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“The State of College Savings” Survey of Parents Finds Financial Education Pays

Knowing How Much to Save Closes Financial Education Gap

Washington, DC, September 23, 2008— Parents are saving less for their children's college education this year than last year and more people have saved nothing at all, according to the 2008 “The State of College Savings” survey of 800 parents across regions and income levels conducted by the College Savings Foundation (CSF). But the 30 percent of parents who know the amount they need to save to fund their children’s college education are much more likely to succeed in reaching their goals than the 70 percent who admit not knowing.

Fifty-eight percent of parents in-the-know have saved at least \$5,000 compared to only 26 percent of those who don’t know how much to save. They rely on multiple media sources, college savings calculators, college administrators and financial advisors for information. They are also more likely to employ strategies like saving early, using an automatic savings plan and owning a 529 college savings plan.

“Not only do parents need to be schooled on how much they should save, but when, where and why,” said Kevin McMullen of the College Savings Foundation. “Parents are counting on free Federal money in the future that may not be there while leaving money on the table right now by not taking advantage of tax saving investment vehicles. As a result, children end up shouldering daunting debt.”

Sixty-three percent expect their kids to shoulder debt, the survey found, even though the parents know it will take years to pay off. In fact, 70 percent expect their children to be paying back loans beyond five years and 29 percent beyond 10 years. For 37 percent of parents, student loans will be their number one aid source, as compared to six percent with parental loans. And, even though only a small percent of Federal and State Grants are merit-based, the survey found that a full 20 percent of parents are relying on Federal and State Grants as their primary source.

On the savings side of the ledger, 2008 is a bleaker year than 2007, the survey found: 65 percent of parents have saved less than \$5,000 per child towards college, including 43 percent who have saved nothing at all. This compares to 54 percent who had saved less than \$5,000 in 2007, including 27 percent saving nothing.

Retirement (53%) has pulled out ahead of college (45%) as a savings goal in 2008, versus 51% and 53% respectively in 2007; and more people think of saving for homes this year (26%) than last year (18%).

Reflecting the helplessness parents feel about the rising costs of college and their inability to pay them, the survey found that one in four parents wants the next President and Congress to put a cap on college costs.

Complicating parents' ability to save is their choice of savings vehicles. Fewer parents owned 529 college savings plans in 2008 (21%) than last year (29%); and only 16 percent say it is their primary college savings vehicle. In contrast, 35 percent of all parents are using cash or cash equivalents as their number one college savings vehicle. "With better financial education, parents would know that it's possible to hold cash or cash equivalents in 529 plans and still gain the tax benefits," McMullen said.

Glimmers of Hope in Savings Strategies

On the brighter side, the 2008 CSF survey identified strategic solutions that are helping parents get traction in college savings. The 21 percent of parents invested in 529s and the 24 percent of parents habitually saving with automatic savings plans – each saved more than parents without them. Other strategies: 22 percent of parents get help from grandparents, and 30 percent trade toys for tuition by asking friends and family for contributions to college rather than material gifts.

Grandparents probably wouldn't mind helping their kids reach their college savings goals. In a 2008 survey of grandparents, The Hartford Financial Services Group, Inc. (NYSE: HIG) —a member of CSF—found that 65 percent of grandparents plan to contribute financially to their grandchildren's college education, but less than one third of all survey participants have coordinated college savings for their grandchildren with their adult children.

Parents who own 529 college savings plans save more than those who don't:

- 20 percent have saved between \$5,001 - \$10,000 per child, versus only 8 percent without one.
- 17 percent have saved between \$10,001 - \$25,000 per child, compared to 9 percent without.

The survey showed the downside of not owning a 529: over half of parents without one have saved nothing.

Parents using automatic savings plans save more than those who don't:

- 23 percent of parents with automatic savings plans have saved between \$5,001- \$10,000 per child, versus only 7 percent of those without.
- 18 percent have saved between \$10,001-\$25,000 per child, compared with 8 percent without.

Another downside: a whopping 55 percent of parents who *do not* have an automatic savings plan have saved nothing at all. Even saving a little bit helps: 42 percent in automatic savings plans saved \$100 or less per month and 29 percent saved \$100 - \$300 per month.

Many parents put the two strategies together: 59 percent of parents who own a 529 also have an automatic savings plan. "It's human nature that a person is less likely to miss money – or to spend it – if it is swept into a budgeted savings plan," McMullen added.

The College Savings Foundation believes strongly that any amount of saving will help families with college costs. "Any amount of money saved is less money that a family will need to borrow, thereby reducing the burden of debt and the overall cost of education," McMullen said.

But at the end of the day, financial knowledge is power. Parents who know how much they need to save not only save more, but they are also less likely to fall down the financial education gap: only 20 percent of those who know how much they need to save haven't begun saving at all, compared with 53 percent of those who don't know how much to save. Those who know are also more apt to use successful strategies:

- 39% have an automatic savings plan – versus 17% who don't know how much to save.
- 24% invest in 529 plans as their primary savings vehicle, versus 12% who don't know.
- 35% began saving when their children were born, versus 21% of those who don't know.

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