529 COLLEGE SAVINGS PLAN | PRODUCT GUIDE

529 College Savings Plan

Preparing your child for the future.

Allstate®
You're in good hands.

FIN713-1

The greatest gift a parent can give.

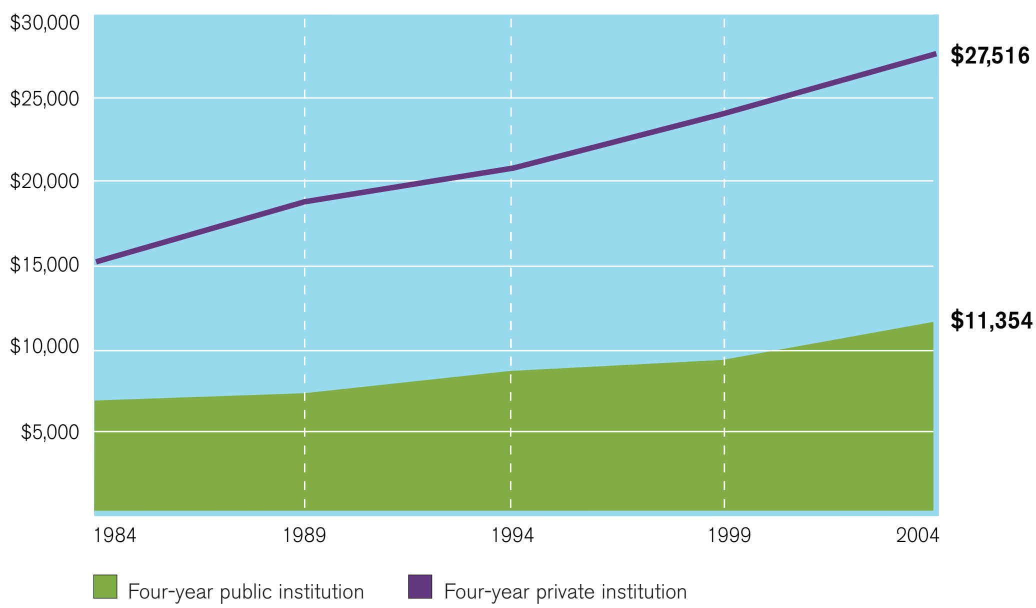
You would give your child the sun, moon and stars if you could. While that's too tall an order for most of us, you can still give your child a precious and lasting gift: a college education.

But in order to make college a reality for your child, you'll need to make some important decisions. To help you better prepare, we've outlined the basics of saving for college in the following pages.

An expensive proposition.

Unless you happen to be wealthy, college is likely to put a big strain on your family's budget. In the last 20 years, college costs have risen virtually every year. In 2004, the cost of tuition and fees for a four-year college increased an average of 8%. Eighteen years from now, a bachelor's degree from a private university could cost more than $200,000.[1]

AVERAGE ANNUAL CHARGES FOR TUITION, FEES, ROOM AND BOARD[2]



[1] Projections are based on current figures from The College Board for four years of college, including tuition, fees, supplies, housing, and transportation, assuming a 4.5% annual increase.

[2] The College Board, 2004.

Getting a head start.

One way to keep up with the rising costs of college is to put money away early and add to it as often as possible.

Don't be late.

Whether you're expecting a baby in a few months or you're already a parent of a teenager, the sooner you plan for college the better your financial shape will be later. Starting a college savings fund now gives you a financial advantage because you allow your principal time to grow and earn larger returns due to **compounding**. Compounding happens when the returns you earn are added to your principal, which in turn can make your future returns even larger. Basically, it means your returns are earning returns. There are two basic approaches that allow you to take advantage of compounding:

Savings Account	Investment Account
■ Fixed rate of return, typically small	■ Variable rate of return, higher potential for large returns
■ Principal guaranteed not to lose value	■ Principal not protected from loss
■ Used to meet short-term financial goals	■ Used to meet long-term financial goals

Saving for the future.

The type of account you ultimately choose may depend on how soon your child will attend college. If your child is already in high school, then a savings account might make the most sense. But if your child hasn't even started the first grade, a savings account will do little to keep up with the tuition and fees increases.

A closer look.

For example, suppose you put some money into a savings account for your child's college. After a year, your savings account may have grown by 2.5% (the average savings account rate). But during that same time, college costs will have also risen. (In 2004, they increased by an average of 8%.)

