

529 COLLEGE SAVINGS PLANS



Planning for Tomorrow, Today



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As the number of voluntary savings programs continues to grow in the marketplace, Delphi continues to research these types of offerings. This brochure is intended to give active hourly (currently employed) employees an overview of the general features of 529 College Savings Plans. Delphi's intent in making this information available is to provide education and additional exposure about this type of external college investment program. 529 College Savings Plans are available to you publicly, and Delphi is not endorsing any specific 529 College Savings Plan.

After reading through the enclosed material, if you have any questions about 529 College Savings Plans or would like to enroll in a 529 College Savings Plan, please contact the plan's administrator directly.

This brochure, which is only a summary of 529 College Savings Plans, should not be treated as a substitute for qualified tax or investment advice. You may want to consult your tax and/or legal advisor if you have questions about how 529 College Savings Plans might meet your financial and estate planning needs.

Why Save for College?

College is more important than ever, as the value of a college education has never been higher. Today, a person with a college degree has the potential to earn about 60% more than a person who holds only a high school diploma.

Rising Cost of U.S. Colleges

Paying for college can be a daunting task. In 2003, the average annual cost for attending a four-year public university (including tuition, room and board, and books) was \$10,600. For a four-year private university, the average annual cost was \$26,800. Multiply that by four years of school, assuming the cost of college is growing at 5% each year, and the potential cost ranges from **\$45,800 to \$115,700 in today's dollars.**

By the time a newborn reaches college, these numbers could more than double. If college costs increase by only 5% a year, over the next 18 years, the total cost for four years of college could be over \$110,300 for a public university and over \$278,500 for a private university.

Source: Trends in College Pricing, 2003



If you're planning on sending your child to college, or even if you have grandchildren, nieces or nephews, there is a way to help plan for the high cost of tuition. It's called a **529 College Savings Plan and may be one of the smartest ways to save for college.**

What is a 529 Plan?

Named after Section 529 of the federal tax code, 529 College Savings Plans, or “529 Plans” as they are commonly called, offer you federal and sometimes state tax incentives to help save for college or other post-secondary education for any beneficiary (i.e., student) of your choosing. Regardless of your annual income, you are eligible to open a 529 Plan account. The money you put into a 529 College Savings Plan can be used at most accredited U.S. post-secondary schools as well as eligible foreign institutions for a wide variety of qualified higher education expenses, including tuition, certain room and board costs, books, necessary supplies, and other required costs and fees.

Some of the Benefits of a 529 College Savings Plan Include:

- Contributions are “after-tax,” but your investment grows tax-deferred, similar to the money in your Personal Savings Plan (PSP) account.
- Qualified withdrawals from the account are free from federal income tax* and may be free from state income taxes.
- You are in control of the account at all times (not the beneficiary); additionally, most plans allow you to change the beneficiary to another eligible member of the original beneficiary’s family.
- If you participate in the 529 College Savings Plan offered by your state, you may be eligible for a state tax deduction or other state benefits.
- 529 College Savings Plan contributions are generally not included in your estate at death.

** Pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”), qualified distributions are federal income tax free. The provisions of EGTRRA will expire on December 31, 2010. Unless the law is extended by Congress and the President, the federal tax treatment of 529 plans will revert to its status prior to January 1, 2002.*



College Savings Plan Options

Another benefit of a 529 College Savings Plan is the very high account balance limit, which may be adjusted periodically to factor in the rising cost of college tuition. Better still, you can contribute to both a 529 College Savings Plan and a Coverdell Education Savings Account (formerly known as the Education IRA) for the same beneficiary each year.

