2016 ANNUAL COLLEGE SAVINGS SURVEY
ABOUT THE SURVEY

The results of our third Annual College Savings Survey provide new insights into the college savings behaviors of parents and grandparents in the United States. As in previous years, the 2016 survey focuses in particular on how these families are selecting and using 529 plans, and their beliefs about these plans.

This year’s survey was administered online to visitors to the Savingforcollege.com website from February through April 2016. A total of 1,777 parents and grandparents participated in the survey.

Visitors to Savingforcollege.com come to our website to learn about college savings and 529 plans, and therefore are not representative of families in general. However, they are highly representative of those families that are interested in saving for and paying for college.

Savingforcollege.com is committed to helping families prepare to meet the rising costs of higher education by providing objective information and tools for planning and saving. We are proud to share our survey findings in the hopes of creating a greater understanding of the needs of families who want to save for college.
In this third edition of the Annual College Savings Survey, we found that while families have high aspirations about paying for their children’s college, many aren’t confident that they will be able to meet their goals. And these concerns about future college costs could be the reason more parents are using (or intend to use) 529 plans to save than in 2015, and others say they are willing to tap into their retirement savings or send their child to a community college in order to keep costs down.

The survey also reveals that consumers are more knowledgeable about 529 plans and their underlying investments than in previous years, suggesting a significant improvement in awareness since 2015. Yet there is still some confusion about how to set up a plan and how they operate.

The findings present an opportunity for our industry, as well as financial advisors, to continue to educate families about how to maximize the benefits of 529 plans and how they fit into an overall saving strategy.

Misconceptions about 529 plan rules still persist
- Respondents are more knowledgeable about 529 plans than in previous years, especially regarding rules about state residency requirements and leftover savings if the beneficiary doesn’t go to college.
- However, there is still some confusion about 529 plan ownership and the impact on financial aid eligibility.

Respondents who do not yet have a 529 plan
- 62% of respondents intend to open a 529 plan, which is significantly more than in 2015, when only 52% wanted to open a 529 plan.
- The top reasons respondents decided to use a 529 plan were:
  - Federal tax benefits
  - State tax benefits
  - Recommendation from a trusted source
- Among respondents who intend to open a 529 plan, more are knowledgeable about the steps involved with opening a plan than in previous years.

- 50% were unsure about which investment option they would select for their plan (compared to 45% in 2015).
- When asked if they planned on consulting a financial advisor for help selecting and enrolling in a plan, the majority (64%) said no, citing the top reason as “I don’t want to pay commissions”.
- Of those who do intend to consult a financial advisor, the top reason selected was “I need help in understanding my options and creating a college savings plan”.

Respondents who already have a 529 plan
- The top ranked criteria cited for selecting a 529 plan was “offered by my state,” compared to “best tax benefits,” which was last year’s number one answer.
- Some respondents also mentioned that an automatic payroll deduction option offered by their employer influenced their decision about which 529 plan to use.
- A large majority of 529 plan owners (80%) are do-it-yourselfers, who did not work with a financial advisor to open their plan.
- Respondents appear to be more knowledgeable about 529 plans than in previous years, as “I’m comfortable researching and understanding investment options on my own” was the top reason given for not working with an advisor.
- When asked about the investment options within their plan, more than half of respondents (62%) said they selected an age-based option, and 76% said they review investment performance at least two to three times per year.
- 529 plans appear to be doing a good job communicating to account owners, with 62% of respondents indicating they are satisfied with the service they are receiving.
- The percentage of respondents who want to open another 529 plan in the near future was almost unchanged from last year at 28%.
- However, only 14% said they were opening a new plan because they weren’t happy with their current plan, compared to 31% who were unhappy with their plan in 2015.
RESPONDENT DEMOGRAPHICS

**Income**

- < $50k: 9%
- $50 - $74k: 13%
- $75 - $99k: 17%
- $100 - $149k: 30%
- $150 - $200k: 16%
- $200k+: 16%

