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The State of College Savings: Parents Resigned to Decades of Debt

529 College Savings Plans Remain a Mystery to Most Parents

Washington, DC, September 12, 2007—Parents are counting on credit to counterbalance skyrocketing college costs, according to The State of College Savings, a survey to assess the state of college savings conducted by the College Savings Foundation. Fifty-four percent have saved less than \$5,000 toward their goal and almost 40 percent expect to take at least 10 years to dig out of the daunting debt expected to send their children to college.

The survey of 447 parents, who span income levels and crisscross the country, revealed for the first time that American families intend to rely on long term-debt, rather than savings, to fund their children's futures. Even though 79 percent of all respondents would be highly disappointed if their children could not afford to go to college, over half, 51 percent, of that group has saved less than \$5,000 per child.

The College Savings Foundation, the leading non-profit dedicated to enabling American families to save for their education savings goals, was surprised to find that not many grandparents are trading toys for tuition. A majority of parents, 68 percent, expect no help in funding their children's college education. Twenty-four percent said that they expected the children's grandparents to help with college costs.

"These findings highlight a looming crisis for American parents and their children. It's dangerous for parents to begin seeing the financing of their children's college tuition as a second mortgage," said Chuck Toth, CSF Secretary. "As we have recently seen in the mortgage market, reliance on long-term debt can be expensive and precarious. Investing early and often can enable parents and their children to leapfrog a lifetime of debt and establish a firm foundation for the family's legacy."

Ironically, over half, 51 percent, of respondents, had started saving as early as possible – at or before a child's birth. Yet they acknowledge that they are not saving enough. Eighty-two percent of respondents expect to be paying off college loans beyond five years after graduation.

Roughly thirty percent of parents have invested in a 529 college savings plan which allows earnings to grow and be used tax-free if funds are applied to

qualified higher education expenses. Fifty-four percent were unfamiliar with 529s or didn't understand how they work. Yet parents who know about 529s have a shorter time horizon for paying off debt than those who don't. Thirty-eight percent of the respondents who are unfamiliar with 529s expect to take more than 20 years to pay back loans. In contrast, only 6 percent of 529 investors expect it will take that long to pay off their debt.

"We found that parents are saving modest amounts of cash in more conservative and potentially lower returning investment vehicles and relying on long-term loans to close the financial gaps, which puts their retirement at risk and unnecessarily shifts the burden to their children," said Toth. "The limited awareness surrounding 529s is a golden opportunity for financial advisors to educate their customers about using investment vehicles to maximize compounding and tax benefits and avoid decades of debt."

Even savers are not investing as strategically as they could, reveal the results. Many investors are not taking full advantage of tax savings benefits offered by Federal and most state governments in tax advantaged savings accounts like 529s. In a check-all-that-apply question, the survey found that more people, 138 or 31 percent of the total, have college savings in cash than any other category. Even those responders who are invested in 529s (132 or 30 percent of the total) have not saved as much as those who are invested in taxable vehicles. Over half, 56 percent, of those who are invested in 529s had saved less than \$10,000 per child. This contrasts with the level of savings by the majority of investors in fixed income or taxable vehicles:

- 52 percent of investors in taxable CDs have saved more than \$10,000 per child
- 57 percent of investors in taxable stocks and bonds have saved more than \$10,000 per child
- 59 percent of investors in taxable mutual funds have saved more than \$10,000 per child

"The survey spotlights the significant gap between parents' worthy intentions and their actions," said David Pearlman, CSF Chairman. When asked about their savings goals more parents selected college than any other category at 53 percent. What's more, 63 percent of parents said they intend to fund their children's education and another 16 percent intend to fund but don't know how. Only 22 percent did not intend to fund their child's education including those who anticipate their child earning a scholarship.

Time is Money-Breakdown of Habits by Age

Deeper analysis of the survey age demographics provides a window into how the college debt crisis will unfold as respondents' children reach college age:

The Urgent Funders, the 46-55 year olds whose children are likely closer to college age than any other group, make up 29 percent of the total. Even though 55 percent of them make household income over \$100,000, their future as debtors is no brighter than the group overall. Eighty-two percent of them expect to be saddled with loan payments for at least 5 years and 38 percent expect a decade of debt or longer. This is not surprising considering that 42 percent of them have saved less than \$5,000 per child and 25 percent have saved nothing. Eighty-three percent of them would be highly disappointed (at least 8 on a scale of 1-10) if their child could not afford to go to college.

The Prime Timers make up the largest group, 43 percent, and are between 36-45 years old. Despite the fact that members of this group are in their prime earning years and are motivated to fund their children's education, they have not gotten traction in saving for college and expect to carry long-term college debt. Seventy-six percent of them have an annual household income of over \$50,000, and nearly 40 percent have an annual household income of over \$100,000, yet over half (52 percent) have saved less than \$5,000 per child. Eighty-three percent expect to be paying back loans beyond five years, and 37 percent expect to be paying back loans beyond 10 years after graduation. Eighty-four percent would be highly disappointed if their child could not afford to go to college.

The Early Movers, between the ages of 31 and 35, while 15 percent of the total respondents, were the most optimistic about the length of their college-related debt. Although the vast majority, 83 percent, expect to be paying back loans beyond 5 years, relatively fewer, or 31 percent, expect to be paying them off beyond 10 years, even though 70 percent has saved less than \$5,000. Eighty-one percent make more than \$50,000 and half make more than \$100,000. Seventy-nine percent would be highly disappointed if their child could not afford to go to college.

Uncertain about Federal Help

Limited awareness about 529s also extended to issues of Federal policies affecting college savings and debt. Forty percent said there isn't enough help from the Federal government in financing college, while 47 percent weren't sure. Forty-six percent said that they would benefit if the amount saved in 529s did not affect Federal aid, while 44 percent weren't sure. And 40 percent said they would benefit if the government offered Federal tax benefits to low- and moderate-income families, while 36 percent weren't sure.

"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 percent and 5.9 percent 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 percent 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.

About The State of College Savings Survey: College Savings Foundation surveyed 447 parents across geographic, age and income brackets in a Zoomerang survey. Of those who responded, 23 percent had a household income of less than \$50,000; 34 percent between \$50,000 and \$100,000 and 35 percent between \$100,000 and \$200,000. The remaining 8 percent had incomes over \$200,000.

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.

¹(1) The College Board, (2006).