What You Need to Know About Saving for College

Common College Savings Mistakes And How to Avoid Them

CollegeSavingsCrunch℠

Investment Products Offered

• Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed

AllianceBernstein Investments

Saving for College

The Forgotten Priority

In the summer of 2006, AllianceBernstein surveyed 1,350 parents to understand their attitudes, beliefs, and behaviors related to saving for college. At the same time, we asked financial aid administrators from public and private 4-year colleges across the country to tell us how well they thought families are prepared to meet the obligations of funding their children's college education.

We learned that while American parents are deeply committed to doing all they can to provide for their children's education, they are falling short of their goals. In fact, many parents struggle to understand what they need to be doing to save effectively, or they are not saving at all.

The result? Many families scramble when it comes time to pay the tuition bill, putting both their children's future at risk and their own.

Use this guide to understand the critical factors that come into play when making sure your college savings plans have the same potential for success as your children's educational aspirations. In addition, work with a financial advisor to help you balance all of your priorities, such as saving for retirement. Financial planning professionals also have expertise to make sure your investment strategies match your goals.

For more information on the AllianceBernstein College Savings Crunch℠ study, please visit www.collegesavingscrunch.com.

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

In April of 2006, we spoke to over 1,500 college graduates ages 21 to 35 to understand college debt's impact on their lives after graduation.

This research, the first of its kind, underscored a critical issue that puts the financial security of young Americans at serious risk. People who graduated college with debt entered the workplace with debt loads that put them in a hole for years, even decades after graduation.

- 74% report difficulty paying off their loans
- 42% say they live paycheck to paycheck
- 34% report having sold personal possessions to make ends meet
- 32% were forced to move back in with their parents

What's more, college debt has a multi-generational impact.

- Graduates with debt struggle to save for their retirement and their children's college education.
- Inadequate college savings can also impact parents, who are hit with their kids' first tuition bills near the time when they are ready to retire, potentially delaying retirement or taking a big bite out of savings.

Families need to realize that saving for college is as much a part of their overall financial plan as retirement planning. And, by pushing the responsibility to fund college to their children, which is the essence of college debt, parents put their children's financial future at risk.

What Do You Really Know About Saving for College?

8 Common Mistakes and How You Can Avoid Making Them

1 "I have time to start saving for college because my kids are young."

For most families, college is not an unexpected expense. As soon as a child is born, it is likely that in approximately 18 years, your first tuition bill will arrive. Yet, nearly a third of parents who plan to pay for all or part of their children's college education report that they have not even started saving for college.

The rate at which college costs are rising is considerable. From 1994 to 2005, college costs increased at more than twice the rate of overall inflation.

College Costs on the Rise
Estimated Cost of Four Years of College

	Public College	Private College
Today	$52,269	$125,106
In 18 Years (2024)	$125,791	$301,082

Source: Trends in College Pricing 2005, The College Board

It's without question that, for most of us, a college education is the gateway to a wealth of professional and personal opportunities. However, with skyrocketing college costs, this necessity often carries a luxury price tag.

Take Action

- Determine your college savings goals. Use online resources, such as AllianceBernstein's CollegeBound*fund*® Calculator, to estimate what college might cost when your children are ready to go. Visit www.collegeboundfund.com.
- Ask your financial advisor to analyze your college savings needs using AllianceBernstein's Education Funding Planner.

2 "I'm better off not saving too much, because I don't want to put my children at a disadvantage in the financial aid process."

According to financial aid administrators, one of the primary reasons parents don't save more for their children's college education is that they think it will hurt their family's chances to receive a good financial aid package.

The reality is that while greater assets do impact eligibility for financial aid, the most critical factor that determines the size of aid packages is the parents' and student's income.

There are smart ways to save for college that won't significantly reduce a student's eligibility for aid. Savings in a 529 plan, for example, have specific advantages when it comes to your child's eligibility for financial aid.

Take Action

- Learn more about financial aid and which investments will not significantly reduce your eligibility for financial aid. Visit www.finaid.org.
- Talk to your financial advisor about the advantages of different college savings vehicles and what makes sense for you and your family.

3 "Financial aid is money that doesn't have to be paid back."

Among parents with children near college age, 1 out of 3 mistakenly believes that financial aid provided by colleges is money that doesn't have to be paid back. And, 80% of financial aid administrators told us that parents are surprised to learn that college loans are often a large component of their child's aid package.