COMPARE THE ALTERNATIVES				
	529 COLLEGE SAVINGS PLAN	COVERDELL EDUCATION SAVINGS ACCOUNT	UDELPHIA/UTMA ACCOUNTS	529 PRE-PAID TUITION PLAN
Income limitations	No	Yes	No	No
Limitations on contributions	No annual limit, but contributions limited when account reaches maximum balance, which varies by specific plan; contribution amounts above \$11,000 (or under a special 5-year provision, \$55,000) per beneficiary in a single year may be subject to federal gift tax ¹	\$2,000 (less the amount of contributions made for the beneficiary by any other person) per year	None Contribution amounts above \$11,000 per year may be subject to federal gift tax	Limits vary according to specific state plan; contribution amounts above \$11,000 (or under a special 5-year provision, \$55,000) per beneficiary in a single year may be subject to federal gift tax ¹
Ability to change beneficiaries	Yes (within the same family of the original beneficiary)	Yes (within the same family of the original beneficiary)	No	Yes (within the same family of the original beneficiary)
Control of withdrawals	Owner of account	Transfers to child when child reaches legal age ²	Transfers to child when child reaches legal age	Owner of account
Investment options	Options vary according to specific plan	Wide range of securities	Wide range of securities	Tuition units guaranteed to match tuition inflation
Qualified use of proceeds	Any eligible, accredited post-secondary school in the U.S. and some foreign schools	Any eligible elementary, secondary and accredited post-secondary school in the U.S.	Unlimited but must be used for the benefit of the child	Varies by specific state plan
Penalties for non-qualified withdrawals	Additional 10% federal penalty tax on earnings	Additional 10% federal tax on earnings	No	Additional 10% federal tax on earnings
Taxation of qualified withdrawals	Federal income tax free ^{3,4,5}	Federal income tax free ³	A portion may be tax exempt; some/all income may be taxed at child's rate	Federal income tax free ^{3,4}

¹ In order for an accelerated transfer to a 529 Plan (for a given beneficiary) of \$55,000 (or \$110,000 combined for spouses who gift split) to result in no federal transfer tax and no use of any portion of the applicable federal transfer tax exemption and/or credit amounts, no further annual exclusion gifts and/or generation-skipping transfers to the same beneficiary may be made over the five-year period, and the transfer must be reported as a series of five equal annual transfers on Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return. If the participant dies within the five-year period, a portion of the transferred amount will be included in the donor's estate for estate tax purposes.

² Owners of Coverdell Education Savings Accounts (formerly Education IRAs) generally retain control for the life of the account or until the beneficiary reaches age 30.

³ Pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), qualified distributions are federal income tax free. The provisions of EGTRRA will expire on December 31, 2010. Unless the law is extended by Congress, the federal tax treatment of 529 plans will revert to its status prior to January 1, 2002.

⁴ Withdrawals for qualified higher education expenses subject to tax and penalty if HOPE Scholarship or Lifetime Learning credit is claimed for same expenses, or if same expenses are allocated to a distribution from a Coverdell education savings account.

⁵ Withdrawals from both a 529 College Savings Plan and a Coverdell ESA for the same beneficiary in the same year trigger coordination rules that may impact the tax-free nature of your withdrawal.

Numerous recent changes in the tax law have made college savings plans more accessible and attractive to many people. Some of the changes, including federal income tax-free treatment of withdrawals for qualified higher education expenses, are scheduled to expire on 12/31/10 unless extended by Congress. You should consider the place of various education-planning vehicles in the context of your overall financial plan with a financial and/or tax advisor. This guide, which is only a summary of various education savings options, should not be treated as a substitute for qualified tax or investment advice.

You should consult your financial advisor if you are uncertain as to which investment option or investment options to select or if you wish to evaluate your financial circumstances.

Getting Started Early

To make the most of your contributions in a 529 College Savings Plan, getting started early, no matter how little, can be very important.*

The chart below shows how powerful regular investing can be. As you can see, investing as little as \$50 per month can add up over time.

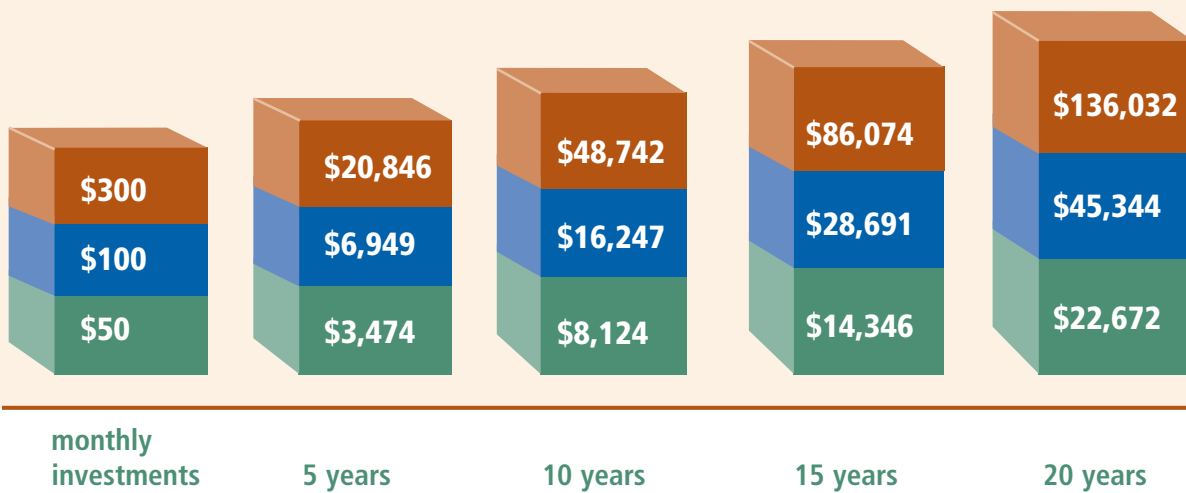
Time allows you to take advantage of the power of compounding, the process of earning interest upon what your money has earned.

