Graduating with Debt

The Biggest Threat to Young Americans' Financial Well-Being?

CollegeSavingsCrunch℠

AllianceBernstein
Investments

Saving for College: A Critical Imperative

Going to college is a fundamental part of the American Dream. But with college costs increasing dramatically, funding a college education is one of the most significant financial challenges many families face.

To realize the dream of a college education, students are relying more heavily on college loans than ever before. This debt can create a financial burden that takes decades to shed, forcing many young people to defer cherished goals like buying a home, starting a family or even saving for retirement.

To better understand and demonstrate the profound effect college debt can have on graduates' well-being, financial security, and career and lifestyle choices for years after college, AllianceBernstein conducted research among recent college graduates.

The research powerfully demonstrates the significant challenges faced by those graduating from college with debt—and underscores the critical importance of saving early and effectively for college.

At AllianceBernstein, we believe it is vitally important for those planning for college to understand the long-term effects of college debt and to incorporate college loans reasonably and responsibly into a comprehensive college planning strategy.

We are committed to helping families—and the financial professionals who advise them—put in place savings and investing approaches that minimize reliance on college loans and give young college graduates the best chance possible to realize their life goals.

The High Cost of Higher Education

If you are like most parents, you would do anything to help your children succeed. Because a college degree is an essential credential for many young adults entering the workforce, saving for college is a top priority for most parents.

But with rising college costs, funding a college education can place a huge financial burden on parents and graduates alike. To help your children realize the dream of a college education, it's important to first understand how much their higher education could cost and the savings challenge that lies ahead.

College Costs: Get the Facts*

- From 1994 through 2005, college costs increased at more than twice the rate of overall inflation.
- In the past year alone, average tuition and fees rose 7.1% at public four-year colleges and 5.9% at private four-year colleges.
- In 2005–2006, tuition, fees, and room and board averaged $12,127 per year at public four-year colleges and $29,026 at private four-year colleges.

* Source for all data represented here: *Trends in College Pricing 2005*, The College Board

Estimated Future Cost of Four Years of College

College costs are skyrocketing. But by saving early, smartly and diligently for college, it is possible to diminish the burden of those costs on you and your children. An important first step in saving for college is determining how much you will need in order to pay for future costs of college.

This table provides a projection of total average tuition, fees, and room and board for in-state students at public universities and those enrolled in private four-year colleges. The projections assume that average costs will rise 5% annually.

Current average annual costs are for the 2005–2006 academic year and include tuition, fees, and room and board. The amount of time it takes a student to earn a degree may affect the total cost of college.

Child's Age Now	Public College	Private College
Newborn	$125,791	$301,082
1	$119,801	$286,745
2	$114,096	$273,090
3	$108,663	$260,086
4	$103,489	$247,701
5	$98,561	$235,905
6	$93,867	$224,672
7	$89,398	$213,973
8	$85,141	$203,784
9	$81,086	$194,080
10	$77,225	$184,838
11	$73,548	$176,036
12	$70,045	$167,654
13	$66,710	$159,670
14	$63,533	$152,067
15	$60,508	$144,825
16	$57,626	$137,929
17	$54,882	$131,361
18	$52,269	$125,106

Source for all data represented here: *Trends in College Pricing 2005*, The College Board

Student Debt: The Rising Tide

Students are relying on college loans now more than ever before. In 2004, nearly two-thirds of graduates at public and private four-year colleges had student loans, up from less than half of graduates in 1993.