Financial aid includes not only scholarships and grants, but also loans. In fact, 56% of financial aid comes in the form of educational loans that must be paid back.

Take Action

- Get smart about financial aid. The National Association of Student Financial Aid Administrators offers insight to help you understand this topic better. Visit www.studentaid.org.
- Understand the impact student loans will have on your lives after graduation. Visit www.collegesavingscrunch.com for more information.

4 "When saving for college, it's best to use only low-risk investments because that money has to be there when my kids will need it."

Most parents know approximately when their children will begin college, and when the first tuition bill will likely arrive. As a result, parents often take a conservative approach to investing for college because they know they must be ready to pay college bills when they come due.

That may explain why 31% of parents with specific accounts dedicated to saving for college say they prefer to take little or no risk with their children's savings.

It is important for parents to realize that they need to balance risk and reward, while also taking into account the investing time horizon for their children's college savings plan. For families with long- or mid-range time horizons, it's essential that their college funds have the greatest potential for growth over time to make sure that they have enough money when the time comes to pay for college.

Many parents prefer simplified investing solutions, such as age-based college savings portfolios that change over time as the child nears college age. For younger children, these portfolios invest more heavily in stocks. As they near college age, the allocation is automatically adjusted to become more conservative, through less volatile investments.

Take Action

- Check the asset allocation on your college savings plan. Do you have the right mix of investments to match your goals?
- Speak with a financial advisor who can help you match the right investments to your goals.
- Consider investment solutions such as Rhode Island's CollegeBound*fund*, a 529 savings plan that offers age-based college savings portfolios, managed by AllianceBernstein Investments.

5 "I don't need to save because my child's talents will earn him lots of scholarship money."

A high percentage of parents, 72%, believe that their children possess special or unique talents that will enable them to receive scholarships.

There are certainly many scholarships available that reward students for a variety of reasons—musical talent, athletic ability, heritage, academic excellence, and more.

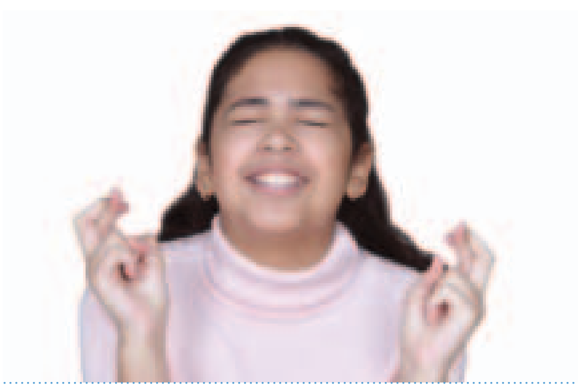
The reality is that possessing admirable qualities doesn't always translate into money for college.

92% of financial aid administrators say that parents overestimate the amount of scholarship and grant money that their children will receive.

On average, aid administrators report that less than 10% of all applicants will receive a free ride. Lesson learned: Counting on scholarships is not a smart college funding strategy.

Take Action

- Speak with your child's guidance counselor to better understand scholarship opportunities.
- Check out online sources for scholarship information, such as www.studentaid.ed.gov.



6 "Debt isn't such a big deal. I took out student loans to pay for college, so my kids can, too."

Student debt is rising at an alarming rate. In 1993, the average debt for an undergraduate student was just $10,000. Today, debt levels are approaching $20,000 per student. That's a 108% increase—or 58% after accounting for inflation.*

Increased education debt is taking a toll on graduates, and can create a burden that takes decades to shed. One out of 3 graduates with debt say it's been very difficult to pay off their loans.

Graduates with debt report having to delay major life events like buying a house, having children, and even undergoing medical or dental procedures. With costs for housing, energy, and healthcare on the rise, college debt becomes even more of a burden.

89% of aid administrators surveyed testify that leaving college with debt is a bigger burden today than it has been in the past, and more than half say they would not let their children assume the average amount of loans taken out by today's students.

Take Action

- Read our brochure, "College Debt Crunch: The Biggest Threat to Young Americans' Financial Well-Being?" Call 800.227.4618 to order your copy today or visit www.collegesavingscrunch.com.
- Put a smart savings plan in place to help your children avoid excessive educational debt.

College Debt Crunch℠: The growth of college debt

	1993	2004
Students with college loans	51%	66%
Debt levels for graduating seniors	$9,250	$19,200

*Source: The Project on Student Debt; National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS), 1993 and 2004 undergraduates, Data Analysis System (DAS).