The sooner you invest, the more time your money may have to compound and grow.

**Periodic investing plans do not guarantee a profit or protect against a loss in a declining market.*

Time May Be Your Greatest Ally

HYPOTHETICAL GROWTH CHART



This hypothetical example illustrates the future value of different regular monthly investments for different periods of time in a tax-deferred investment assumes an annual effective investment return of 6%. The regular monthly contributions are assumed to be made at the beginning of each month. State and local taxes, if any, and expenses are not taken into account. If state and local taxes, fees, and expenses were deducted, performance would be lower. This is a hypothetical example and is not intended to predict or project the performance of any investment. Periodic investment plans do not guarantee a profit or protect against a loss in a declining market. Unit price will vary, and you may have a gain or loss when you sell your units. Your own results will vary.

How 529 Plans Work

Any investment earnings on qualified withdrawals are free from federal and, in some cases, state income tax¹ – this may help you to meet the rising cost of college.

Affordability – With some plans, you can open a 529 Plan account with as little as \$15 per month if you opt for an automatic investing plan.

Flexibility – Even though most 529 College Savings Plans are state sponsored, you don't have to participate in the plan sponsored by your state; however, some states offer favorable tax treatment to their residents only if they invest in their own state's 529 plan. The student can attend any eligible institution, public or private, in your state or elsewhere in the U.S. or abroad. You can choose the investment option(s) and name the beneficiary. You may also change the beneficiary on the account to an eligible family member of the original beneficiary at any time. Your ability to change the beneficiary may help you reduce the risk of needing to take a non-qualified withdrawal.²

Multiple Accounts – One beneficiary can benefit from several savers' accounts. Multiple accounts can be opened for the same beneficiary (with one beneficiary per account) by different account owners.

Investment options to help fit your investment style – Generally, 529 College Savings Plans offer age-based portfolios. This type of portfolio allocates assets among mutual funds based on the age of the beneficiary, with the allocation automatically changing over time to a more conservative approach as the beneficiary reaches college age. In addition, some 529 College Savings Plans offer static portfolios, which vary in risk and potential return and are not designed for beneficiaries of a specific age. Some plans even offer guaranteed options.

¹Pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), qualified distributions are federal income tax free. The provisions of EGTRRA will expire on December 31, 2010. Unless the law is extended by Congress, the federal tax treatment of 529 plans will revert to its status prior to January 1, 2002.

²Any earnings of non-qualified distributions will be subject to income taxes at the distributee's rate as well as to a 10% federal penalty tax.

Eligible Education Institutions –

529 Plan account assets may pay for costs at:

- public or private colleges
- universities
- graduate schools
- community colleges
- vocational schools across the United States and in some foreign countries

They must be accredited, post-secondary schools that offer credit toward an associate's, bachelor's, graduate or professional degree or a recognized post-secondary credential. Also, they must be eligible to provide students with federal financial assistance.

Control of the assets invested on behalf of the beneficiary –

You will maintain control over the use of the 529 College Savings Plan assets, so you can ensure that the money is used for college. If the beneficiary does not go to college, you can simply change the beneficiary at any time to an eligible family member of the original beneficiary or withdraw the money.³

Ability to change your beneficiary at any time –

You can name another member of the original beneficiary's family as the new beneficiary. The definition of family member includes siblings (including stepbrothers and stepsisters) and first cousins of the original beneficiary, which allows grandparents to change beneficiaries among grandchildren.

Account Fees – Depending on the plan you select and, in some cases, the amount of money in your account, some 529 College Savings Plans may charge an annual account fee. There is also an asset-based management fee, and depending on your selected investment option(s), there may be an additional charge for underlying mutual fund management expenses.

³In the event of a non-qualified withdrawal, any distributed investment gains will be taxed as ordinary income at the account owner's tax rate and an additional 10% federal tax will be applied. Some 529 Plans may also assess additional penalties.

How Much Can I Invest in an Account?

