



In This Issue

- State Tax Deduction News
- Option Changes
- December Deposits
- Investment Option Performance

Utah State Tax Deduction News

Continuation of Deduction

The Utah state tax deduction remains in effect for 2006, allowing Utah taxpayers to deduct \$1,560 (\$3,120 if filing jointly) per beneficiary for contributions to UESP. As reported in the last edition of this newsletter, income tax reform packages proposed by the Legislature threatened to eliminate the UESP deduction. Currently, the tax reform effort by Governor Jon Huntsman, Jr. and the Legislature is undergoing further analysis.

The Utah income tax deduction for contributions to UESP is available only to Utah taxpayers who are account owners. Section 529 plans offered by other states may offer favorable tax or other benefits to taxpayers or residents of those states that are not available with UESP. Taxpayers and residents of states other than Utah should consider such state tax treatment and other benefits, if any, before making an investment decision. Please consult your tax advisor for more information.

Utah Trusts

Due to a new state law effective January 1, 2006, Utah trusts can no longer take advantage of the Utah state tax deduction for contributions to UESP. Starting this calendar year, *Substitute Senate Bill 37, Income Tax - Taxation of Individuals, Estates, and Trusts*, does not allow trusts to claim the Utah state tax deduction for contributions to UESP.

Rollovers into UESP

Please be aware that rollovers from other 529 plans into UESP by Utah taxpayers may not be eligible for the Utah state income tax deduction. UESP is in the process of requesting a ruling from the Utah State Tax Commission to determine the deductibility of incoming rollovers. We will inform you of the Utah State Tax Commission's ruling as soon as we receive it. Please contact your tax advisor concerning your particular tax situation.

Option Changes

According to the Internal Revenue Service rules for 529 plans, only one investment option change is allowed for an account per calendar year. In addition, all UESP accounts owned by the same account owner for the same beneficiary are treated as one account for purposes of an investment option change. This means that if you have more than one account for the same beneficiary, and wish to change your investment option, this will count as your one allowable option change for all accounts for that beneficiary during the calendar year. If you wish to change investment options on more than one account for the same beneficiary, you will need to submit your request for each account at the same time. To request an investment option change, complete and submit the Investment Option Change Form, Form 405. Please do not send a letter requesting an investment option change since it will not be accepted.

December Deposits On Your March Statement

If UESP received a contribution from you by the close of business December 30, 2005, which was invested in January 2006, that contribution was credited to your account for the 2005 tax year. Your December contribution is shown on your March statement in the following ways:

- Under "Account Detail" as "Investment (2005 tax year)" with the number of units, price, amount, and total. For Utah taxpayers, this means this amount was included in your TC-675H form as a 2005 contribution and is

eligible for the 2005 Utah state income tax deduction.

- Under "Account Summary," "This Quarter" on the left in the "Investments" section. Any contributions made at the end of December 2005 and invested in January 2006 are totaled along with other contributions made in the first quarter of 2006 and included under "Investments."

Contributions received by UESP at the end of December 2005 and invested in January 2006 are **not** included in the Account Summary "Year-to-Date" section on the right under "Year-To-Date Investments." The amounts in this box track the calendar tax year to which investments and disbursements are applied.

View your quarterly statements online at www.uesp.org. Please call UESP at 1.800.418.2551 if you have questions.

UESP is a section 529 plan administered and managed by the Utah State Board of Regents and the Utah Higher Education Assistance Authority (UHEAA).

Investors should read the Program Description and consider all investment objectives, risks, charges, and expenses before investing. The Program Description is available on the web at www.uesp.org or by calling 1.800.418.2551.

You could lose the money you invest in UESP. Investments are not guaranteed by UESP, the Board of Regents, UHEAA, the FDIC, or any other state or federal government agency.

The current law that allows tax-free withdrawals for qualified higher education expenses will expire after December 31, 2010 unless Congress extends the exemption beyond this date.

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Utah Educational Savings Plan
Investment Option Performance as of
June 30, 2006

