Investment Company Institute Research Series

Profile of Households Saving for College

INVESTMENT COMPANY INSTITUTE®

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Executive Summary

Background

Saving for a child's college education is an important financial goal for many U.S. households. Most parents expect to pay at least some of their children's college tuition and related expenses. A recent study found that 68 percent of parents with college-bound children under age 18 anticipate paying at least half of their children's higher education expenses and 26 percent expect to pay virtually all of them.[1] Moreover, the cost of higher education has increased at a rapid rate. According to The College Board,[2] average tuition at public four-year colleges and universities increased 9.6 percent between the 2001–02 and 2002–03 academic years to reach $4,081, and average room and board charges rose 6.0 percent to reach $5,582.[3] During the same period, average tuition at private four-year colleges and universities increased 5.8 percent to reach $18,273, and average room and board charges increased 4.6 percent to reach $6,779.

Many investments are now available to U.S. families that want to save for college. These include education-targeted savings programs, such as state-sponsored Section 529 prepaid tuition plans and college savings plans, a Section 529 prepaid tuition plan offered by a consortium of private colleges and universities,[4] and Coverdell Education Savings Accounts (ESAs),[5] all of

[1] Paying for College Survey, Strong Capital Management, April 2001 (www.estrong.com/strong/html/welcome/pressroom/collegesurvey.htm).

[2] The College Board is a national nonprofit membership association of more than 4,300 schools, colleges, universities, and other educational organizations.

[3] "Trends in College Pricing," The College Board, 2002, p. 5 (www.collegeboard.com/press/cost02/html/CBTrendsPricing02.pdf).

[4] Section 529 prepaid tuition plans allow a contributor to establish an account in the name of a future student to cover the cost of a specified number of academic periods or course units in the future at current prices. Section 529 college savings plans allow individuals to contribute to an investment account to pay for a student's qualified higher education expenses. Earnings withdrawn from Section 529 plans to pay for qualified higher education expenses currently are free from federal income tax, and some states allow residents participating in their Section 529 plan to claim a partial or full state income tax deduction on contributions. For more details, see Appendix D: Description of State-Sponsored 529 Prepaid Tuition Plans and Appendix E: Description of State-Sponsored 529 College Savings Plans.

[5] In July 2001, Education IRAs were renamed Coverdell Education Savings Accounts. Coverdell Education Savings Accounts (ESAs) are individual investment plans that permit individuals to save for educational expenses. Investment earnings accumulate on a tax-deferred basis. Individuals opening Coverdell ESAs must not exceed IRS adjusted gross income limits of $110,000 for single taxpayers and $220,000 for joint tax filers. Annual contributions per child must not exceed $2,000. For more details, see Appendix F: Description of Coverdell Education Savings Accounts.

which offer tax incentives for education savings. In addition, Uniform Gift to Minors Act (UGMA) and Uniform Transfer to Minors Act (UTMA) custodial accounts[6] and U.S. Savings Bonds offer tax advantages for education savings. Moreover, traditional and Roth Individual Retirement Accounts (IRAs) also allow withdrawals to be taken without penalty to pay higher education expenses.[7]

To examine how families are saving for college, the Investment Company Institute conducted a telephone survey of U.S. households with children age 18 or younger in the Spring of 2003 that sought to:

- identify the extent to which households with children are saving for college;
- examine awareness and use of education-targeted savings programs, such as state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs;[8]
- describe the demographic and financial characteristics of households saving for college using state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, Coverdell ESAs, and other college savings vehicles; and
- examine parents' views on saving for their children's education and their own retirement simultaneously.

Summary of Research Methodology

All interviews were conducted with the household primary or co-decisionmaker for savings and investments. Forty percent of the sample of telephone numbers selected for the survey was drawn from a random digit dial national probability sample. Because of the low ownership rates of state-sponsored 529 plans and Coverdell ESAs among U.S. households, 60 percent of the sample of telephone numbers for the survey was drawn from households with listed telephone numbers and predicted to have children younger than age 18 and incomes of $50,000 or more (referred to as the "targeted sample").[9,10] Quotas were used to ensure that a sufficient number of interviews were obtained with households saving for college using state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs, as well as with households not saving for college.

A total of 918 interviews of households with children[11] were completed between April 14 and May 26, 2003—766 with households saving for college and 152 with households not saving for college. Among the respondents saving for college, 143 had state-sponsored 529 prepaid tuition plan accounts, 290 had state-sponsored 529 college savings plan accounts, 159 had Coverdell ESAs, and 153 had UGMA or UTMA accounts.

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[6] Uniform Gift to Minors Act (UGMA) and Uniform Transfer to Minors Act (UTMA) accounts are custodial accounts established at financial institutions for the benefit of a minor child and managed by the parent or other designated custodian until the child reaches adulthood. In addition to education expenses, custodians can use money in these accounts for almost any reason for the child's benefit until the child reaches adulthood. For more details, see Appendix G: Description of UGMA and UTMA Accounts.

[7] Internal Revenue Service Publication 970, *Tax Benefits for Education* (www.irs.gov/pub/irs-pdf/p970.pdf), provides a detailed presentation of the tax benefits available to U.S. households saving for or paying higher education costs.

[8] At the time of the ICI survey, the 529 prepaid tuition plan now offered by a consortium of private colleges and universities was not yet offered to the public. Therefore, it was not included in the survey.

[9] The targeted sample was created using a model that incorporates available demographic, financial, and geographic information to build a profile of U.S. households with listed telephone numbers.

[10] The survey included households with children age 18 because that is the age at which most children graduate from high school.

[11] Twelve percent of responding households with children age 18 or younger also had children in college or graduate school at the time of the survey.

The survey responses were weighted to adjust for differences between respondents from the random digit dial sample and respondents from the targeted sample regarding awareness and ownership of education-targeted savings programs (state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs) and ownership of all other college savings vehicles. The survey responses were not weighted to adjust for demographic differences between respondents from the random digit dial sample and respondents from the targeted sample because doing so likely would have increased the level of variance in the findings. Therefore, the survey responses reflect the college savings behavior of U.S. households with children age 18 or younger, but the respondents to the survey are biased towards higher-income households.[12]

Throughout this report, percentages may not add to 100 because of weighting or rounding, or where respondents were allowed to provide multiple responses.

Main Findings

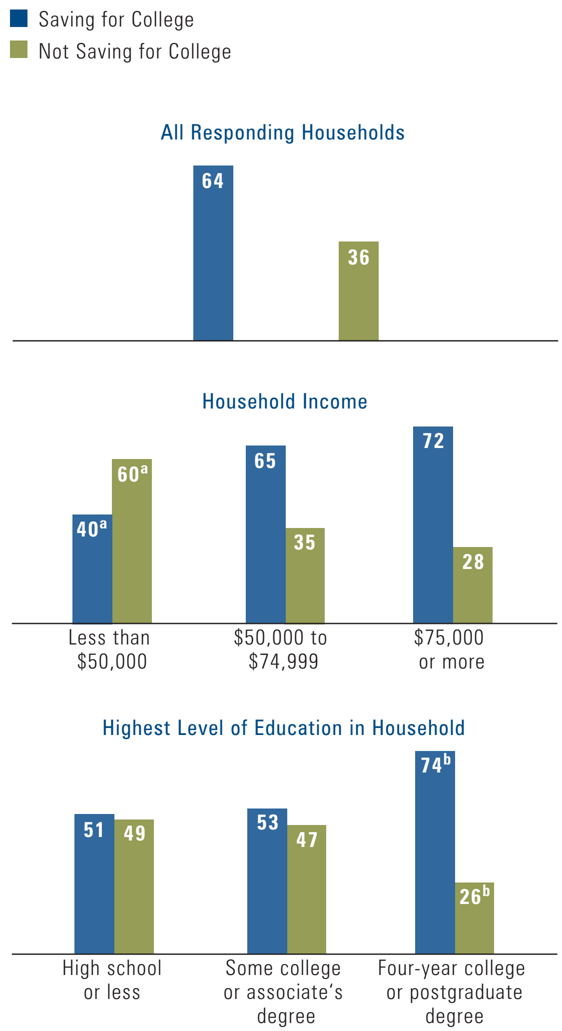
Saving for College

1. **Of the parents who participated in the ICI survey,[13] nearly two-thirds currently are saving to pay for their children's college education.** Among survey respondents, parents with higher incomes are considerably more likely to be saving for college than parents with lower incomes (Figure 1). Parents' decision to save for college expenses is influenced by the parents' own level of education, their age, and the number of children they are raising.

FIGURE 1

Incidence of Saving for College Among Responding Households by Income and Education

(percent of respondents)



[a] Responses of respondents with household income of less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household income of $50,000 to $74,999 or $75,000 or more.

[b] Responses of respondents where the highest education level in the household is a four-year college or postgraduate degree are statistically different at the 95 percent confidence level from those of respondents where the highest education level in the household is some college or associate's degree or high school or less.

Note: Number of respondents varies.

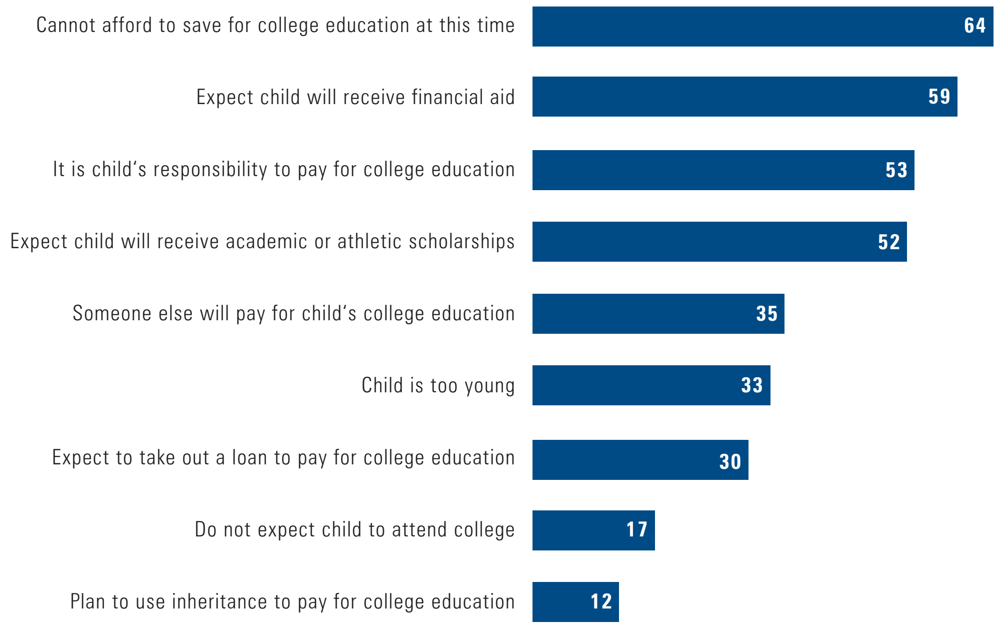
12 See Appendix A: Research Methodology for more details on the survey sample and weighting of the results.

13 Survey responses reflect the college savings behavior of U.S. households with children age 18 or younger, but the respondents to the survey typically have greater household incomes and financial assets and are more likely to be college-educated and married than all U.S. households with children.

FIGURE 2

Reasons for Not Saving for College[1]

(percent of respondents not saving for college)



[1] *Multiple responses included. Number of respondents varies.*

2. **Among responding parents who currently are not saving for their children's college education, 64 percent indicate it is because they lack the resources.** Other reasons cited by parents who are not saving for college include: expectations that their children will receive financial aid, the belief that it is their children's responsibility to pay for their own college education, expectations that their children will receive academic or athletic scholarships, and the belief that their children are too young (Figure 2).

FIGURE 3

Current and Expected Total College Savings

(percent of respondents saving for college)

	Current College Savings	Expected Total College Savings[1]
Less than $5,000	24	4
$5,000 to $9,999	16	5
$10,000 to $19,999	20	14
$20,000 to $49,999	27	35
$50,000 to $74,999	7	15
$75,000 to $99,999	2	7
$100,000 or more	5	20
Mean	$23,600	$92,700
Median	$10,000	$35,000
Number of respondents	677	679

[1] By the time the oldest or only child is ready to attend college.

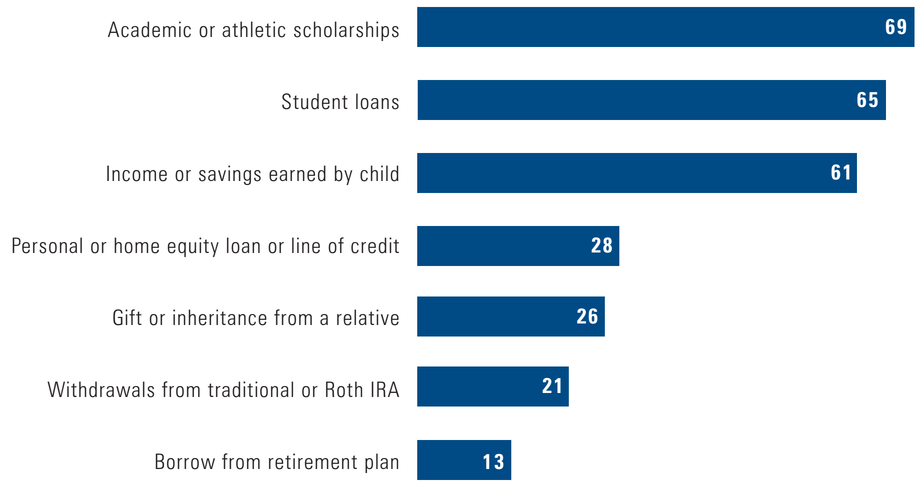
3. **Most parents responding to the ICI survey who are saving for college have been doing so for several years and have saved a median of $10,000, and a mean of $23,600.** By the time their oldest or only child is ready to go to college, parents saving for college expect to have accumulated a median amount of $35,000; a mean amount of $92,700 (Figure 3). The median number of years responding parents have been saving for college is 6.0, the mean is 7.4.

4. **The majority of responding parents saving for college are confident that they will reach their college savings goals.** Thirty-eight percent believe it is "very" likely that they will meet their college savings goals, and 49 percent believe it is "somewhat" likely. Only 13 percent consider it "somewhat" or "very" unlikely that they will meet their college savings goals.

FIGURE 4

Expected Sources of Funding to Pay for College in Addition to College Savings[1]

(percent of respondents saving for college indicating "very" or "somewhat" likely to rely on source)



[1] Multiple responses included. Number of respondents varies.

5. **In addition to college savings, most parents responding to the ICI survey expect to rely on academic or athletic scholarships, student loans, or income or savings earned by their children to pay college expenses.** However, the majority of responding parents do not expect to take out personal or home equity loans or lines of credit, borrow from employer-sponsored retirement plans, or withdraw money from IRAs to pay for their children's college education (Figure 4).

6. **The majority of responding parents saving for college say that it is difficult to save for their own retirement and their children's college education at the same time.** Most who say this, however, believe they have been successful at achieving both financial goals. Some parents acknowledge that they are saving less for retirement because they are saving for college or have had to cut back on expenses to save for college.

Investments Used to Save for College

7. **Ninety-three percent of parents responding to the ICI survey who are saving for college are using taxable investments to achieve this financial goal.[14]** Thirty-nine percent are using solely taxable investments to save for college (Figure 5). More than 80 percent of parents using taxable investments have at least some college savings in taxable bank accounts, and nearly half have college savings in taxable mutual fund accounts. More than one-quarter have college savings in taxable Certificates of Deposit or individual stocks or bonds, excluding U.S. Savings Bonds.

[14] Taxable investments are those held in accounts that do not receive advantageous tax treatment at the federal, state, or local level.