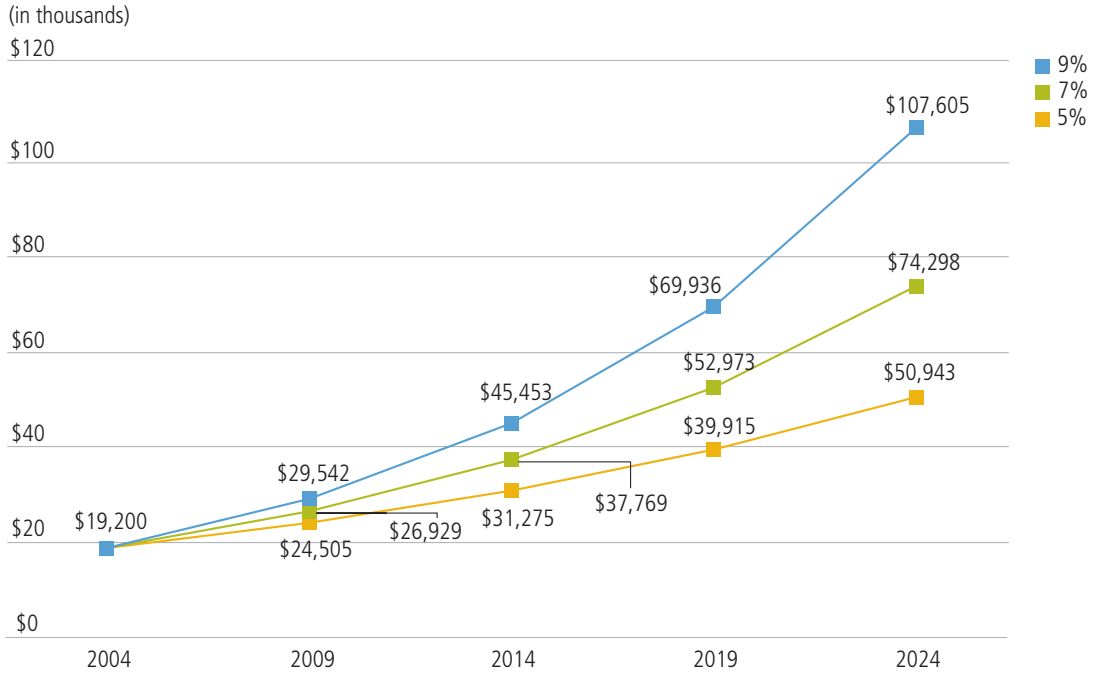
Despite many parents' best efforts, college students are taking on education-related debt at alarming rates. In 2004, one-fourth of graduates with college debt carried more than $25,000 in student loans, not including parent borrowing.

Trends show that many students are paying more to borrow for college. A growing number of students are taking out private loans, which typically have higher interest rates than federally subsidized student loans. From just 2004–2005, the number of undergraduate and graduate students who took out private student loans grew by approximately 30%.

Another trend is that college graduates with student loans are taking on higher levels of debt in general. From 1993 to 2004, debt levels for graduating seniors with student loans more than doubled, from $9,250 to $19,200—an average annual increase of 10.8%. If this trend continues at 5%, the average debt level for college graduates in 2004 with student loans will be over $50,000.*

Debt levels trending upward

The chart below illustrates hypothetical debt levels for graduating seniors if they continue to increase their reliance on student loans over the next 20 years at 5%, 7% and 9%.



* Source for all data represented here: The Project on Student Debt "Quick Facts About Student Debt," April 2006, www.projectonstudentdebt.com

The Impact of College Debt on Graduates

With the number of students relying on loans to finance their college education at an all-time high, many college graduates enter the workforce with debt loads that put them in a hole for years, or even decades, after graduation.

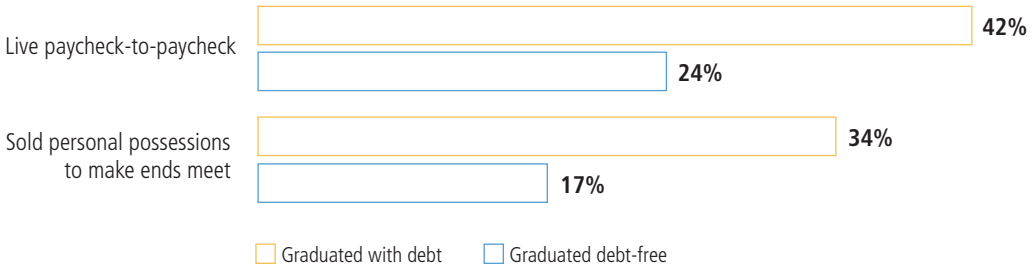
In order to better understand the long-term impact of education debt on college graduates, AllianceBernstein surveyed 1,508 college graduates ages 21 to 35 to examine their college finances and experiences, as well as their current circumstances, attitudes and lifestyle. This research confirms that college debt has a long-term impact on graduates' and their children's financial well-being and outlook on the future. Understanding the impact of college debt is an important step in helping investors save toward a brighter future.

