

Financial Consultant Guide

SCHOLARS CHOICESM

A New Tax-Deferred College Savings Program

SCHOLARS CHOICESM



Save Today. Help Secure Tomorrow.

WWW.SCHOLARS-CHOICE.COM

Internal Use Only

A New Way To Build Your Business

Scholars Choicesm is a powerful new product that can jumpstart your business. The program will provide you with a way to help expand and reenergize existing client relationships, as well as an easy way to cultivate new ones.

Scholars Choice is a college savings program designed to help your clients save for a child's higher education expenses. Created under Section 529 of the Internal Revenue Code and sponsored by the State of Colorado, Scholars Choice lets your clients save more than ever before in a tax-deferred program. Anyone can invest in Scholars Choice and withdrawals can be used at any eligible post-secondary school in the U.S., including public and private colleges and universities, as well as community colleges and most vocational schools.

Scholars Choice: The Basics

- Annual investments of up to \$10,000 (\$20,000 for married couples) per beneficiary are exempt from gift taxes, and are excluded from the account owner's taxable estate.¹
- Alternatively, clients can contribute as much as \$50,000 (\$100,000 for married couples) per beneficiary without triggering gift taxes *if they do not make further gifts to the same beneficiary over the next four years.*²
- A choice of three investment options designed to keep pace with rising college costs. Assets are invested in portfolios of Smith Barney Mutual Funds.
- Earnings grow free from federal taxes³ until withdrawn to pay for college expenses. Qualified withdrawals are taxed at the student's federal income tax rate, which may be lower than the account owner's.
- No sales charges to the client—FCs receive upfront payout and trail (see p.3).

For more information on the program, read the Scholars Choice Program Disclosure Statement and client brochure.

Keep in mind that the tax information set forth in this brochure is general in nature and does not constitute tax advice on the part of Salomon Smith Barney, the Colorado Student Obligation Bond Authority or the State of Colorado. Clients should consult their tax advisor for more specific information concerning their particular circumstances.

¹ Please keep in mind that other gifts the client makes to the beneficiary during the same calendar year may reduce the amount they can contribute to a Scholars Choice account for that child without triggering gift taxes.

² If the account holder dies before the end of the 5-year period, a portion of the contributions will be included in his or her gross estate.

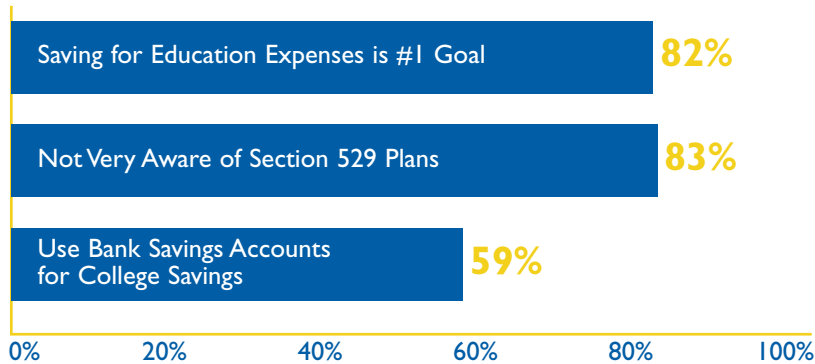
³ For residents of Colorado and certain other states, earnings are also exempt from state taxes. Clients should see their tax advisor for details.

Internal Use Only

Gain A Competitive Advantage

This is your opportunity to set yourself apart from the competition by being the first to offer a college savings plan through Scholars Choice. Consider these findings from a recent survey* of 500 adults commissioned by Fidelity Investments:

The Market Is Ready



Four Ways To Build Your Business

1. Increase assets under management

Scholars Choice allows your clients to contribute more than traditional tax-deferred savings programs. Account owners can contribute up to \$150,000 for any one beneficiary. (Note: this is the current maximum investment allowed by all account owners for any one beneficiary through Colorado Section 529 programs.)

2. Build long-term relationships

Clients' assets are likely to remain in the Scholars Choice program for the long term. It's also an excellent prospecting tool for cultivating new relationships.

3. Strengthen existing relationships

Now you have a reason to call existing clients with a new, innovative investment strategy. This can open the door to talk about retirement or estate planning issues, as well as other investment products.