8. **Forty-two percent of responding parents who are saving for college are using U.S. Savings Bonds to achieve this financial goal.** Only 1 percent of responding parents saving for college are using U.S. Savings Bonds solely for that goal (Figure 5). Ownership of U.S. Savings Bonds for college savings increases with household income and the number of years the household has been saving for college.

9. **Twenty percent of parents responding to the ICI survey who are saving for college are using education-targeted savings programs such as state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, or Coverdell ESAs.** Most of the parents using education-targeted savings programs are also saving for college with taxable investments (Figure 5).

FIGURE 5

Types of Investments Used to Save for College

(percent of respondents saving for college)

Taxable investments (total)	93
U.S. Savings Bonds (total)	42
Education-targeted savings programs (total)[1]	20
UGMA or UTMA accounts (total)	15
One Type of Investment	44
Taxable investments only	39
U.S. Savings Bonds only	1
Education-targeted savings programs only[1]	3
UGMA or UTMA accounts only	1
Two Types of Investments	43
Taxable investments and U.S. Savings Bonds	29
Taxable investments and education-targeted savings programs[1]	7
Taxable investments and UGMA or UTMA accounts	6
UGMA or UTMA accounts and education-targeted savings programs[1]	1
Three Types of Investments	11
Taxable investments, U.S. Savings Bonds, and education-targeted savings programs[1]	5
Taxable investments, U.S. Savings Bonds, and UGMA or UTMA accounts	4
Taxable investments, UGMA or UTMA accounts, and education-targeted savings programs[1]	2
All Four Types of Investments	2
Number of respondents	766

[1] *Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.*

10. **Fifteen percent of responding parents who are saving for college are using UGMA or UTMA accounts to save for college, usually in addition to taxable investments, U.S. Savings Bonds, or education-targeted savings programs.** Only 1 percent of parents saving for college are using solely UGMA or UTMA accounts (Figure 5).

Opening and Investing in Education-Targeted Savings Programs

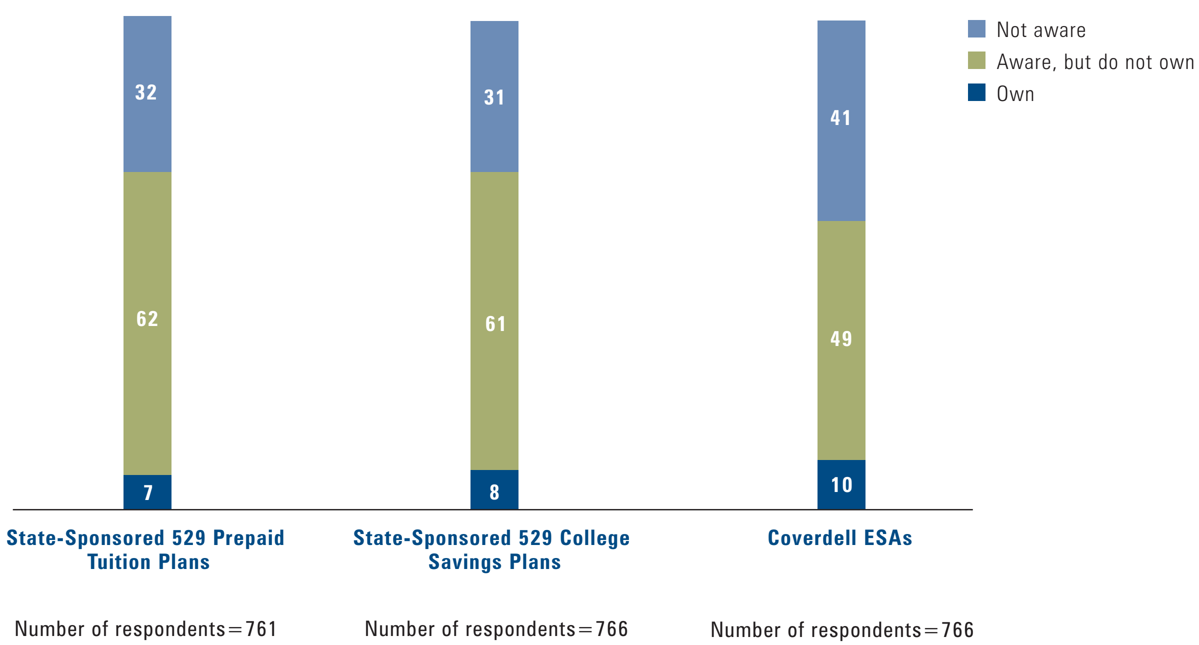
11. **Awareness of education-targeted savings programs is fairly strong among parents who are saving for college.** Nearly two-thirds of parents responding to the ICI survey who are saving for college are aware of at least one type of education-targeted savings program, but do not own any program accounts. Sixty-two percent of parents saving for college are aware of, but do not own, state-sponsored 529 prepaid tuition plan accounts; 61 percent are aware of, but do not own, state-sponsored 529 college savings plan accounts; and 49 percent are aware of, but do not own, Coverdell ESAs (Figure 6).

12. **Ownership of education-targeted savings program accounts reflects the relative newness of these products.** Seven percent of parents responding to the ICI survey who are saving for college own state-sponsored 529 prepaid tuition plans, 8 percent own state-sponsored 529 college savings plans, and 10 percent own Coverdell ESAs (Figure 6).

FIGURE 6

Awareness and Use of Education-Targeted Savings Programs[1] Among Responding Households Saving for College

(percent of respondents saving for college)



[1] *Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.*

FIGURE 7

Likelihood of Opening Education-Targeted Savings Program[1] Account in the 12 Months Following the Survey Among Responding Households Saving for College

(percent of respondents saving for college who do not own any education-targeted savings programs, but are "very" or "somewhat" likely to open each type of education-targeted savings program account)

		Number of Respondents
State-sponsored 529 college savings plan account	26	320
State-sponsored 529 prepaid tuition plan account	23	435
Coverdell ESA	12	358
At least one of the above	28	589

[1] Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.

13. Parents' use of education-targeted savings programs is likely to grow in the near future. More than one-quarter of responding parents who are saving for college, but who do not own any education-targeted savings program accounts, indicate they are likely to open one of these types of accounts in the 12 months following the survey. Specifically, 26 percent indicate they expect to open a state-sponsored 529 college savings plan account in the 12 months following the survey, 23 percent expect to open a state-sponsored 529 prepaid tuition plan account, and 12 percent expect to open a Coverdell ESA (Figure 7).

14. The characteristics of households saving for college using education-targeted savings programs differ from those of households not using these programs. Parents who are using these programs generally have greater household incomes, household financial assets, and current college savings (Figure 8). In addition, a greater percentage of households using education-targeted savings programs are headed by parents with four-year college or postgraduate degrees. Parents not using these programs are more likely to expect to rely on scholarships, student loans, or income or savings earned by their child to pay for college than are parents using these programs.

FIGURE 8

Characteristics of Responding Households Saving for College by Use of Education-Targeted Savings Programs[1]

	Using Education-Targeted Savings Programs	Not Using Education-Targeted Savings Programs
Median		
Age[2]	41 years	42 years
Household income	$99,200	$74,500[a]
Household financial assets[3]	$129,100	$70,000[a]
Current college savings	$15,000	$10,000
Years saving for college	6 years	6 years
Age of oldest or only child	9 years	12 years
Percent		
Married or living with a partner[2]	94	90[a]
College or postgraduate degree[2]	73	51[a]
Employed[2]	89	84
Number of children age 18 or younger in the household:		
One	29	33
Two	51	44
Three or more	20	23
Participate in or covered by employer-sponsored retirement plan	89	83
Have traditional or Roth IRA	73	47[a]
Sources consulted about saving for college:[4]		
Newspaper, newsletter, or magazine articles	72	58[a]
Professional financial adviser	65	52[a]
Friends or family members	55	55
Brochures or printed advertisements	58	41[a]
The Internet	51	32[a]
Very or somewhat likely to meet college savings goal	88	86
Very or somewhat likely to rely on college funding from:[4]		
Academic or athletic scholarships	62	72[a]
Student loans	57	68[a]
Income or savings earned by child	53	63[a]
Expect financial assistance from adult relative(s) for college expenses	32	37

[1] *Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.*

[2] *Refers to the household's responding financial decisionmaker for investments.*

[3] *Includes assets in employer-sponsored retirement plans but excludes primary residence.*

[4] *Multiple responses included.*

[a] *Responses of respondents not using education-targeted savings programs to save for college are statistically different at the 95 percent confidence level from those of respondents who are using education-targeted savings programs to save for college.*

Note: Number of respondents varies.

FIGURE 9

Household Assets in Education-Targeted Savings Programs[1]

(percent of respondents owning each type of education-targeted savings program)

	State-Sponsored 529 Prepaid Tuition Plans	State-Sponsored 529 College Savings Plans	Coverdell ESAs
Less than $2,500	31	26	32
$2,500 to $4,999	16	19	26
$5,000 to $9,999	22	21	23
$10,000 or more	31	34	19
Mean per household	$14,500	$11,200	$7,400
Median per household	$5,000	$5,000	$4,000
Number of respondents	113	250	119

[1] Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.

15. **Parents' level of assets in education-targeted savings programs reflects the relatively recent availability of most of these programs.** The median household assets in state-sponsored 529 prepaid tuition plans and 529 college savings plans are each $5,000, and median household assets in Coverdell ESAs are $4,000 (Figure 9). Nearly half of households with state-sponsored 529 prepaid tuition plans opened their accounts in 2001 or later, and 63 percent of households with state-sponsored 529 college savings plans opened their accounts in 2001 or later. Half of households with Coverdell ESAs opened their accounts in 1999 or later.

16. **Most parents responding to the ICI survey and using education-targeted savings programs to save for college contributed to their accounts in 2002.** In 2002, 71 percent of responding parents with state-sponsored 529 prepaid tuition plans contributed to their accounts, and 92 percent of those with 529 college savings plans contributed to their accounts. Nearly four-fifths of parents with Coverdell ESAs contributed to their ESAs in 2002.

17. **Professional financial advisers play an important role in disseminating information about state-sponsored 529 college savings plans and Coverdell ESAs.** The largest percentage of responding parents with 529 college savings plans and the largest percentage with Coverdell ESAs obtained information about these plans and accounts from professional financial advisers (Figure 10). In addition, most responding parents who opened 529 college savings plan accounts or Coverdell ESAs with professional financial advisers already had investment accounts with those advisers.

18. **Parents establish state-sponsored 529 prepaid tuition plan accounts, state-sponsored 529 college savings plan accounts, and Coverdell ESAs for very different reasons.** The most frequently cited reason for opening state-sponsored 529 prepaid tuition plan accounts is that the child's tuition will be paid in advance, whereas the most frequently mentioned reason for opening state-sponsored 529 college savings plan accounts is flexibility in the selection of a college or university (Figure 10). In contrast, the most common reason for opening a Coverdell ESA is the tax-free withdrawal feature.

FIGURE 10

Main Source of Information and Primary Reason for Opening Education-Targeted Savings Program[1] Accounts

	State-Sponsored 529 Prepaid Tuition Plans	State-Sponsored 529 College Savings Plans	Coverdell ESAs
Most frequently cited source of information about plan or account	Brochures, advertisements, or the website of the state offering the plan	Professional financial adviser	Professional financial adviser
Most frequently cited reason for opening account	Child's tuition will be paid in advance	Flexibility of college or university selection	Tax-free withdrawal feature

[1] *Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.*

Chapter 1:

Profile of Responding Households Saving for College

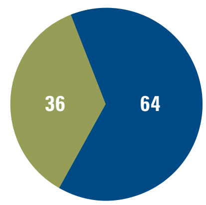
Saving for College Among Survey Respondents

Nearly two-thirds of the parents who participated in the ICI survey currently are saving to pay for their children's college education (Figure 11). In addition, more than 80 percent of responding parents cite saving for education as one of their household financial goals (Figure 12). Only saving for retirement and providing for emergencies are mentioned more frequently as household financial goals. Among parents currently saving for college, paying for education is most often

FIGURE 11

Saving for College Among Responding Households

(percent of respondents)



Number of respondents=918

FIGURE 12

Financial Goals of Responding Households by Saving for College[1]

(percent of respondents)

	All Responding Households	Saving for College	Not Saving for College
Finance retirement	89	94	82[a]
Provide for emergencies	84	85	80
Pay for education	82	100	57[a]
Pay down debt	61	59	64
Save for a vacation	51	54	45
Buy a car or other large item	34	33	37
Buy a house	25	24	27
Some other goal	11	10	12

[1] *Multiple responses included. Number of respondents varies.*

[a] *Responses of respondents who are not saving for college are statistically different at the 95 percent confidence level from those of respondents who are saving for college.*

mentioned as the primary financial goal (Figure 13). In contrast, parents currently not saving for college most frequently cite saving for retirement or paying down debt as the household's main financial goal.

Parents' financial situation greatly influences their ability to save for their children's college education. Among survey respondents, parents with higher household incomes and financial assets are considerably more likely to be saving for college than parents with lower household incomes and financial assets (Figure 14).

Other factors that influence saving for college include the parents' own level of education, their age, and the number of children they are raising. Nearly three-quarters of parents with four-year college or postgraduate degrees are saving for their children's college education, compared with about half of parents who attended high school or some college. Younger parents are more likely to be saving for college than older parents, and saving for college is more likely to be a financial goal among parents with one or two children than among parents with three or more children.

FIGURE 13

Primary Financial Goal of Responding Households

(percent of respondents)

	All Responding Households	Saving for College	Not Saving for College
Finance retirement	28	27	30
Pay for education	27	36	10[a]
Pay down debt	24	20	30[a]
Buy a house	8	7	9
Provide for emergencies	6	4	9[a]
Buy a car or other large item	4	1	7[a]
Save for a vacation	1	1	2
Some other goal	4	3	4
Number of respondents	900	754	146

[a] Responses of respondents who are not saving for college are statistically different at the 95 percent confidence level from those of respondents who are saving for college.

FIGURE 14

Saving for College Among Responding Households by Selected Characteristics

(percent of respondents)

	Saving for College	
	Yes	No
Age of Respondent		
Under 35 years	72[a]	28[a]
35 to 44 years	64	36
45 years or older	60	40
Household Income		
Less than $50,000	40[b]	60[b]
$50,000 to $74,999	65	35
$75,000 or more	72	28
Household Financial Assets[1]		
Less than $50,000	56	45
$50,000 to $149,999	67	33
$150,000 or more	73[c]	27[c]
Highest Level of Education in Household		
High school or less	51	49
Some college or associate's degree	53	47
Four-year college or postgraduate degree	74[d]	26[d]
Number of Children in Household Age 18 or Younger		
One	63	37
Two	71	29
Three or more	55[e]	46[e]

[1] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[a] Responses of respondents under age 35 are statistically different at the 95 percent confidence level from those of respondents age 35 to 44 years or age 45 years or older.

[b] Responses of respondents with household income of less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household income of $50,000 to $74,999 or $75,000 or more.

[c] Responses of respondents with household financial assets of $150,000 or more are statistically different at the 95 percent confidence level from those of respondents with household financial assets less than $50,000.

[d] Responses of respondents where the highest education level in the household is a four-year college or postgraduate degree are statistically different at the 95 percent confidence level from those of respondents where the highest education level in the household is some college or associate's degree or high school or less.

[e] Responses of respondents with three or more children age 18 or younger are statistically different at the 95 percent confidence level from those of respondents with one or two children age 18 or younger.

Note: Number of respondents varies.

Nearly two-thirds of responding parents who are not saving for their children's college education indicate that they cannot afford to, reinforcing the effect of parents' financial situation on their ability to save for college (Figure 15). Seventy-six percent of parents with household incomes below $50,000 who were not saving for college at the time of the survey cited lack of resources as a reason, compared with 57 percent of parents with household incomes of $50,000 or more. Other factors parents frequently cited as reasons for not saving for college include: expectations that their children will receive financial aid, belief that it is children's responsibility to pay for their own college education, or expectations that their children will receive academic or athletic scholarships. Parents who have young children are more likely than those with older children to indicate they are not saving for college because their child is too young (Figure 16). Those with young children are also far less likely to believe that it is the child's responsibility to pay for his or her own education. Of all reasons, however, parents not saving for their children's college education most frequently mention lack of funds as the main reason (Figure 17).