**Age**

- < 24: 8%
- 25 - 34: 15%
- 35 - 44: 34%
- 45 - 54: 30%
- 55 - 64: 12%
- 65+: 1%

**Gender**

- Male: 40%
- Female: 60%

N = 1,777
RESPONDENT DEMOGRAPHICS

Saver Profile
- Grandparents: 14%
- Parents: 86%

# of Children Saving For
- 1: 32%
- 2: 46%
- 3: 15%
- 4 or more: 7%

Age of Youngest Child for Whom Respondent is Saving
- Not born yet: 7%
- <1: 13%
- 1 to 5: 29%
- 6 to 10: 20%
- 11 to 17: 26%
- 18+: 4%

N = 1,777
Respondents to the survey have high aspirations to pay for a significant portion of their children’s college costs. However, they’re not confident that they can meet those aspirations. The good news is that many have started saving for college and are using 529 plans for this purpose. This year, there has been some improvement in knowledge of 529 plan rules, though misconceptions persist.
OVERVIEW

Parents have high aspirations

49% want to pay at least 75% of their children’s college costs, but only 32% are confident that they can cover the costs of their children’s preferred school.

Q: What percent of your child/ren’s college costs do you hope to cover from your own savings and income?

- 22% at least 75%
- 34% at least 50%
- 18% 25% or less
- 100% of college costs

Q: Considering your income and savings, financial aid, scholarships, and any other sources, are you confident that you will be able to cover the costs of your child’s preferred college or university?

- Very confident: 5%
- Confident: 27%
- Neutral: 31%
- Not confident: 28%
- Not confident at all: 10%

N = 1,457

Note: Asked to Parents only
OVERVIEW

Retirement savings provide a fallback for some

Low confidence in their ability to cover future college costs may be why 15% of parents are open to using retirement savings to pay for college.

Q: Are you using, or would you use retirement funds to pay for college?

- No: 85%
- Yes: 15%

N = 1,457

Note: Asked to Parents only
OVERVIEW

Community college for cost management

Most parents are open to community college as a way to keep overall costs down.

Role of Community College

55% of survey respondents were open to sending their child to a community college, but 8% were unsure. Most of those who were uncertain indicated that it was too early to know, and the decision would depend on many factors. One respondent summed it up like this:

"Times are changing and so is the structure of higher education. If it makes more sense financially to enter community college, then we will invest in that when the opportunity is right."

Q: Are you considering, or would you consider, a 2-year community college on your child’s road to a 4-year degree?

Not Sure 8%
No 37%
Yes 55%

N = 1,457

Note: These questions were only asked to Parents
Families are taking college savings seriously

Most say that they have started saving. For those who haven’t, the reasons are similar to the prior year, though lack of money has gained relative to lack of time.
OVERVIEW

529 plans are the most used savings vehicle

Q: What type of account(s) are you currently using to save for college?

- 77% 529 Plans
- 26% CD/Checking/Savings Account
- 8% Mutual Fund
- 8% Roth IRA
- 8% UGMA/UTMA
- 7% Other
- 6% Coverdell ESA

“Other” includes life insurance and individual stocks, bonds or other investments

Among respondents who indicated they have started saving for college
Misconceptions about 529 plan rules persist