4. Set yourself apart

Be the first to talk about Section 529 college savings programs and show your clients that you are up on current developments that can benefit them.

* Survey conducted in May 1999 by Richard Day Research, which polled 500 adults with household incomes over \$35,000 who expect to pay for at least some of their children's higher education costs.

Talking Points: Client Benefits

SPECIAL TAX ADVANTAGE FOR COLORADO RESIDENTS

In addition to federal tax advantages listed at right, Colorado State residents do not pay state taxes on qualified withdrawals.

Valuable Tax Advantages

- Earnings grow deferred from federal taxes.¹
- Qualified withdrawals are taxed at the student's tax rate.
- Investments of up to \$10,000 (\$20,000 for married couples) per beneficiary are exempt from federal gift and generation-skipping transfer taxes, and are excluded from the account owner's taxable estate.
- Clients can invest as much as \$50,000 in one year (\$100,000 for married couples) per beneficiary without incurring gift taxes *if they do not make additional gifts to the same beneficiary over the next four years.*²

Flexibility

- Anyone can contribute—regardless of age or income level.
- Account owners can change beneficiaries at any time—as long as the beneficiary is a family member of the original beneficiary (see the Program Disclosure Statement for a definition of family member).
- Investments can be used to pay for expenses at any eligible public or private post-secondary school in the U.S.— including community colleges and most vocational schools.
- The account can be used to pay for a variety of qualified expenses, including tuition, fees, room & board, books and supplies.
- If your clients change their mind about Scholars Choice, they can take their money out at any time. Earnings on their investment will be subject to state and federal taxes at the account owner's rate, as well as a 10% penalty for making a nonqualified withdrawal.

Convenience

- The program is easy to understand.
- Clients can make systematic investments of as little as \$15 through the Automatic Funds Transfer Program.
- Clients make one investment choice when they open the account, which is generally based on the age of the beneficiary.

¹ For residents of Colorado and certain other states, earnings are also exempt from states taxes. Clients should talk to their tax advisor for details.

² If the account holder dies before the end of the 5-year period, a portion of the contributions will be included in his or her gross estate.

Scholars Choice: A Powerful Estate Planning Tool

Scholars Choice may also be a good estate planning tool for your high net worth clients. Though they maintain ownership of the account, contributions are excluded from their taxable estate. With a maximum contribution of \$50,000 per spouse per beneficiary,¹ this can add up to a substantial sum.

Please note, however, that if the account owner dies within five years of making a contribution of greater than \$10,000, a portion of the account may be prorated back into his or her estate for estate tax purposes. Clients should consult with their tax and/or legal advisors on these matters.

THE JACKSONS: ESTATE TAX SAVINGS AT WORK

Combined net worth:	\$2.5 million
Grandchildren:	3
Contribution:	\$50,000 each per grandchild (\$150,000 total)
Estate tax rate:	53%
Total tax savings:	\$79,500 ²

¹ \$50,000 is the maximum contribution per beneficiary in one year without triggering gift taxes. It assumes that the account owner will not make further gifts to the same beneficiary over the next four years.

² This is a hypothetical example. It represents the tax savings at the death of the last surviving grandparent and assumes no growth in the estate. Savings are calculated by multiplying the \$150,000 gift by a 53% effective estate tax rate.

SALES CHARGES AND FC COMPENSATION

Client Upfront	FC Upfront	Trail	Client Back-end Load
None	25bps	25bps annually, accruing in the 13th month and paying on calendar quarters	None

“The Jacksons’ estate would have paid 53% (estate tax) on the \$150K at the time of their death had they not contributed to Scholars Choice.”

Investment Choices*

Scholars Choice offers three investment options, all of which seek to outpace rising college costs. Clients should consider the age of the beneficiary and their tolerance for risk before choosing an investment option. Once the account owner makes an investment selection, they may not switch investment options.

OPTION 1

Age-Based Portfolios

According to the age of the beneficiary, your contributions are invested in one of seven portfolios. As the beneficiary gets older and closer to college years, your investment shifts from equity mutual funds, which offer greater growth potential but increased volatility, to more stable bond and money market funds.