In general, 529 College Savings Plans have high account balance limits which vary from plan to plan. In determining a beneficiary's total account balance, it is important to note that it equals the sum of all balances for all accounts within a state's 529 Program designating that beneficiary including any 529 Pre-Paid Tuition Plan accounts.

For example, you, your father and your sister each have a 529 College Savings Plan account with a \$235,000 maximum contribution limit naming your daughter, Maggie, as the beneficiary. The current account balances are:

Account Holder	Account Beneficiary	Account Balance
You	Maggie	\$100,000
Your Father	Maggie	\$50,000
Your Sister	Maggie	<u>\$25,000</u>
Total		\$175,000

Everyone may continue to contribute to Maggie's account, as long as the total does not exceed \$256,000. NOTE: Total account balance includes contributions plus investment gains. Once Maggie's account exceeds \$256,000, no one can contribute anything further. However, investment income may take the total over \$256,000.



How to Make Contributions

There are a number of ways to invest in a 529 College Savings Plan that may include:

- Automatic investments from your bank account
- Investments by check
- Telephone and electronic banking
- On-line services
- Rollover — You can roll over your 529 College Savings Plan account to another 529 College Savings Plan account once every 12 months without changing beneficiaries. Otherwise, a beneficiary change is required.
- Convert — It is possible to convert funds from other college saving investment vehicles, like UGMA/UTMA Accounts,* Coverdell Education Savings Accounts (formerly Education IRAs) and 529 Pre-Paid Tuition Plans, into a 529 College Savings Plan account. You should always check with your plan administrator to see how these conversions are handled and whether tax consequences result.

Federal tax law requires that all 529 College Savings Plan investments be made “in cash.”

For this reason, you cannot put stocks, bonds or property in your account. Checks are considered cash for this purpose and will be accepted.

**Prior to investing in a UGMA/UTMA 529 Plan account, you must liquidate your UGMA/UTMA account and pay all applicable taxes. Please consult with a tax professional regarding your specific situation.*

Payroll deduction is currently not available for 529 College Savings Plans through Delphi; however, as outlined above there are a number of other ways to make contributions.

Financial Aid*

Financial aid formulas used by colleges and the federal government are based on four factors: income of parent and child, and saved assets of parent and child. In general, the ability to pay (based on income and savings) is compared to the cost of attending a particular school. If there is a gap, the child may be eligible for needs-based aid. 529 College Savings Plans are considered assets belonging to the account owner and not the beneficiary.

Scholarships

If the beneficiary receives a scholarship and you don't need all of the money in your 529 College Savings Plan account to pay for qualified higher education expenses, you can withdraw the full amount of the scholarship or change the beneficiary to an eligible family member of the original beneficiary. If you withdraw the amount of the scholarship, investment gains included in your withdrawal will be taxed as ordinary income to the Distributee but the additional 10% federal penalty tax is not applied.

**Colleges may set their own financial aid criteria.*

Federal Gift and Estate Taxes

529 College Savings Plans can help people who want to reduce the size of their taxable estates. Contributions of up to \$11,000 per beneficiary in any one year are not subject to the federal gift tax. With a 529 College Savings Plan, you can make a gift of up to \$55,000 per beneficiary in one year without incurring a federal gift tax.* To do this you must elect the entire gift as a series of five equal annual gifts. You do this by filing a gift tax return for the year in which the lump-sum gift is made.

Let's illustrate this provision further. Let's assume that both your mother and your father (who are married) want to open a 529 Plan account for your son, Preston. If both your father and your mother each opened an account with Preston as the named beneficiary, each grandparent could contribute \$11,000 for the year without incurring a federal gift tax. As such, your parent's have just reduced their taxable estate by \$22,000. They could also contribute up to \$55,000 each, for a total estate reduction of \$110,000.*

Be sure to consult your accountant or other qualified tax professional about these useful provisions.

**In order for an accelerated transfer to a 529 Plan (for a given beneficiary) of \$55,000 (or \$110,000 combined for spouses who gift split) to result in no federal transfer tax and no use of any portion of the applicable federal transfer tax exemption and/or credit amounts, no further annual exclusion gifts and/or generation-skipping transfers to the same beneficiary may be made over the five-year period, and the transfer must be reported as a series of five equal annual transfers on Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return. If the participant dies within the five-year period, a portion of the transferred amount will be included in the donor's estate for estate tax purposes.*



Some 529 College Savings Plans allow you to name a trust as the account owner; however, you must still name a specific beneficiary for the account. If you are interested in this feature, please consult the plan's administrator as well as your tax advisor for further information.

