

# Failing Grades?

American Families and Their College Saving Efforts

CollegeSavingsCrunch<sup>SM</sup>

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# Surveying the College Savings Gap

For many parents, sending a child to college is a milestone. It represents an investment in your child's future, affording him or her opportunities for personal growth, career development, and the pursuit of knowledge.

Today, as college costs continue to climb dramatically—rising at twice the rate of inflation over the last decade—funding a college education has become one of the most significant challenges that many families face. The result is that many families are simply not saving enough to reach that financial goal.

To better understand families' misperceptions and missteps throughout the savings process, AllianceBernstein surveyed parents and student financial aid administrators—at public and private universities—to explore the myths and realities of college financing.

The research powerfully demonstrates that, despite their best intentions, many parents are unprepared to cover the real cost of a college education. What's more, they hold unrealistic expectations about the availability of financial aid and scholarships, which they hope will fill the college savings gap.

At AllianceBernstein, we are committed to helping families—and the professionals who advise them—put in place savings and investing approaches that give them the best chance possible of realizing their financial goals, including funding a college education.

# Good Intentions, Poor Planning

In order to learn more about college savings, AllianceBernstein surveyed 1,358 parents—with pre-college age children and a household income of more than \$50,000—to uncover their knowledge, attitudes, and savings behaviors when it comes to college expenses. Separately, we surveyed 200 student financial aid administrators—at public and private colleges—to compare the myths and realities of financial aid packages.

If you are like most parents, ensuring the future success and happiness of your children is of paramount importance. And you likely know that an essential credential for many young adults today is a college education. But, with college expenses skyrocketing, funding a college education is an increasingly challenging goal for many families.

What we learned in our survey is that, not surprisingly, parents feel responsible for their child's college expenses. In fact, aside from their own retirement, saving for college is one of the most important financial goals many parents face.

## Parents Feel Responsible for Paying for College

Believe helping with college expenses is best investment they can make in children's future	<b>94%</b>
Intend to pay <b>some</b> or all of children's college expenses	<b>95%</b>
Intend to cover <b>all</b> of children's college expenses	<b>41%</b>
Would feel guilty about not helping with college expenses	<b>65%</b>

Source: AllianceBernstein College Savings Crunch Survey, August 2006

## 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 6.6% at public four-year colleges and 5.7% 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.

The research demonstrates that despite the best intentions and their sense of responsibility, many parents are simply not putting in place a savings and investing plan to help meet the rising cost of a college education. And, those parents who are saving for college are setting the savings bar too low and have little confidence that they can fund college expenses. In fact, when asked to grade themselves on being financially prepared to pay for their children's college educations, 34% of our survey respondents gave themselves a grade of "D" or worse.

## For some parents, the college savings bar is set too low

- One-third of parents who plan to help their children with college expenses haven't started saving yet.
- Of those parents who plan to help their children and are already saving, 64% have saved less than \$10,000.
- Three-quarters of parents are concerned about saving enough and only one in four thinks that it is "very likely" they will reach their college savings goal.

Many parents are struggling to make college savings a top priority and recognize that they could be saving more. In fact, nearly three-fourths (74%) of those surveyed said that they could save more for college if they limited their spending on discretionary items such as toys, clothes, electronics, entertainment, and other impulse purchases.

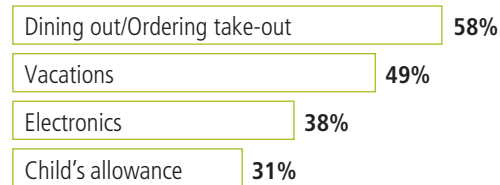
It seems that for many parents, despite an expressed commitment to help fund their child's college education, their good intentions are often disrupted by their discretionary spending habits.

The reality is some parents are spending today and planning to save tomorrow. But when it comes to college savings, that is not a strategy that will help families reach this critical financial goal. Perhaps that's why only 27% of parents surveyed think it is "very likely" they will reach their college savings goal.

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### Compulsive Consumerism Derails College Savings

Parents admit to spending more on the following in the last year than they saved or invested for their children's college education:



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### What Parents Told Us

- More than two-thirds (68%) believe that colleges will design a financial aid package that they can reasonably afford.
  - 84% believe there are lots of scholarships that will help them pay for some of the costs of their child's education.
  - 72% believe that their children are likely to have unique or special talents that will enable them to receive scholarships.
  - On average, families planning to contribute to their children's college costs anticipate scholarships will cover 24% of their expenses.
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### What Financial Aid Administrators Said

- 97% of financial aid administrators say families have become more reliant on financial aid in recent years.
  - Nearly all financial aid administrators think that parents have a false sense of security that colleges will help them cover education costs.
  - Financial aid administrators overwhelmingly agree that private loans are becoming an increasingly important part of paying for college.
  - More than half of aid administrators surveyed said they would not let their own child take out the average amount of loans taken by today's students.
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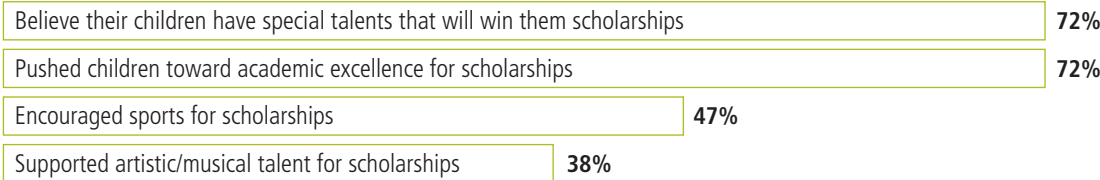
# Relying Heavily on Financial Aid