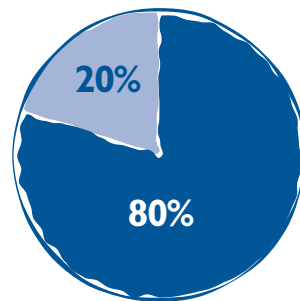
TARGET: Clients with children who will likely attend college upon completion of high school

OPTION 2

Balanced Portfolio

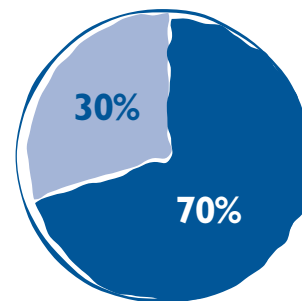
Contributions are invested 50% in equity mutual funds and 50% in bond funds. This option may be appropriate for account owners who wish to maintain a more consistent level of risk throughout the life of the investment.

TARGET: Clients who want to maintain a more constant risk/reward level or adults planning to go to undergraduate or graduate school



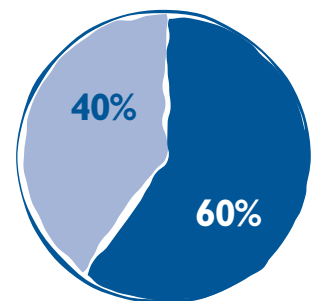
PORTFOLIO 1

Age 0 – 3



PORTFOLIO 2

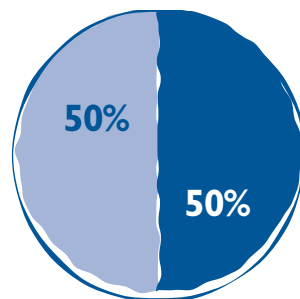
Age 4 – 6



PORTFOLIO 3

Age 7 – 9

■ Stock Funds ■ Bond Funds ■ Money Market Funds



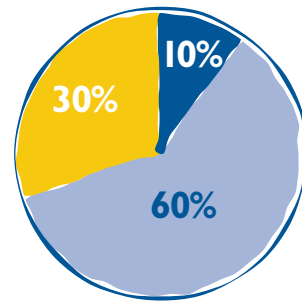
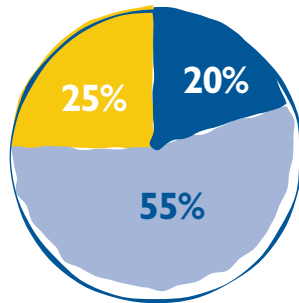
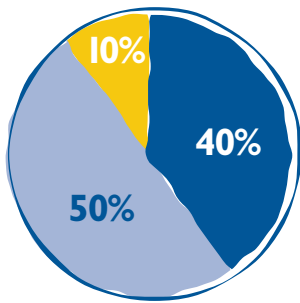
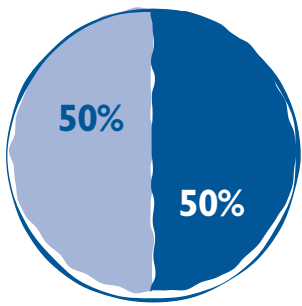
BALANCED PORTFOLIO

■ Stock Funds

■ Bond Funds

* Each of the portfolios shown above are invested in mutual funds managed by affiliates of Salomon Smith Barney. Please refer to the Program Disclosure Statement for more information on the underlying funds. Allocations may vary up to 5%-10% from target levels.

Please keep in mind that investment returns are not guaranteed by the Colorado Student Obligation Bond Authority, the State of Colorado or Salomon Smith Barney.



PORTFOLIO 4

Age 10 – 12

PORTFOLIO 5

Age 13 – 15

PORTFOLIO 6

Age 16 – 18

PORTFOLIO 7

Age 19 and older

OPTION 3

Years to Enrollment Portfolios

A third investment option, which is based on the number of years before the beneficiary plans to attend school, is also available. Investments are placed in the same portfolios as the Age-Based Portfolios, beginning at Portfolio 3:

TARGET: Clients who want a slightly more aggressive investment option than the Age-Based Portfolios for older children or adults planning to go to undergraduate or graduate school

YEARS TO ENROLLMENT	INVESTMENT PORTFOLIO
10 – 12	Portfolio 3
7 – 9	Portfolio 4
4 – 6	Portfolio 5
1 – 3	Portfolio 6
less than 1	Portfolio 7

The Smith Barney Mutual Funds in Scholars Choice

The Portfolios in
Scholars Choice are
composed of pre-
mier Smith Barney
Mutual Funds. For
more information
about the target
allocations for each
fund, see the
Program Disclosure
Statement.

