DRAFT REPORT

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Education Funding

Prepared for

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(Main Scenario)

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FYI

A key to your child's future is a college education.

Two important questions relating to education are: 1) How much is it going to cost? 2) How are you going to pay for it?

In 2006, college costs (tuition, room and board) at a public institution average $12,127. At private institutions, the average is $29,026. It is likely that these costs will more than double over the next ten years.

Source: The College Board Annual Survey of Colleges, 2005.

Is it worth it?

Men with college degrees earned 72% more, and women 81% more, in hourly compensation than those with a high school degree.

Source: Report on the american workforce, U.S. Department of Labor, 2001.

Historically, education costs have outpaced inflation. General inflation averaged 3.0% from 1985 to 2005. Education inflation averaged 6.8% during this same period.

Source: Historical rates - U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C., 2005.

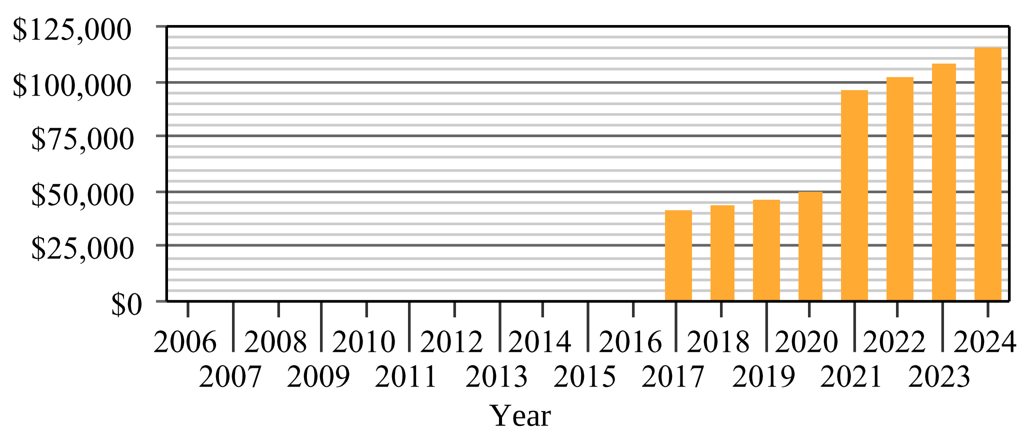
Education Goals

Student Name	Years Until Need	Years Of Need	Annual Cost (today's dollars)	School Name	Percent to Fund	Total Cost (future dollars)
Jack	11	4	$21,880	Penn State Altoona	100%	$181,699
Walker	15	4	$40,213	Princeton U.	100%	$421,594

Total education cost (future dollars) **$603,293**

Future Education Needs

This chart displays the total future amount of education funding needed annually.



An assumed education inflation rate of 6.00% is used.

FYI

An education funding program should be:

- Affordable
- Flexible
- Risk suitable
- Tax favorable

In addition, money should be available for education even if you die or become disabled.

To reach your education goals, your money needs to grow. For money to grow, you need:

- Financial resources
- Time
- Earnings (a return on investment)

Many special programs and strategies are available to help with education funding. Eligibility for these is based on several factors which you should review before implementing a program or strategy.

- "529" Qualified Tuition Program
- Coverdell Education Saving Accounts
- Hope Credit
- Lifetime Learning Credit
- IRA Withdrawals
- Student Loan Interest Deduction
- Financial Aid
- Custodial Accounts
- Trust Accounts

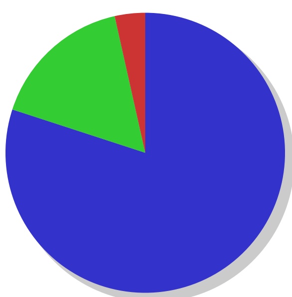
Education Funding

Current Funding	
Education assets	$150,000
Additional Amount Needed To Fully Fund The Need*	
Monthly for the next 216 months	$328
- OR -	
Yearly for the next 18 years	$4,000
- OR -	
Lump sum today	$37,488
Proposed Funding	
Additional monthly funding (During the next 216 months or 18 years)	$275

* The suggested amount is in addition to any current program for education.

