Sigma Investment Counselors
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Update on College Savings Plans

On June 7, 2001 President George W. Bush signed the Economic Growth and Tax Relief Reconciliation Act of 2001. Some of the most talked about and debated issues within this "tax relief act" included reductions to the federal income tax rates, estate tax relief, and increases in child, dependent and adoption care credits. An important aspect of this act, oftentimes lost in the headlines, was a number of positive changes that impacted the 529 college savings plans as well as the Education IRA.

529 College Savings Plan		
	Before Tax Relief Act of 2001	**After Tax Relief Act of 2001**
Taxes on Qualified Withdrawals	• Taxed at the child's tax rate, at the federal level.	• Not taxed at the federal level • Varies at the state level.
Transfer of 529 Plans for the Same Beneficiary	• Did not permit switching from one state's plan to another unless the account owner changed beneficiaries.	• Permits "same beneficiary rollover" once every 12 months.
Changing Investments	• Could not reallocate prior contributions	• May change overall asset allocation once a year.

In the February 2001 Sigma Summary, we detailed the 529 college savings plan and discussed the advantages and disadvantages that this plan offers when saving for college. In order to keep you up-to-date on these recent changes, we are providing another analysis of the college savings plans. It is important to note that nearly all of the changes detailed below, as well as all of the provisions within this tax bill, do not begin until 2002 and will expire at the end of 2010. It is widely believed that many of these changes will remain in force after 2010, but they will require the passage of a new law by our legislators and President.

Please keep in mind that state plans are not identical. Obvious differences include the investment advisors, the fees charged, and the maximum amount that can be contributed. Subtle differences include charging a 10% penalty on non-qualified withdrawals to the entire distribution (as is done in Michigan) versus charging the penalty only to the earnings portion of the withdrawal.

In the February 2001 Sigma Summary, we briefly discussed other potential college savings vehicles such as the Education IRA and the Uniform Gift to Minor Act (UGMA). However, due to certain limitations and shortfalls relating to these savings plans, we focused our efforts on the 529 plan. The changes in the tax reform act of 2001 not only impacted the 529 plans but also had a number of positive changes for the Education IRA. Highlighted in the following table is a summary of these changes.

Education IRA		
	Before Tax Relief Act of 2001	**After Tax Relief Act of 2001**
Name	• Education IRA	• Coverdell Education Savings Account Contributions
Contributions	• Permitted contributions to only one plan (the Education IRA or a 529 savings plan) per year	• Within certain income limits, allows contributions to both plans in the same year
Contribution Limits	• Annual contribution cap of $500 per beneficiary	• Annual contribution cap of $2,000 per beneficiary
Income Phase-Out Range for a Donor Filing a Joint Return	• When your modified adjusted gross income was $150,000 - $160,000, for married taxpayers filing jointly, the $500 limit for each child would gradually reduce to zero. (When income was over $160,000, you could not contribute to an education IRA.)	• When your modified adjusted gross income is between $190,000 - $220,000, for married taxpayers filing jointly, the $2,000 limit for each child gradually reduces to zero. (When income is over $220,000, you cannot contribute to an education IRA.)
Beneficiaries	• Anyone under 18 years of age, family member or not.	• Anyone under 18 years of age, family member or not.
Qualified Withdrawals	• Education costs for college and graduate school including such expenses as tuition, fees, books, and uniforms.	• Education costs from kindergarten through grade 12, as well as college and graduate school costs including such expenses as tuition, fees, books, and uniforms.
Taxes on Qualified Withdrawals	• Exempted from federal taxes	• Exempted from federal taxes

Great care should be taken before one invests in either the 529 College Savings Plan or the more traditional Uniform Gift to Minor Act (UGMA). Both may play a role in one's financial plan but there are stark differences between the two. Highlighted below is a table that summarizes these major differences.

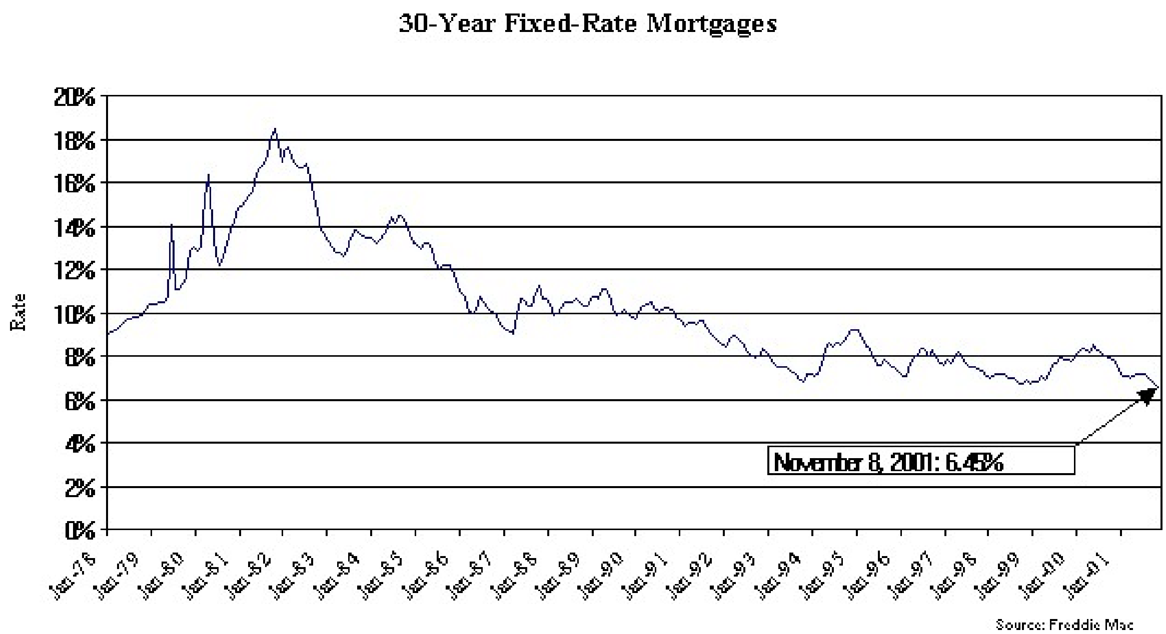
529 Plan v. Uniform Gift to Minor Account (UGMA)

529 Plan	UGMA
• Solely for the purpose of paying for post-secondary education. • Assets may be transferred to other members of the donor's extended family if the beneficiary does not seek higher education. • The decision on how to allocate these funds resides with the donor.	• For the purpose of transferring wealth from the donor to the child. • Custodian of the funds has a great amount of discretion of how to use funds for the benefit of the minor. • When minor becomes of age (18 years in Michigan), he/she has sole discretion of how funds are used.

Written by Steven A. Catallo

This Just In!

With the unprecedented drop in interest rates, it is worthwhile to review your mortgage arrangement. It is probable that a re-financing is in order, if you haven't done so already. In many cases, you can simply re-finance with your existing lender and reduce the paperwork burden. Thirty year fixed rate mortgages were just under 6.5% at the time of this writing, the lowest level in a few decades. If you have questions regarding whether it makes sense to re-finance, please call us.



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