

Status of the Guaranteed Savings Plan (GSP) Questions and Answers

1. In light of the recent turmoil in the economy, is my GSP account safe?

As you know, the GSP is guaranteed only by the GSP Fund and not by the Commonwealth. That guarantee is that your account will grow based on tuition inflation – as long as the account is used for eligible higher education expenses. So, the financial markets do not directly affect your GSP account. Of course, the GSP Fund must have adequate assets to meet all of its obligations.

The recent downturn in the financial markets has impacted the assets of the GSP Fund. Despite the downturn, the assets still exceed \$1 billion and are adequate to cover the Plan's obligations for years to come. Specifically, current actuarial projections show that there are adequate assets in the Fund to cover anticipated withdrawals for a decade. This allows time for the financial markets to recover. The GSP Fund invests for the long-term and, while the recent extreme market volatility is unprecedented, it is our opinion that, over time, the markets will rebound and the GSP Fund's investments will grow in value.

2. What is Treasury doing to protect the GSP Fund through the current financial and economic turmoil?

This summer, Treasury staff conducted a comprehensive investment and cash flow study to determine whether GSP Fund's investment could be better positioned. As a result of the study, many of the Fund's investments were reallocated. Treasury continues to monitor and take action to promote the safety of the Fund.

We believe that the GSP is a well-managed program. It is adhering to its prudent investment strategies designed to help participating families achieve their college savings goals. Treasury staff has been working diligently to protect the GSP investments from any potential threats in the marketplace and we remain vigilant against future market developments.

We will keep the TAP Advisory Board, the Governor and the General Assembly advised of the financial status of the GSP Fund and will seek their input on any additional measures we can take to ensure the long-term vitality of the GSP.

3. Have the current market conditions and economy affected participation in the GSP?

Participation has increased. Comparing May through September 2008 with 2007, we have seen an increase of about 43% in enrollments and 19 % in

contributions. Conversely, we have not seen an increase in nonqualified withdrawals from accounts. This shows the continued confidence that Pennsylvanian's have in the GSP; a confidence that will help us weather this storm.

4. My child is a high school junior and plans to attend college in the fall of 2010. Will the current situation impact my ability to pay for her tuition from my GSP account?

Under current conditions, it is our opinion that the GSP will be able to meet all of its obligations – especially over the next decade. In the short-term, there are adequate assets, and in the long-term we believe the financial markets will recover and our investments will be positioned to benefit from that recovery.

5. Will the GSP be there when my newborn starts college in 18 years?

The GSP is mandated by state law. Unless that law is changed, the Plan will continue as it is currently structured. Historically, the public policy of this Commonwealth has been to encourage and support family saving for college. That policy was behind the enactment of the GSP in 1992, its enhancement amendments in 2000, and the Pennsylvania income tax deduction for contributions into Section 529 college savings plans enacted in 2006. Additionally, many members of the General Assembly include information about the GSP in their outreach efforts. We believe that the public policy to encourage and support saving for college remains unchanged.

While there is no way to know for certain where the markets are headed over the next 18 years or to predict the future, as a long-term investor, we understand that markets will go down from time to time – even for consecutive years. We believe, however, that over time our investments will grow to meet or exceed tuition inflation. Treasury is doing its best – using its investment expertise and tools – to see that happen.

6. What if I want to put the GSP savings I now have in a risk-free investment?

The GSP continues to be a low-risk investment. It is not, however, entirely risk-free. There are risk-free savings options, such as Certificates of Deposit (CD) or bank savings accounts that are insured by the FDIC. Those options, however, are not likely to keep pace with tuition inflation. In our opinion, the GSP remains one of the lower-risk investment options that will give you growth sufficient to match the increasing cost of college over the years.

Of course, if you want to withdrawal your savings from the GSP you may do so at any time for any reason. However, the amount you receive for a non-

qualified withdrawal (one that is not used for qualified college expenses) may be considerably less than if you use it for college. And, unless you place your savings in another Section 529 program within 60 days of the withdrawal, any earnings would most likely be subject to federal income tax as well as a federal tax penalty of 10%; and the entire withdrawal, or a portion of it, would be subject to Pennsylvania income tax.

7. Is the GSP likely to reinstitute “premiums?”

As you know, premiums are amounts included in the GSP Credit Rates that are in addition to the amount the schools in the Tuition Level charge for an academic credit. Premiums are the mechanism, provided to the GSP by law, to increase the assets in the GSP, when necessary. They affect only new contributions made after a premium is imposed.

Whether to include premiums in the GSP Credit Rate is a question that is examined every August when the new GSP Credit Rates are being set. Premiums were NOT imposed for academic year 2008-09. Whether they will be necessary for 2009-10 will not be known until all necessary data is analyzed in August 2009.

What is certain, however, is that tuition will go up. So the more that a family can save before August 31, 2009, when those tuition increases are factored in to the GSP Credit Rate, the farther their savings will go.

If you have any questions about your account, please contact our customer service representatives at 1-800-440-4000 Monday through Friday from 8:00 a.m. to 6:00 p.m.