FIGURE 15

Reasons for Not Saving for College by Household Income and Education[1]

(percent of respondents not saving for college)

	All Responding Households Not Saving for College	Household Income		Highest Level of Education in Household	
		Less than $50,000	$50,000 or More	Some College or Less	College or Postgraduate Degree
Cannot afford to save for college education at this time	64	76	57[a]	66	60
Expect child will receive financial aid	59	77	51[a]	63	53
It is child's responsibility to pay for college education	53	45	56	53	53
Expect child will receive academic or athletic scholarships	52	62	48	54	49
Someone else will pay for child's college education	35	30	39	35	36
Child is too young	33	24	38	34	30
Expect to take out a loan to pay for college education	30	31	32	32	27
Do not expect child to attend college	17	23	8[a]	22	9[b]
Plan to use inheritance to pay for college education	12	10	10	8	17

[1] Multiple responses included.

[a] Responses of respondents not saving for college and with household income of $50,000 or more are statistically different at the 95 percent confidence level from those of respondents not saving for college and with household income of less than $50,000.

[b] Responses of respondents not saving for college where the highest education level in the household is a four-year college or postgraduate degree are statistically different at the 95 percent confidence level from those of respondents not saving for college where the highest education level in the household is some college or less.

Note: Number of respondents varies.

FIGURE 16

Reasons for Not Saving for College by Age of Oldest or Only Child[1]

(percent of respondents not saving for college)

	All Responding Households Not Saving for College	Age of Oldest or Only Child Age 18 or Younger			
		5 Years or Younger	6 to 10 Years	11 to 15 Years	16 Years or Older
Cannot afford to save for college education at this time	64	72[a]	60	67	59
Expect child will receive financial aid	59	48	59	68	52
It is child's responsibility to pay for college education	53	15[a]	51	51	61
Expect child will receive academic or athletic scholarships	52	47	59	57	45
Someone else will pay for child's college education	35	0[a]	65	39	16
Child is too young	33	85[a]	48	31	5
Expect to take out a loan to pay for college education	30	28	26	32	31
Do not expect child to attend college	17	0[a]	16	14	25
Plan to use inheritance to pay for college education	12	7	17	18	2

[1] *Multiple responses included. Number of respondents varies.*

[a] *Responses of respondents not saving for college whose oldest or only child is age 5 years or younger are statistically different at the 95 percent confidence level from those of respondents not saving for college whose oldest or only child is age 6 or older.*

FIGURE 17

Primary Reason for Not Saving for College

(percent of respondents not saving for college)

Cannot afford to save for college education at this time	48
It is child's responsibility to pay for college education	17
Child is too young	15
Expect child will receive academic or athletic scholarships	6
Do not expect child to attend college	4
Expect to take out a loan to pay for college education	3
Expect child will receive financial aid	2
Someone else will pay for child's college education	2
Plan to use inheritance to pay for college education	2
Number of respondents	136

While parents may use personal or home equity loans or lines of credit, borrow from employer-sponsored retirement plans, or withdraw money from IRAs to fund their children's college education, the majority of parents—including those currently not saving for college—do not expect to rely on these sources (Figure 18). For example, only 11 percent of responding parents not saving for college consider it "very" or "somewhat" likely that they will borrow against employer-sponsored retirement plans to pay for college (Figure 19).

FIGURE 18

Likelihood of Reliance on IRA Withdrawals or Borrowing to Pay for College

(percent of respondents)

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely	*Number of Respondents*
Personal or home equity loan or line of credit	7	20	20	53	909
Withdrawals from a traditional or Roth IRA	6	14	14	66	904
Borrow from employer-sponsored retirement plan	3	9	18	69	912

FIGURE 19

Likelihood of Reliance on IRA Withdrawals or Borrowing to Pay for College by Saving for College[1]

(percent of respondents indicating "very" or "somewhat" likely)

	All Responding Households	Saving for College	Not Saving for College
Personal or home equity loan or line of credit	27	28	25
Withdrawals from a traditional or Roth IRA	20	21	18
Borrow from employer-sponsored retirement plan	12	13	11

[1] *Multiple responses included. Number of respondents varies.*

Role of the Child, Grandparents, and Other Relatives in Saving for College

Sixty-two percent of responding parents expect their children to help pay for their college education, and more than one-third expect some assistance from adult relatives (Figure 20). Twenty-nine percent expect to receive help from grandparents, 6 percent expect assistance from aunts or uncles, and 6 percent anticipate assistance from former spouses or partners. Parents who are not saving for college are more likely to expect their children to help pay for college than are parents who are saving for college.

FIGURE 20

Assistance from Relatives to Pay for College Education[1]

(percent of respondents)

	All Responding Households	Saving for College	Not Saving for College
Expect to Receive Help Paying for College from:			
Adult relatives (total)	34	36	31
Grandparents	29	30	26
Aunts or uncles	6	5	7
Former spouse or partner	6	7	4
Child him- or herself	62	58	68[a]

[1] Multiple responses included. Number of respondents varies.

[a] Responses of respondents who are not saving for college are statistically different at the 95 percent confidence level from those of respondents who are saving for college.

Characteristics of Households Saving for College and Those Not Saving for College

Households that participated the ICI survey and are saving for college typically are headed by a parent with a median age of 42 who is employed, college-educated, and married or living with a partner (Figure 21). Median income for these households is $78,000 and median financial assets are $87,500. Eighty-four percent participate in or are covered by employer-sponsored retirement plans, and 52 percent own traditional or Roth IRAs. Nearly all of these households own bank savings accounts, and more than half own U.S. Savings Bonds and mutual funds outside employer-sponsored retirement plans and IRAs. Nearly half own individual stocks or bonds, excluding U.S. Savings Bonds. The largest percentage, 51 percent, consider the sales force channel to be their primary source for savings and investments.[15]

Although responding households not saving for college also tend to be headed by individuals in their early forties, these parents are less likely to have four-year college or postgraduate degrees. In addition, their median household income and financial assets are significantly lower than those of households that are saving for college. Responding households not saving for college also are less likely to participate in or be covered by employer-sponsored retirement plans or own traditional or Roth IRAs. These households also tend to own fewer types of investments outside employer-sponsored retirement plans and IRAs than responding households saving for college. Over one-half of responding households not saving for college view employer-sponsored retirement plans as their primary source for investments.

[15] The sales force channel includes full-service brokers, independent financial planners, insurance agents, and bank representatives.

FIGURE 21

Characteristics of Responding Households by Saving for College

	All Responding Households	Saving for College	Not Saving for College
Median			
Age[1]	42 years	42 years	42 years
Household income	$70,000	$78,000	$60,000[a]
Household financial assets[2]	$67,500	$87,500	$50,000[a]
Age of oldest or only child	12 years	11 years	14 years
Percent			
Household decisionmaker:			
Male is sole decisionmaker	12	10	15
Female is sole decisionmaker	12	11	14
Co-decisionmakers	77	80	71
Number of children age 18 or younger in household:			
One	33	32	34
Two	41	46	33
Three or more	26	22	33
Married or living with a partner[1]	90	91	89
College or postgraduate degree[1]	48	55	36[a]
Employed[1]	84	85	82
Retired from lifetime occupation[1]	5	4	5
Own outside employer-sponsored retirement plans and IRAs:[3]			
Bank savings accounts	90	95	80[a]
Individual stocks or bonds, mutual funds, or annuities (total)[3]	65	73	49[a]
Mutual funds	47	58	27[a]
Individual stocks or bonds, excluding U.S. Savings Bonds	44	49	36[a]
Fixed or variable annuities	15	17	12
U.S. Savings Bonds	49	56	38[a]
Certificates of Deposit	32	38	22[a]
Other investments	19	20	19
Participate in or covered by employer-sponsored retirement plan	80	84	73[a]
Have traditional or Roth IRA	47	52	37[a]
Primary channel for savings and investments:			
Sales force[4]	47	51	41
Employer-sponsored retirement plan	41	34	53[a]
Direct market[5]	10	14	4[a]
Other	2	1	2

[1] Refers to the household's responding financial decisionmaker for investments.

[2] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[3] Multiple responses included.

[4] Includes full-service brokers, insurance agents, financial planners, and bank representatives.

[5] Includes mutual fund companies and discount brokers.

[a] Responses of respondents who are not saving for college are statistically different at the 95 percent confidence level from those of respondents who are saving for college.

Note: Number of respondents varies.

Ownership of Taxable Investments to Save for College

Nearly all parents responding to the ICI survey who are saving for college are using taxable investments to achieve this financial goal (Figure 22). Thirty-nine percent who are saving for college are using only taxable investments, and 54 percent are using taxable investments in combination with U.S. Savings Bonds, UGMA or UTMA accounts, or education-targeted savings programs, such as state-sponsored 529 plans or Coverdell ESAs. Only 7 percent of responding parents saving for college are not using any taxable investments to reach this financial goal.

More than 80 percent of responding parents using taxable investments to save for college have at least some college savings in taxable bank accounts, and nearly half have college savings in taxable mutual fund accounts (Figure 23). More than one-quarter have college savings in taxable Certificates of Deposit or individual stocks or bonds, excluding U.S. Savings Bonds.

Although nearly all responding parents using taxable investments to save for college hold at least some of these assets in savings accounts, use of savings accounts for this financial goal is greatest among parents under age 35, those with household financial assets below $50,000, and those who have been saving for college for fewer than 5 years (Figure 24). Use of taxable Certificates of Deposit as a college savings vehicle is greatest among parents age 45 years or older, those with household incomes of $50,000 or more, those with household financial assets of $50,000 or more, and those who have been saving for college for 5 years or longer. Use of taxable mutual funds and individual stocks or bonds for college savings also increases with parents' age and level of education, household income, household financial assets, and number of years saving for college.

FIGURE 22

Ownership of Taxable Investments to Save for College

(percent of respondents saving for college)

Own taxable investments to save for college	93
Only own taxable investments to save for college	39
Own taxable investments and U.S. Savings Bonds, UGMA or UTMA accounts, or education-targeted savings programs[1] to save for college	54
Do not own taxable investments to save for college	7
Number of respondents	766

[1] Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.

FIGURE 23

Types of Taxable Investments Designated for College Tuition or Expenses[1]

(percent of respondents using taxable investments to save for college)

Bank savings accounts	81
Mutual funds	47
Certificates of Deposit	28
Individual stocks or bonds, excluding U.S. Savings Bonds	28
Other investments	13

[1] Multiple responses included. Number of respondents varies.

FIGURE 24

Ownership of Taxable Investments to Save for College by Selected Characteristics

(percent of respondents saving for college using taxable investments)

	Types of Taxable Investments Designated for College Savings			
	Savings Accounts	Certificates of Deposit	Mutual Funds	Individual Stocks or Bonds
Age of Respondent				
Under 35 years	93[a]	21	34[a]	17[a]
35 to 44 years	80	25	50	29
45 years or older	75	36[b]	49	31
Household Income				
Less than $50,000	88	16[c]	29[c]	12
$50,000 to $74,999	84	26	42	18
$75,000 or more	77	31	50	37[d]
Household Financial Assets[1]				
Less than $50,000	88[e]	15[e]	32[e]	17
$50,000 to $149,999	79	34	53	22
$150,000 or more	74	35	54	40[f]
Highest Level of Education in Household				
High school or less	94	24	24[g]	17[g]
Some college or associate's degree	82	29	44	19
Four-year college or postgraduate degree	78	28	52	34
Number of Years Saving for College				
Less than 5 years	90[h]	19[h]	36[h]	21[h]
5 to 9 years	79	28	51	29
10 or more years	72	37	55	34

[1] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[a] Responses of respondents under age 35 are statistically different at the 95 percent confidence level from those of respondents age 35 to 44 years or age 45 years or older.

[b] Responses of respondents age 45 years or older are statistically different at the 95 percent confidence level from those of respondents under age 35 or age 35 to 44 years.

[c] Responses of respondents with household income of less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household income of $50,000 to $74,999 or $75,000 or more.

[d] Responses of respondents with household income of $75,000 or more are statistically different at the 95 percent confidence level from those of respondents with household income of less than $50,000 or $50,000 to $74,999.

[e] Responses of respondents with household financial assets of less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household financial assets of $50,000 to $149,999 or $150,000 or more.

[f] Responses of respondents with household financial assets of $150,000 or more are statistically different at the 95 percent confidence level from those of respondents with household financial assets of less than $50,000 or $50,000 to $149,999.

[g] Responses of respondents where the highest education level in the household is high school or less are statistically different at the 95 percent confidence level from those of respondents where the highest education level in the household is some college or associate's degree or a four-year college or postgraduate degree.

[h] Responses of respondents who have been saving for college for less than 5 years are statistically different at the 95 percent confidence level from those of respondents who have been saving for college for 5 to 9 years or 10 years or more.

Note: Number of respondents varies.

Ownership of U.S. Savings Bonds to Save for College

Forty-two percent of parents responding to the ICI survey who are saving for college are using U.S. Savings Bonds at least in part to achieve this goal (Figure 25). U.S. Savings Bonds are obligations of the U.S. government. Several different types of U.S. Savings Bonds are available: Series I Bonds, Series EE Bonds, and Series HH Bonds. Series HH Bonds can only be acquired through an exchange for Series EE Bonds. Interest paid on U.S. Savings Bonds is exempt from state and local income taxes.[16]

Since 1990, interest from Series EE and Series I (but not Series HH) U.S. Savings Bonds can be completely or partially excluded from federal income taxes if used to pay qualified higher education expenses in the same calendar year in which the bonds are redeemed. The full interest exclusion, however, is only available to married couples filing joint returns, or to single filers, with modified adjusted gross incomes (which includes the interest earned) under a certain limit.[17]

In nearly all instances, responding parents using U.S. Savings Bonds to save for college own other investments that are also designated for college savings (Figure 25). Ownership of U.S. Savings Bonds as a college savings vehicle increases with household income, household financial assets, and the number of years households have been saving for college (Figure 26).

FIGURE 25

Ownership of U.S. Savings Bonds to Save for College

(percent of respondents saving for college)

Own U.S. Savings Bonds to save for college	42
Only own U.S. Savings Bonds to save for college	1
Own U.S. Savings Bonds and taxable investments, UGMA or UTMA accounts, or education-targeted savings programs[1] to save for college	41
Do not own U.S. Savings Bonds to save for college	58
Number of respondents	766

[1] Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.

[16] Interest on Series I Bonds and Series EE Bonds can be declared annually on federal income tax returns or deferred until the bonds are redeemed. Payment of federal taxes for Series EE Bonds due at maturity can be deferred with the purchase of Series HH Bonds with proceeds from Series EE Bonds. Federal taxes on interest earned are due when Series HH Bonds mature.

[17] These income limits apply to the year in which the bonds are used for educational purposes—not the year the bonds were bought. Exclusion benefits are phased out for joint or single filers with modified adjusted gross incomes that exceed the limit. In 2002, the tax exclusion phase-out for single taxpayers began with a $57,600 modified adjusted gross income and was eliminated for adjusted gross incomes of $72,600 and above. For married taxpayers filing jointly, in 2002 the tax exclusion phase-out began with a $86,400 modified adjusted gross income and was eliminated for adjusted gross incomes of $116,400 and above. Married couples must file jointly to be eligible for the exclusion.