The Real World: College Debt Edition

While the first decade out of college is financially challenging for most people, our research shows that it is particularly so for those with college debt. In fact, better than nine in ten (91%) of all respondents agreed that "people who graduate without any college debt have a big advantage in life." Graduates with college debt are more likely than graduates without debt to live paycheck-to-paycheck. Moreover, 34% of those with college debt (versus 17% of those without debt) have sold personal possessions to make ends meet.

Not surprisingly, graduates without college debt are more satisfied with their current level of savings (42% vs. 23% for people with debt) and have a higher overall satisfaction with their financial situation than graduates with college debt (52% vs. 32%).

Graduates with college debt struggle financially

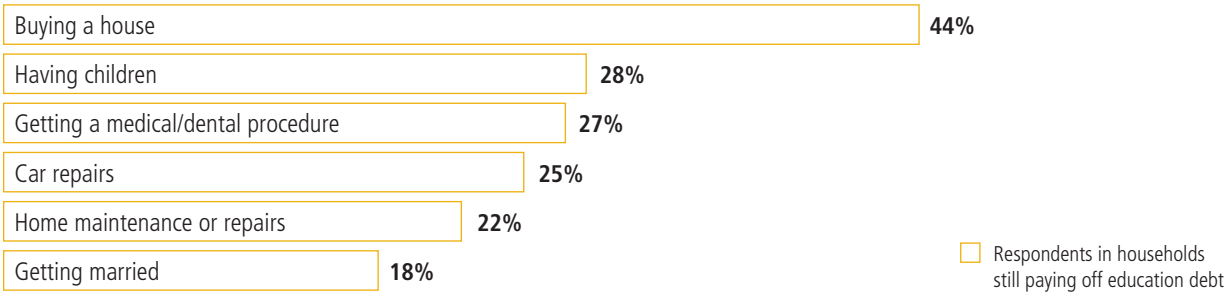


Life Events Delayed, Career Dreams Deferred

Taking out loans to pay for college can be an expensive strategy—and not just financially.College debt impacts well-being, career, and lifestyle choices for years after graduation day. Thirty-two percent of graduates with college debt were forced to live at home longer than expected or move back in with a parent or guardian. Forty-three percent of the indebted have postponed graduate school, and 39% of college graduates with debt said they have left a job they liked because they didn't make enough money.

Our research also shows that college debt impacts most graduates' ability to save for long-term goals. More than half of those surveyed (55%) reported that their household education-related debt has limited how much they have been able to save for retirement.

Among graduates with college debt, many were forced to delay:

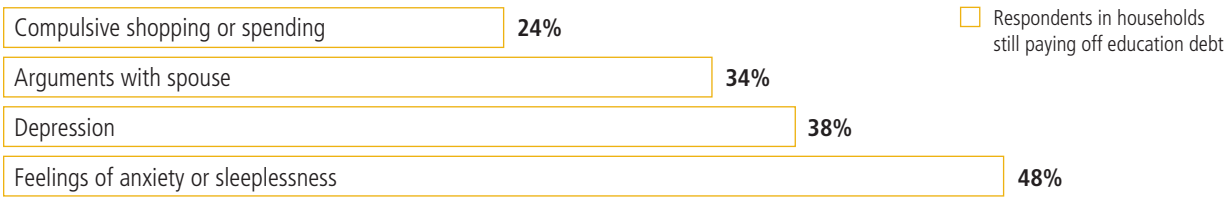


Here Today, Here Tomorrow

Those who graduated from college with debt don't see their situation improving anytime soon. Seventy-four percent of households with education debt say it has been difficult to pay it off, and of those still paying off college debt, 39% say it will take them at least another 10 years to finish.

