



Press Release

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WHY CAN'T JOHNNY AFFORD COLLEGE? BECAUSE HIS PARENTS SPEND UNWISELY, DEPEND ON DEBT, AND HAVE UNREALISTIC EXPECTATIONS FOR FINANCIAL AID

**First-Ever Bilateral Study of Parents and Financial Aid Professionals Identifies
Parents' Most Damaging College Planning Mistakes and Misconceptions**

**Half of All Parents Spent More on Vacations in the Past Year
Than They Saved for Their Kids' College Education**

When It Comes to Financial Aid, Aid Administrators Say Parents "Have a Lot to Learn"

**Almost Three-Quarters of Parents Believe Their Children May Have "Special or Unique Talents"
That Will Enable Them to Receive Scholarship Funds**

Most Parents Lack Comprehensive Plan, Do Not Use Tax-Advantaged 529 College Savings Plans

New York, NY, October 16, 2006 – Many families' college savings efforts are coming up short, as parents spend freely, significantly overestimate the amount of financial aid their family will receive, and count on debt to finance their children's undergraduate educations, according to the first-ever bilateral survey of parents and student financial aid administrators released today by AllianceBernstein Investments, Inc.

"Most parents are about as prepared to meet college costs as freshmen are to do their own laundry," said Jennifer DeLong, Director, College Savings Plans, AllianceBernstein Investments, the retail asset management arm of AllianceBernstein L.P. "Parents' poor college savings and investing habits have been exacerbated by grossly unrealistic expectations for financial aid. It is the Perfect Storm of planning – and if they're not careful, for many families, the result will be a financial shipwreck."

"Parents' misperceptions about college financing and their missteps throughout the savings process are leaving many kids who want to go to college with no choice but to assume crippling levels of debt," DeLong said.

The survey of 1,358 parents was conducted via the Internet between August 2 and August 20, 2006 by the national polling firm of Mathew Greenwald & Associates, Inc. Parents participating in the poll had at least one child under the age of 18 who they identified as likely to attend college and household incomes of \$50,000 or more.

The survey of financial aid administrators was conducted over the Internet by Mathew Greenwald & Associates between August 2 and September 6, 2006. Two hundred student financial aid administrators at four-year undergraduate public or private colleges with at least three years of experience were surveyed. All respondents were either responsible or oversaw individuals responsible for awarding financial aid.¹

Parents Set the Bar Low...and Still Struggle to Get Over It

While parents understand the high costs of higher education, they have set savings goals that will only cover a fraction of their children's projected college expenses.

The majority of parents surveyed accurately estimated or overestimated current public and private college costs, and many had a good handle on the rate at which these costs are increasing. Yet, among parents planning to contribute to their children's education, the amount the typical parent plans to save for college is likely to cover 23% of their children's undergraduate expenses, at best.²

Parents with children ages 14 to 17 *plan to have* an average of \$12,000 saved when their child reaches college age.³ The projected cost of a 17-year-old's college education is \$54,882 for a public university and \$131,361 for a private college.⁴

The gap between planned savings and projected college costs widens further for parents of younger children. On average, surveyed parents with children ages five or under *plan to have* \$25,000 saved for their child's college education.⁵ The projected cost of a five-year-old's undergraduate education is \$98,561 for a public university and \$235,905 for a private college.⁶

Even more troubling than parents' low savings goals is the fact that many are not confident in their ability to achieve them. Only one in four parents (27%) thinks that it is "very likely" they will reach their college savings goal.

“Parents’ awareness of current college costs is increasing; unfortunately, their savings goals are not,” DeLong said. “When it comes to college savings, parents have set the bar low and are struggling to get over it.”

Three-quarters of parents are concerned about saving enough for their children’s college education, with more than a third (35%) saying that they are “very concerned.” About one-third (31%) of those who plan to help fund their children’s undergraduate education haven’t started saving yet.

Parents Are from Mars, Financial Aid Administrators Are from Earth

Parents’ modest savings goals and less-than-stellar track records may reflect their expectations for receiving significant merit and need-based financial aid.

Nearly all financial aid administrators (97%) agree that families have become more reliant on financial aid in recent years. Even wealthier families are looking for ways to reduce or avoid college costs, according to 99% of aid administrators surveyed.

Many parents have encouraged their children to excel in academics (72%), sports (47%) and/or artistic or musical pursuits (38%) in hopes of earning merit scholarships, and a startling number think their efforts will be successful. Almost three-quarters (72%) believe their children have “special or unique talents” that will earn them scholarship funds.

