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ASSETS IN 529 COLLEGE SAVINGS PLANS REACH A RECORD \$82 BILLION AT END OF THIRD QUARTER 2006

Net Sales Decline Demonstrates Increased Investor Use of 529s to Pay for College Education

Washington, DC., December 7— Assets in 529 college savings plans rose to an estimated \$82 billion at the end of the third quarter of 2006, up 6.0% from an estimated \$77.3 billion as of the end of the second quarter, and up 29.3% from the \$63.4 billion in the same quarter one year ago, according to data developed by Financial Research Corp. (FRC) and released today by the College Savings Foundation (CSF).

At the same time, increased redemptions during the quarter demonstrated that many accounts are now being used to pay college bills. Net sales for the quarter were \$816 million, down 74% from nearly \$3.2 billion in the same quarter of 2005.

“This dramatic shift demonstrates that 529 investors are withdrawing from their accounts to pay their college bills when they come due in the fall. At the same time, we see assets in 529s building steadily and expect the appetite of American families for these popular college savings vehicles to continue,” said David Pearlman, Chairman of College Savings Foundation (CSF), the leading not-for-profit dedicated to enabling American families to achieve their education savings goals by working to support education savings programs.

With a strong representation of a cross-section of firms in the college savings industry, CSF provides quarterly data to track trends in the families’ college savings and investing habits. CSF is able to offer a detailed analysis of \$27.9-billion, or 34%, of total Section 529 plan assets.

Members of the College Savings Foundation had estimated net sales of \$317.4 million for the third quarter of 2006, which was 41.4% of gross sales of \$766.5 million. The effect of the third quarter college tuition bills is highlighted when these figures are compared to the second quarter of 2006, when net sales of \$720.9 million were a full 83.5% of gross sales of \$863.8 million. Year over year, net sales are declining as more investors are using the accounts for college expenses. Net sales for the third quarter of 2005 were \$442.4 million, or 56.5% of gross sales for the quarter.

Section 529 college savings plans, which are offered on a state-by-state basis, give federal income tax-free treatment to earnings and distributions made from plan accounts used for qualified higher education expenses.

“529s,” as they are called, are intended to support families in meeting the relentlessly rising expenses of a college education. The average annual tuition costs of attending a 4-year public and a 4-year private college or university in 2006-2007 have increased 6.3% and 5.9% respectively from a year earlier. Including room, board and expenses, the total costs are now \$12,796 per year for a 4-year public college and \$30,367 for a 4-year private college, according to The College Board.¹ Assuming such costs increase by 5% a year, the projected cost of college in 15 years will be more than \$100,000 for a 4-year public college and more than \$200,000 for a 4-year private college.

Highlights from CSF’s third quarter 2006 report on asset types in Section 529 college savings plan, as of September 30, 2006, follow:

Assets and Sales by Portfolio Type – Exhibit 1:

- **Age-based portfolios** continue to represent the lion’s share of reported assets under management, with \$19.3 billion or 69.0% of third quarter total assets of \$27.9 billion (see Exhibit 1), followed by static, or fixed, portfolios, at 25.2%. Age-based portfolios rebalance the assets by asset class as they age, becoming more conservatively invested as the investor gets closer to the time for redeeming the shares.

Age-based portfolios have surged in prominence in terms of net sales for the membership in the third quarter, accounting for 82.2% of net sales, up substantially from 70.0% at the end of the second quarter of 2006.

“More financial advisors appear to be suggesting age-based portfolios for their clients, and this seems to be the most user-friendly option for many individuals,” said Brian Boswell, Research Analyst at FRC.

Exhibit 1:

Portfolio Type	3Q06 AUM	% AUM	3Q06 Net Sales	% Net Sales	Sales/Asset Ratio	3-Mo Asset Change	12-Mo Asset Change
Age-Based Portfolio	\$19,259.2	69.0%	\$317.3	82.2%	1.6%	3.6%	25.6%
Individual Fund	\$1,603.5	5.7%	\$4.8	1.2%	0.3%	5.1%	19.1%
Static Portfolio	\$7,042.4	25.2%	\$63.9	16.6%	0.9%	7.9%	21.2%
<i>Grand Total</i>	<i>\$27,905.1</i>	<i>100.0%</i>	<i>\$386.0</i>	<i>100%</i>	<i>1.4%</i>	<i>4.8%</i>	<i>24.2%</i>

\$ in millions

Assets and Sales by Sales Class Structure (Load and No-Load) – Exhibits 2 & 3:

¹ The College Board, (2006).