FIGURE 26

Ownership of U.S. Savings Bonds to Save for College by Selected Characteristics

(percent of respondents saving for college who are using U.S. Savings Bonds)

Age of Respondent	
Under 35 years	35
35 to 44 years	47
45 years or older	45
Household Income	
Less than $50,000	31[a]
$50,000 to $74,999	52
$75,000 or more	48
Household Financial Assets[1]	
Less than $50,000	31[b]
$50,000 to $149,999	52
$150,000 or more	48
Highest Level of Education in Household	
High school or less	41
Some college or associate's degree	39
Four-year college or postgraduate degree	46
Number of Years Saving for College	
Less than 5 years	36[c]
5 to 9 years	42
10 or more years	52

[1] *Includes assets in employer-sponsored retirement plans but excludes primary residence.*

[a] *Responses of respondents with household income of less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household income of $50,000 to $74,999 or $75,000 or more.*

[b] *Responses of respondents with household financial assets of less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household financial assets of $50,000 to $149,999 or $150,000 or more.*

[c] *Responses of respondents who have been saving for college for less than 5 years are statistically different at the 95 percent confidence level from those of respondents who have been saving for college for 5 to 9 years or 10 years or more.*

Note: Number of respondents varies.

UGMA and UTMA Accounts

Overview of UGMA and UTMA Accounts

Uniform Gift to Minors Act (UGMA) and Uniform Transfer to Minors Act (UTMA) accounts are custodial accounts established at financial institutions for the benefit of a minor child and managed by a parent or other designated custodian. In addition to education expenses, custodians can use money in these accounts for almost any reason for the child's benefit. Upon reaching adulthood, the beneficiary obtains control over the assets in the account. For children younger than 14, the first $750 of annual investment income is free from federal tax, the next $750 of annual investment income is taxed at the child's rate, and income greater than $1,500 is taxed at the parents' rate. For children over 14, all income is taxed at the child's rate.[18]

Awareness and Ownership of UGMA and UTMA Accounts

Familiarity with UGMA and UTMA accounts is very low among parents who participated in the ICI survey. Sixty-two percent of responding parents are unaware of UGMA or UTMA accounts; 29 percent are aware of UGMA or UTMA accounts, but do not own them; and 10 percent own UGMA or UTMA accounts (Figure 27).

Unawareness of UGMA and UTMA accounts is especially high among parents not saving for college. Seventy-two percent of responding parents not saving for college are unaware of UGMA or UTMA accounts, compared with 56 percent of parents saving for college. Unawareness is also strongest among parents with children age five or younger (Figure 28). Awareness of

FIGURE 27

Awareness and Ownership of UGMA or UTMA Accounts

(percent of respondents)

	All Responding Households	Saving for College	Not Saving for College
Not aware	62	56	72[a]
Aware, but do not own	29	29	28
Own	10	15	0[a]
Number of respondents	916	766	150

[a] *Responses of respondents who are not saving for college are statistically different at the 95 percent confidence level from those of respondents who are saving for college.*

[18] See Appendix G for a detailed description of UGMA and UTMA accounts.

FIGURE 28

Incidence of Awareness of UGMA or UTMA Accounts by Selected Characteristics

(percent of respondents who are aware of, but do not own, UGMA or UTMA accounts)

Age of Respondent	
Under 35 years	19[a]
35 to 44 years	29
45 years or older	31
Household Income	
Less than $50,000	21
$50,000 to $74,999	25
$75,000 or more	34[b]
Household Financial Assets[1]	
Less than $50,000	14[c]
$50,000 to $149,999	34
$150,000 or more	37
Highest Level of Education in Household	
High school or less	14
Some college or associate's degree	24
Four-year college or postgraduate degree	34[d]
Age of Oldest or Only Child Age 18 or Younger	
5 years or younger	26
6 to 10 years	31
11 to 15 years	23
16 or older	34

[1] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[a] Responses of respondents under age 35 are statistically different at the 95 percent confidence level from those of respondents who are age 35 to 44 years or 45 years or older.

[b] Responses of respondents with household incomes of $75,000 or more are statistically different at the 95 percent confidence level from those of respondents with household incomes of less than $50,000 or $50,000 to $74,999.

[c] Responses of respondents with household financial assets of less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household financial assets of $50,000 to $149,999 or $150,000 or more.

[d] Responses of respondents where the highest education level in the household is a four-year college or postgraduate degree are statistically different at the 95 percent confidence level from those of respondents where the highest education level in the household is some college or associate's degree or high school or less.

Note: Number of respondents varies.

UGMA or UTMA accounts increases with parents' age and level of education, household income, and household financial assets. Only a small percentage of responding parents aware of UGMA or UTMA accounts, but who do not currently own them—whether saving for college or not—expect to open UGMA or UTMA accounts in the 12 months following the survey (Figure 29).

More than three-quarters of responding parents with UGMA or UTMA accounts have invested account assets in mutual funds, in most instances stock mutual funds (Figure 30). More than one-quarter have invested account assets in individual stocks, and more than one-fifth have invested account assets in bank deposits.

Thirty-nine percent of responding parents with UGMA or UTMA accounts did not contribute to these accounts in 2002. Eight percent contributed less than $1,000 in 2002; 8 percent contributed $10,000 or more. Among those who contributed, the median amount contributed per household in 2002 was $2,000; the mean household contribution was $5,800.

Characteristics of Responding Households with UGMA or UTMA Accounts

Responding parents who own UGMA or UTMA accounts have a median household income of $87,400 and median household financial assets of $120,000 (Figure 31). The parents who head these households typically are in their early forties and are married or living with a partner, employed, and college-educated. Most responding parents with UGMA or UTMA accounts also own traditional or Roth IRAs and either participate in or are covered by employer-sponsored retirement plans. The majority also own bank savings accounts, mutual funds, individual stocks and bonds, and U.S. Savings Bonds outside IRAs and employer-sponsored retirement plans. Forty-six percent consider the sales force channel to be their primary source for investments, 32 percent cite employer-sponsored retirement plans, and 22 mention the direct market channel.[19]

In contrast, responding parents who do not own UGMA or UTMA accounts typically have lower household incomes and financial assets and are less likely to own investments outside IRAs and employer-sponsored retirement plans. The level of education of these parents also tends to be lower than that of parents who own UGMA or UTMA accounts.

FIGURE 29

Likelihood of Opening UGMA or UTMA Account for College Savings in the 12 Months Following the Survey

(percent of respondents who are aware of, but do not own, UGMA or UTMA accounts)

	All Responding Households	Saving for College	Not Saving for College
Very likely	4	5	2
Somewhat likely	5	5	4
Somewhat unlikely	18	23	9
Very unlikely	73	67	84
Number of respondents	286	245	41

[19] The direct market channel includes mutual fund companies and discount brokers.

FIGURE 30

Investing in UGMA or UTMA Accounts

(percent of respondents owning UGMA or UTMA accounts)

Investments Held in UGMA or UTMA Accounts[1]	
Mutual funds (total)	77
Stock mutual funds	56
Money market mutual funds	25
Bond mutual funds	20
Balanced mutual funds	20
Individual stocks	26
Bank deposits	22
Individual bonds	11
Annuities (total)	11
Variable annuities	8
Fixed annuities	6
Other investments	8
Total Amount Contributed in 2002 to UGMA or UTMA Accounts	
Did not contribute in 2002	39
Less than $1,000	8
$1,000 to $2,499	31
$2,500 to $4,999	6
$5,000 to $9,999	8
$10,000 or more	8
Mean per household for those contributing in 2002	$5,800
Median per household for those contributing in 2002	$2,000
Number of respondents	136

[1] Multiple responses included. Number of respondents varies.

Education-Targeted Savings Programs

Overview of 529 Plans and Coverdell Education Savings Accounts

Besides taxable investments, U.S. Savings Bonds, or UGMA or UTMA accounts, parents also can use education-targeted savings programs, such as state-sponsored 529 plans and Coverdell ESAs, to save for college. At the time of the ICI survey, two types of state-sponsored 529 plans were available: 529 prepaid tuition plans and 529 college savings plans. They are named after Section 529 of the U.S. tax code, which authorizes them. State-sponsored 529 prepaid tuition plans enable households to pay current tuition at in-state public colleges and universities at specified rates.[20] State-sponsored 529 college savings plans are savings vehicles for which investment returns can vary with market conditions. Most 529 college savings plans offer age-based investment portfolios that invest more aggressively when the child is younger and become more conservative as the child reaches college age. Many 529 college savings plans also offer equity investments, bond investments, and money market investments. Some 529 college savings plans also offer

[20] See Appendix D for a detailed description of state-sponsored 529 prepaid tuition plans.

FIGURE 31

Characteristics of Responding Households Saving for College by Use of UGMA or UTMA Accounts

	Using UGMA or UTMA Accounts	Not Using UGMA or UTMA Accounts
Median		
Age[1]	42 years	41 years
Household income	$87,400	$75,000
Household financial assets[2]	$120,000	$80,000
Percent		
Household decisionmaker:		
Male is sole decisionmaker	10	9
Female is sole decisionmaker	10	11
Co-decisionmakers	80	80
Number of children age 18 or younger in household:		
One	26	33
Two	48	45
Three or more	26	22
Married or living with a partner[1]	97	90
College or postgraduate degree[1]	76	52[a]
Employed[1]	79	86
Retired from lifetime occupation[1]	3	4
Own outside employer-sponsored retirement plans or IRAs:[3]		
Bank savings accounts	97	95
Individual stocks or bonds, mutual funds, or annuities (total)[3]	88	71
Mutual funds	72	56
Individual stocks or bonds, excluding U.S. Savings Bonds	66	46[a]
Fixed or variable annuities	24	16
U.S. Savings Bonds	55	56
Certificates of Deposit	43	37
Other investments	22	19
Participate in or covered by employer-sponsored retirement plan	85	84
Have traditional or Roth IRA	69	49[a]
Primary channel for savings and investments:		
Sales force[4]	46	52
Employer-sponsored retirement plan	32	34
Direct market[5]	22	12
Other channel	0	2

[1] Refers to the household's responding financial decisionmaker for investments.

[2] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[3] Multiple responses included.

[4] Includes full-service brokers, insurance agents, financial planners, and bank representatives.

[5] Includes mutual fund companies and discount brokers.

[a] Responses of respondents who are not using UGMA or UTMA accounts are statistically different at the 95 percent confidence level from those of respondents who are using UGMA or UTMA accounts.

Note: Number of respondents varies.

a "guaranteed" option that is backed either by a life insurance company or the state offering the plan.[21] As of mid-2003, one state offered only a 529 prepaid tuition plan, 33 states and the District of Columbia offered only 529 college savings plans, and 16 states offered both types of 529 plans.[22]

Earnings withdrawn from state-sponsored 529 plans to pay for qualified higher education expenses are free from federal income tax.[23] Although there is no federal income tax deduction for contributions to Section 529 plans, earnings on 529 plan contributions grow tax-free. A number of states allow residents who participate in their own state's plans to claim a partial or full state income tax deduction on contributions. Some states provide residents with tax breaks on earnings distributions from their own 529 plans that are used to pay qualified in-state college expenses.

Each state has its own 529 plan account contribution limit. Most states have set account contribution limits in excess of $200,000 per student. For 2003, an individual may contribute up to $11,000 annually for each beneficiary without triggering the federal gift tax. Alternatively, individuals can contribute as much as $55,000 for each beneficiary without incurring gift taxes, as long as no further gifts to or for that beneficiary are made during the following 5 years.

In July 2001, Education IRAs were renamed Coverdell Education Savings Accounts (ESAs). Education IRAs were initially established in 1998 and permitted a maximum nondeductible contribution of $500 per year on behalf of qualified beneficiaries for households with adjusted gross incomes under a certain limit. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) increased the contribution limits for these accounts to $2,000 in any given tax year starting in 2002.[24] In addition, EGTRRA now allows contributions without tax penalty to both a 529 plan and Coverdell ESA for the same beneficiary in the same year.[25] Assets in ESAs grow tax-deferred and distributions are exempt from federal income taxes when used for qualified elementary, secondary, or higher education expenses.

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[21] See Appendix E for a detailed description of state-sponsored 529 college savings plans.

[22] As of mid-2003, Washington had only a prepaid tuition plan. In addition to the District of Columbia, the following 33 states had only 529 college savings plans: Alaska, Arkansas, Arizona, California, Connecticut, Delaware, Georgia, Hawaii, Idaho, Indiana, Iowa, Kansas, Louisiana, Maine, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Utah, Wisconsin, Wyoming, and Vermont. The following 16 states had both prepaid tuition plans and college savings plans: Alabama, Colorado, Florida, Illinois, Kentucky, Maryland, Massachusetts, Michigan, Mississippi, Nevada, New Mexico, South Carolina, Tennessee, Texas, Virginia, and West Virginia. (The Massachusetts prepaid tuition plan has not qualified under Section 529.)

[23] The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) made distributions from 529 plans for qualified higher education expenses tax-exempt at the federal level. These provisions of EGTRRA will expire on December 31, 2010. Unless the law is extended by Congress, the federal tax treatment of 529 plans will revert to its pre-January 1, 2002 status.

[24] Eligibility phases out for single taxpayers with an adjusted gross income between $95,000 and $110,000 and for taxpayers filing jointly with an adjusted gross income between $190,000 and $220,000. See Appendix F for a detailed description of Coverdell ESAs.

[25] These provisions of EGTRRA will expire on December 31, 2010. Unless the law is extended by Congress, the federal tax treatment of Coverdell ESAs will revert to its pre-January 1, 2002 status.

Awareness and Ownership of State-Sponsored 529 Prepaid Tuition Plans

Sixty percent of parents participating in the ICI survey are aware of state-sponsored 529 prepaid tuition plans, but do not own one, 35 percent are unaware of these plans, and 5 percent own them (Figure 32).

Awareness of state-sponsored 529 prepaid tuition plans is greater among parents currently saving for college than among parents not saving for college. Awareness of these plans is also strongest among parents age 35 or older, with household incomes greater than $75,000, with household financial assets of $50,000 or more, and with four-year college or postgraduate degrees (Figure 33).

FIGURE 32

Awareness and Ownership of Education-Targeted Savings Programs[1]

(percent of respondents)

	All Responding Households	Saving for College	Not Saving for College
Overall Awareness and Ownership			
Unaware of all three types of education-targeted savings programs	23	16	34
Aware of at least one type of education-targeted savings program, but do not own any	64	64	66
Own at least one type of education-targeted savings program	13	20	0
Number of respondents	917	765	152
State-Sponsored 529 Prepaid Tuition Plans			
Not aware	35	32	42[a]
Aware, but do not own	60	62	59
Own	5	7	0[a]
Number of respondents	912	761	151
State-Sponsored 529 College Savings Plans			
Not aware	36	31	44[a]
Aware, but do not own	59	61	56
Own	5	8	0[a]
Number of respondents	918	766	152
Coverdell ESAs			
Not aware	47	41	57[a]
Aware, but do not own	47	49	43
Own	7	10	0[a]
Number of respondents	916	766	150

[1] *Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.*

[a] *Responses of respondents who are not saving for college are statistically different at the 95 percent confidence level from those of respondents who are saving for college.*

FIGURE 33

Incidence of Awareness of Education-Targeted Savings Programs[1] by Selected Characteristics

(percent of respondents who are aware of, but do not own, each type of education-targeted savings program)

	Percent Aware, But Do Not Own		
	State-Sponsored 529 Prepaid Tuition Plans	State-Sponsored 529 College Savings Plans	Coverdell ESAs
Age of Respondent			
Under 35 years	48[a]	44[a]	43
35 to 44 years	62	64	49
45 years or older	63	59	46
Household Income			
Less than $50,000	49	48	37
$50,000 to $74,999	62	56	43
$75,000 or more	67[b]	69[b]	57[b]
Household Financial Assets[2]			
Less than $50,000	50[c]	47[c]	38[c]
$50,000 to $149,999	68	66	53
$150,000 or more	72	72	55
Highest Level of Education in Household			
High school or less	41	39	32
Some college or associate's degree	50	51	36
Four-year college or postgraduate degree	71[d]	69[d]	57[d]
Age of Oldest or Only Child Age 18 or Younger			
5 years or younger	59	56	53
6 to 10 years	66	65	51
11 to 15 years	57	58	42
16 years or older	60	58	46

[1] Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.