Funding Solutions

With your additional funding you may be able to fund 96.50% of your education goal(s).



Current Program	80.01%
Proposed Funding	16.50%
Shortfall	3.50%

Assumptions

Contributions increase each year by	3.00%
Assumed annual rate of return (before tax)	8.00%
Assumed average income tax rate	28.00%

FYI

Setting financial goals is the first step to reaching them.

Knowing where you are in relation to your education goals can help you know how to achieve them.

To reach your education goals, you must start an accumulation plan and stick to it.

When accumulating for your education goals, you may choose from many funding alternatives, such as:

- Savings accounts
- Mutual funds
- Stocks
- Bonds
- Series EE bonds issued after 1989 or Series I bonds

It is important to regularly review your education goals and your progress.

A periodic meeting with your financial professional will be helpful as you work together towards achieving your goals.

Summary

Funding Your Educational Expenses*

Your needs may be fully funded with one of the following three funding patterns:

Monthly accumulation for the next 216 months	$328
Yearly accumulation for the next 18 years	$4,000
Lump sum today	$37,488

Your Current Situation

Percent of goal funded by current programs	80.01%

Your Solution

Total additional monthly funding of	$275
Could increase education funding to	96.50%

* The suggested amount is in addition to any current program for education and does not include the additional monthly funding listed above.

Assumptions

Contributions increase each year by	3.00%
Assumed annual rate of return (before tax)	8.00%
Assumed average income tax rate	28.00%

Funding Options

Qualified Tuition Programs are state-operated investment accounts overseen by Section 529 of the IRS code. So long as the state plan satisfies a few basic requirements, special tax benefits are available. Plans differ from state to state and normally are implemented using either prepaid tuition or special college savings plan accounts.

Generally, there are no restrictions on annual contribution amounts. Contributions are not tax deductible, but earnings grow tax deferred, and distributions are exempt from federal taxation if they are used to pay for qualified education expenses (state tax treatment varies). Taxes and/or penalties may be due if these funds are used for any other purposes. Qualified expenses include tuition and books, tutoring, computer equipment, and room and board.

There are no participation restrictions. Parents, grandparents, other relatives and even family friends can open up accounts on behalf of the same beneficiary. There may be, however, a limit on the total dollar amount each account may reach. This varies from state to state.

Assets can be used to pay for qualified higher education expenses at any accredited post-secondary institution in the United States that is eligible to participate in certain federal student aid programs, including public and private colleges, universities, graduate schools, two-year community colleges, and vocational-technical schools.

As a contributor, you retain control of assets until withdrawals are made for qualified higher education expenses. You can change the beneficiary to be another family member of the original beneficiary without paying a penalty.

You can withdraw money from the account at any time. If your beneficiary receives a scholarship for higher education expenses, you may withdraw an amount from your account equal to the value of the scholarship without paying a penalty. You may also make penalty-free withdrawals in the event of the death or disability of the beneficiary. Non-qualified withdrawals of earnings will be taxed as ordinary income at your rate, and an additional penalty equal to 10% of the gain also will apply.

Note that there are fees and charges associated with Qualified Tuition Programs, and that the underlying investment options are subject to market risk.

At this time, the tax law allows participants in 529 plans to make tax-free withdrawals of account earnings to pay for qualified educational expenses until December 31, 2010. After 2010, distributions may be taxed at the beneficiary's tax rate unless there is further legislation to extend or change the tax law.

Financial Aid

Financial aid for college usually comes in the form of grants, scholarships, and loans. Grants and scholarships do not have to be repaid. Most grants are need-based, which means they are awarded based on the student's income and other financial factors. Scholarships are usually based on academic performance. Loans need to be repaid with interest. Special government loans are often available that defer interest and payments for a specified grace period.

