EXHIBIT
HIERARCHY OF LONG-TERM SAVINGS

	Countable as Financial Aid to Parent (P) or Student (S) Per Federal Method (**A**)		Accessible to Pay Education Expenses Primarily by		2003 Tax Implications for			2003 Tax Benefit Limitations			
Savings Priorities (Title in parents' names, unless assets titled in child's name will be spent before BY1)	Asset	Income	Withdrawal (W) or Sale(S)	Borrowing	Purchase	Earnings-Withdrawal-Sale	Borrowing	Annual Max Contribu-tion/ Deduction	Expiration Date	(M)AGI Phaseout Threshold M-J/SS	S/HH
Tier 1: Sheltered Assets											
1. Retirement assets											
a. 401(k) or 403(b)	No	P	W (if hardship)		Exclusion	Deferred-OI(**E, F**)-N/A		$12,000/ $14,000	>2010 (**L**)	N/A	N/A
				Plan loan			Nondeduc-tible interest				
Simple IRA	No	P	W	N/A	Exclusion	Deferred-OI(**F**)-N/A	N/A	$8,000/ $9,000	>2010 (**M**)	N/A	N/A
b. Roth IRA	No	P	W	N/A	N/A	Deferred-Excluded(**G**)-N/A	N/A	$3,000/ $3,500	>2010 (**N**)	$150,000–$160,000	$95,000–$110,000
2. Principal residence	No (**B**)	N/A	No		N/A	N/A-N/A-Excluded		Exclusion is limited to $500,000 (**M-J**)/$250,000 (**S**)			
				Mortgage/ home equity line			Mortgage interest deduction	Mortgage is limited to $1,000,000, home equity line is limited to $100,000			
3. Permanent life insurance	No	P	W/S		N/A	Deferred-Excluded (**H**)-OI		Unlimited	N/A	N/A	N/A
				Policy loan			Student loan interest	$2,500	>2010 (**O**)	$100,000–$130,000	$50,000–$65,000
Tier 2: Potentially Shelterable Assets											
2-1: By Borrowing or Liquidation											
1. Bank certificate of deposit/ savings account	P	P	W		N/A	OI-N/A-N/A		Unlimited	N/A	N/A	N/A
				Bank loan			Investment interest deduction	Deduction is limited to investment income		$139,500 (**S**)	$139,500 (**S**)
2. Corporate/other nonmunicipal bonds/bond funds	P	P	S		N/A	OI-N/A-LTCG		Unlimited	>2008 (**P**)	N/A	N/A
				Margin debt			Investment interest deduction	Deduction is limited to investment income		$139,500 (**S**)	$139,500 (**S**)
2-2: Usually by Liquidation											
1. CESA (assumes use before BY1 for qualified education expenses)	S (**C**)	S	W	N/A	N/A	Deferred-Excluded(**I**)-N/A	N/A	$2,000	>2010 (**Q**)	$190,000–$220,000	$95,000–$110,000
2. Municipal bonds/bond funds (assumes sale before BY1 to pay debts or buy Tier 2-1 assets and shelter)	P	P	S		N/A	Exclude-N/A-LTCG		Unlimited	>2008 (**P**)	N/A	N/A
				Margin debt			*Nondeducti-ble interest*				
3. Stocks/stock funds (assumes sale before BY1 to pay debts or buy Tier 2-1 assets and shelter)	P	P	S		N/A	*LTCG(**J**)*-N/A-LTCG		Unlimited	>2008 (**P**)	N/A	N/A
				Margin debt			*Investment interest deduction (**J**)*	Deduction is limited to investment income		$139,500 (**S**)	$139,500 (**S**)
4. U.S. savings bonds (assumes redemption before BY1 to pay debts or buy Tier 2-1 assets and shelter)	P	P	S (redemp-tion)	N/A	N/A	Deferred-*OI(**K**)*-N/A	N/A	$30,000	N/A	N/A	N/A
Tier 3: Nonshelterable Assets											
1. Section 529 college savings plan	P	No	W	N/A	N/A	Deferred-*Excluded(**I**)*-N/A	N/A	Varies by plan	>2010 (**R**)	N/A	N/A
2. Qualified U.S. savings bonds (assumes use in BY1 for college education)	P	P	S (redemp-tion)	N/A	N/A	Deferred-*Excluded(**K**)*-N/A	N/A	$30,000	N/A	$87,750–$117,750	$58,500–$73,500
3. CESA (assumes use in BY1 for college education)	S (**C**)	S	W	N/A	N/A	Deferred-*Excluded(**I**)*-N/A	N/A	$2,000	>2010 (**Q**)	$190,000–$220,000	$95,000–$110,000
4. Section 529 prepaid tuition plan	(**D**)	(**D**)	W	N/A	N/A	Deferred-*Excluded(**K**)*-N/A	N/A	Varies by plan	>2010 (**R**)	N/A	N/A
Tier 4: Undersirable Assets											
1. Annuities	No	P	W	N/A	N/A	Deferred-OI-N/A	N/A	Unlimited	N/A	N/A	N/A
2. Traditional IRA	No	P	W	N/A	Deduction	Deferred-OI(**F**)-N/A	N/A	$3,000/ $3,500	>2010 (**M**)	$60,000–$70,000	$40,000–$50,000

Note: *Italicized words suggest questionable strategies or potential adverse tax consequences.*
(A) *Assumes asset owned by parents.* ***(B)*** *A principal residence is countable using the institutional method (IM). A second (vacation, rental) property is countable using either method.* ***(C)*** *If IM, if student's sibling owns a CESA, sibling's CESA is counted as a student asset.* ***(D)*** *The value of a prepaid tuition plan is not counted as an asset. Distributions from it generally are treated as a student resource.* ***(E)*** *Can withdraw elective deferrals (if hardship) and entire balance, if plan permits.*
(F) *Not subject to 10% withdrawal penalty if used to pay for "qualified education expenses."* ***(G)*** *Contributions can be withdrawn tax- and 10% penalty-free anytime. Earnings are taxed if withdrawn before age 59 ½, but are penalty-free if used to pay for "qualified education expenses." Earnings are tax- and penalty-free if held for five years and withdrawn after 59 ½.* ***(H)*** *Can withdraw tax-free up to contributions; then must borrow or surrender to get earnings.* ***(I)*** *Excluded if used to pay for "qualified education expenses," but expenses ineligible for Hope Scholarship Credit, Lifetime Learning Credit, and tuition deduction.* ***(J)*** *Consider possible loss of LTCG rates on dividend income if stock held in margin account.* ***(K)*** *Excluded only if used to pay for tuition, but expenses ineligible for Hope Scholarship Credit, Lifetime Learning Credit, and tuition deduction.* ***(L)*** *Maximum elective deferral reverts to $10,500.* ***(M)*** *Maximum elective deferral reverts to $6,500.* ***(N)*** *Maximum annual contribution reverts to $2,000.* ***(O)*** *MAGI thresholds are reduced and 60-month rule is reinstated.* ***(P)*** *Capital gain rates revert to 20%/10%; dividends revert to ordinary income treatment.* ***(Q)*** *K–12 expenses no longer qualify for exclusion, annual contribution reduced to $500, phaseout threshold reduced.* ***(R)*** *Distributed earnings are subject to tax.* ***(S)*** *AGI phaseout threshold for itemized deductions.*