For many, education debt has contributed to accumulating even more household debt. Nearly two in five of those who graduated with debt have accumulated $50,000 or more in household debt (vs. 15% of those who graduated from college without debt).

Graduates in households still paying off education debt said it has contributed to:



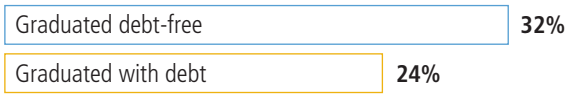
Today's College Debt Affects Future Generations

The survey found that college debt not only hinders graduates' long-term prospects, but also impacts their ability to save for their own children's college education. Just 20% of those with household education debt said they save more each year than they pay out in college loans or other debt obligations.

Among those households with education-related debt, 46% said that college debt has greatly or somewhat impacted their ability to save for their children's education.

When students take on debt to pay for college, few realize that they can pay the price for years, and generations, to come. Saving well for college costs, and reducing the amount of education debt to be paid off, can help break that cycle of debt.

Graduates without college debt are more likely to have started saving for their children's college costs



The following chart shows how much a hypothetical portfolio could grow if monthly loan payments were invested in a hypothetical portfolio instead.

Student Loan*			Investment**
Total Loan Amount	Total Principal & Interest	Monthly Payment for 10 Years	Total if this loan payment were invested monthly for 10 years
$10,000	$13,322	$111	$18,194
$20,000	$26,645	$222	$36,388
$30,000	$39,967	$333	$54,582
$40,000	$53,290	$444	$72,776

*Assumes a 10-year subsidized loan at 6% interest which does not accrue until repayment begins with equal payment amounts compounded monthly.
**Assumes 6% average annual return with earnings tax-deferred and compounded monthly.

Investing involves risk to principal; positive results and the achievement of an investor's goals are not guaranteed. There are no assurances that any investment will be profitable. These performance return projections do not represent predictable outcomes of any investments. The results displayed regarding an investor's hypothetical investment return are provided for educational purposes only.

A 3-Step Plan for Avoiding the College Debt Crunch

It's been said that the only thing more expensive than paying for college is not going in the first place. But to earn a college degree, most students today must incur debt. The key is to do so in a way that is manageable and doesn't result in unfortunate career and life choices after graduation.

Our research demonstrates that proactive planning, saving and investing for your children's college education is critical when it comes to their long-term well-being. Here are some action-oriented suggestions to help you in saving for college.

1 Determine Specific College Savings Goals

- Understand your true college savings needs—Consider the number of children you have, how many years until they start college and where they may attend college. Use the chart on page 2 to project the total cost of college for your children.
- Create savings goals—Assess your current savings and your projected needs to determine how much you will need to save. Based on that figure, determine how much you will need to save each month to reach your target. Use the worksheet on the next page to help you plan.

2 Take Action

- Create an investment strategy—Diversify your portfolio among investments and asset classes to seek the best returns while reducing overall risk.
- Start investing now—The sooner you start saving, the more time your money has to grow.
- Invest systematically—Invest a set amount of money each month.
- Rebalance regularly—To take advantage of an asset allocation plan and keep your portfolio on track, it's critical to restore your target allocation on a regular basis.

3 Seek the Help of a Financial Professional

According to our research, among graduates who have or plan to have children, 42% who work with a financial advisor have started saving for their children's education compared with 22% of the unadvised. Financial professionals can be your best allies in saving for college by helping you:

- Estimate the costs of sending your children to college
- Evaluate which college savings vehicles are best for you
- Understand tax-advantaged savings accounts such as 529 college savings plans
- Determine the best investment strategy and when to rebalance your portfolio

Turn the page for a worksheet to help you plan for college costs

Planning for the Cost of College

Careful planning and proactive saving are crucial steps in managing the total cost of college. The worksheet below will help you get started.