Getting financial aid is not automatic. To receive financial aid, you may have to demonstrate that you:

- Have a financial need
- Have a high school diploma, GED, or equivalent
- Are a part-time or full-time student in an eligible program
- Make satisfactory academic progress

Pell Grants

Pell grants are generally available to full-time or even half-time students at accredited academic, technical, or vocational institutions. The Pell Grant program offers money to low and moderate-income students. The lower the student's (or the family's) income, the more the student may receive, up to the Pell Grant limit available ($4,050 for the 2004 - 2005 academic year). A student should apply for Pell grants even if qualification is unlikely. Applying is a prerequisite for obtaining government-subsidized student loans, and may be required to obtain other sources of financial aid.

Perkins Loans

Perkins Loans are low-interest loans, available to both undergraduate and graduate students with exceptional financial need. Interest and payments are postponed until the end of the grace period (typically 9 months after the student stops attending school at least half time).

Stafford Loans

Stafford Loans are made by a lender such as a bank, credit union, or savings and loan association. A school may also act as a lender under certain circumstances. Depending on the financial need of the student, Stafford Loans may be wholly or partially subsidized by the Federal Government. Interest on the subsidized portion of the loan is paid by the Federal Government until the end of the grace period (typically 6 months after the student drops below half-time enrollment).

PLUS Loans

PLUS stands for Parental Loans for Undergraduate Students. They are federally-guaranteed loans made directly by the government or by a financial institution to parent borrowers who have a good credit history. Interest rates on PLUS loans are generally higher than on regular student loans. There is no grace period, and repayment typically must begin within 60 days of the dispersal of funds.

Coverdell Education Savings Account (ESA)

Formerly known as education IRAs, these accounts can be used to fund qualified education expenses for grades K-12 and for higher education. Qualified expenses have been expanded to include tutoring, computer equipment, and room and board, in addition to the traditional qualified expenses of tuition and books. Non-deductible contributions of up to $2,000 per student per year may be made. Contributions may continue until the student reaches age 18 and are allowable until April 15th following the tax year. Contributions can be made after age 18 for a special needs beneficiary. The $2,000 maximum contribution is phased out for single persons with adjusted gross income between $95,000 and $110,000, and married persons filing jointly with adjusted gross income between $190,000 and $220,000. Earnings grow tax-deferred and distributions are free from federal taxation if used for qualified expenses. State tax treatment varies. If distributions are not used for qualified expenses they are subject to a federal tax penalty of 10%.

Traditional/Roth IRA Withdrawals

Generally, taxpayers may withdraw funds, without penalty, from a Traditional or Roth IRA for the purpose of higher education expenses. The account may be owned by a parent, a grandparent, or the student. If the withdrawal is from a Roth IRA, a minimum of five years must have elapsed since the account was established before a penalty-free withdrawal may be made. Withdrawals from Traditional IRAs are still subject to normal taxation. Withdrawals may be used to fund expenses such as tuition, books, fees, room and board, supplies and equipment.

Hope Credit

For students in the first two years of college, a Hope tax credit may be available. A Hope Credit may reduce your tax liability by as much as $1,650 per year by allowing 100% of the first $1,100 of qualified expenses and 50% of the next $1,100 to be claimed as a non-refundable credit. Generally, credits are better than deductions because you receive the full value of the credit against your tax liability*. This credit is phased out when adjusted gross income is between certain amounts, depending on tax filing status (currently $45,000 - $55,000 if single and $90,000 - $110,000 if married filing jointly in 2006). One Hope Credit may be claimed per year for each student who meets all the qualifications.

To qualify, the student must be within their first two years of higher education and registered at least half-time at an accredited university. The credit covers only qualified education expenses, which are generally limited to tuition and fees required for enrollment. You may not include books, room and board, or other similar living expenses to justify a Hope Credit.

* Consult with your tax advisor to review your particular situation.

Lifetime Learning Credit

For students beyond the first two years of college, or enrolled part-time or to improve job skills, a more limited tax credit may be available. A Lifetime Learning Credit may reduce your tax liability by as much as $2,000 per year by allowing 20% of qualified expenses incurred to be claimed as a non-refundable credit. The tax credit is phased out when adjusted gross income is between certain amounts, depending on tax filing status (currently $45,000 - $55,000 if single and $90,000 - $110,000 if married filing jointly). One taxpayer may claim Lifetime Learning Credits for multiple students in the same year, up to the credit limit.