Respondents were presented with a series of statements related to 529 plan rules and asked whether each was true or false. This year, respondents scored more correct responses compared to prior year. The biggest areas of misconception, however, continue to be related to consideration of 529 savings in determining financial aid eligibility and 529 plan control.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Correct Response</th>
<th>% Correct Responses: 2016</th>
<th>% Correct Responses: 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>I must use the 529 plan offered by my state of residence.</td>
<td>FALSE</td>
<td>82%</td>
<td>80%</td>
</tr>
<tr>
<td>If my child doesn’t go to college, I’ll lose the money I’ve saved in a 529 plan.</td>
<td>FALSE</td>
<td>88%</td>
<td>83%</td>
</tr>
<tr>
<td>529 plan savings must be applied toward colleges in the state where the plan is based.</td>
<td>FALSE</td>
<td>89%</td>
<td>84%</td>
</tr>
<tr>
<td>If my child gets a scholarship, I’ll lose the money I’ve saved in a 529 plan.</td>
<td>FALSE</td>
<td>93%</td>
<td>91%</td>
</tr>
<tr>
<td>Savings in a 529 plan are considered when determining financial aid eligibility.</td>
<td>TRUE</td>
<td>67%</td>
<td>67%</td>
</tr>
<tr>
<td>My child can never withdraw from the 529 plan without my permission.</td>
<td>TRUE</td>
<td>64%</td>
<td>63%</td>
</tr>
</tbody>
</table>
This section focuses on the 53% of respondents who do not have a 529 plan. Among these, a large majority intend to open a 529 plan, largely due to their tax benefits and positive recommendations from others, suggesting a significant improvement in 529 plan awareness since 2015.
Growing awareness of 529 plans as a solution

Among families who are not using a 529 plan, but are interested in saving for college, 62% intend to open a 529 plan. While the reasons for opening a 529 plan have remained the same from year to year, respondents’ certainty about opening a 529 plan has increased markedly compared to 2015, when only 52% were sure they wanted to open a 529 plan, while 45% were unsure.

Q: Do you intend to open a 529 plan?

- Yes: 62%
- No: 3%
- Don’t Know: 35%

Q: What are the reasons that you’ve decided to use a 529 plan?

Asked to respondents who answered "Yes" to previous question

<table>
<thead>
<tr>
<th>Top Five Criteria</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal tax benefits</td>
<td>1</td>
</tr>
<tr>
<td>State tax benefits</td>
<td>2</td>
</tr>
<tr>
<td>Someone I trust recommended it</td>
<td>3</td>
</tr>
<tr>
<td>Attractive investment options</td>
<td>4</td>
</tr>
<tr>
<td>My financial advisor recommended it</td>
<td>5</td>
</tr>
</tbody>
</table>
STARTING OUT

Other reasons for opening a 529 plan

- We have control of the money and the beneficiary, plus can be used for any university...
- A bank account just isn’t going to help grow the money enough...
- A way to give money to my grandchildren
- [A way to] diversify current holdings
- Every legit source of info, from the internet to my friends, has pointed to 529s as the thing to do...
- Won’t impact FAFSA like an IRA
- I can have multiple people contribute
- A nickel saved of lower So. Carolina income tax is a nickel available for my daughter’s college education
- Low management fees
**Respondents were more confident about how to open a plan, but less sure about how to invest**

Even among those who have decided a 529 plan is the best solution, most don’t know how to go about opening a plan, and 50% don’t know what type of investment option they would choose for their 529 plan (compared to 45% in 2015). However, 20% of respondents this year indicated they would choose an age-based investment option, compared to only 15% last year.

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**Q: Which investment options are you most likely to choose?**

- **Don't Know**: 50%
- **Age-Based Option**: 20%
- **Mix of Stocks & Bonds**: 14%
- **Index Funds**: 10%
- **Equities**: 3%
- **Socially Responsible Option**: 1%
- **Fixed Income**: 2%
- **Money Market**: 1%

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**Respondents answering “Yes” to the question “Do you know the steps involved in opening a 529 plan?”**

- **2016**: 28%
- **2015**: 14%
Financial advisors are recognized as playing a useful role in the college savings process. Just as in 2015, 36% of respondents indicated they intended to work with a Financial Advisor to help with college savings. College savings and investing expertise, and the ability to help clients create a plan are the key benefits they seek from an Advisor.

Q: Do you intend to use a financial advisor to help you determine the best college savings vehicles for your needs?