Eighty-seven percent of parents are counting on their children receiving scholarship and/or grant money, and more than two-thirds (68%) believe colleges will design an aid package that they can reasonably afford. On average, families planning to contribute to their children’s college costs anticipate scholarships and/or grants will cover about a quarter (24%) of their expenses.

But the aid administrators’ survey indicates that many parents will be in for a rude awakening.

Ninety-seven percent of aid administrators think parents have a false sense of security that colleges will help them cover costs. Two-thirds of financial aid administrators surveyed believe scholarship and grant dollars are less available for the average family today than they have been in the past, and 92% say parents overestimate the amount of scholarship and grant money their children will receive.

“The discouraging reality is that college costs have skyrocketed and federal financial aid has eroded,” said Dallas Martin, President, National Association of Student Financial Aid Administrators (NASFAA). “The result is that the doors of educational opportunity have closed for many of our nation’s youth because they cannot afford to attend college.”

Two-thirds of aid administrators (68%) believe the current financial aid system does not meet the needs of many students and their families. Nearly three-quarters (73%) say that less than half of those who apply for aid are financially able to meet their expected family contribution, and 61% think it would be a major financial hardship for the average family applying for aid to do so.

“It’s important to remember that financial aid is meant to be a last resort, not a way to mitigate college costs,” Martin said. “It’s critical for parents to have more realistic expectations for financial aid and adjust their savings efforts accordingly.”

Paying for College: A Joint Venture

Nearly all parents surveyed (95%) intend to help their kids pay for college, and 41% plan to cover all of their children’s college expenses. The vast majority, 94%, believe a college education is the best investment they can make in their children’s future.

That said, most parents feel it is important to set limits on college spending (84%) and expect their children to take responsibility for at least a portion of the costs.

Fifty-eight percent of surveyed parents will hold their children accountable for at least some of their undergraduate tuition and expenses. On average, parents who plan to share expenses with their kids say they feel responsible for footing slightly more than half (56%) of their children’s college bill.

“With college costs at an all-time high, parents are more likely to limit how much they are willing to spend on higher education expenses,” Martin said. “As a result, many young adults are picking up more of the tab for their undergraduate educations, and accumulating heavy debt burdens in the process.”

Buy Now...But Pay a Price Later

While parents say saving for college is a priority, in many cases, their behaviors belie it.

Of those who intend to fund at least some of their children’s higher education, most have spent more money on entertainment and/or discretionary purchases in the past year than they have saved for their children’s college costs. Specifically:

- 58% have spent more on eating out or ordering take-out;
- 49% have spent more on vacations;
- 38% have spent more on consumer electronics.

Thirty-one percent of parents who plan to contribute to their children’s education have put more money toward their children’s allowance in the past year than they have put in their college savings fund.

Almost three-quarters of parents (74%) admit they could be saving significantly more for their children’s education if they limited money spent on traveling, entertainment, electronics and impulse purchases. Two-thirds acknowledge that by reducing their discretionary spending on items such as toys, clothes and entertainment for their children, they would be able to save much more for their college educations.

“Many parents are spending today, and planning to worry about saving tomorrow,” DeLong said. “But when it comes to saving for college, it’s critical for families to start early and keep their eyes on the prize.”

Not surprisingly, when asked to grade themselves on being financially prepared for their children’s college expenses, a third of parents (34%) gave themselves a “D” or “F.”

In Debt We Trust

To fill the gap between their families’ accumulated college savings and college costs, students are relying more heavily on loans than ever before. The parents’ survey suggests that this trend will not slow down anytime soon.

Two-thirds of parents think their children will leave college with debt, and, on average, they anticipate their kids will owe about \$27,500.⁷

While most parents believe that graduating without debt is a big advantage in life, many (63%) see debt as “just a part of life.” Some even look for the silver lining, believing debt makes students focus on their studies, value their education and become more financially responsible.

But college debt can have a profound and long-lasting effect on graduates' financial security and life choices. In a survey of college graduates ages 21 to 35 conducted by AllianceBernstein earlier this year, 42% of those with college debt said the phrase "living paycheck-to-paycheck" describes them very well, and more than one-third (34%) had sold personal possessions to make ends meet. Among respondents still paying off education-related debt individually and/or for a spouse, 44% have delayed buying a house, 28% have delayed having children and 32% had to move back in with a parent or guardian or live at home longer than expected.

"The road to debt is paved with good intentions," said Michael Conrath, Vice President, College Savings Plans, AllianceBernstein Investments. "But large amounts of college debt put graduates in a hole that can take years, even decades from which to emerge. When you saddle young adults with debt, they're not just borrowing their college tuition; they're borrowing from their future."