The credit covers only qualified education expenses, which are generally limited to tuition and fees required for enrollment. You may not include books, room and board, or other similar living expenses to justify a Lifetime Learning Credit.

Student Loan Interest Deduction

Persons with qualified education loans may claim a deduction for loan interest paid, thereby reducing their taxable income. Up to $2,500 of interest may be deducted, and the deduction is phased out when adjusted gross income is between certain amounts, depending on tax filing status ($50,000 - $65,000 if single and $105,000 - $135,000 if married filing jointly in 2006). It is not necessary to itemize your tax return to claim this deduction (sometimes called an 'above-the-line deduction').

Coordination of Benefits

Federal tax rules allow tax benefits to be coordinated with withdrawals from tax-deferred accounts for the funding of qualified education expenses. Each year qualified education expenses occur, a taxpayer may claim one tax credit (Hope or Lifetime) or deduction per student. After a credit or deduction is claimed, no other credit or deduction will be available for the student. If a taxpayer claims multiple students as dependents on his or her tax form, the taxpayer may claim a combination of credits and deductions, one for each student. The remaining balance of qualified expenses may be funded through withdrawals from tax-deferred accounts.

For example, assume a student has $8,000 of qualified education expenses in a calendar year. Because the student qualifies for the Hope Credit, $2,200 of this amount is used to claim that credit. The remaining $5,800 could then be funded through withdrawals from a tax-deferred or tax-exempt account, such as a Coverdell Education Savings Account or an IRA, without penalty.

In another situation, assume that a taxpayer claims two students as dependents, and that one qualifies for either the Hope or the Lifetime Learning credit, while the other qualifies only for the Lifetime Learning Credit. The taxpayer claims the Hope credit for the first student (up to $2,200 of qualified education expenses), and is able to claim up to $10,000 of qualified expenses for the second student. The balance of each student's expenses could be funded through withdrawals from a tax-deferred account.

Note that expenses paid with funds withdrawn from a tax-deferred account may not be claimed for tax credits or as deductions.

Tax benefits and tax-deferred accounts have different definitions of what constitutes "qualified education expenses". Always check the specific rules for each benefit and resource in conjunction with each education expense, and review your particular situation with a tax specialist, such as a CPA.

Data and Assumptions

Personal Information

	Client	Spouse
First name	James	Julie
Middle name	T.	M.
Last name	Mack	Mack
Birth date	11/13/1965	10/11/1969
Gender	Male	Female
Marital status		Married

Education Goals

Student Name	Years Until Need	Years Of Need	Annual Cost	School Name	Percent to Fund
Jack	11	4	$21,880	Penn State Altoona	100%
Walker	15	4	$40,213	Princeton U.	100%

Current Resources

Current education assets	$150,000
Current assets/funding annual rate of return (before tax)	8.00%

General Assumptions

Education inflation rate	6.00%
Average income tax rate (state and federal)	28.00%
Fund **To** the beginning of your first education goal or **Through** the end of your last education goal	Through
Tax treatment of education assets	Tax Free

Proposed Additional Funding

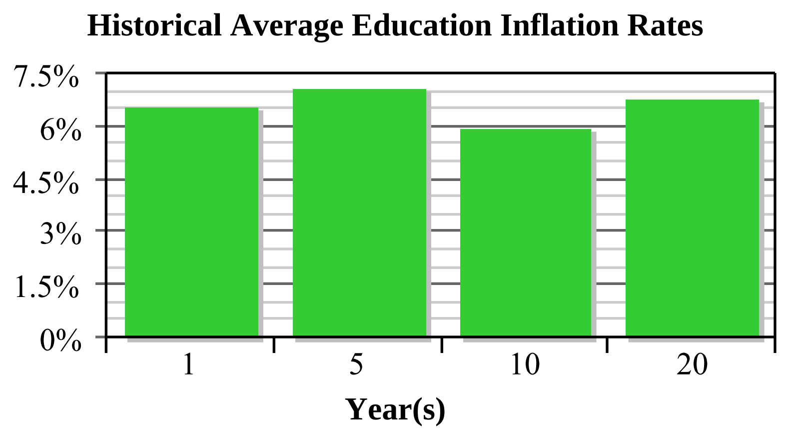
Additional monthly funding	$275
Number of months for additional funding	216
Rate additional funding increases annually	3.00%
Additional funding annual rate of return (before tax)	8.00%

Education Inflation

For the past two decades, costs associated with an education (tuition, room and board, etc.) have increased significantly faster than the overall rate of inflation. To better understand the impact of education inflation, please review the historical information below.