Using the Account to Pay for College

When you make a distribution from your account to pay for a qualified higher education expense (such as tuition, room and board, mandatory supplies, expenses and fees, and books), you tell your 529 Plan administrator where to send the money. Under federal income tax law, investment gains of any money withdrawn and not used for qualified higher education expenses will be taxed at the Distributee's rate and will be subject to an additional 10% federal penalty tax. Some plans may also have additional penalties.

Currently, there are no “use it or lose it” provisions with regard to 529 College Savings Plans. You are not required to start taking withdrawals by a certain date, nor do all the funds need to be used for the original beneficiary. For example, your daughter Michelle has just finished college and you anticipate no future educational expenses for her. However, your 529 College Savings Plan account naming Michelle as the beneficiary still has a balance of \$10,000. You have two options at this point:

- 1 You can change the beneficiary to another member of Michelle's immediate family (as defined in the federal tax laws) without any negative income tax consequences, or
- 2 You can have the remaining balance disbursed as a non-qualified withdrawal where any investment gains will be taxed as ordinary income to the Distributee and will be subject to an additional 10% federal penalty tax and perhaps other penalties.

Keeping Track of Your Account

In general, with most 529 College Savings Plans, you will receive an account statement at least once each quarter with a description of your account activity and the value of your account. Most plans even offer on-line account access.

What to Look for When Analyzing a 529 Plan

529 College Savings Plans can differ in features and benefits. Here are some key factors to consider when choosing a college savings plan:

- Potential state income tax benefits
- Other state benefits, such as grants
- Fees and expenses
- Investment options and underlying investment managers
- Account balance limits

Generally, you should always look at your home state's plan to see what, if any, additional benefits may be offered. However, other plan features, such as investment options and investment fees, should also be considered as they may outweigh the special benefits offered by your home state plan. For example, let's assume the 529 Plan sponsored by State ABC gives a \$5,000 annual maximum state income tax deduction for contributions. If you contribute \$5,000 to the Plan and the state's tax rate is 4%, that's an annual tax saving of \$200. Over 18 years (assuming the beneficiary is a newborn, you contribute \$5,000 per year, and the state tax rate remains 4%), you will accumulate a total tax savings of \$3,600. As an investor, you need to weigh these tax savings with the plan's investment options, fees and expenses.

NOTE: This example is for illustrative purposes only and does not predict actual future tax savings.

Consider the Risks

Your investment in a 529 College Savings Plan is not guaranteed and, like all investments, is subject to risk, including the loss of your principal. Additionally, unlike 401(k) programs where the time horizon is on average 30 years, the time horizon for 529 College Savings Plans is shorter (i.e., typically 18 years if you open an account for a newborn beneficiary). Consider these implications when you choose your investment option(s). Your investments may have less time to recover from potential market losses. Further, you can only change investment options for your account once per calendar year and upon the change of beneficiary. Future tax regulations, amendments and laws could affect how your investment is taxed and EGTRRA will expire on December 31, 2010 unless extended by Congress. Read all plan offering statements carefully. You may want to consult your tax and/or legal advisor if you have questions about how 529 College Savings Plans might meet your financial and estate planning needs.

Additional Benefits



You can earn extra money for college savings by participating in Upromise.™ Upromise is an independent company who has formed a coalition of some of America's leading companies that provide contributions into your Upromise account as you purchase products or services from hundreds of participating companies.

Through Upromise, you can turn your everyday spending into college savings. Here's how it works. Register your credit cards and/or loyalty cards with Upromise in order to track your spending with participating companies. College savings contributions are then automatically calculated and credited to your Upromise account. Your accumulated contributions can then be transferred to a 529 College Savings Plan. NOTE: You may enroll separately in Upromise, without enrolling in a 529 College Savings Plan. To learn more about Upromise and to enroll, please visit their website at <http://www.upromise.com>.

Learning More About 529 Plans

Visit the following websites to get more information on all state-sponsored 529 Plans and how they can help you save for college: <http://www.savingforcollege.com>
<http://www.collegesavings.org>

Delphi's sole involvement is to educate its employees about the general features of 529 College Savings Plans. Delphi is not endorsing any specific 529 Plan(s). Employees who choose to invest in a 529 Plan do so voluntarily, at their own risk. 529 Plans are not a Delphi benefit offering governed by ERISA. They are not sponsored, administered or reviewed by Delphi, and are not subject to Delphi's Plan appeal procedures.

You should read the 529 Plan offering statement before opening an account. Principal and investment returns are not guaranteed or insured and will fluctuate.