7 "My current income and investments make affording college easy. There is no point to having a college savings plan."

The most straightforward reason to save for college is that it saves parents money. By putting in place a smart investment strategy that includes tax-advantaged savings accounts (such as a 529 plan), using time to their advantage, and through the power of compounding, parents spend less on college expenses. How much? See an example in the chart below.

Some high-income parents are able to pay for their children's college expenses out of their current income. But what happens if there is an unexpected shortfall, or more than one child is in college at a time? Parents may need to tap into other assets—thus potentially creating an unwanted taxable event.

Some college savings plans allow parents to take advantage of a variety of meaningful tax benefits. Programs such as 529 college savings plans offer:

- Federal tax-deferred growth
- Qualified distributions free from federal taxes
- Special gift and estate tax treatment
- Possible state tax benefits
- High contribution limits

The availability of such tax or other benefits may be conditioned on meeting certain requirements.

Take Action:

- Work with your financial advisor to see how college savings fits into your overall investment strategy.
- Take advantage of all the benefits college savings vehicles provide, beyond providing for your children's education.

If the cost of a 4-year degree at a top-ranked private university in 2024 is projected to be $301,082, here's what you can pay now…or pay later.

	Lump Sum	Early & Often	Out-of-Pocket
	Make a one-time investment when the child is born[1]	Make monthly investments for 18 years[2]	In 2024, make monthly payments until graduation[3]
	$105,482	$777	$6,273
Total Contribution	$105,482	$167,832	$301,082

Note: (1) Assumes a one-time investment assuming an average annual return of 6% (2) Hypothetical monthly investments over 18 years with an average annual return of 6%. (3) Total college costs of $301,082, divided into 48 monthly payments. 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. The 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.

8 "I'm so far behind in saving for my children's education, it's completely hopeless."

Never give up hope. There are tools and resources you can use to help you meet your college savings needs. Making any contribution now to a college savings plan may help offset future college expenses, and will translate into less debt for your children.

Take Action:

- Begin today by understanding your college savings needs.
- Follow the tips provided in this brochure to put in place the right plan for your family.
- Meet with a financial advisor who can help you balance and prioritize all of your goals.
- Visit www.collegesavingscrunch.com for more information.

Resources referenced in this guide

Determining College Costs and Savings Goals
CollegeBound*fund* College Cost Calculator
www.collegeboundfund.com

College Savings Vehicles
Education Strategies and 529 plans
www.collegeboundfund.com

Understanding College Debt

- AllianceBernstein's College Debt Crunch Survey
  www.collegesavingscrunch.com
- The Project on Student Debt
  www.projectonstudentdebt.org

Financial Aid and Scholarship Information

- The Smart Guide to Financial Aid
  www.finaid.org
- National Association of School Financial Aid Administrators
  www.studentaid.org
- Information about scholarship opportunities from the U.S. Department of Education
  www.studentaid.ed.gov

The views and opinions expressed on websites other than collegeboundfund.com and collegesavingscrunch.com do not necessarily represent the views of AllianceBernstein or its affiliated firms. AllianceBernstein does not warrant the accuracy or completeness of the information contained on third-party websites.

There may be no greater reward than providing a child with the potential for the brightest future possible. Helping you achieve this goal is one of our most important priorities.

You should consider the investment objectives, risks, charges and expenses of any AllianceBernstein fund carefully before investing. For free copies of our prospectuses or a program description for the CollegeBound*fund*, which contains this and other information, visit us online at www.alliancebernstein.com/investments/us. Please read this information carefully before investing.

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 own or your beneficiary's home state, favorable state tax treatment or other benefits offered by such home states 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. You should consult a financial, tax or other advisor 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 features, benefits and limitations before investing. Statements in this material concerning taxation are not offered as individual tax advice.

The investments in CollegeBound*fund* are not guaranteed by the state of Rhode Island, the Rhode Island Higher Education Assistance Authority (established and implemented CollegeBound*fund* and makes rules and regulations governing the program), the Rhode Island State Investment Commission (oversees the investments of the assets of CollegeBound*fund*), the Federal Deposit Insurance Corporation (FDIC), or any instrumentality thereof. CollegeBound*fund* is managed by AllianceBernstein L.P. and distributed by AllianceBernstein Investments, Inc., member NASD.

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