The chart to the right illustrates the average historical education inflation rates for last year, the last 5 years, the last 10 years, and the last 20 years.

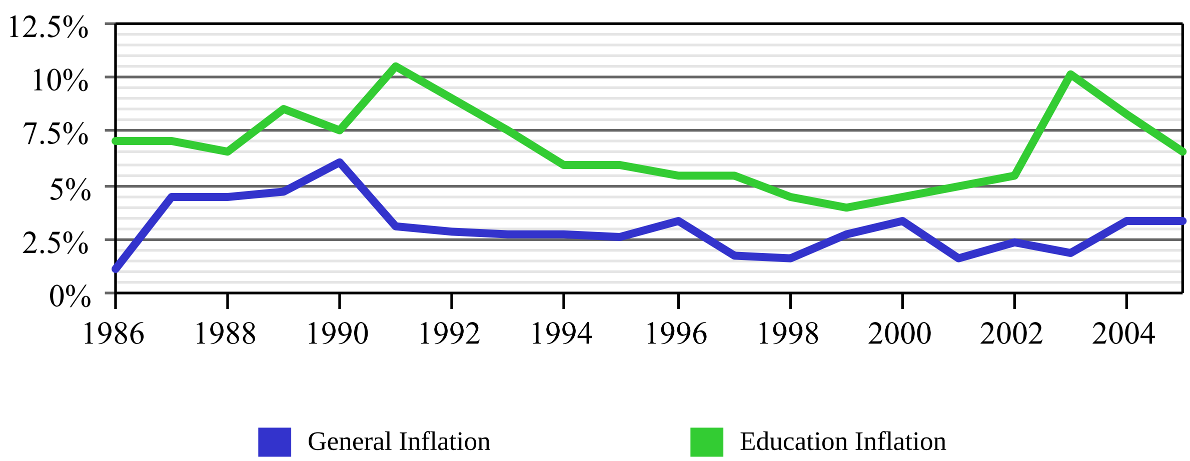
The average education inflation rate for the last 20 years was 6.74%*. A $1,000 education expense incurred at the beginning of 1986 would cost $3,684 at the end of 2005.



Education costs have outpaced inflation over the past 20 years.

Education inflation rates have varied from year to year and will likely continue to vary in the future. For analysis purposes, you should use an average assumed education inflation rate to compensate for annual variations.

*The average education inflation rate was determined by averaging tuition costs at public and private institutions. Remember that historical rates are no guarantee of future rates.