With modest college savings goals, and a perceived lack of confidence that they will reach those goals, our research suggests that parents are relying heavily on the availability of financial aid, scholarships, grant money, and even colleges to help fill the gap between their accumulated college savings and college expenses. In fact, 87% of parents surveyed with children age 14 and over think it is likely they will apply for financial aid.

In a companion survey, we reached out to 200 student financial aid administrators at public and private universities across the nation to determine whether or not parents' expectations regarding financial aid and scholarship packages aligned with the observations of the very people who award those aid packages.

Sixty-eight percent of aid administrators believe the 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 financial aid are financially able to meet their expected family contribution and 61% think it would be a major financial hardship for a family to do so.

## Parents in Search of Scholarships



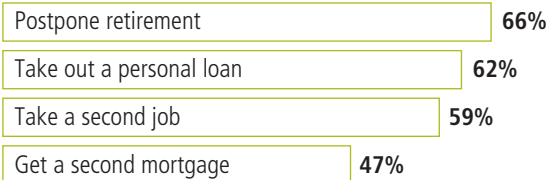
**Financial aid includes not only scholarships and grants, but also loans that must be paid back. Using recent data from the College Board, federal and private loans account for 56% of student aid.**

Financial aid administrators revealed that today's financial aid system forces many of those applying for financial aid to take out substantial loans, that must be repaid. Counting on scholarships and grants is not a realistic option; two-thirds of surveyed financial aid administrators believe scholarship and grant dollars are less available for the average family than they were in the past and, what's more, 92% say that parents overestimate the amount of scholarship and grant money their children will receive.

A failure to plan adequately for college expenses can hurt parents down the road and result in a cycle of debt that spans generations. In fact, 62% of parents agree that paying for their children's college education will significantly impact their retirement savings. And more than half of parents (56%) say it is likely they will end up helping their children pay back educated-related loans after they graduate.

## Dependent on Debt and Sacrifices?

Parents expressed a commitment to make major sacrifices in order to help fund a child's college education:



# Plan Effectively to Meet the Cost of College

With college costs increasing—and the availability of scholarships and grants dwindling—how can parents plan for the best possible chance of funding a child’s college education? There are options, aside from taking a second job or a second mortgage, that can help families reach this important investment goal.

Today, many families lack a comprehensive financial plan. In fact, 70% of parents we surveyed revealed that they do not have a financial plan that takes into account all of their financial goals. Additionally, families don’t seek professional advice; 80% of parents said they have not sought the help of a financial advisor in their college savings efforts.

What’s more, almost half of the parents we surveyed are not familiar with tax-advantaged savings vehicles such as 529 college savings plans. Indeed, 91% of financial aid administrators believe that parents don’t utilize savings vehicles, like 529s, as much as they should.

**The majority of student financial aid administrators said that one of the reasons that parents do not save more is that they don’t have a plan for their children’s college costs.**

## More Observations from Financial Aid Administrators

Ninety percent of surveyed financial aid administrators cite the following as reasons why parents don’t save more:

- They don’t have a savings plan for their children’s college costs
- They have other priorities that cloud their focus
- They start saving too late

The result: many families—lacking a comprehensive financial plan—scramble in the eleventh hour to fill the gap between college savings and college costs, a strategy that can put the entire family at risk.

By saving early, smartly, and diligently for college, it is possible to diminish the burden of those costs on you and your children. There are a number of tools and resources to help you meet your college savings needs. Begin by setting a reasonable goal and working with a financial advisor to develop and implement a plan to achieve that goal.

## Estimated Future Cost of Four Years of College

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

Source: Trends in College Pricing 2005, The College Board

# A Three-Step Plan for College Savings

Proactive planning, saving, and investing for a child's education are critical when it comes to their long-term success. Here are some action-oriented suggestions to help you save 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 the bottom of the previous page 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 each month to reach your target.

## 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, 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 is critical to restore your target investment allocations on a regular basis

## 3 Seek the Help of a Financial Professional

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

## Take Advantage of a 529 College Savings Plan

A 529 college savings plan can 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.

**CollegeBoundfund® is a 529 college savings program sponsored by the state of Rhode Island and managed by AllianceBernstein.**

### CollegeBoundfund® features:

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

**Please note, the availability of 529 tuition savings tax or other benefits may be conditioned on meeting certain requirements.**

**To learn more about CollegeBoundfund, contact your financial advisor, or visit [www.collegeboundfund.com](http://www.collegeboundfund.com) or call a CollegeBoundfund representative toll-free at 888.324.5057.**

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1345 Avenue of the Americas  
New York, NY 10105  
1.800.227.4618

[www.alliancebernstein.com](http://www.alliancebernstein.com)