[2] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[a] Responses of respondents under age 35 are statistically different at the 95 percent confidence level from those of respondents who are age 35 to 44 years or 45 years or older.

[b] Responses of respondents with household incomes of $75,000 or more are statistically different at the 95 percent confidence level from those of respondents with household incomes of less than $50,000 or $50,000 to $74,999.

[c] Responses of respondents with household financial assets of less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household financial assets of $50,000 to $149,999 or $150,000 or more.

[d] Responses of respondents where the highest education level in the household is a four-year college or postgraduate degree are statistically different at the 95 percent confidence level from those of respondents where the highest education level in the household is some college or associate's degree or high school or less.

Note: Number of respondents varies.

Awareness and Ownership of State-Sponsored 529 College Savings Plans

Fifty-nine percent of responding parents are aware of state-sponsored 529 college savings plans, but do not own one, 36 percent are unaware of these plans, and 5 percent own them (Figure 32).

Similar to awareness of state-sponsored 529 prepaid tuition plans, awareness of 529 college savings plans is greater among parents who are saving for college than among parents who are not saving for college. Likewise, awareness of state-sponsored 529 college savings plans increases with parents' age, household income, household financial assets, and level of education (Figure 33).

Awareness and Ownership of Coverdell Education Savings Accounts

Awareness of Coverdell ESAs is more limited than awareness of either type of state-sponsored 529 plan. Forty-seven percent of responding parents are aware of Coverdell ESAs, but currently do not own one, 47 percent are unaware of Coverdell ESAs, and 7 percent own Coverdell ESAs (Figure 32).

Awareness of Coverdell ESAs is greater among parents saving for college than among those not saving for college. Awareness increases as parents' household income, household financial assets, and level of education increase (Figure 33).

Likelihood of Opening Education-Targeted Savings Programs

Twenty-eight percent of parents who currently do not own any education-targeted savings programs indicate they are likely to open accounts for one of these types of programs in the 12 months following the survey (Figure 34). Among this group of parents, 46 percent are likely to open one type of education-targeted savings program account: 13 percent, state-sponsored 529 prepaid tuition plan accounts; 21 percent, state-sponsored 529 college savings plan accounts; and 12 percent, Coverdell ESAs. Forty-eight percent of this group of parents expect to open two types of education-targeted savings program accounts, usually a combination of a state-sponsored 529 prepaid tuition plan account and a state-sponsored 529 college savings plan account. Six percent indicate they are likely to open accounts for all three types of education-targeted savings programs in the 12 months following the survey.

FIGURE 34

Likelihood of Opening Education-Targeted Savings Program[1] Account(s) in the 12 Months Following the Survey

Likelihood of Opening Any Type of Education-Targeted Savings Program Account(s)

(percent of respondents who are aware, but do not own, any type of education-targeted savings program)

Very or somewhat likely	28
Very or somewhat unlikely	72
Number of respondents	589

Type(s) of Education-Targeted Savings Program Account(s) Likely to Be Opened

(percent of respondents "very" or "somewhat" likely to open education-targeted savings program account(s))

Likely to open one type of education-targeted savings program account	46
State-sponsored 529 prepaid tuition plan account	13
State-sponsored 529 college savings plan account	21
Coverdell ESA	12
Likely to open two types of education-targeted savings program accounts	48
State-sponsored 529 prepaid tuition plan account and state-sponsored 529 college savings plan account	37
State-sponsored 529 college savings plan account and Coverdell ESA	7
State-sponsored 529 prepaid tuition plan account and Coverdell ESA	4
Likely to open all three types of education-targeted savings program accounts	6
Number of respondents	160

[1] *Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.*

Chapter 2:

Investing in Education-Targeted Savings Programs

State-Sponsored 529 Prepaid Tuition Plans

Opening State-Sponsored 529 Prepaid Tuition Plan Accounts

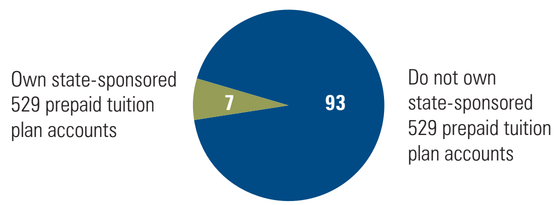
Seven percent of responding parents saving for college had opened state-sponsored 529 prepaid tuition plan accounts as of May 2003 (Figure 35). Forty-eight percent of these households had one plan account, 42 percent had two plan accounts, and 10 percent had three or more plan accounts (Figure 36). The median and mean number of 529 prepaid tuition plan accounts per household is two. Most parents with 529 prepaid tuition plan accounts opened their accounts after 1995, with nearly half opening accounts in 2001 or later.

The most common reason for opening state-sponsored 529 prepaid tuition plan accounts is that the child's tuition will be paid in advance, cited by nearly 9 in 10 responding parents. More than two-thirds mention tax advantages as a motive for opening the accounts, and 61 percent opened 529 prepaid tuition plan accounts at least in part because the beneficiary does not control the account. More than half cite a preference for public colleges or universities in their home states, and 44 percent point to recommendations from professional financial advisers.

FIGURE 35

Ownership of State-Sponsored 529 Prepaid Tuition Plan Accounts Among Responding Households Saving for College

(percent of respondents saving for college)



Number of respondents = 761

Responding parents with state-sponsored 529 prepaid tuition plan accounts consulted a variety of sources to learn about these plans, but most often obtained information about the plans from their sponsoring states. Sixty-five percent consulted brochures, advertisements, or websites of states offering 529 prepaid tuition plans, and 60 percent reviewed states' official statements or documents describing their plans. Over half consulted newspaper, newsletter, or magazine articles, and 40 percent consulted professional financial advisers. Parents also obtained information about state-sponsored 529 prepaid tuition plans through the Internet, friends or family members, television or radio programs, books, employers, or seminars or presentations, though less extensively.

Sixty-one percent of responding parents with state-sponsored 529 prepaid tuition plan accounts are aware of 529 college savings plans, but have not opened 529 college savings plan accounts. Forty-five percent of these parents considered opening 529 college savings plan accounts instead of prepaid tuition plan accounts—6 percent to a "great" extent and 39 percent to "some" extent.

Fifty-seven percent of responding parents with state-sponsored 529 prepaid tuition plan accounts are aware of Coverdell ESAs, but have not opened Coverdell ESAs. Only 18 percent of these households considered opening Coverdell ESAs to a "great" extent or "some" extent instead of opening state-sponsored 529 prepaid tuition plan accounts.

FIGURE 36

Opening a State-Sponsored 529 Prepaid Tuition Plan Account

Number of State-Sponsored 529 Prepaid Tuition Plan Accounts Opened per Household

(percent of respondents owning state-sponsored 529 prepaid tuition plan accounts)

One	48
Two	42
Three or more	10
Mean per household	2
Median per household	2
Number of respondents	131

Year in Which Household First Opened a State-Sponsored 529 Prepaid Tuition Plan Account

(percent of respondents owning state-sponsored 529 prepaid tuition plan accounts)

Before 1995	14
1995 through 2000	38
2001 or later	48
Number of respondents	129

Reasons for Opening a State-Sponsored 529 Prepaid Tuition Plan Account[1]

(percent of respondents owning state-sponsored 529 prepaid tuition plan accounts indicating reason is "very" or "somewhat" important)

Knowing child's tuition will be paid in advance	89
Tax advantages received for investing in the plan	68
Account is not controlled by the beneficiary	61
Preference for public colleges or universities in home state	56
Recommendation from professional financial adviser	44

FIGURE 36 *(continued)*

Sources Consulted for Information About State-Sponsored 529 Prepaid Tuition Plans[1]

(percent of respondents owning state-sponsored 529 prepaid tuition plan accounts)

Brochures, advertisements, or the website of the state offering the plan	65
Official statement or document of the plan issued by the state	60
Newspaper, newsletter, or magazine articles	54
Professional financial adviser	40
The Internet	32
Friends or family members	32
Television or radio programs	23
Books	23
Employer	8
Seminar or presentation	8
Other source	7

Extent to Which Opening a State-Sponsored 529 College Savings Plan Account Was Considered

(percent of respondents owning state-sponsored 529 prepaid tuition plan accounts and aware of state-sponsored 529 college savings plans, but do not own one)

Great extent	6
Some extent	39
Very little extent	17
No extent	38
Number of respondents	58

Extent to Which Opening a Coverdell ESA Was Considered

(percent of respondents owning state-sponsored 529 prepaid tuition plan accounts and aware of Coverdell ESAs, but do not own one)

Great extent	9
Some extent	9
Very little extent	23
No extent	59
Number of respondents	79

[1] *Multiple responses included. Number of respondents varies.*

Investing in State-Sponsored 529 Prepaid Tuition Plans

Thirty-one percent of responding parents with state-sponsored 529 prepaid tuition plan accounts have invested less than $2,500 in total; only 16 percent have invested $20,000 or more (Figure 37). The median amount invested in state-sponsored 529 prepaid tuition plan accounts per household is $5,000; the mean is $14,500.

In 2002, 29 percent of responding parents with state-sponsored 529 prepaid tuition plans did not contribute to their plan accounts. Eleven percent made contributions of less than $1,000; 9 percent made contributions of $10,000 or more that year. Among those who contributed, the median amount contributed per household in 2002 was $2,800; the mean household contribution was $4,900. The overriding factor determining the amount of parents' annual contributions to 529 prepaid tuition plans is what the household can afford, followed by the amount of the state income tax deduction. Forty percent cite gift tax considerations as a "very" or "somewhat" important factor in deciding how much to contribute to their 529 prepaid tuition plan accounts.

Very few responding parents with state-sponsored 529 prepaid tuition plan accounts are receiving money from other family members to contribute to these plans. Slightly more than one-fifth of parents report that their children's grandparents have contributed to the 529 prepaid tuition plan accounts, and 6 percent indicate that aunts or uncles have made contributions.

Characteristics of Responding Households with State-Sponsored 529 Prepaid Tuition Plans

Responding parents using state-sponsored 529 prepaid tuition plans to save for college have a median household income of $100,000 and median household financial assets of $109,400 (Figure 38). These households typically are headed by individuals who are employed, married or living with a partner, college-educated, and in their early forties. Most of these households participate in or are covered by employer-sponsored retirement plans and the majority own IRAs. Outside employer-sponsored retirement plans and IRAs, most own bank savings accounts, mutual funds, U.S. Savings Bonds, and individual stocks or bonds. More than one half consider the sales force channel to be their primary source for investments.

In contrast, responding parents who are saving for college but who are not using state-sponsored 529 prepaid tuition plans have lower median household incomes and financial assets. Significantly fewer of these households are headed by parents with four-year college or postgraduate degrees, and fewer of these parents own IRAs compared with parents using state-sponsored 529 prepaid tuition plans to save for college.

FIGURE 37

Investing in State-Sponsored 529 Prepaid Tuition Plans

Total Amount Spent to Purchase Tuition Credits, or Units, per Household

(percent of respondents owning state-sponsored 529 prepaid tuition plan accounts)

Less than $2,500	31
$2,500 to $4,999	16
$5,000 to $9,999	22
$10,000 to $19,999	15
$20,000 or more	16
Mean per household	$14,500
Median per household	$5,000
Number of respondents	113

Total Amount Spent in 2002 to Purchase Tuition Credits, or Units, per Household

(percent of respondents owning state-sponsored 529 prepaid tuition plan accounts)

Did not contribute in 2002	29
Less than $1,000	11
$1,000 to $2,499	23
$2,500 to $4,999	14
$5,000 to $9,999	12
$10,000 or more	9
Mean per household for those contributing in 2002	$4,900
Median per household for those contributing in 2002	$2,800
Number of respondents	107

Important Factors in Deciding How Much to Contribute to 529 Prepaid Tuition Plan Accounts[1]

(percent of respondents owning state-sponsored 529 prepaid tuition plan accounts indicating reason is "very" or "somewhat" important)

What the household can afford	88
The state income tax deduction	66
Gift tax considerations	40
The amount recommended by a professional financial adviser	35

Other Family Members Contributing to Household's 529 Prepaid Tuition Plan Accounts[1]

(percent of respondents owning state-sponsored 529 prepaid tuition plan accounts indicating "yes")

Grandparents	22
Aunts or uncles	6
Child him- or herself	3
Former spouse or partner	1

[1] Multiple responses included. Number of respondents varies.

FIGURE 38

Characteristics of Responding Households Saving for College by Use of State-Sponsored 529 Prepaid Tuition Plans

	Using State-Sponsored 529 Prepaid Tuition Plans to Save for College	Not Using State-Sponsored 529 Prepaid Tuition Plans to Save for College
Median		
Age[1]	42 years	42 years
Household income	$100,000	$75,000
Household financial assets[2]	$109,400	$85,000
Percent		
Household decisionmaker:		
Male is sole decisionmaker	12	10
Female is sole decisionmaker	7	11
Co-decisionmakers	81	80
Number of children age 18 or younger in household:		
One	27	33
Two	56	45
Three or more	17	23
Married or living with a partner[1]	95	91
College or postgraduate degree[1]	71	54[a]
Employed[1]	90	84
Retired from lifetime occupation[1]	7	4
Own outside employer-sponsored retirement plan or IRAs:[3]		
Bank savings accounts	95	95
Individual stocks or bonds, mutual funds, or annuities (total)[3]	83	73
Mutual funds	68	57
Individual stocks or bonds, excluding U.S. Savings Bonds	59	48
Fixed or variable annuities	24	17
U.S. Savings Bonds	61	55
Certificates of Deposit	37	38
Other investments	17	20
Participate in or covered by employer-sponsored retirement plan	87	84
Have traditional or Roth IRA	64	52
Primary channel for savings and investments:		
Sales force[4]	54	52
Employer-sponsored retirement plan	28	34
Direct market[5]	18	13
Other channel	0	1

[1] Refers to the household's responding financial decisionmaker for investments.

[2] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[3] Multiple responses included.

[4] Includes full-service brokers, insurance agents, financial planners, and bank representatives.

[5] Includes mutual fund companies and discount brokers.

[a] Responses of respondents not using state-sponsored 529 prepaid tuition plans to save for college are statistically different at the 95 percent confidence level from those of respondents who are using state-sponsored 529 prepaid tuition plans to save for college.

Note: Number of respondents varies.

State-Sponsored 529 College Savings Plans

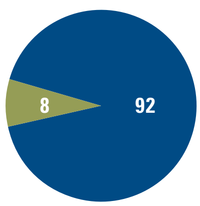
Opening State-Sponsored 529 College Savings Plan Accounts

Eight percent of responding parents saving for college had opened state-sponsored 529 college savings plan accounts as of May 2003 (Figure 39). Forty-four percent of these parents had one 529 college savings plan account, 42 percent had two plan accounts, and 14 percent had three or more plan accounts (Figure 40). The median and mean number of 529 college savings plan accounts opened per household is two.

FIGURE 39

Ownership of State-Sponsored 529 College Savings Plan Accounts Among Responding Households Saving for College

(percent of respondents saving for college)



Number of respondents=766

Most state-sponsored 529 college savings plan accounts are fairly new. Sixty-three percent of responding parents opened their 529 college savings plan accounts in 2001 or later. Twenty percent of parents opened their accounts between 1999 and 2000, and 17 percent opened their accounts before 1999. Eighty percent of responding parents with 529 college savings plan accounts purchased their home state's college savings plan; 20 percent purchased an out-of-state plan.[26] However, 46 percent of responding parents with 529 college savings plan accounts considered both the home state's college savings plan as well as plans offered by other states.[27]

The two most frequently cited reasons for opening state-sponsored 529 college savings plan accounts are flexibility in selection of a college or university and the types of investments offered by the plans. Other important reasons include the tax advantages received for investing in the plan, the level of fees charged by the plan, the fact that the plan account is not controlled by the beneficiary, and a recommendation from a professional financial adviser.