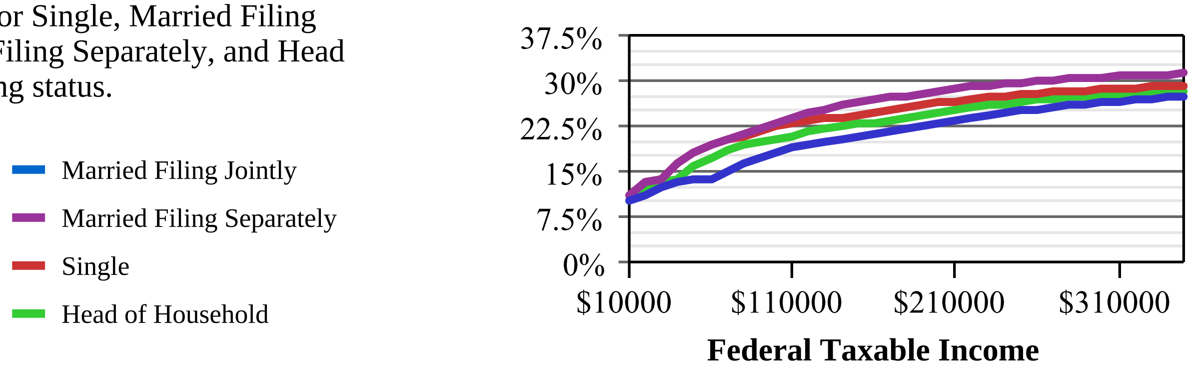


Sources: Education Inflation: The College Board, "Trends in College Pricing," 2005. General Inflation: U.S. Department of Labor, Bureau of Labor Statistics, 2006.

Federal Income Tax

Average tax rates are used in this analysis to estimate future taxes payable on income from assets and other sources. By taxing future income, the future after-tax amount available to spend can be more correctly estimated.

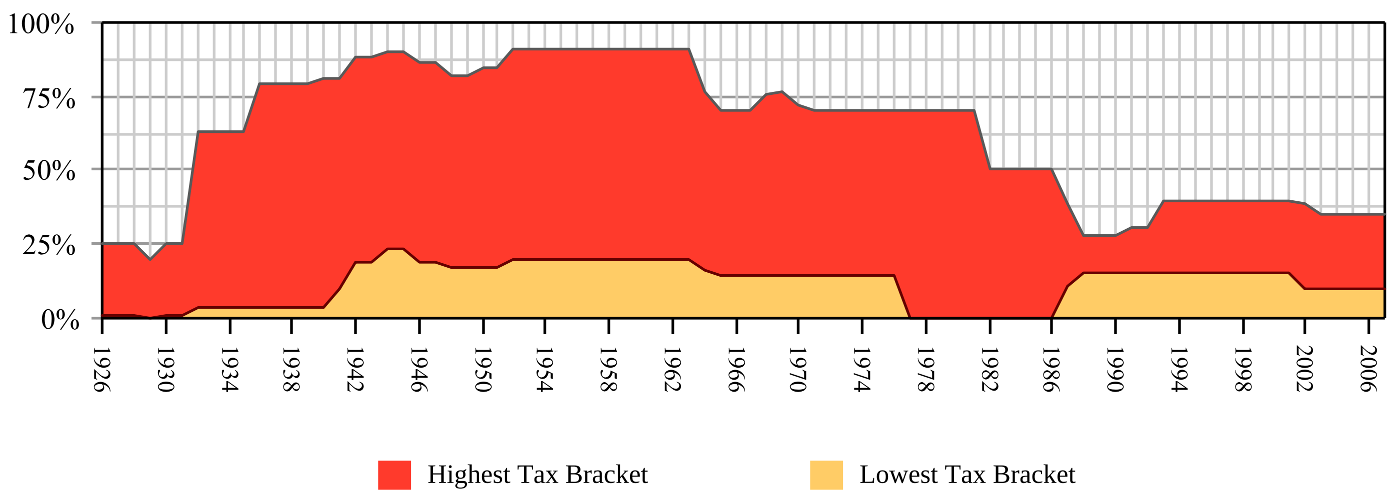
The chart to the right illustrates the average federal tax rates for Single, Married Filing Jointly, Married Filing Separately, and Head of Household filing status.



Historical Federal Income Tax Brackets

Federal tax rates have varied widely in the past. It is important to take this into consideration as you select an assumed average income tax rate for planning purposes that may span several years. See the graph below to review past variations in the highest and lowest federal income tax brackets.

The graph below illustrates historical high and low federal income tax rates. Exemptions, deductions, and state and local taxes are not taken into account when illustrating marginal rates. Your actual tax rates may vary from those shown on the graph. Remember that historical rates are not a guarantee of future rates.



