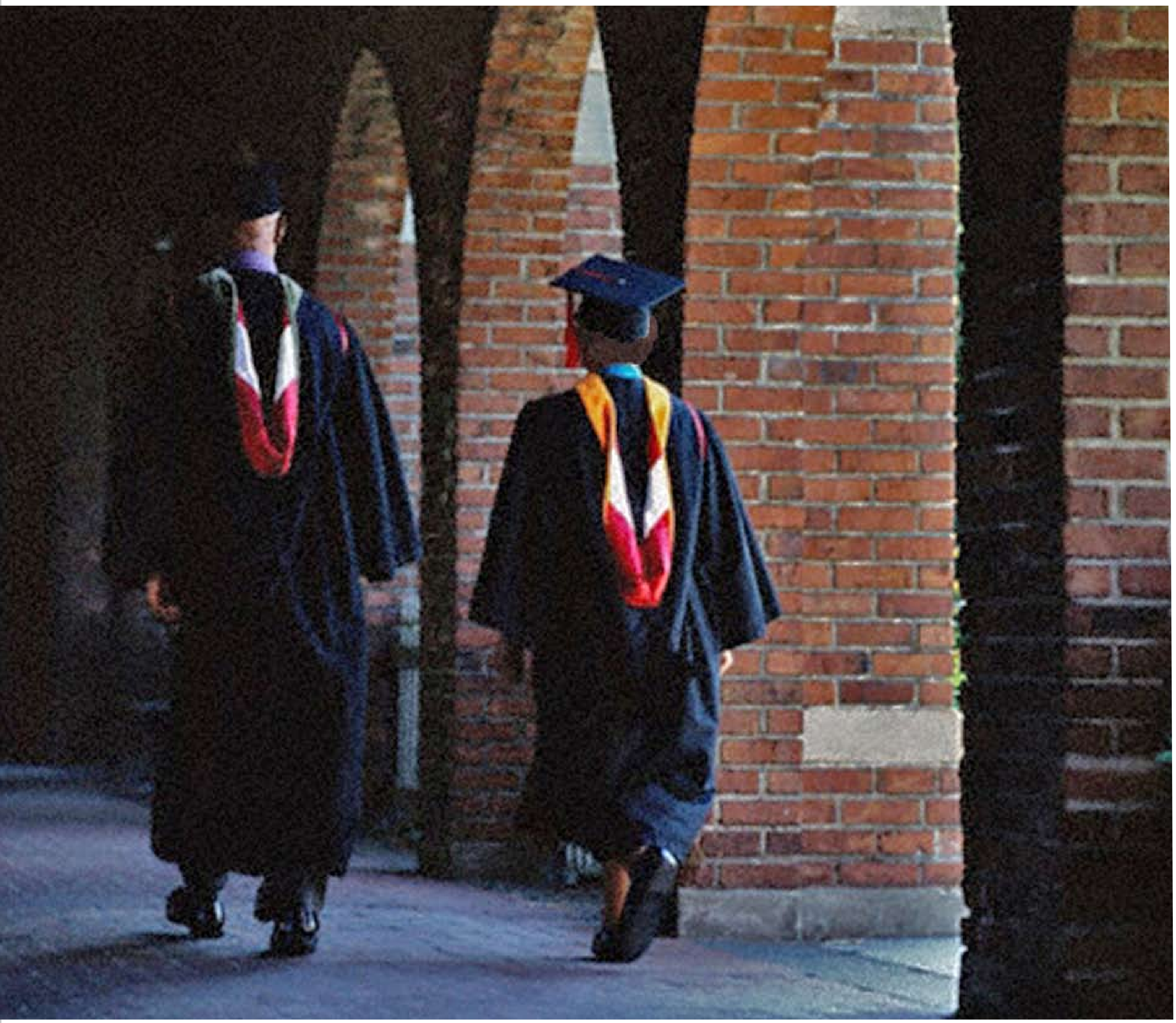
Morgan Stanley

529 College Savings Plans

Simply the Smartest Way to Save for College



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What could be smarter?

