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“The State of College Savings” Survey Finds Parent Confidence Crashing As They Rely on Loans, Shift Debt Burden to Their Children

529 Investors Still Most Successful Savers

September 17, Washington, D.C. – Parents’ confidence in their ability to save for college plummeted over the last year, as they socked away less and relied more on the prospect of student loans and grants to fund their children’s college education, according to the 2009 “The State of College Savings” survey of nearly 800 parents across regions and income levels conducted by the College Savings Foundation (CSF).

Forty-four percent of parents are “not very confident” that they will reach their college savings goals, up from 31 percent in 2008; while the number of parents who are “very confident” has plunged to 12 percent from 20 percent last year.

Reduced savings may be contributing to this malaise: one-third of parents said that they are saving less for college this year than last, with 43 percent of those prioritizing current living expenses and 29 percent suffering a cut in income. Of the total parents surveyed, 41 percent have saved nothing at all, and 28 percent have saved less than \$5,000 per child.

The number of parents expecting student loans to pay for college soared to 47 percent from 37 percent one year ago. Those expecting financial aid spiked up to 73 percent from 62 percent last year. And, more parents are shifting the debt burden to their children: 68 percent versus 63 percent last year, with 46 percent expecting their kids to be responsible for up to one-third of their college debt – up from 34 percent in 2008.

Despite this behavior, parents haven’t adjusted or changed their hopes and aspirations: 76 percent of parents don’t expect to have to narrow their children’s college choices; and 76 percent would be very disappointed if their child could not afford to go to college (at least 8 on a scale of 1-10).

Pointing to a clear strategy for bridging this gap between intention and action was the finding that parents owning 529 college savings plans were the most successful group in saving for college: 61 percent of parents with 529s have saved more than \$5,000 per child, versus 22 percent of those without one.

“This survey is a call to action for parents to save early and often – even if they can only start with small amounts,” said Kevin McMullen, Chairman of the College Savings Foundation, a leading nonprofit encouraging American families to save for their children’s college education.

“The economic reality is that parents cannot count on college loans and grants being available or affordable when their children reach college age. Any shortfall in college funding will cascade as debt burden onto their children’s futures.”

Long-term Debt Dependence

Parents realize that their dependence on debt will have a long term impact: 65 percent expect that it will take at least five years for them or their children to pay it off after graduation.

Those who can’t get loans anticipate getting Federal or State grants: 28 percent of parents are relying on these as their primary source of college funds, compared to 20 percent last year. Seventeen percent expect financial aid to cover over two-thirds of all college costs – up from only ten percent last year. Thirty-four percent expect it to cover up to one third of college costs.

“Financial aid covers only a portion of college costs and families need to look for ways to close that gap,” McMullen said. According to the College Board, in 2007-2008 undergraduate students received on average \$8,896 in financial aid, including \$4,656 in grant aid and \$3,650 in federal loans. This represents a fraction of the average \$14,333 cost of today's four-year public college, or \$34,132 for a private college or university.

As in last year’s survey, 22 percent of parents expect help from grandparents; and 72 percent expect no help in paying for college at all. Twenty-seven percent would ask friends and family to “trade toys for tuition,” or contribute to college rather than in material gifts.

Three-quarters (74 percent) of parents do not even know how much they need to save, up from 70 percent last year.

“In the face of an economic climate that is clearly putting families under pressure, we as an industry including financial advisors and policy makers should redouble our efforts to raise awareness on how to save to stave off debt,” McMullen said.

Strategies for Closing the Gap

The survey showed that many parents are saving successfully through vehicles like 529 college savings plans and strategies like automatic savings programs, enabling systematic and regular contributions of funds for college savings.

Parents owning 529s were far more successful in saving than those using other investments: 34% of parents who have saved more than \$5,000 per child invest in 529s as their primary savings vehicle, more than double that of the next most popular ones: 14 percent of parents who have saved more than \$5,000 per child are primarily in mutual funds, and 14 percent are in cash.

The percentage of parents in 529 plans held steady from the 2008 report. Nearly one in four, or 23 percent, is invested in a 529 college savings plan, and one in five (19 percent) says that 529s are the number one college savings vehicle, exceeded only by cash at 25 percent. At the same time, in a question that permitted more than one answer, the 2009 survey found that those parents who are saving are also squirreling money away in general (57 percent) and emergency (31 percent) funds.

“While it is understandable that parents are keeping cash at hand in these uncertain economic times, families are continuing to recognize the benefits of 529 college savings plans in reducing taxes and reaching their college savings goals,” said McMullen. “Parents have the option to keep 529 funds in cash as well.”

The 2009 State of College Savings survey also offered these glimmers of good news:

- Although 46 percent of parents said that they would like to save more in general but can't because of this year's economic reality, one in four parents – 24 percent – said that they were actually saving more than before.
- Parents seemed to understand that a little is better than nothing: those who tried to save at least something edged up from last year: 28 percent have saved less than \$5,000 per child – but that is up from 22 percent in 2008. Around 30 percent of those are invested in a 529.
- Parenthood prompts saving and gives parents time to build savings momentum: 25 percent of parents started saving when their child was born, and 20 percent when the child was 1-5 years old. Those parents with children 11-13 years old, and those with children 14-18 years old, had saved more than those in other age groups. Approximately 42 percent of each of those groups has saved more than \$5,000 per child, versus 26 percent of those with children in younger and older categories.
- While 20% of parents used an automatic savings strategy, those that did were successful savers. 63% of them have saved more than \$5,000 per child. 35% have been able to save between \$100-\$300 per month. 57% of those utilizing an automatic savings strategy own a 529.

To obtain more detailed results of the 2009 State of College Savings Survey of 778 parents with charts and graphs, please contact Lynthia Romney at 914-238-2145, romneycom@aol.com.

The College Savings Foundation (CSF) is a Washington, D.C.-based not-for-profit organization whose mission is to help American families achieve their education savings goals, by working with public policy makers, media representatives and financial services industry executives in support of education savings programs. For more information on CSF and its mission, please access www.collegesavingsfoundation.org