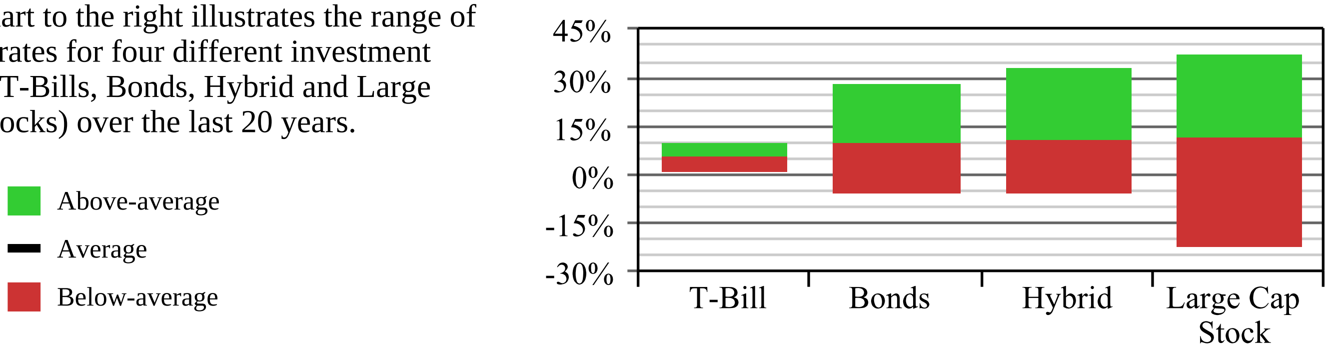
Sources: Historical Federal Tax Rates 2006. U.S. Department of Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns (2006).

Risk and Return Education Funding

The rates of return that are used to project your assets will have a significant impact on your planning results. Remember loss of principal is a risk with any investment and that historical return rates are not a guarantee of future performance.

The chart to the right illustrates the range of return rates for four different investment types (T-Bills, Bonds, Hybrid and Large Cap Stocks) over the last 20 years.

Actual Return Rates for Last 20 Years (1986 - 2005)



Risk of Loss of Principal

The greater the potential return on an investment, the greater the risk of loss of principal. U.S. government obligations, which are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, are generally the safest investment because the purchaser should receive the entire principal plus interest when the bonds are bought at issue and held to maturity. Therefore, U.S. government obligations are a benchmark for investment risk. Examples of U.S. government obligations are: Treasury Notes, T-bonds, T-bills, and U.S. Savings Bonds. While U.S. government obligations offer credit safety, higher returns have historically been realized from other investments, including corporate bonds and equities, which also have been more volatile than U.S. government obligations. The above information illustrates this point. Keep in mind, past performance is not a guarantee of future results.

Historical Returns: Unpredictability of Future Performance

Risk of loss of principal must be considered along with other risks such as: inflationary risk (loss of purchasing power due to an investment's return being lower than the rate of inflation), timing risk (selling at the wrong time), market risk (price fluctuations due to price volatility in overall market), credit risk (risk of default of bond issue), liquidity risk (inability to liquidate or readily sell a security), etc. An investor should evaluate the level of risk of each investment and his/her level of comfort with such risks.

Treasury Bill performance data is based on the average yield of a one year T-Bill as published in the Federal Reserve Bulletin, years 1961-1981, and in Frontier Analytics' FactMaster, CITI 1 yr. Treasury Benchmark, 1982-2006.
Long-Term Corporate Bond performance is calculated from the yield and price index from bonds with maturities of ten years or more as published in the Federal Reserve Bulletin, years 1961-1981, and in Frontier Analytics' FactMaster, CITI Corp 10+ yr., 1982-2006.
Large Company Stock performance is calculated based on the S&P 500 Stock Index and yield as published in the Federal Reserve Bulletin, years 1961-1981, and in Frontier Analytics' FactMaster, S&P 500 Composite, 1982-2006. The S&P 500 is an unmanaged index generally considered representative of the large-cap U.S. stock market.
Hybrid is composed of 50 percent Long-Term Corporate Bond and 50 percent Large Company Stock.

The example illustrated is hypothetical and does not represent a specific investment. An investment cannot be made directly into an index. The performance of any index is not indicative of the performance of a particular investment and does not take into account the effects of inflation, taxes or the fees and expenses associated with investing. This example reflects reinvestment of all dividends and income. Actual investor results will vary.

Notes