[26] Some states offer an income tax deduction for contributions made to a resident's 529 college savings plan account.

[27] Among parents owning in-state 529 college savings plans, 61 percent considered only their home state's plan and 39 percent considered both their home state's plan and other states' plans. Among parents owning out-of-state plans, 25 percent considered only out-of-state plans and 75 percent considered both their home state's plan and other states' plans.

FIGURE 40

Opening a State-Sponsored 529 College Savings Plan Account

Number of State-Sponsored 529 College Savings Plan Accounts Opened per Household

(percent of respondents owning state-sponsored 529 college savings plan accounts)

One	44
Two	42
Three or more	14
Mean per household	2
Median per household	2
Number of respondents	284

Year in Which Household First Opened a State-Sponsored 529 College Savings Plan Account

(percent of respondents owning state-sponsored 529 college savings plan accounts)

Before 1999	17
1999 through 2000	20
2001 or later	63
Number of respondents	278

Ownership of In-State or Out-of-State 529 College Savings Plan Accounts

(percent of respondents owning state-sponsored 529 college savings plan accounts)

Own in-state 529 college savings plan accounts only	80
Own out-of-state 529 college savings plan accounts only	20
Own both in- and out-of-state 529 college savings plan accounts	0
Number of respondents	274

Consideration of Home State's and Other States' 529 College Savings Plans

(percent of respondents owning state-sponsored 529 college savings plan accounts)

Considered only home state's 529 college savings plan	48
Considered both home state's and other states' 529 college savings plans	46
Considered only other states' 529 college savings plans	6
Number of respondents	274

Reasons for Opening a State-Sponsored 529 College Savings Plan Account[1]

(percent of respondents owning state-sponsored 529 college savings plan accounts indicating reason is "very" or "somewhat" important)

Flexibility in selection of college or university	90
Types of investments offered in the plan	89
Tax advantages received for investing in the plan	84
Level of fees charged by the plan	75
Account is not controlled by the beneficiary	69
Recommendation from professional financial adviser	64
Maximum total amount that can be contributed to the plan	60
Investing in home state's college savings plan	56
Option to have contributions automatically deducted from paycheck	44

FIGURE 40 *(continued)*

Sources Consulted for Information About State-Sponsored 529 College Savings Plans[1]
(percent of respondents owning state-sponsored 529 college savings plan accounts)

Professional financial adviser	64
Newspaper, newsletter, or magazine articles	56
Brochures, advertisements, or the website of the state offering the plan	54
Official statement or document of the plan issued by the state	53
Brochures, advertisements, or the websites of financial services companies	46
The Internet	43
Friends or family members	37
Books	22
Television or radio programs	18
Employer	18
Seminar or presentation	8
Other source	2

Extent to Which Opening a State-Sponsored 529 Prepaid Tuition Plan Account Was Considered
(percent of respondents owning state-sponsored 529 college savings plan accounts and aware of state-sponsored 529 prepaid tuition plans, but do not own one)

Great extent	3
Some extent	25
Very little extent	21
No extent	51
Number of respondents	176

Extent to Which Opening a Coverdell ESA Was Considered
(percent of respondents owning state-sponsored 529 college savings plan accounts and aware of Coverdell ESAs, but do not own one)

Great extent	4
Some extent	14
Very little extent	30
No extent	52
Number of respondents	188

Channels Through Which State-Sponsored 529 College Savings Plan Accounts Were Opened[1]
(percent of respondents owning state-sponsored 529 college savings plan accounts)

Sales force (total)	51
Full-service broker	22
Independent financial planner	19
Bank or savings institution	10
Insurance agent	3
Direct market (total)	18
Mutual fund company	13
Discount broker	5
State offering the plan	26
Employer	7

[1] Multiple responses included. Number of respondents varies.

Professional financial advisers play a significant role in disseminating information about state-sponsored 529 college savings plans. The largest percentage of responding parents with 529 college savings plan accounts, 64 percent, obtained information about 529 college savings plans from professional financial advisers. Fifty-six percent obtained information about them from articles in newspapers, newsletters, or magazines. Another main source of information about 529 college savings plans is the state offering the plan. Fifty-four percent of responding parents with plan accounts received information from brochures, advertisements, or the websites of states offering the plans, and 53 percent consulted states' official statements or documents describing the plans.

Fifty-six percent of responding parents with state-sponsored 529 college savings plan accounts are aware of state-sponsored 529 prepaid tuition plans, but have not opened a prepaid plan account. The majority of these parents did not consider opening state-sponsored 529 prepaid tuition plan accounts instead of 529 college savings plan accounts.

Sixty-two percent of responding parents with state-sponsored 529 college savings plan accounts are aware of Coverdell ESAs, but have not opened Coverdell ESAs. Very few of these parents considered opening Coverdell ESAs instead of 529 college savings plan accounts.

More than half of responding parents with state-sponsored 529 college savings plans opened their accounts through the sales force channel, usually through full-service brokers or independent financial planners. Slightly more than one-quarter opened their 529 college savings plan accounts through the state offering the plan. Eighteen percent opened their 529 college savings plan accounts through the direct market channel, usually through mutual fund companies. Very few households with 529 college savings plans opened their accounts through their employers.

In most instances, responding parents who opened state-sponsored 529 college savings plan accounts with professional financial advisers had existing accounts with those advisers (Figure 41). Eighty-six percent of these parents indicated that their advisers had recommended opening 529 college savings plan accounts, and most followed the advice and opened 529 college savings plan accounts through the recommending advisers.

FIGURE 41

Use of Professional Financial Advisers to Open State-Sponsored 529 College Savings Plan Accounts

Received Information About State-Sponsored 529 College Savings Plans from a Professional Financial Adviser
(percent of respondents owning state-sponsored 529 college savings plan accounts)

Yes	64
No	36
Number of respondents	286

Had Existing Account with Adviser
(percent of respondents owning state-sponsored 529 college savings plan accounts who received plan information from a professional financial adviser)

Yes	82
No	18
Number of respondents	187

Adviser Recommended Opening State-Sponsored 529 College Savings Plan Account
(percent of respondents owning state-sponsored 529 college savings plan accounts who received plan information from a professional financial adviser)

Yes	86
No	14
Number of respondents	184

Opened State-Sponsored 529 College Savings Plan Account Through Recommending Adviser
(percent of respondents owning state-sponsored 529 college savings plan accounts who received plan information and recommendation to open plan account from a professional financial adviser)

Yes	73
No	27
Number of respondents	157

Investing in State-Sponsored 529 College Savings Plans

Twenty-six percent of responding parents with state-sponsored 529 college savings plan accounts have assets of less than $2,500 in their accounts; 16 percent have $20,000 or more (Figure 42). The median amount held per household is $5,000; the mean is $11,200.

Eight percent of responding parents with 529 college savings plan accounts did not contribute to their accounts in 2002. Forty-four percent contributed less than $2,500 in 2002; 13 percent contributed $10,000 or more. Among those who contributed, the median amount contributed per household in 2002 was $2,500; the mean household contribution was $5,200.

Important factors in determining the amount of annual contributions to 529 college savings plan accounts are what the household can afford, the availability of a state income tax deduction, the amount recommended by a professional financial adviser, and the amount specified by a college savings calculator. About one-fifth of responding parents with 529 college savings plan accounts have received contributions to their plan accounts from the beneficiaries' grandparents, 7 percent have received contributions from their children, and 3 percent have received contributions from the beneficiaries' aunts or uncles.

Nearly half of responding parents with 529 college savings plan accounts have directed that their account assets be allocated to investments with average risk for average return. Forty-eight percent describe the risk level of their 529 college saving plan assets as "moderate," 29 percent indicate the level is "aggressive," and 26 percent describe the risk level as "conservative."[28]

Characteristics of Responding Households with State-Sponsored 529 College Savings Plans

Responding households with state-sponsored 529 college savings plan accounts have a median income of $100,000 and median financial assets of $150,000 (Figure 43). These households are headed by a parent with a median age of 40 who is usually employed, married or living with a partner, and college-educated. Most of these households participate in or are covered by employer-sponsored retirement plans. Three-quarters own traditional or Roth IRAs. Most also own investments outside employer-sponsored retirement plans and IRAs, including bank savings accounts, mutual funds, individual stocks and bonds, and U.S. Savings Bonds. Most consider either employer-sponsored retirement plans or the sales force channel to be their primary source for investments.

Responding households that are saving for college, but do not own 529 college savings plan accounts typically have smaller incomes and fewer financial assets than households using these plans to save for college. In addition, parents not using 529 college savings plans are less likely to be college-educated and tend to own fewer investments outside employer-sponsored retirement plans and traditional or Roth IRAs than parents using 529 college savings plans.

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[28] Because some households own more than one college savings plan account and their accounts may not be invested at the same risk level, these percentages add to more than 100.

FIGURE 42

Investing in State-Sponsored 529 College Savings Plans

Total Household Assets in State-Sponsored 529 College Savings Plan Accounts

(percent of respondents owning state-sponsored 529 college savings plan accounts)

Less than $2,500	26
$2,500 to $4,999	19
$5,000 to $9,999	21
$10,000 to $19,999	18
$20,000 or more	16
Mean per household	$11,200
Median per household	$5,000
Number of respondents	250

Total Amount Contributed in 2002 to State-Sponsored 529 College Savings Plan Accounts per Household

(percent of respondents owning state-sponsored 529 college savings plan accounts)

Did not contribute in 2002	8
Less than $1,000	14
$1,000 to $2,499	30
$2,500 to $4,999	19
$5,000 to $9,999	16
$10,000 or more	13
Mean per household for those contributing in 2002	$5,200
Median per household for those contributing in 2002	$2,500
Number of respondents	232

Important Factors in Deciding How Much to Contribute to State-Sponsored 529 College Savings Plan Accounts[1]

(percent of respondents owning state-sponsored 529 college savings plan accounts indicating reason is "very" or "somewhat" important)

What the household can afford	91
The state income tax deduction	64
The amount recommended by a professional financial adviser	50
The amount specified by a college savings calculator	48
Gift tax considerations	38

Other Family Members Contributing to Household's State-Sponsored 529 College Savings Plan Accounts[1]

(percent of respondents owning state-sponsored 529 college savings plan accounts indicating "yes")

Grandparents	21
Child him- or herself	7
Aunts or uncles	3
Former spouse or partner	3

Risk Level of State-Sponsored 529 College Savings Plan Investments[1,2]

(percent of respondents owning state-sponsored 529 college savings plan accounts)

Conservative	26
Moderate	48
Aggressive	29

[1] *Multiple responses included. Number of respondents varies.*

[2] *These percentages add to more than 100 because some households own more than one 529 college savings plan account.*

FIGURE 43

Characteristics of Responding Households Saving for College by Use of State-Sponsored 529 College Savings Plans

	Using State-Sponsored 529 College Savings Plans to Save for College	Not Using State-Sponsored 529 College Savings Plans to Save for College
Median		
Age[1]	40 years	42 years
Household income	$100,000	$75,000
Household financial assets[2]	$150,000	$80,000
Percent		
Household decisionmaker:		
Male is sole decisionmaker	11	10
Female is sole decisionmaker	8	11
Co-decisionmakers	81	79
Number of children age 18 or younger in household:		
One	30	33
Two	49	45
Three or more	21	22
Married or living with a partner[1]	96	90
College or postgraduate degree[1]	81	53[a]
Employed[1]	89	84
Retired from lifetime occupation[1]	2	4
Own outside employer-sponsored retirement plan or IRAs:[3]		
Bank savings accounts	92	95
Individual stocks or bonds, mutual funds, or annuities (total)[3]	85	72
Mutual funds	70	57[a]
Individual stocks or bonds, excluding U.S. Savings Bonds	60	48[a]
Fixed or variable annuities	21	17
U.S. Savings Bonds	60	55
Certificates of Deposit	34	38
Other investments	21	19
Participate in or covered by employer-sponsored retirement plan	89	84
Have traditional or Roth IRA	75	50[a]
Primary channel for savings and investments:		
Employer-sponsored retirement plan	42	33
Sales force[4]	39	53
Direct market[5]	19	13
Other channel	0	1

[1] Refers to the household's responding financial decisionmaker for investments.

[2] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[3] Multiple responses included.

[4] Includes full-service brokers, insurance agents, financial planners, and bank representatives.

[5] Includes mutual fund companies and discount brokers.

[a] Responses of respondents not using state-sponsored 529 college savings plans to save for college are statistically different at the 95 percent confidence level from those of respondents who are using state-sponsored 529 college savings plans to save for college.

Note: Number of respondents varies.

Coverdell Education Savings Accounts

Opening Coverdell Education Savings Accounts

Ten percent of responding parents who are saving for college had opened Coverdell ESAs as of May 2003 (Figure 44). Forty-four percent of these households had opened one account, 33 percent had opened two accounts, and 23 percent had opened three accounts (Figure 45). The mean and median number of Coverdell ESAs opened per household is two.

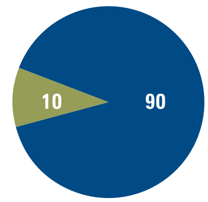
Nearly half of responding parents with Coverdell ESAs opened their accounts in 1998—the year in which Education IRAs, the precursor to Coverdell ESAs, were first available. Another 15 percent of parents opened their Coverdell ESAs in 1999, 18 percent opened their accounts in 2000, and 17 percent opened their accounts in 2001 or later.[29]

The most important reason responding parents cited for opening Coverdell ESAs is the tax-free withdrawal feature, followed closely by the flexibility to invest in different types of investments and the flexibility in selection of a college or university. Two-thirds of responding parents cite the fact that the account is not controlled by the beneficiary as a "very" or "somewhat" important reason for opening Coverdell ESAs, and 59 percent mention a recommendation from a professional financial adviser as a "very" or "somewhat" important reason.

FIGURE 44

Ownership of Coverdell Education Savings Accounts Among Responding Households Saving for College

(percent of respondents saving for college)



Number of respondents=766

The largest percentage of responding parents with Coverdell ESAs—58 percent—obtained information about them from professional financial advisers. Nearly half consulted newspaper, newsletter, or magazine articles for information. Other sources frequently consulted for information about Coverdell ESAs include brochures, advertisements, or websites of financial services companies, and friends or family members.

Nearly two-thirds of responding parents with Coverdell ESAs are aware of state-sponsored 529 prepaid tuition plans but have not opened any plan accounts. More than one-third of these parents considered opening state-sponsored 529 prepaid tuition plan accounts instead of Coverdell ESAs either to a "great" or "some" extent.

[29] In 2001, Education IRAs were renamed Coverdell Education Savings Accounts, and the annual contribution limit was raised from $500 to $2,000 in 2002 for qualified households.