There is no more precious gift you can give a child than a college education—and no smarter way to save for college than with a 529 College Savings Plan. Among its numerous advantages:

- **Gift tax benefits:** You may contribute up to $12,000 annually ($24,000 for married couples filing jointly) for each child without incurring gift taxes.
- **Estate planning benefits:** Contributions are excluded from your taxable estate.
- **Tax-deferred growth:** Contributions grow on a tax-deferred basis, and withdrawals used for qualified education expenses are exempt from federal income taxes. In many cases, withdrawals may also be free from state income tax.
- **Control and flexibility:** You decide when to take distributions and how much to withdraw—and you can change beneficiaries at any time.

Morgan Stanley offers 529 Plans that provide a wide array of investment options. Speak to your Morgan Stanley Financial Advisor to find out which Plan is best for you.

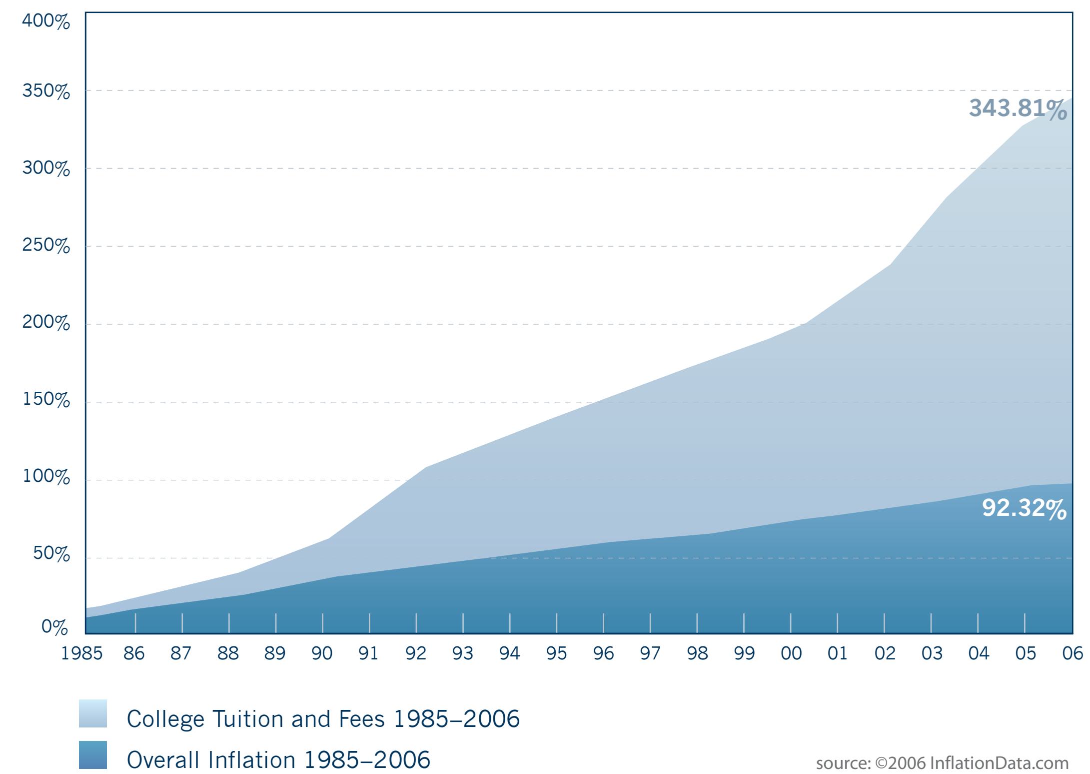
Smart made simple.

Saving for college with a 529 Plan is smart—but selecting the 529 Plan that best meets your objectives takes expert advice. Your Morgan Stanley Financial Advisor can help you sort through the options—and make a smart decision simple.

No time like the present

While the cost of living is rising fast, the cost of college is rising even faster–as much as three times the rate of general inflation. Indeed, College Board data suggest that tuition and related expenses will likely continue to rise by 6% a year for the foreseeable future. That means a year of undergraduate study at a private institution is likely to exceed $100,000 by 2026. Public college costs are likewise on the upswing, and are expected to average nearly $80,000 a year by then. The good news is that even relatively small contributions to a college savings plan can add up quickly. Thus, the earlier you begin saving for college, the better.