Portfolio/Share Class	Latest Month	Latest Three-Months	Latest Quarter End ¹	Year to Date ²	Average Annual ⁴				Inception Date	
					One Year	Three Year	Five Year	Since Inception		
AGE-BASED OPTIONS										
Option 2 - S&P/Bonds/PTIF⁵	0-3	0.11%	-1.49%	-1.49%	2.30%	7.67%	10.27%	2.13%	0.82%	9/20/99
	4-6	0.11%	-1.36%	-1.36%	1.95%	6.72%	9.35%	2.33%	1.30%	9/20/99
	7-9	0.11%	-1.24%	-1.24%	1.59%	5.76%	8.43%	2.53%	1.78%	9/20/99
	10-12	0.10%	-1.11%	-1.11%	1.24%	4.80%	7.51%	2.73%	2.26%	9/20/99
	13-15	0.13%	-0.78%	-0.78%	1.02%	3.89%	6.20%	2.84%	2.75%	9/20/99
	16+	0.17%	-0.25%	-0.25%	0.61%	2.27%	4.00%	3.05%	3.60%	9/20/99
	College Enrolled ³	0.38%	1.09%	1.09%	2.09%	3.75%	2.22%	2.10%	3.04%	9/20/99
Option 3 - S&P and Bonds	0-3	0.11%	-1.56%	-1.56%	2.48%	8.15%	10.73%	2.03%	0.58%	9/20/99
	4-6	0.11%	-1.56%	-1.56%	2.48%	8.15%	10.73%	2.03%	0.58%	9/20/99
	7-9	0.11%	-1.56%	-1.56%	2.48%	8.15%	10.73%	2.03%	0.58%	9/20/99
	10-12	0.11%	-1.49%	-1.49%	2.30%	7.67%	10.27%	2.13%	0.82%	9/20/99
	13-15	0.11%	-1.36%	-1.36%	1.95%	6.72%	9.35%	2.33%	1.30%	9/20/99
	16+	0.11%	-1.24%	-1.24%	1.59%	5.76%	8.43%	2.53%	1.78%	9/20/99
	College Enrolled ³	0.10%	-1.11%	-1.11%	1.24%	4.80%	7.51%	2.73%	2.26%	9/20/99
Option 7 - Diversified-A	0-3	0.04%	-2.35%	-2.35%	4.47%	12.52%	15.63%	NA	20.10%	4/1/03
	4-6	0.04%	-2.35%	-2.35%	4.47%	12.52%	15.63%	NA	20.10%	4/1/03
	7-9	0.05%	-1.94%	-1.94%	3.36%	9.73%	12.81%	NA	16.51%	4/1/03
	10-12	0.06%	-1.52%	-1.52%	2.25%	6.95%	9.99%	NA	12.92%	4/1/03
	13-15	0.08%	-1.11%	-1.11%	1.15%	4.16%	7.17%	NA	9.33%	4/1/03
	16+	0.09%	-0.69%	-0.69%	0.04%	1.38%	4.35%	NA	5.74%	4/1/03
	College Enrolled ³	0.38%	1.09%	1.09%	2.09%	3.75%	2.22%	NA	2.15%	4/1/03
Option 8 - Diversified-B	0-3	0.06%	-1.34%	-1.34%	4.12%	12.21%	13.59%	NA	17.26%	4/1/03
	4-6	0.07%	-1.20%	-1.20%	3.47%	10.51%	12.08%	NA	15.37%	4/1/03
	7-9	0.07%	-1.07%	-1.07%	2.82%	8.81%	10.57%	NA	13.48%	4/1/03
	10-12	0.08%	-0.94%	-0.94%	2.17%	7.10%	9.07%	NA	11.59%	4/1/03
	13-15	0.11%	-0.67%	-0.67%	1.84%	5.92%	7.63%	NA	9.70%	4/1/03
	16+	0.14%	-0.40%	-0.40%	1.51%	4.73%	6.19%	NA	7.81%	4/1/03
	College Enrolled ³	0.38%	1.09%	1.09%	2.09%	3.75%	2.22%	NA	2.15%	4/1/03
Option 9 - Diversified-Bonds Emphasis	0-3	0.07%	-1.13%	-1.13%	1.94%	6.33%	8.82%	NA	11.36%	4/1/03
	4-6	0.08%	-0.96%	-0.96%	1.33%	4.78%	7.36%	NA	9.52%	4/1/03
	7-9	0.08%	-0.79%	-0.79%	0.73%	3.23%	5.91%	NA	7.67%	4/1/03
	10-12	0.12%	-0.48%	-0.48%	0.45%	2.20%	4.52%	NA	5.83%	4/1/03
	13-15	0.15%	-0.17%	-0.17%	0.16%	1.17%	3.13%	NA	3.99%	4/1/03
	16+	0.18%	0.14%	0.14%	-0.12%	0.14%	1.74%	NA	2.15%	4/1/03
	College Enrolled ³	0.38%	1.09%	1.09%	2.09%	3.75%	2.22%	NA	2.15%	4/1/03
STATIC OPTIONS										
Option 1 - PTIF⁵	All Ages	0.42%	1.22%	1.22%	2.34%	4.25%	2.72%	2.60%	4.15%	11/1/96
Option 4 - S&P 500	All Ages	0.11%	-1.56%	-1.56%	2.48%	8.15%	10.73%	2.03%	0.58%	9/20/99
Option 5 - Bonds	All Ages	0.10%	-0.28%	-0.28%	-1.07%	-1.41%	1.53%	NA	2.92%	9/9/02
Option 6 - Diversified Stocks	All Ages	0.04%	-2.35%	-2.35%	4.47%	12.52%	15.63%	NA	20.10%	4/1/03

Important Information Regarding Investments in UESP:

Past performance does not guarantee future results; investment return and the value of the investment will fluctuate; the value of your account, when redeemed, may be worth more or less than the amount you contribute. You could lose money. The performance numbers listed above are that of the investment options, not individual accounts. Actual performance may be higher or lower than the option performance. An investment in options utilizing the PTIF are not insured or guaranteed by the FDIC or any other government agency. Investors should read the Program Description and consider all investment objectives, risks, and charges and expenses associated with a UESP account before investing.

Returns are based on a \$10,000 account balance for non-Utah residents and are net of all fees. Actual performance for Utah residents may be higher.

Residents of states other than Utah should consider whether their home state or the beneficiary's home state offer any state tax or other benefits that are only available in that state's 529 plan.

¹ UESP quarterly reporting periods end each March 31, June 30, September 30, and December 31.

² Year to date calculations are based on a calendar year; January 1st to the current month end date.

³ UESP will reallocate the funds to the "College Enrolled" investment bracket on age-based accounts when the account owner notifies UESP of the beneficiary's enrollment.

⁴ Average Annual Return for the trailing 12 months, 36 months, and 60 months.

⁵ Public Treasurers Investment Fund (PTIF) is a pool of money managed by the Utah State Treasurer in short-term investments with an average life of less than 90 days.