Top three reasons to NOT use a financial advisor:
1. I don’t want to pay commissions
2. I’m comfortable researching & understanding investment options on my own
3. Concerned about hidden fees or costs

Top three reasons to use a financial advisor:
1. I need help in understanding my options and creating a college savings plan
2. I want to turn to an expert
3. I’m not comfortable evaluating my own investment options
SAVING WITH A 529 PLAN

Among those who have started saving for college, 77% said they were using a 529 plan. A large majority of these 529 plan owners are do-it-yourselfers who opened their plans without the assistance of a Financial Advisor, and who are following their plan investments closely.
Q: Which were the most important criteria to you in choosing your 529 plan?

77% of those who have started saving for college indicated that they are using a 529 plan. Respondents with 529 plans were then presented a list of 12 criteria (including “Other”) and asked to rank the three that were most important to them in choosing their 529 plan. For 2016, “It was the plan offered by my state” ranked first, compared to “Best tax benefits” which was the number one factor reported last year. Although consumers can choose plans from other states, this indicates that many are not shopping around but rather going with their own state’s option.

Other factors mentioned included the reputation of the program manager or confidence in the funds offered. In addition, a few respondents mentioned the role of their employer, e.g.:

“I knew that for me, the most effective way for me to save for my son’s college was to do the automatic weekly payroll routing to the 529 they offered. I did not have to spend a lot of time and effort on it. Now that my son is in HS, I feel it was a good decision.”

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<td>Offered by my state</td>
<td>1</td>
</tr>
<tr>
<td>Best tax benefits for me</td>
<td>2</td>
</tr>
<tr>
<td>Low administrative fees</td>
<td>3</td>
</tr>
<tr>
<td>It has a good reputation</td>
<td>4</td>
</tr>
<tr>
<td>Historical plan performance</td>
<td>5</td>
</tr>
</tbody>
</table>
In 2016 only 20% of respondents indicated they worked with a Financial Advisor to open their 529 plans compared to 28% in 2015. Interestingly, the top reasons for using or not using a Financial Advisor remained unchanged.

Q: Did you use a financial advisor to open your 529 plan?

Top three reasons a financial advisor was used:
1. I was working with a financial advisor before I opened the 529 plan
2. I wanted to turn to an expert
3. I needed help in understanding and selecting a 529 plan

Top three reasons a financial advisor not used:
1. I’m comfortable researching & understanding investment options on my own
2. I didn’t want to pay commissions
3. Concerned about hidden fees or costs
529 PLAN USERS

529 owners are involved investors

Only 12% of 529 plan owners were unsure of how their 529 plan funds were invested, and more than three-quarters indicate that they check the performance of their 529 plan investments at least two to three times per year. A large majority - over 60% - of 529 plan owners indicate they are satisfied with the service they receive from their plans, while only 6% indicate they are dissatisfied.

Q: Which investment option did you select for your 529 plan?

- Age-based option: 62%
- A static option: 24%
- I have a prepaid tuition plan: 3%
- Not sure: 12%

Q: How often do you review the performance of your plan?

- Regularly: 32%
- Occasionally: 44%
- Infrequently: 22%
- Never: 2%

Q: How satisfied are you with the service, information and communication you receive from your 529 plan?

- Very satisfied: 14%
- Satisfied: 48%
- Neutral: 33%
- Dissatisfied: 4%
- Very dissatisfied: 2%

Regularly = once every month or two
Occasionally = 2 - 3 times/year
Infrequently = Once/year or less
28% of respondents with a 529 plan intend to open another plan in the near future. This is almost unchanged from the 27% of 529 account owners who planned to open another plan in 2015. However, there was significant change in the reasons for opening a new plan. In 2015, only 40% were opening a new plan for another child. On the other hand, 31% were opening a new plan because of dissatisfaction with their 529, compared to only 14% this year.

Q: Why are you interested in opening a new 529 plan?

- 65% For another child / grandchild
- 18% Other
- 14% Not happy with current 529
- 14% Moved states

"My state no longer offers tax benefits, so I want a better performing plan."

"Other" responses included people seeking different, better or more diversified options for their college savings. Changes in situations, such as divorce and plan closure, were cited as well.
Questions or comments? Contact us.

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