FIGURE 45

Opening a Coverdell Education Savings Account

Number of Coverdell ESAs Opened per Household
(percent of respondents owning Coverdell ESAs)

One	44
Two	33
Three or more	23
Mean per household	2
Median per household	2
Number of respondents	144

Year in Which Household First Opened a Coverdell ESA[1]
(percent of respondents owning Coverdell ESAs)

1998	49
1999	15
2000	18
2001 or later	17
Number of respondents	136

Reasons for Opening a Coverdell ESA[2]
(percent of respondents owning Coverdell ESAs indicating reason is "very" or "somewhat" important)

Tax-free withdrawal feature	90
Flexibility to invest in a variety of different types of investments	87
Flexibility in selection of college or university	81
Account is not controlled by the beneficiary	66
Recommendation from professional financial adviser	59
Option to have contributions automatically deducted from paycheck	35

Sources Consulted for Information About Coverdell ESAs[2]
(percent of respondents owning Coverdell ESAs)

Professional financial adviser	58
Newspaper, newsletter, or magazine articles	48
Brochures, advertisements, or websites of financial services companies	45
Friends or family members	41
The Internet	39
Books	24
Television or radio programs	17
Seminar or presentation	10
Employer	9
Other source	3

FIGURE 45 *(continued)*

Extent to Which Opening a State-Sponsored 529 Prepaid Tuition Plan Account Was Considered

(percent of respondents owning Coverdell ESAs and aware of state-sponsored 529 prepaid tuition plans, but do not own one)

Great extent	13
Some extent	22
Very little extent	24
No extent	41
Number of respondents	100

Extent to Which Opening a State-Sponsored 529 College Savings Plan Account Was Considered

(percent of respondents owning Coverdell ESAs and aware of state-sponsored 529 college savings plans, but do not own one)

Great extent	14
Some extent	22
Very little extent	27
No extent	37
Number of respondents	83

Distribution Channels Through Which Coverdell ESAs Were Opened[2]

(percent of respondents owning Coverdell ESAs)

Sales force (total)	57
Full-service broker	22
Independent financial planner	17
Bank or savings institution	17
Insurance agent	4
Direct market (total)	41
Mutual fund company	29
Discount broker	13

[1] In 2001, Education IRAs were renamed Coverdell Education Savings Accounts.

[2] Multiple responses included. Number of respondents varies.

Sixty-three percent of responding parents with Coverdell ESAs are familiar with state-sponsored 529 college savings plans but have not opened any plan accounts. Fourteen percent of these parents considered opening state-sponsored 529 college savings plan accounts instead of Coverdell ESAs to a "great" extent, and 22 percent considered opening 529 college savings plan accounts to "some" extent.

Fifty-seven percent of responding parents with Coverdell ESAs opened their accounts through the sales force channel, usually with full-service brokers. Forty-one percent opened their Coverdell ESAs through the direct market channel, in most instances with mutual fund companies.

Four out of five responding parents with Coverdell ESAs who received information about these accounts from professional financial advisers had existing accounts with those advisers (Figure 46). The vast majority of these parents, 86 percent, indicated their professional financial advisers recommended opening Coverdell ESAs. More than 80 percent of parents who opened Coverdell ESAs based upon recommendations from professional financial advisers opened their accounts through the recommending advisers.

Investing in Coverdell Education Savings Accounts

Thirty-two percent of responding parents report total household assets in Coverdell ESAs of less than $2,500; 19 percent report Coverdell ESA assets of $10,000 or more (Figure 47). Median household assets in Coverdell ESAs are $4,000; mean assets are $7,400.

Two-thirds of responding parents with Coverdell ESAs have invested account assets in mutual funds, usually stock mutual funds. About one-fifth have invested account assets in individual stocks and 17 percent in Certificates of Deposit or other types of bank deposits. Very few have invested account assets in annuities or individual bonds.

In 2002, more than one-fifth of responding parents with Coverdell ESAs did not contribute to their accounts. Eighteen percent contributed less than $1,000, and 35 percent contributed between $1,000 and $2,499. Among those who contributed, the median contribution per household in 2002 was $2,000; the mean contribution per household was $2,200. The annual amount contributed most often is based on what the household can afford and the maximum contribution allowed.

Very few responding parents with Coverdell ESAs have received money from other relatives to invest in these accounts. Nineteen percent have received financial contributions from the beneficiaries' grandparents, and 6 percent have received contributions from the beneficiaries' aunts or uncles.

FIGURE 46

Use of Professional Financial Advisers to Open Coverdell Education Savings Accounts

Received Information About Coverdell ESAs from a Professional Financial Adviser
(percent of respondents owning Coverdell ESAs)

Yes	58
No	42
Number of respondents	150

Had Existing Account with Adviser
(percent of respondents owning Coverdell ESAs who received plan information from a professional financial adviser)

Yes	80
No	20
Number of respondents	87

Adviser Recommended Opening Coverdell ESA
(percent of respondents owning Coverdell ESAs who received plan information from a professional financial adviser)

Yes	86
No	14
Number of respondents	85

Opened Coverdell ESA Through Recommending Adviser
(percent of respondents owning Coverdell ESAs who received plan information and recommendation to open plan account from a professional financial adviser)

Yes	83
No	17
Number of respondents	73

FIGURE 47

Investing in Coverdell Education Savings Accounts

Total Household Assets in Coverdell ESAs
(percent of respondents owning Coverdell ESAs)

Less than $2,500	32
$2,500 to $4,999	26
$5,000 to $9,999	23
$10,000 or more	19
Mean per household	$7,400
Median per household	$4,000
Number of respondents	119

Total Amount Contributed in 2002 to Coverdell ESAs per Household
(percent of respondents owning Coverdell ESAs)

Did not contribute in 2002	21
Less than $1,000	18
$1,000 to $2,499	35
$2,500 to $4,999	22
$5,000 or more	4
Mean per household for those contributing in 2002	$2,200
Median per household for those contributing in 2002	$2,000
Number of respondents	131

Important Factors in Deciding How Much to Contribute to Coverdell ESAs[1]
(percent of respondents owning Coverdell ESAs indicating reason is "very" or "somewhat" important)

What the household can afford	86
The maximum contribution allowed	71
The amount recommended by a professional financial adviser	39

Other Family Members Contributing to Household's Coverdell ESAs[1]
(percent of respondents owning Coverdell ESAs indicating "yes")

Grandparents	19
Child him- or herself	6
Aunts or uncles	6
Former spouse or partner	6

Investments Held in Coverdell ESAs[1]
(percent of respondents owning Coverdell ESAs)

Mutual funds (total)	66
Stock mutual funds	47
Money market mutual funds	23
Balanced mutual funds	17
Bond mutual funds	11
Individual stocks	21
Certificates of Deposit or other bank deposits	17
Annuities (total)	13
Variable annuities	9
Fixed annuities	7
Individual bonds	7
Other investments	10

[1] *Multiple responses included. Number of respondents varies.*

Characteristics of Responding Households with Coverdell Education Savings Accounts

Responding households with Coverdell ESAs have a median income of $93,500 and median financial assets of $147,100 (Figure 48). They are headed by a parent with a median age of 40 years. Nearly all of the heads of these households are married or living with a partner and employed, and 70 percent have four-year college or postgraduate degrees. Most responding households with Coverdell ESAs are covered by or participate in employer-sponsored retirement plans and own traditional or Roth IRAs. Outside employer plans and IRAs, 66 percent own mutual funds, 59 percent own U.S. Savings Bonds, and 59 percent own individual stocks or bonds. The largest percentage, 44 percent, consider the sales force channel to be their primary source for investments.

Responding households that are saving for college, but do not own Coverdell ESAs, in contrast, have a median income of $75,000 and median financial assets of $81,800. The parents heading these households are similar in age to the parents heading households with Coverdell ESAs, and similar percentages are married and employed. However, far fewer parents heading households not using Coverdell ESAs have college or postgraduate degrees, and they are less likely to own investments outside employer plans and IRAs.

Ownership of Multiple Education-Targeted Savings Programs

One-fifth of responding parents saving for college are using education-targeted savings programs. Of these parents, 81 percent own only one type of education-targeted savings program (Figure 49). Sixteen percent own two types of education-targeted savings programs, usually a state-sponsored 529 prepaid tuition plan and a state-sponsored 529 college savings plan. Three percent own all three types of education-targeted savings programs.

Parents using a combination of education-targeted savings programs generally have higher household incomes and financial assets than parents using only one type of program (Figure 50). Parents using multiple types of programs also tend to have greater college savings although they typically have been saving for college for the same length of time as parents using one type of program. Compared with parents using only one type of program, those using multiple types of programs are more likely to own investments outside traditional or Roth IRAs and employer-sponsored retirement plans.

FIGURE 48

Characteristics of Responding Households Saving for College by Use of Coverdell Education Savings Accounts

	Using Coverdell ESAs to Save for College	Not Using Coverdell ESAs to Save for College
Median		
Age[1]	40 years	42 years
Household income	$93,500	$75,000
Household financial assets[2]	$147,000	$81,800
Percent		
Household decisionmaker:		
Male is sole decisionmaker	14	9
Female is sole decisionmaker	14	10
Co-decisionmakers	73	80
Number of children age 18 or younger in household:		
One	29	33
Two	51	45
Three or more	20	22
Married or living with a partner[1]	95	90
College or postgraduate degree[1]	70	54[a]
Employed[1]	87	84
Retired from lifetime occupation[1]	3	4
Own outside employer-sponsored retirement plan or IRAs:[3]		
Bank savings accounts	87	96
Individual stocks or bonds, mutual funds, or annuities (total)[3]	85	72
Mutual funds	66	57
Individual stocks or bonds, excluding U.S. Savings Bonds	59	48[a]
Fixed or variable annuities	18	17
U.S. Savings Bonds	59	55
Certificates of Deposit	34	38
Other investments	20	20
Participate in or covered by employer-sponsored retirement plan	89	83
Have traditional or Roth IRA	78	49[a]
Primary channel for savings and investments:		
Sales force[4]	44	52
Direct market[5]	29	12
Employer-sponsored retirement plan	26	35
Other channel	2	1

[1] Refers to the household's responding financial decisionmaker for investments.

[2] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[3] Multiple responses included.

[4] Includes full-service brokers, insurance agents, financial planners, and bank representatives.

[5] Includes mutual fund companies and discount brokers.

[a] Responses of respondents not using Coverdell ESAs to save for college are statistically different at the 95 percent confidence level from those of respondents who are using Coverdell ESAs to save for college.

Note: Number of respondents varies.

FIGURE 49

Ownership of Education-Targeted Savings Program[1] Account(s) Among Responding Households Saving for College

Incidence of Ownership

(percent of respondents saving for college)

Own state-sponsored 529 prepaid tuition plan, state-sponsored 529 college savings plan, or Coverdell ESA	20
Do not own state-sponsored 529 prepaid tuition plan, state-sponsored 529 college savings plan, or Coverdell ESA	80
Number of respondents	765

Type(s) of Education-Targeted Savings Program(s) Owned

(percent of respondents saving for college and owning state-sponsored 529 plans or Coverdell ESAs)

Own one type of education-targeted savings program	81
Only own state-sponsored 529 prepaid tuition plan	20
Only own state-sponsored 529 college savings plan	22
Only own Coverdell ESA	39
Own two types of education-targeted savings programs	16
State-sponsored 529 prepaid tuition plan and state-sponsored 529 college savings plan	9
State-sponsored 529 college savings plan and Coverdell ESA	5
State-sponsored 529 prepaid tuition plan and Coverdell ESA	2
Own all three types of education-targeted savings programs	3
Number of respondents	461

[1] *Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.*

FIGURE 50

Characteristics of Responding Households Saving for College Using Education-Targeted Savings Programs[1] by Number of Programs Owned

	Own Either State-Sponsored 529 Prepaid Tuition Plan, State-Sponsored 529 College Savings Plan, or Coverdell ESA	Own Combination of State-Sponsored 529 Prepaid Tuition Plan, State-Sponsored 529 College Savings Plan, or Coverdell ESA
Median		
Age[2]	41 years	40 years
Household income	$97,100	$100,000
Household financial assets[3]	$117,200	$184,100
Household college savings	$12,000	$20,000
Number of years saving for college	6 years	6 years
Percent		
Household decisionmaker:		
Male is sole decisionmaker	12	13
Female is sole decisionmaker	10	13
Co-decisionmakers	78	74
Number of children age 18 or younger in household:		
One	30	26
Two	51	52
Three or more	19	22
Married or living with a partner[2]	95	96
College or postgraduate degree[2]	72	78
Employed[2]	89	91
Retired from lifetime occupation[2]	4	4
Own outside employer-sponsored retirement plan or IRAs:[4]		
Bank savings accounts	91	91
Individual stocks or bonds, mutual funds, or annuities (total)[4]	80	91[a]
Mutual funds	65	74
Individual stocks or bonds, excluding U.S. Savings Bonds	55	70[a]
Fixed or variable annuities	19	22
U.S. Savings Bonds	59	65
Certificates of Deposit	33	39
Other investments	18	22
Participate in or covered by employer-sponsored retirement plan	89	86
Have traditional or Roth IRA	73	77
Primary channel for savings and investments:		
Sales force[5]	49	39
Direct market[6]	22	26
Employer-sponsored retirement plan	29	35
Other channel	0	0

[1] Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.

[2] Refers to the household's responding financial decisionmaker for investments.

[3] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[4] Multiple responses included.

[5] Includes full-service brokers, insurance agents, financial planners, and bank representatives.

[6] Includes mutual fund companies and discount brokers.

[a] Responses of respondents who are using more than one type of education-targeted savings program are statistically different at the 95 percent confidence level from those of respondents who are using only one type of education-targeted savings program.

Note: Number of respondents varies.

Chapter 3:

Expectations and Attitudes About Saving for College

College Savings Goals

Most parents participating in the ICI survey and who are saving for college have been doing so for several years. The median number of years these parents have been saving for college is 6.0; the mean is 7.4 (Figure 51). Seven percent have been saving for college for one year or less; 9 percent have been saving for college for 16 or more years. The number of years parents have been saving for college typically increases with the age of the oldest or only child. For example, responding parents with an oldest or only child age 16 or older have been saving for college for a median of 10.0 years. Parents whose oldest or only child is age five or younger have been saving for college for a median of 3.0 years.

FIGURE 51

Number of Years Responding Households Have Been Saving for College

(percent of respondents saving for college)

	All Responding Households Saving for College	Age of Oldest or Only Child Age 18 or Younger			
		5 Years or Younger	6 to 10 Years	11 to 15 Years	16 Years or Older
1 year or less	7	23[a]	4	2	4
2 to 3 years	19	48[a]	17	8	13
4 to 5 years	20	26	21	20	16
6 to 10 years	33	4	56[b]	34	24
11 to 15 years	13	0	2	31[c]	12
16 or more years	9	0	0	5	31[d]
Mean	7.4 years	2.9 years	6.2 years	9.2 years	10.8 years
Median	6.0 years	3.0 years	6.0 years	10.0 years	10.0 years
Number of respondents	753	157	216	219	148

[a] Responses of respondents with an oldest or only child age 5 years or younger are statistically different at the 95 percent confidence level from those of respondents with an oldest or only child age 6 or older.

[b] Responses of respondents with an oldest or only child age 6 to 10 years are statistically different at the 95 percent confidence level from those of respondents with an oldest or only child age 5 years or younger or age 11 years or older.

[c] Responses of respondents with an oldest or only child age 11 to 15 years are statistically different at the 95 percent confidence level from those of respondents with an oldest or only child age 10 years or younger or age 16 years or older.

[d] Responses of respondents with an oldest or only child age 16 years or older are statistically different at the 95 percent confidence level from those of respondents with an oldest or only child age 15 years or younger.

Twenty-four percent of responding parents have saved less than $5,000 for their children's college education, and 16 percent have saved between $5,000 and $9,999 (Figure 52). Only 7 percent have saved $75,000 or more. The median amount saved for college is $10,000; the mean is $23,600. The amount saved for college, however, tends to increase with the number of years parents have been saving for college. Parents who have been saving for college for 11 or more years, for example, have saved a median of $35,000. In contrast, the median college savings of parents who have been saving for 1 to 3 years is $3,000. Parents using 529 plans or Coverdell ESAs to save for college typically have greater college savings than parents not using these education-targeted savings programs. Parents with more than one child generally have greater total college savings than parents with only one child age 18 or younger, although they have saved less money per child (Figure 53). Parents with an oldest or only child age 11 to 15 have the greatest median and mean college savings.

