market Index Portfolio
 - Seeks to track the performance of a benchmark index that measures the investment return of the overall U.S. stock market.
- Vanguard Total International Stock Index Portfolio
 - Seeks to track the performance of a benchmark index that measures the investment return of stocks in developed and emerging markets, excluding the United States.

Vanguard Total Stock Market Index Portfolio	Stock	100% Stock (Domestic)	Large Blend
Vanguard Total International Stock Index Portfolio	International	100% Stock (International)	Foreign Large Blend

LifeStrategy Portfolios

Current Portfolio prices and performance:

Name	Unit Value as of 10/26/2011				YTD Returns as of 10/26/2011	Average Annual Total Returns as of 9/30/2011			Inception Date
	Unit Value	Change		SEC Yield		1 year	3 year	Since Inception	
Vanguard LifeStrategy Conservative Growth Portfolio	\$10.14	\$0.03	0.30%	—	0.40%	—	—	-2.40%	12/10/2010
Vanguard LifeStrategy Moderate Growth Portfolio	\$10.07	\$0.07	0.70%	—	-0.59%	—	—	-4.90%	12/10/2010
Vanguard LifeStrategy Growth Portfolio	\$9.88	\$0.08	0.82%	—	-2.76%	—	—	-8.50%	12/10/2010
Vanguard Total Stock Market Index Portfolio	\$10.03	\$0.11	1.11%	—	-1.08%	—	—	-9.10%	12/10/2010
Vanguard Total International Stock Index Portfolio	\$9.20	\$0.13	1.43%	—	-10.33%	—	—	-16.30%	12/10/2010

Other Investment Plan Benefits

Ugift®: Ugift is an innovative online feature that allows you to invite family and friends to celebrate special occasions with gift contributions to your Investment Plan account.



Upromise®: Upromise is a service that helps you save money for college with everyday purchases like shopping, eating out, filling your gas tank, traveling, and more. When you link your Upromise account with your Investment Plan account, your earnings can be transferred automatically on a periodic basis, subject to a \$25 minimum transfer amount.



Getting Started and Additional Information

Financial Aid

What impact does a 529 plan have on eligibility for federal financial aid?

529 plan assets are counted at different rates for the Expected Family Contribution (EFC) in the FAFSA formula. As of July 1, 2009, federal guidelines are as follows:

- If the student is a dependent, a 529 plan account is considered as the parent's asset (if the account owner is the parent or the dependent student). As a result, it will generally be counted at a rate of only 3-6% of its value for the EFC.
- If the student is not a dependent and is the account owner, the 529 plan account is treated as the student's asset and is generally factored into the EFC at the higher rate of 20%.
- In other cases, the account does not count as an asset for federal financial aid purposes. (However, a student may have to report distributions received from the account as income for these purposes.)

Note: Financial aid programs offered by educational institutions and other non-federal sources may have their own guidelines for the treatment of 529 plan accounts. For complete information about financial aid eligibility, you should consult with a financial aid professional and/or the state or educational institution offering a particular financial aid program, since rules and regulations often change.

Financial Aid

Under Montana law, a student loan program, student grant program, or other financial assistance program established or administered by the State of Montana or a financial assistance program administered by a college or university supported by the State of Montana must treat the balance in an account as an asset of the parent of the designated beneficiary and not as a scholarship or grant or as an asset of the student for determining a student's or parent's income, assets or financial need. However, this rule does not apply if it is inconsistent with requirements of federal law or a specific grant establishing a financial assistance program.

Other MFESP FAQs:

Is paying off a student loan a qualified higher education expense?

No. Repayment of student loans is not considered a qualified higher education expense.

Does my beneficiary have to attend college in Montana?

No. You can use the assets in your account toward the costs of nearly any public or private, 2-year or 4-year college nationwide, as long as the student is enrolled in a U.S.-accredited college, university, graduate school, or technical school that is eligible to participate in U.S. Department of Education student financial aid programs.² In fact, many U.S. colleges and universities now have campuses or locations outside of the country, where money from your account can be used.

What if my beneficiary does not go to college immediately after high school?

The MFESP does not require a child to attend college immediately after graduating high school. There are no restrictions on when you can use your account to pay for college expenses.

Other MFESP FAQs:

What if my beneficiary decides not to go to college?

If a beneficiary decides not to attend college, you have the following options.

- Stay invested. You can leave the money in the account in case the beneficiary decides to attend school later. There is no age restriction for using the money.
- Change the beneficiary. You can change the beneficiary on your account at any time provided that the new beneficiary is an eligible "member of the family" of the former beneficiary.
- Withdraw the money for other uses. The earnings portion of a withdrawal not used for a beneficiary's qualified higher education expenses is subject to federal and Montana state income taxes, to a 10% federal penalty tax and a Montana recapture tax.

Other MFESP FAQs:

How can I make contributions to my account?

- Electronic funds transfer (minimum of \$25) from your checking or savings account
- AIP with scheduled contributions in set amounts of at least \$25 per month from your checking or savings account
- Payroll deduction (minimum of \$15 per pay period for the Investment Plan, \$25 for the Bank Plan) through participating employers
- Check
- Rollover from another 529 plan
- Rollover from a Coverdell Education Savings Account or a qualified Series EE or Series I U.S. Savings Bond
- Transfer of cash from an UGMA/UTMA account (Note: consult with a tax advisor as there may be tax consequences)
- Ugift[®] Give College Savings (minimum of \$15)
- Upromise[®] (minimum of \$25)



Get Started!

Contact

College Savings Bank and Upromise are there to help! If you should need any further assistance, a Client Service Representative can be reached toll-free any Monday through Friday between the hours of 9 a.m. and 6 p.m. Eastern time. College Savings Bank even offers “live chat” on their website for immediate assistance.

Phone: 1-800-888-2723

Bank Plan

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Investment Plan

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