Parents' seemingly lackadaisical attitude toward debt has financial aid administrators concerned. Many feel that parents and students alike do not fully comprehend the significant, long-term implications of education-related debt until it's too late. Ninety-four percent of aid administrators surveyed express concern about the amount of debt students have been taking on to fund their educations, and more than half (57%) say they would not let their child borrow the average amount of loans taken out by students at their respective schools.

According to aid administrators, the problem will get worse before it gets better. Over the next 10 years, almost all of those surveyed anticipate both the percentage of students who graduate from college with loans and the amount they borrow will grow.

The Effects of a College Savings Shortfall Span Generations

A failure to plan adequately for college expenses can hurt parents down the road and result in a cycle of debt that spans generations.

Close to two-thirds (62%) of parents say paying for college will significantly affect their retirement fund. Sixty-two percent of those who will contribute to their children's education say they plan to dip into money they have saved outside of their college savings funds, and more than half (53%) plan to take out loans of their own to help cover the costs.

Moreover, more than half of parents of children ages 14 to 17 (56%) say it is very or somewhat likely that they will end up helping their children pay back their education-related loans after they graduate.

A college savings shortfall not only affects parents and their children, but, ultimately, it can also put their grandchildren at a disadvantage. As the earlier AllianceBernstein survey of college graduates revealed, when the time comes to start saving for their own children's college educations, those who graduated from college with debt are less likely to be able to do so than their peers who graduated debt-free.

Parents Face Formidable Challenge; Financial Advice and 529 College Savings Plans Are Key

The fact that many families lack a comprehensive plan, don't seek professional financial advice and are not aware or taking advantage of tax-efficient savings vehicles is a strong contributor to the problem.

Seventy percent of parents surveyed don't have a financial plan that takes into account all of their goals, including college savings, and many (42%) have not even had a serious conversation with their children's other parent about how they will finance their kids' college educations. Aid administrators cite not having a plan as the number one reason parents aren't able to save more for college.

"College financing is a fundamental life planning issue," Conrath said. "Parents face a formidable challenge. In order to rise to the occasion they must be dedicated, diligent and ready to take advantage of all of the resources they have available to them. We believe professional financial advice and a tax-advantaged product like a 529 college savings plans have a critical role to play in any family's college savings effort."

The parents' survey shows that those who work with a financial advisor are more likely to be saving for their children's college education (79% vs. 57%) and to be confident in their efforts. About half (49%) of those with an advisor give themselves an "A" or "B" for their college savings efforts; only about a quarter (26%) of those without an advisor give themselves such high marks.

Unfortunately, most parents surveyed (80%) have not sought the help of a financial advisor in their college savings efforts. And, almost half (45%) are not familiar with tax-advantaged 529 college savings plans. Incidentally, the Pension Protection Act of 2006 made distributions for qualified higher education expenses from 529 plans permanently tax-free.

Even among the 56% of parents who have specific accounts dedicated to saving for their children's education, the majority (61%) are not using a tax-advantaged 529 college savings plan as their primary savings vehicle. In fact, 16% of this group have *all* of their college savings funds in checking and savings accounts.

Nine in 10 financial aid administrators (91%) believe parents don't utilize tax-advantaged savings vehicles, such as 529 plans, as much as they should.

“When it comes to paying for college, the good news is that you have 18 years to plan, there are tax-advantaged solutions, and you don’t have to go it alone,” DeLong said.

NOTE TO EDITORS

AllianceBernstein Investments has established a dedicated website, www.CollegeSavingsCrunch.com, where visitors can access information about the research, a College Savings Quiz, and a Guide to What You Need to Know about Saving for College, as well as other information on saving and investing for college.

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ABOUT THE SURVEYS

¹The margin of error at the 95% confidence level for the parents’ survey is plus or minus 2.6 percentage points. Financial aid administrators participating in the survey represented a nearly equal proportion of public and private institutions. The data from the financial aid administrators’ survey was weighted to accurately reflect the number of public and private institutions nationally. The margin of error at the 95% confidence level for the financial aid administrators’ survey is plus or minus 6.4 percentage points.

²This statement reflects the median amount parents plan to save for their children’s college education.

³This statement reflects the median amount parents plan to save for their children’s college education.

⁴*Trends in College Pricing 2005*, The College Board

⁵This statement reflects the median amount parents plan to save for their children’s college education.

⁶*Trends in College Pricing 2005*, The College Board

⁷ This statement reflects the median amount of debt parents anticipate their children will have from college.

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