Tuition Inflation Is Outpacing General Inflation



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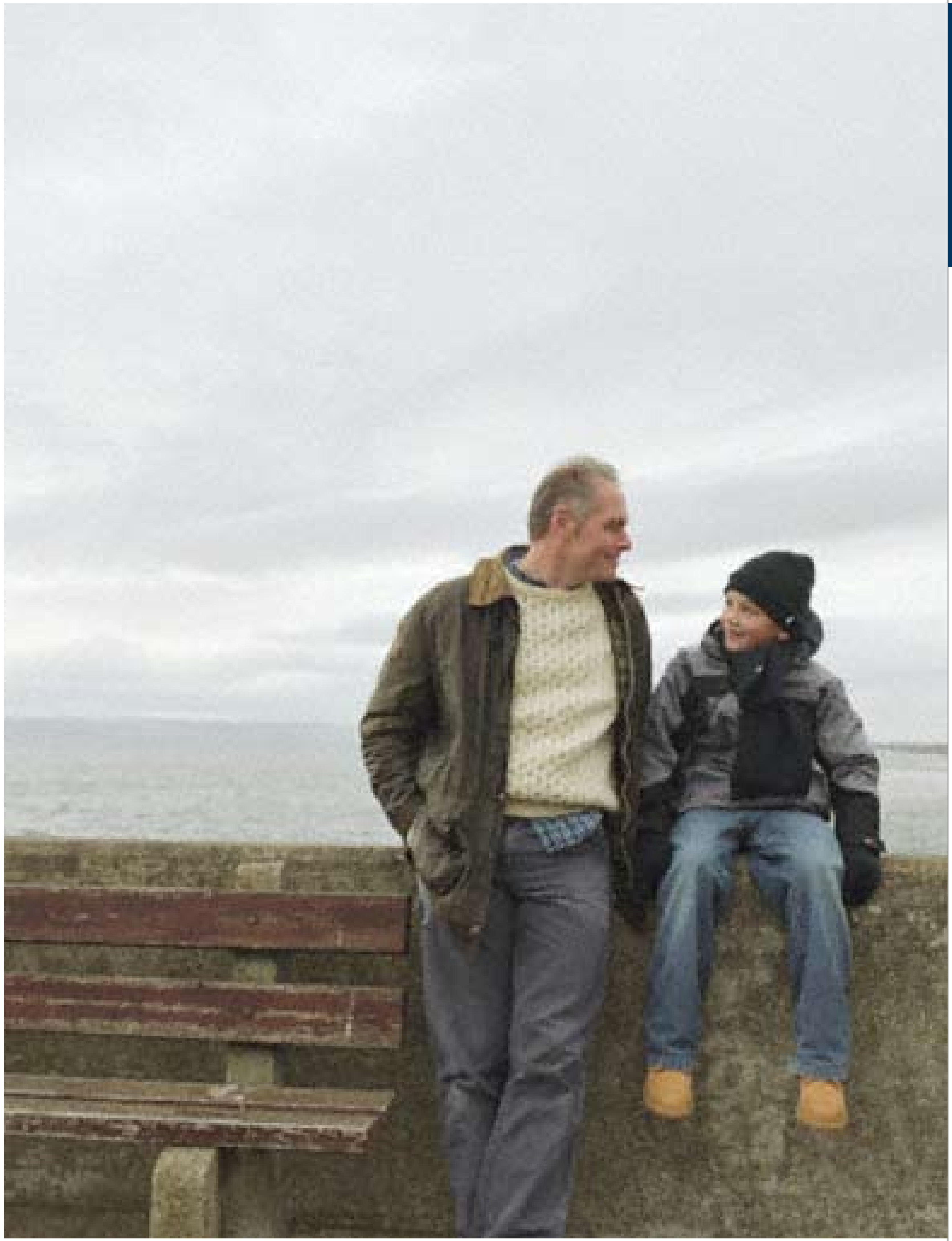
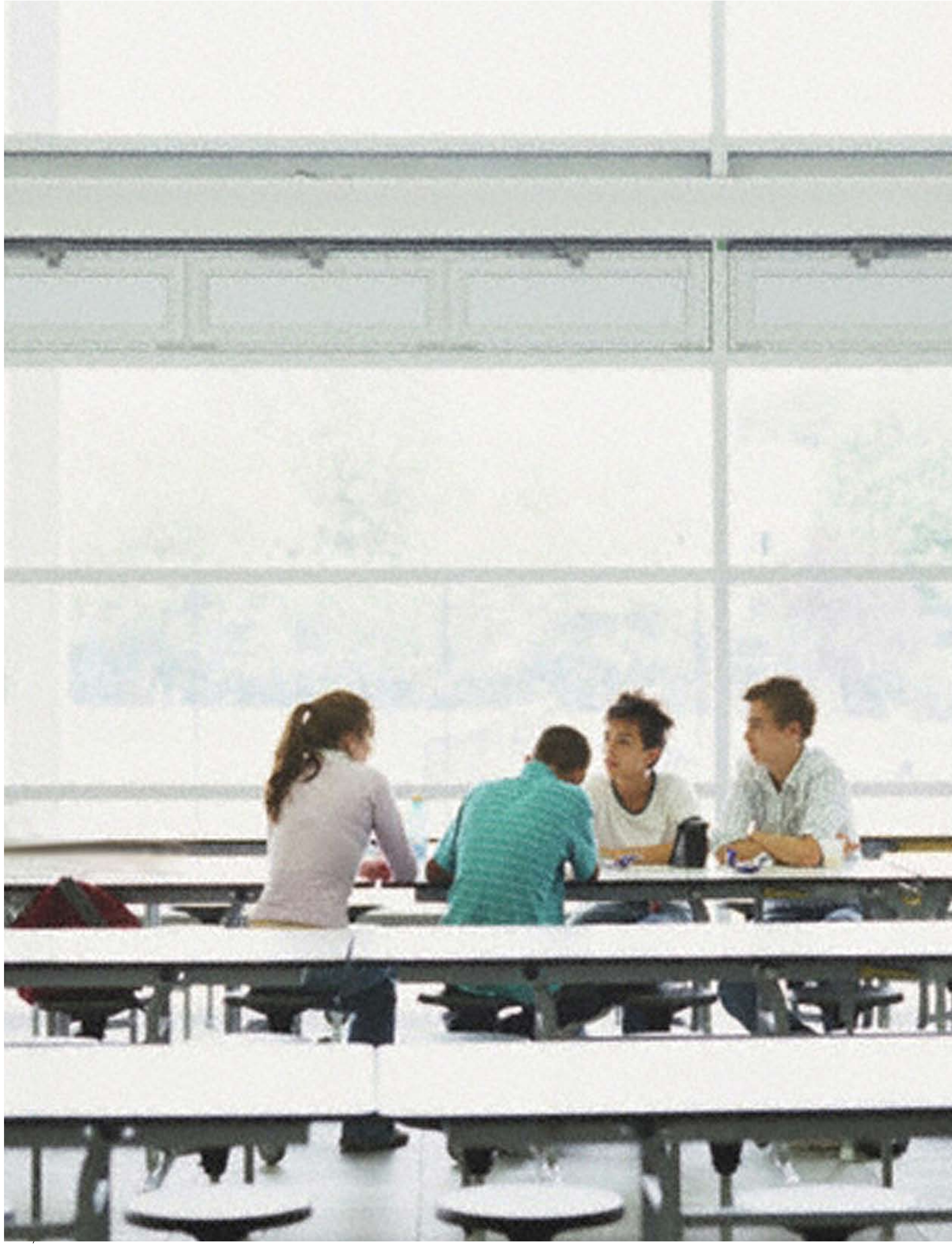