	Fund Name	Manager
Equity Funds	International Equity Portfolio	Jeff Russell
	Small Capitalization Blend Fund	Sandip Bhagat
	Large Capitalization Growth Fund	Alan Blake
	Large Capitalization Value Fund	Ellen Sonsino
Bond Funds	Investment Grade Bond Fund	Jim Conroy
	Managed Governments Fund	Jim Conroy
	Short Term High Grade Bond Fund	Jim Conroy
Money Market Fund	Cash Portfolio	Phyllis Zahorodny

Sell Our Professional Management

Scholars Choice portfolios are professionally managed by the Smith Barney Asset Management division of Salomon Smith Barney Inc. Salomon Smith Barney and its affiliates manage over \$357 billion in assets for individual and institutional clients.

Sell Our Experience

The Smith Barney Mutual Fund portfolio management team represents significant asset management experience. In an industry where the average portfolio manager has 7 years of experience,¹ managers of the Funds within Scholars Choice average 22 years in the industry and 15 years with the firm.²

Promote Your Value

With Scholars Choice, your clients gain access to your investment and financial planning experience. You can add value by educating them on their investment decisions and can help them determine how much they should save for college using the Salomon Smith Barney Education Planner.

¹ Investment Company Institute (ICI), 1998

² Smith Barney Asset Management

Scholars Choice Sales Ideas



Who to Target

- Parents, grandparents, godparents, aunts and uncles—anyone who wants to contribute to a child's education.
- High net worth clients interested in reducing their taxable estates.
- Clients with UGMA or UTMA accounts held at other firms who would prefer an account where proceeds will be used for college expenses.
- Clients with Education IRAs. While they cannot contribute to an Education IRA and a college savings plan in the same year, you can talk to these clients about opening a Scholars Choice account next year.
- Clients already enrolled in their state's section 529 pre-paid tuition program. Pre-paid tuition programs guarantee investors a rate of return that is pegged to education inflation. The market-driven nature of Scholars Choice may make it an excellent complement to these programs. Clients can invest in both types of 529 plans at the same time.

Seminars and Mailings

- Have Scholars Choice materials available at your investment seminars: Investing 101, Tax Attack, Women in Investing and Making the Grade.
- Send lead-generation postcard to all clients (SCH0002). Follow up with a phone call.
- Drop off client postcards or digest-sized brochures with local schools, libraries, churches, community centers, daycare centers, etc. with your name and phone number on them. Be sure to obtain permission from the organization ahead of time.

Scholars Choice: Marketing Materials



Client Brochure with account
opening documents
SCH9001



Digest-sized
Client Brochure
SCH2001



Lead-generation
Postcard
SCH0002



Bookmark
SCH0007

Web site
www.scholars-choice.com

Getting Started

It's easy to start saving with Scholars Choice. Just follow these simple steps:

1. Clients should read the information in the enrollment kit carefully, including the Program Disclosure Statement, which describes the risks associated with investing in the program, as well as fees and expenses.
2. Make sure your clients complete the Account Application, printing clearly in black or blue ink. Separate applications should be completed for each beneficiary.
3. If your client plans to enroll in Automatic Funds Transfer Program, be sure they attach a voided check to the Account Application.
4. Otherwise, the minimum initial investment is \$50.

Act Now: Be the First

The number of states offering Section 529 college savings plans is expected to increase along with national media coverage. Now is the time to set yourself apart from the competition. Currently, only a limited number of other large financial firms manage assets in these plans, including Fidelity, Merrill Lynch, TIAA-CREF and Vanguard.

Questions?

For questions about Scholars Choice, call the Retirement & Financial Planning Sales Desk (212) 723-9210.



Administered by the
Colorado Student
Obligation Bond Authority

SSB Citi Asset Management Group is comprised of the substantial resources that are available through its primary asset management business platforms: Salomon Brothers Asset Management, Smith Barney Asset Management, a division of Salomon Smith Barney Inc., and Citibank Global Asset Management.



Salomon Smith Barney is a service mark of Salomon Smith Barney Inc.
© 1999 Salomon Smith Barney Inc.
Member NASD, SIPC
SCH5001 10/99 22235

Internal Use Only