So even though your money in your savings account has grown, your college fund now pays for fewer college expenses than when you started it. In addition, any interest earned is generally subject to federal and state income taxes.

529: today's new math.

One alternative to a savings account is the **529 College Savings Plan** – a state-sponsored investment program that helps you save for college and offers significant tax advantages. Each 529 savings plan is run by a professional investment firm selected by the state.

Smart tax benefits.

With a 529 savings plan, money is invested in stocks and bonds to produce higher returns. But unlike regular investment accounts, the money invested grows tax-free and withdrawals are exempt from federal income taxes when used for qualified higher-education expenses.[3] In some states, qualified withdrawals are also free of state income taxes and contributions may be tax deductible as well.[4]

Contributing to the future.

Most 529 savings plans can be established by anyone, including non-relatives, for a designated **beneficiary** or future college student. But the account remains under the control of the account owner, not the beneficiary. There is no annual contribution limit to a 529 savings plan as long as contributions do not exceed the total maximum amount allowed for one beneficiary. However, very large contributions can trigger federal gift taxes.[4]

Multiple choice.

Another advantage of the 529 savings plan is its flexibility. There are many plans to choose from. Investment options for managing 529 savings plans vary by state, but they typically fall into one of these investment tracks:

- **Age-based track** instructs the plan manager to vary the investment style from aggressive to conservative as the beneficiary nears college age.
- **Fixed track** creates an asset allocation that remains the same throughout the life of the plan.

More to consider.

Only a decade ago, parents had few college savings options. But in recent years, the government has established or approved several plans that make investing for college easier. Here are some additional education savings options that are also readily available:

- Coverdell Education Savings Account (ESA)
- 529 Prepaid Tuition Plan
- Education Savings Bonds
- Custodial Accounts

Use the following comparison chart and program descriptions to help you decide which option is right for you.

529 COLLEGE SAVINGS PLANS VS. COVERDELL EDUCATION SAVINGS ACCOUNTS

	529 College Savings Plans	Coverdell Education Savings Accounts
What is it?	Flexible, tax-advantaged plan named after Section 529 of the Internal Revenue Code.	A tax-advantaged account that allows you to choose your investments.
Tax Treatment	Investment grows tax-free.[3] Withdrawals are exempt from federal income taxes if used for qualified higher education expenses.[3] Most states exempt distributions from state income taxes for residents who invest in their home state's plan.[4]	Investment grows tax-free. Withdrawals are exempt from federal income taxes if used for qualified education expenses.
Financial Aid	Current rules provide for lower weighting in financial aid equations if not owned by student.	Accounts are held in the child's name and may have significant financial aid impact.
Investment Options	Limited since assets are managed by investment professionals.	Stocks, bonds, mutual funds and certificates of deposit (CDs).
Advantages	Funds can be used at any college in any state for qualified higher education expenses. Total contribution limits vary by plan but can average between $235,000 and $295,000. Most plans can be transferred to a family member of the beneficiary as defined by the law.[4]	Flexibility to choose and change investments. Assets can also be used for qualified elementary and secondary school costs. You can change the beneficiary to another member of the family as defined by the law.[4]
Disadvantages	No guarantee of specific return. Most plans charge account fees and expenses. Nonqualified withdrawals are subject to income taxes and may be subject to additional penalties.	No guarantee of specific return. Contributions are limited to only $2,000 per year. Income limits on contributions begin at $95,000 for singles, $190,000 for joint returns. Assets must be distributed by age 30 unless special needs beneficiary.

Contributions to Coverdell Education Savings Accounts are limited to $2,000 annually per designated beneficiary, and eligibility is tied to income. Nonqualified withdrawals are subject to current ordinary income taxes and may be subject to an additional 10% federal tax penalty. Tax laws are subject to change, and contributions and earnings may not be adequate to meet future educational expenses.

529 college savings plans vary by state, including contribution limits, state tax advantages, investment options and fees and expenses. You should carefully consider, before investing, whether your or the designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's 529 college savings plan. Investment in 529 college savings plans grows tax-deferred, and distributions, if used for qualified higher education expenses, are federal tax-free. Please note that tax-free withdrawals for qualified higher education expenses are set to expire in 2011 unless the law is extended by Congress. Nonqualified withdrawals are subject to current ordinary income taxes and may be subject to an additional 10% federal tax penalty. Tax laws are subject to change and contributions and earnings may not be adequate to meet future educational expenses. Participation in a 529-college savings plan does not guarantee that contributions and earnings will be adequate to cover your child's future college costs.