A wealth of benefits

With college inflation showing no signs of easing, 529 Plans offer numerous advantages over other college savings vehicles, combining a unique array of tax savings, flexibility and control.

- **Tax-deferred growth.** Contributions to a 529 Plan account grow on a tax-deferred basis. Withdrawals are also free from federal tax as long as they're used to pay for qualified education expenses, such as tuition, fees, room and board, transportation, books and supplies.
- **State tax benefits.** In many states, contributions may be deducted from state income tax as well. State laws vary, so speak with your Financial Advisor.
- **Estate planning advantages.** 529 Plan assets are excluded from your estate and thus not subject to estate taxes. Individuals can contribute up to $12,000 a year ($24,000 for a married couple) per beneficiary without incurring federal gift tax. Better yet, an accelerated gifting provision lets you make up to five years' contributions—$60,000 for an individual, ($120,000 for a married couple)—in a single year, provided you make no further gifts to that beneficiary during the next five years.
- **Exceptional flexibility.** Anyone can contribute to 529 Plans—parents, grandparents, aunts and uncles and even friends—and there are no age limits or income restrictions. You can even change the beneficiary without penalty, at any time, and an unlimited number of times. What's more, 529 Plans can be used for virtually any public or private institution of higher education in the United States or abroad.
- **High contribution limits.** Contribution limits are typically in the $200,000–$300,000 range. That means you can accumulate sufficient assets in your account to cover the full cost of college. Since specific maximums vary from state to state, it's best to check with your Financial Advisor.
- **You retain control of your assets.** With a 529 Plan, you—not the beneficiary—maintain total control over how the money is used, thus ensuring that it is spent according to your wishes.



Investment strategies tailored to your needs

Not all 529 Plans are the same. Your Morgan Stanley Financial Advisor can help you select the Plan that best suits your needs from more than 20 offered by some of the nation's leading mutual fund companies.

Depending on the specific Plan, you can choose from a range of investment strategies based on the age of the beneficiary, your financial objectives and other criteria. Some typical asset allocation strategies include:

- **Age-based (or years-to-enrollment-based)—**Diversified (multifund) portfolios, comprising equities and bonds; automatically rebalanced and reallocated to more conservative holdings as the beneficiary ages
- **Static multifund—**Diversified portfolios, rebalanced but not automatically reallocated as the beneficiary ages
- **Single fund—**Portfoilios consisting of a single underlying mutual fund, chosen by the account holder; investments range from conservative to more aggressive
- **Guaranteed—**Principal-insured portfolios paying a guaranteed rate of return

Changing investment strategies is easy

With a 529 Plan, you can reallocate the funds in your account once each calendar year, or whenever you change beneficiaries. You can direct subsequent contributions to any portfolio at any time.

Your 529 Plan: A core element in your overall financial strategy

Like planning for retirement or the purchase of a home, putting away money for college has become a key component of the investment and savings life cycle. Not surprisingly, more and more families are choosing 529 Plans to meet their college savings goals.

Working with your Morgan Stanley Financial Advisor, you will benefit from the resources and expertise of one of the world's foremost financial institutions. In so doing, you can be confident that your 529 Plan will be managed as part of an overall plan tailored to your family's specific financial objectives and life goals.

How we help you define and achieve your goals

Our approach to helping you define and achieve your college savings goals is rooted in a five-step process we employ with every client:

- **Understanding you.** Our relationship with you begins with a frank conversation to help us thoroughly understand your goals, time frame, tolerance for risk and particular needs.
- **Analyzing your needs.** We review and analyze your current financial situation and evaluate various strategies that could be employed to help you reach your goals.
- **Tailoring your solution.** We evaluate and recommend the appropriate combination of investments for your strategy, and make sure you understand them.
- **Carrying out your choices.** We help you implement the strategy that you have chosen.
- **Staying committed to you.** We maintain an ongoing commitment to our relationship through regular contact, timely account information and making sure that any questions or concerns you may have are expeditiously addressed.

College Savings Plans: Comparing the Options

As the chart below shows, 529 Plans compare favorably with other popular college savings solutions in a number of ways.