- **While load portfolios still account for the majority of assets (60.8%) and net sales (58.6%), no-load portfolios are growing**, increasing in assets by 5.1% for the quarter, and 25.5% over the past 12 months, to the point where they now make up 39.2% of assets under management
- **Load portfolio assets made up over \$16.9 billion and no-load portfolio assets** make up just over \$10.9-billion of total foundation membership assets in the third quarter. Load portfolios grew 23.3% in assets under management over the past 12-months versus a 27.4% year over year increase at the end of the second quarter of 2006.

Exhibit 2:

Load Structure	3Q06 AUM	% AUM	3Q06 Net Sales	% Net Sales	Sales/Asset Ratio	3-Mo Asset Change	12-Mo Asset Change
Load Portfolios	\$16,968.9	60.8%	\$226.2	58.6%	1.3%	4.7%	23.3%
No Load	\$10,936.2	39.2%	\$159.8	41.4%	1.5%	5.1%	25.5%
<i>Total</i>	<i>\$27,905.1</i>	<i>100%</i>	<i>\$386.0</i>	<i>100%</i>	<i>1.4%</i>	<i>4.8%</i>	<i>24.2%</i>

\$ in millions

- **Net flows into front-load portfolios** as a percentage of total sales of load portfolios increased dramatically in the third quarter of 2006 when compared to a quarter earlier. Front-load portfolios accounted for 61.4%, up from 46.6% in 2Q 2006. As a result, both level load and back-end load portfolios accounted for a smaller percentage of sales. Back-end load shares have been the poorest seller, accounting for only 14.6% of net sales.

Exhibit 3:

Broker-Sold Shares	3Q06 AUM	% AUM	3Q06 Net Sales	% Net Sales	Sales/Asset Ratio	3-Mo Asset Change	12-Mo Asset Change
Back-End Load	\$3,925.4	23.1%	\$33.0	14.6%	0.8%	3.9%	18.1%
Front-End Load	\$6,216.2	36.6%	\$138.8	61.4%	2.2%	5.8%	30.1%
Level Load	\$6,827.2	40.2%	\$54.3	24.0%	0.8%	3.8%	20.9%
<i>Total</i>	<i>\$16,968.9</i>	<i>100%</i>	<i>\$226.2</i>	<i>100%</i>	<i>1.3%</i>	<i>4.8%</i>	<i>24.2%</i>

\$ in millions

Assets and Sales by Equity/Fixed Income Allocation - Exhibit 4.

- Portfolios with a heavier equity allocation continue to dominate both assets under management and net sales at the end of the third quarter of 2006. Heavily equity-oriented investment comprise an overwhelming majority of assets, yet the 100% equity allocation portfolios no longer accounted for the largest percentage of net sales for the quarter. Their \$5.1 billion in assets, or 22.9% of the total, was down from 23.5% at the end of the second quarter of 2006. By contrast, 100% fixed-income portfolios had net outflows of \$14.2 million.

“Due to the higher allocation to age-based portfolios, which invest in more conservative fixed-income investments closer to their target date, it makes sense that portfolios investing more heavily in fixed-income instruments should persistently have higher net outflows,” said Pearlman.

Exhibit 4:
Equity/Fixed
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Asset Mix	3Q06 AUM	% of Total	3Q06 Net Sales	% of Total
0/100	\$671.2	3.0%	-\$14.2	-4.1%
10/90	\$260.6	1.2%	-\$14.6	-4.2%
20/80	\$746.5	3.3%	-\$45.5	-13.3%
30/70	\$581.9	2.6%	-\$5.4	-1.6%
40/60	\$1,353.3	6.1%	-\$26.0	-7.6%
50/50	\$1,868.5	8.4%	\$28.9	8.4%
60/40	\$3,353.3	15.0%	\$48.9	14.2%
70/30	\$1,591.8	7.1%	\$35.1	10.2%
80/20	\$4,049.3	18.2%	\$116.4	33.9%
90/10	\$2,711.3	12.2%	\$123.7	36.1%
100/0	\$5,100.3	22.9%	\$95.8	27.9%
Total	\$22,288.0	100.0%	\$343.2	100.0%
<i>Unreported</i>	\$5,617.1	<i>N/A</i>	\$42.8	<i>N/A</i>
<i>Grand Total</i>	<i>\$27,905.1</i>	<i>N/A</i>	<i>\$386.0</i>	<i>N/A</i>

\$ in millions

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