You should carefully consider the investment objectives, risks charges and expenses of 529 college savings plans before purchasing or investing money. This information is only a summary. Additional information about these and other subjects can be found in the Plan Description. You may obtain copies of the Plan Description from your Allstate Personal Financial Representative. Please read the Plan Description carefully before purchasing or sending money.

[3] Federal tax exemption for earnings on qualified withdrawals is set to expire in 2011 unless extended by Congress.
[4] Please consult your tax advisor.

Additional Education Savings Options

529 Prepaid Tuition Plans — These plans allow you to buy tuition credits at current prices to be used at a specified university or college system in the future. DRAWBACKS: Not available in all states. Not available for all colleges. Most plans don't cover costs for books, supplies, room and board. Eligibility sometimes restricted by state requirements. May reduce opportunities for financial aid.

Education Savings Bonds — Series EE and I bonds are U.S. Treasury securities that earn interest and are payable only to the person to whom they are registered. DRAWBACKS: Bonds typically earn a low rate of return. You forfeit interest if you redeem too early. Income limits and other requirements must be met to receive tax benefits.

Custodial Accounts — The Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA) allows you to open an investment account for a minor. All income from these accounts is taxed at the child's rate. DRAWBACKS: Account may reduce financial aid awards. Gifts made are irrevocable. Child has control over account after a certain age and is under no obligation to use the money for education-related expenses. Funds are not transferable to another beneficiary.

When your 529 savings plan isn't enough.

Parents and students who are unable to save enough for college still have alternative funding options. Almost 75% of full-time undergraduates receive **financial aid** — monetary assistance from public and private programs to help students pay for college.[5]

Grants and loans can bridge the gap.

Students may qualify for academic, athletic, need-based or other types of scholarships. Or they can apply for Pell Grants and Supplemental Education Opportunity Grant programs sponsored by the federal government. Neither scholarships nor grants need to be repaid following graduation.

There are also student loans available at low interest rates. These include:

- Subsidized and unsubsidized Federal Stafford loans
- Federal Perkins loans
- Sallie Mae PLUS loans
- Loans from banks and other commercial lenders

Many students apply for at least some loan money to supplement their college savings and scholarship awards. But these loans are not free. The principal and interest must be paid back once students leave school whether or not they graduate.

[5] "Education Pays," The College Board, 2004.

COLLEGE SCHOLARSHIPS, GRANTS AND LOANS[6]

Funding Source	Eligibility	Interest Rate	Amount Limits
Scholarships	Varies.	None.	Varies.
Grants	Need-based.	None.	Varies based on need.
Subsidized Stafford Loan	Need-based.	No interest while in school; starts 6 months after graduation.	Varies based on need.
Unsubsidized Stafford Loan	Most students qualify.	Variable, but generally low.	Up to $5,500 per year based on school year.
Perkins Loan	Need-based.	No interest while in school; 5% after graduation.	Up to $4,000 per year (undergraduate). Up to $6,000 per year (graduate).
Sallie Mae PLUS Loan	Most parents qualify.	Variable, with a max of 9%.	Up to total cost of education.
Commercial Loan	Most parents qualify.	Variable, according to prime lending rate.	Varies.

Think of college as an investment.

If you start to feel overwhelmed at the thought of saving for college, keep in mind that you're investing in your child's future.

People with a college degree earn 73% more on average than those with only a high school diploma. Over a lifetime, the gap in earning potential between a high school diploma and a bachelor's degree is more than $1,000,000.[7] So while the cost of college may seem high, the cost of not going to college might be greater.

Knowledge is power.

You can find more information on saving for college at the following Web sites:

- collegesavings.org
- collegeboard.com
- savingforcollege.com
- finaid.org and ed.gov

[6] finaid.org, 2005.

[7] The College Board, 2004.

Let us help.

Talk to your Personal Financial Representative about setting up a 529 College Savings Plan for your child. You can choose among many state-sponsored 529 plans, each managed by a highly regarded investment firm.

Planning for college takes time, thought and commitment. Your Personal Financial Representative is available to answer your questions and help you understand what you need to do to turn your American dream into reality.

Put the power of Allstate to work for you.

For more than 70 years, we've been in the business of protecting what's most important to you. Today that includes offering financial products and services that can help protect your dreams for the future — whether that's enjoying your retirement, sending your child to college or saving for a new home.

Allstate can help you make the best decisions for you and your family — not just for today, but down the road as well.

Allstate®
You're in good hands.