How 529 Plans Compare with the Alternatives

	529 Plan	UTMA/UGMA Account	Coverdell Education Savings Account
Income limits	None	None	• Allowable contributions are reduced for incomes above $95,000 • No allowable contributions above $110,000
Contribution limits	Total $200,000–$300,000 per beneficiary	None	$2,000 annually per beneficiary

Federal income tax treatment	• Earnings grow free from federal tax
	• Withdrawals for qualified higher education expenses are free from federal tax
		• Children ≥14: earnings taxed at child's rate
		• Children <14: first $800 of earnings is tax-free
		  • Earnings $800 to $1,600 taxed at child's rate
		  • Earnings above $1,600 taxed at parents' rate
			• Earnings grow free from tax
			• Withdrawals for qualified elementary, secondary and higher education expenses are free from federal tax

State income tax treatment	Contributions may be free of state income taxes in some states	No state tax benefit	No state tax benefit
Control of assets	Owner controls assets and decides when withdrawals will be made	Beneficiary assumes control at the age of majority (18 or 21 in most states)	Beneficiary assumes control at the age of majority (18 or 21 in most states)
Revocability	Owner has the option of changing beneficiary or liquidating the account	Owner has the option of changing the beneficiary or liquidating the account until the beneficiary reaches the age of majority	Account is irrevocable; account owner may not change beneficiaries
Qualified uses	College tuition, room & board, lab fees, supplies and transportation	Before the beneficiary reaches majority, qualified expenses include tuition, room & board, lab fees, supplies and transportation for education at all levels from kindergarten through graduate school	No restrictions

529 Plans: Frequently Asked Questions

Q. When can I claim a deduction on my state tax filing if I make a contribution to a 529 Plan?

A. It depends. Because each state has created its 529 Plan independently, some residents are entitled to a state tax deduction—from hundreds of dollars in some states to an unlimited deduction in others—while many states offer no deduction at all.

Q. Do I have to pay tax on the earnings in a 529 Plan account?

A. Your earnings on the money you invest in your account are not subject to federal tax before they are distributed. Withdrawals from a 529 Plan for qualified expenses are free from federal income tax. State taxes may apply to qualified withdrawals for residents of certain states. Speak to your tax or Financial Advisor.

Q. What if I need the money for something else?

A. You can withdraw all or any portion of the money in a 529 account at any time for any purpose. However, withdrawals for purposes other than paying a designated beneficiary's qualified higher education expenses are deemed to be "nonqualified." Nonqualified withdrawals are subject to federal income tax and a 10% penalty tax on earnings, with some exceptions, and may also be subject to state tax. Speak to your tax or Financial Advisor.

Q. What if my child receives a scholarship and doesn't need the money?

A. If you withdraw funds not needed for college because the beneficiary has received a scholarship, the normal 10% federal penalty is not assessed.