	Child 1	Child 2
1 Determine how much you will need Use the table on page 2 to estimate the total cost of college tuition and fees for each child.	$	$
2 Consider your current savings Enter the estimated value of your savings when your child is at college age.	$	$
3 Subtract line 2 from line 1 This is an estimate of the total amount you need to save.	$	$
4 Determine how much you should invest monthly One of the most effective ways to save for college is to regularly contribute a set amount of money to your children's college fund. Use the table below to determine how much you need to save each month to meet your savings goal.	$	$

The costs outlined below assume that your child begins college at age 18 and that your investment will grow at a hypothetical annual return of 6%.

If child is a newborn

Goal	Monthly investment
$50,000	$131
$100,000	$261
$150,000	$392
$200,000	$522

If child is 5 years old

Goal	Monthly investment
$50,000	$214
$100,000	$428
$150,000	$641
$200,000	$855

If child is 10 years old

Goal	Monthly investment
$50,000	$408
$100,000	$816
$150,000	$1,224
$200,000	$1,631

If child is 15 years old

Goal	Monthly investment
$50,000	$1,268
$100,000	$2,536
$150,000	$3,804
$200,000	$5,072

The example shown is hypothetical and for illustrative purposes only. It does not represent the performance of any specific investment.

Take Advantage of a 529 College Savings Plan

529 College Savings Plans provide families with a convenient, simple and effective way to save for a college education. Anyone can invest in a 529 plan regardless of income level or relationship to the child. Some plans will even allow you to open an account for yourself.

While specific features of 529 savings plans may vary from state to state, these vehicles are designed to provide students with several benefits including:

- Assets grow tax-free, and withdrawals for qualified higher education expenses are also federal tax-free. The availability of such tax or other benefits may be conditioned upon meeting certain requirements. Since contributions grow tax-free, you may accumulate more money in a 529 plan than if you made the same investment in a regular investment account.
- Higher contribution limits than Coverdell Education Savings Accounts.
- The account owner retains the ability to make all investment decisions and maintains control over distributions.
- Flexibility to change beneficiaries within the same family.

AllianceBernstein's CollegeBound*fund*® is a 529 college savings program sponsored by the state of Rhode Island.

CollegeBound*fund*® features:

- A variety of investment choices
- High contribution levels
- No income limits restricting who can participate

To learn more about CollegeBound*fund*, contact your financial advisor, or visit www.collegeboundfund.com or call a CollegeBound*fund* representative toll-free at 888.324.5057

To help parents and students plan for college costs, AllianceBernstein has created a special sliderule calculator that allows users to determine what it will cost to pay down college loans of varying amounts. The calculator also illustrates what that loan repayment could grow to were it invested in a hypothetical portfolio with an assumed annual return of 6% for 10-, 20-, 30- and 40-year periods. To obtain a College Debt Crunch slide rule, call 800.227.4618.

You should consider the investment objectives, risks, charges and expenses of CollegeBound*fund* carefully before investing. For a free copy of the Program Description, which contains this and other information, visit our website at www.collegeboundfund.com, or call your financial representative or AllianceBernstein Investments at 888.324.5057. Please read the Program Description carefully before you invest.

If you are not a Rhode Island resident or if you have taxable income in another state, please note that depending on the laws of your or your beneficiary's home state, favorable state tax treatment or other benefits offered by such home state for investing in 529 college savings plans may be available only for investments in the home state's 529 plan. Any state-based benefit offered with respect to this plan should be one of many appropriately weighted factors to be considered before making an investment decision. Please consult your financial, tax or other adviser to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You may also wish to contact your home state or another state's 529 plan to learn more about its features, benefits and limitations before investing. Statements in this material concerning taxation are not offered as individual tax advice.

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