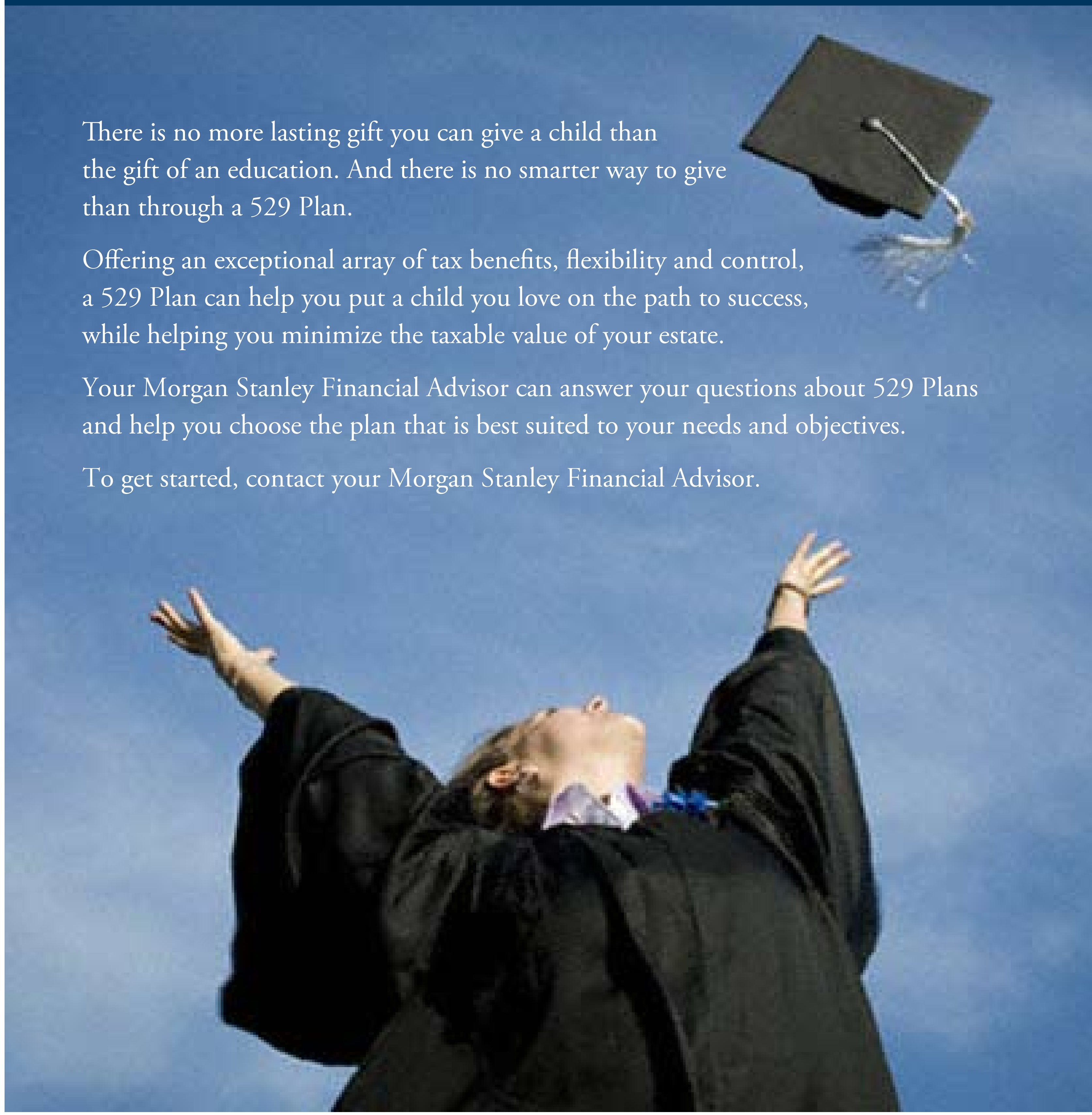
Q. Can others open an account for the same beneficiary I have designated?

A. Yes, other people may also open their own account(s) for the same designated beneficiary—in either the same state or a different state's Plan.

Q. Can I change how my account is invested?

A. For each subsequent contribution that is made to your account, you can elect how such a contribution is invested.

A gift that's lasting.
A way to save for it that's smart.



There is no more lasting gift you can give a child than the gift of an education. And there is no smarter way to give than through a 529 Plan.

Offering an exceptional array of tax benefits, flexibility and control, a 529 Plan can help you put a child you love on the path to success, while helping you minimize the taxable value of your estate.

Your Morgan Stanley Financial Advisor can answer your questions about 529 Plans and help you choose the plan that is best suited to your needs and objectives.

To get started, contact your Morgan Stanley Financial Advisor.

Investments in a 529 Plan are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so an individual may lose money. Review the applicable Program Disclosure Statement, which contains more information on investment options, risk factors, fees and expenses and possible tax consequences. Investors should read the Program Disclosure Statement carefully before investing. This material was written to support the promotion or marketing of the transaction or matters addressed herein. It was not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor. This assumes that there were no gifts made by the gift giver to the beneficiary in the prior five years. Any gifts made in the five years prior to, or the five years after, an accelerated gift is made may result in a taxable event. Investors should consider many factors before deciding which 529 Plan is appropriate. Some of these factors include: the Plan's investment options and the historical investment performance of these options, the Plan's flexibility and features, the reputation and expertise of the Plan's investment manager, Plan contribution limits and the federal and state tax benefits associated with an investment in the Plan. Some states, for example, offer favorable tax treatment and other benefits to their residents only if they invest in the state's own Qualified Tuition Program. Investors should consult with their financial and tax advisor before investing in any 529 Plan, or contact their state tax division for more information.

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