FIGURE 52

Current College Savings by Number of Years Saving for College and Use of Education-Targeted Savings Programs[1]

(percent of respondents saving for college)

	All Responding Households Saving for College	Number of Years Saving for College				Use of Education-Targeted Savings Programs[1]	
		1 to 3 Years	4 to 5 Years	6 to 10 Years	11 or More Years	Yes	No
Current College Savings							
Less than $5,000	24	59[a]	17	8	7	19	26[e]
$5,000 to $9,999	16	22	16	13	13	18	15
$10,000 to $19,999	20	8	30[b]	29[b]	12	19	20
$20,000 to $49,999	27	9[a]	30	34	37	24	27
$50,000 to $74,999	7	1	1	10[c]	18[d]	11	6[e]
$75,000 to $99,999	2	0	4	0	5	3	2
$100,000 or more	5	2	2	7	10[d]	6	5
Mean	$23,600	$7,800	$19,900	$30,200	$39,000	$28,100	$22,400
Median	$10,000	$3,000	$14,200	$20,000	$35,000	$15,000	$10,000
Number of respondents	677	179	147	211	132	412	264

[1] *Includes state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.*

[a] *Responses of respondents who have been saving for college for 1 to 3 years are statistically different at the 95 percent confidence level from those of respondents who have been saving for college for 4 or more years.*

[b] *Responses of respondents who have been saving for college for 4 to 5 or 6 to 10 years years are statistically different at the 95 percent confidence level from those of respondents who have been saving for college for 1 to 3 years or 11 or more years.*

[c] *Responses of respondents who have been saving for college for 6 to 10 years are statistically different at the 95 percent confidence level from those of respondents who have been saving for college for 1 to 5 years or 11 or more years.*

[d] *Responses of respondents who have been saving for college for 11 or more years are statistically different at the 95 percent confidence level from those of respondents who have been saving for college for 10 or fewer years.*

[e] *Responses of respondents who are not using education-targeted savings programs to save for college are statistically different at the 95 percent confidence level from those of respondents who are using education-targeted savings programs.*

FIGURE 53

Current College Savings by Age of Oldest or Only Child and Number of Children

(percent of respondents saving for college)

	All Responding Households Saving for College	Age of Oldest or Only Child Age 18 or Younger				Number of Children Age 18 or Younger	
		5 Years or Younger	6 to 10 Years	11 to 15 Years	16 Years or Older	One	Two or More
Current College Savings							
Less than $5,000	24	47[a]	21	12	24	34	19[c]
$5,000 to $9,999	16	18	18	17	9	14	16
$10,000 to $19,999	20	17	24	19	18	17	21
$20,000 to $49,999	27	11	23	33	35[b]	23	28
$50,000 to $74,999	7	2	8	10	7	5	8
$75,000 to $99,999	2	2	1	2	2	3	1
$100,000 or more	5	2	5	8	5	4	7
Mean	$23,600	$13,000	$20,600	$32,700	$24,700	$20,400	$25,000
Median	$10,000	$5,000	$10,000	$20,000	$15,000	$10,000	$15,000
Number of respondents	677	149	191	194	135	208	469

[a] *Responses of respondents with an oldest or only child age 5 years or younger are statistically different at the 95 percent confidence level from those of respondents with an oldest or only child age 6 or older.*

[b] *Responses of respondents with an oldest or only child age 16 years or older are statistically different at the 95 percent confidence level from those of respondents with an oldest or only child age 15 years or younger.*

[c] *Responses of respondents with two or more children age 18 or younger are statistically different at the 95 percent confidence level from those of respondents who have one child age 18 or younger.*

By the time their oldest or only child age 18 or younger is ready to go to college, the median amount responding parents saving for college expect to have accumulated is $35,000; the mean amount is $92,700 (Figure 54). Anticipated total college savings increases as current college savings increases. For example, parents who currently have saved less than $10,000 for college expect to have accumulated a median of $20,000, and those who have saved $50,000 or more expect to have accumulated a median of $121,000.

There is a wide range of expected college savings as well. For example, among parents with current college savings of $50,000 or more, 14 percent expect to have saved between $50,000 and $74,999 by the time their oldest or only child age 18 or younger goes to college. Another 18 percent expect to have saved $75,000 to $99,999, while 27 percent expect to have saved $250,000 or more.

FIGURE 54

Total Expected College Savings[1]

(percent of respondents saving for college)

	All Responding Households Saving for College	Number of Children Age 18 or Younger		Current College Savings			
		One	Two or More	Less than $10,000	$10,000 to $19,999	$20,000 to $49,999	$50,000 or More
Expected College Savings							
Less than $5,000	4	5	4	10[a]	0	0	0
$5,000 to $9,999	5	6	4	12[a]	0	0	0
$10,000 to $19,999	14	15	14	25[b]	23[d]	0	0
$20,000 to $49,999	35	33	36	37	44	45	0[e]
$50,000 to $74,999	15	16	14	6[c]	16	27	14
$75,000 to $99,999	7	7	7	3	7	9	18[e]
$100,000 or $149,999	9	6	11	4	9	11	22[e]
$150,000 to $249,999	5	5	5	2	1	6	19[e]
$250,000 or more	6	7	5	2	0	3	27[e]
Mean	$92,700	$129,000	$75,200	$48,300	$43,300	$108,600	$267,400
Median	$35,000	$35,000	$35,000	$20,000	$35,000	$50,000	$121,000
Number of respondents	679	210	469	232	137	166	116

[1] By the time the oldest or only child age 18 or younger is ready to attend college.

[a] Responses of respondents with current college savings of less than $10,000 are statistically different at the 95 percent confidence level from those of respondents with current college savings of $10,000 or more.

[b] Responses of respondents with current college savings of less than $10,000 are statistically different at the 95 percent confidence level from those of respondents with current college savings of $20,000 or more.

[c] Responses of respondents with current college savings of less than $10,000 are statistically different at the 95 percent confidence level from those of respondents with current college savings of $10,000 to $19,999 or $20,000 to $49,999.

[d] Responses of respondents with current college savings of $10,000 to $19,999 are statistically different at the 95 percent confidence level from those of respondents with current college savings of $20,000 or more.

[e] Responses of respondents with current college savings of $50,000 or more are statistically different at the 95 percent confidence level from those of respondents with current college savings of less than $50,000.

Parents saving for college are quite optimistic that they will reach their college savings goals. Thirty-eight percent of responding parents rate the chance of meeting their college savings goals as "very" likely, and 49 percent rate the chance as "somewhat" likely (Figure 55). Only 13 percent consider it "somewhat" or "very" unlikely that they will meet their college savings goals. Parents with the greatest current and expected college savings are the most optimistic, but even parents with low-to-moderate levels of current and expected college savings are fairly optimistic about reaching their goals.

FIGURE 55

Likelihood of Meeting College Savings Goals

(percent of respondents saving for college)

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely	*Number of Respondents*
All Responding Households Saving for College	38	49	9	4	762
Current College Savings					
Less than $10,000	33	53	8	5	244
$10,000 to $19,999	31	59	6	4	139
$20,000 to $49,999	38	46	15	2	171
$50,000 or more	54[a]	41	0[d]	4	120
Expected College Savings[1]					
Less than $10,000	26	51	17[e]	6	38
$10,000 to $19,999	37	54	4	5	82
$20,000 to $49,999	31	53[c]	12[f]	4	212
$50,000 to $74,999	35	59	4	3	110
$75,000 or more	53[b]	39	6	2	235
Number of Children Age 18 or Younger					
One	39	49	6	6	235
Two or more	37	49	11	4	527

[1] *By the time the oldest or only child is ready to attend college.*

[a] *Responses of respondents with current college savings of $50,000 or more are statistically different at the 95 percent confidence level from those of respondents with current college savings of less than $50,000.*

[b] *Responses of respondents who expect to have college savings of $75,000 or more are statistically different at the 95 percent confidence level from those of respondents who expect to have college savings of less than $75,000.*

[c] *Responses of respondents who expect to have college savings of $20,000 to $49,999 are statistically different at the 95 percent confidence level from those of respondents who expect to have college savings of $75,000 or more.*

[d] *Responses of respondents with current college savings of $50,000 or more are statistically different at the 95 percent confidence level from those of respondents with current college savings of less than $10,000 or $20,000 to $49,999.*

[e] *Responses of respondents with expected college savings of less than $10,000 are statistically different at the 95 percent confidence level from those of respondents with expected college savings of $50,000 or more.*

[f] *Responses of respondents with expected college savings of $20,000 to $49,999 are statistically different at the 95 percent confidence level from those of respondents with expected college savings of $50,000 to $74,999.*

Parents who believe they are likely to achieve their college savings goals tend to have higher household incomes and financial assets than parents who believe they are unlikely to meet their goals (Figure 56). The majority of parents who believe they are likely to attain their college savings goals have college or postgraduate degrees, whereas most parents who believe they are unlikely to meet their college savings goals do not.

FIGURE 56

Characteristics of Responding Households Saving for College by Likelihood of Meeting College Savings Goals

	"Very" or "Somewhat" Likely to Meet College Savings Goals	"Very" or "Somewhat" Unlikely to Meet College Savings Goals
Median		
Age[1]	41 years	43 years
Household income	$80,000	$68,500
Household financial assets[2]	$100,000	$56,200
Percent		
Household decisionmaker:		
Male is sole decisionmaker	11	5
Female is sole decisionmaker	9	17
Co-decisionmakers	80	78
Number of children age 18 or younger in household:		
One	29	33
Two	46	45
Three or more	25	22
Married or living with a partner[1]	91	86
College or postgraduate degree[1]	59	34[a]
Employed[1]	86	81
Retired from lifetime occupation[1]	4	5
Own outside employer-sponsored retirement plan or IRAs:[3]		
Bank savings accounts	95	95
Individual stocks or bonds, mutual funds, or annuities (total)[3]	77	73
Mutual funds	57	63
Individual stocks or bonds, excluding U.S. Savings Bonds	51	39
Fixed or variable annuities	16	23
U.S. Savings Bonds	56	54
Certificates of Deposit	39	34
Other investments	22	8[a]
Participate in or covered by employer-sponsored retirement plan	85	77
Have traditional or Roth IRA	54	40[a]
Primary channel for savings and investments:		
Sales force[4]	49	63
Employer-sponsored retirement plan	34	34
Direct market[5]	15	3[a]
Other channel	2	0

[1] Refers to the household's responding financial decisionmaker for investments.

[2] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[3] Multiple responses included.

[4] Includes full-service brokers, insurance agents, financial planners, and bank representatives.

[5] Includes mutual fund companies and discount brokers.

[a] Responses of respondents who believe they are "very" or "somewhat" unlikely to meet their college savings goals are statistically different at the 95 percent confidence level from those of respondents who believe they are "very" or "somewhat" likely to meet their college savings goals.

Note: Number of respondents varies.

Half of responding parents saving for college have calculated the anticipated cost of college tuition and expenses for their children (Figure 57). Parents who have been saving for college for several years are more likely to have completed this calculation than parents who have been saving for fewer years. In addition, households with higher levels of current and expected college savings are more likely to have completed a college cost calculation.

FIGURE 57

Incidence of Calculation of Anticipated Cost of College Tuition and Expenses Among Responding Households Saving for College

(percent of respondents saving for college)

	Have Calculated Anticipated Cost of College	Have Not Calculated Anticipated Cost of College	*Number of Respondents*
All Responding Households Saving for College	50	50	759
Number of Years Saving for College			
1 to 3 years	40[a]	60[a]	190
4 to 5 years	46	54	157
6 to 10 years	54	46	247
11 or more years	61	39	153
Current College Savings			
Less than $10,000	45	55	243
$10,000 to $19,999	46	54	139
$20,000 to $49,999	55	45	170
$50,000 or more	57	43	120
Expected College Savings[1]			
Less than $10,000	47	53	38
$10,000 to $19,999	49	51	82
$20,000 to $49,999	46	54	212
$50,000 to $74,999	53	47	111
$75,000 or more	55	45	232

[1] By the time the oldest or only child is ready to attend college.

[a] Responses of respondents who have been saving for college for 1 to 3 years are statistically different at the 95 percent confidence level from those of respondents who have been saving for college for 4 or more years.

Expected Sources of Funding for College in Addition to Household Savings

In addition to their college savings, most parents participating in the ICI survey expect to rely on other sources to help pay for their children's college tuition and expenses, particularly scholarships, student loans, or income or savings earned by their children. Nearly 70 percent of responding parents who are saving for college indicate it is "very" or "somewhat" likely that they will rely on academic or athletic scholarships (Figure 58). Sixty-five percent say it is "very" or "somewhat" likely that they will rely on student loans. Sixty-one percent state it is "very" or "somewhat" likely that they will rely on income or savings their children have earned to pay for college. Seventy-four percent believe it is "very" or "somewhat" unlikely that they will receive gifts or inheritances from relatives to pay for college. However, 34 percent of responding parents who are saving for college expect financial assistance from adult relatives, usually grandparents, to help pay for college (refer to Figure 20).

Anticipated reliance on academic or athletic scholarships is strongest among parents under age 35 and those not using education-targeted savings programs to save for college (Figure 59). Although most responding parents who are saving for college expect to rely on student loans to pay for college, this expectation is greatest among parents who have not attended college, have lower household incomes and fewer financial assets, and are not using education-targeted savings programs to save for college. Parents with the greatest likelihood to rely on their children's income or savings to pay for college are those with incomes between $50,000 and $74,999, with financial assets below $50,000, and not using education-targeted savings programs to save for college.

FIGURE 58

Likelihood of Relying on Various Funding Sources to Pay for College

(percent of respondents saving for college)

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely	*Number of Respondents*
Student loans	25	40	18	17	746
Income or savings earned by child	25	36	16	23	755
Academic or athletic scholarships	23	46	16	15	728
Gift or inheritance from a relative	8	18	21	53	750

FIGURE 59

Likelihood of Relying on Various Funding Sources to Pay for College by Selected Characteristics

(percent of respondents saving for college and "very" or "somewhat" likely to rely on funding source)

	Student Loans	Gift or Inheritance from Relative	Academic or Athletic Scholarships	Income or Savings Earned by Child
Age of Respondent				
Under 35 years	66	28	81[e]	56
35 to 44 years	69	25	70	65
45 years or older	61	27	64	57
Household Income				
Less than $50,000	74	25	74	61
$50,000 to $74,999	76	30	71	71[f]
$75,000 or more	58[a]	25	70	52
Household Financial Assets[1]				
Less than $50,000	76[b]	27	77	67[g]
$50,000 to $149,999	63	27	64	64
$150,000 or more	52	28	66	52
Highest Level of Education in Household				
High school or less	79[c]	27	78	60
Some college or associate's degree	71	21	69	60
Four-year college or postgraduate degree	61	28	68	62
Use of Education-Targeted Savings Programs				
Using these programs	58[d]	29	64[d]	55[d]
Not using these programs	69	25	72	64

[1] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[a] Responses of respondents with household income of $75,000 or more are statistically different at the 95 percent confidence level from those of respondents with housheold income less than $50,000 or $50,000 to $74,999.

[b] Responses of respondents with household financial assets less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household financial assets of $50,000 to $149,999 or $150,000 or more.

[c] Responses of respondents where the highest level of education in the household is high school or less are statistically different at the 95 percent confidence level from those of respondents where the highest level of education in the household is a four-year college or postgraduate degree.

[d] Responses of respondents who are using education-targeted savings programs to save for college are statistically different at the 95 percent confidence level from those of respondents who are not using education-targeted savings programs.

[e] Responses of respondents under age 35 are statistically different at the 95 percent confidence level from those of respondents age 45 or older.

[f] Responses of respondents with household income of $50,000 to $74,999 are statistically different at the 95 percent confidence level from those of respondents with household income of $75,000 or more.

[g] Responses of respondents with household financial assets less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household financial assets of $150,000 or more.

Note: Number of respondents varies.

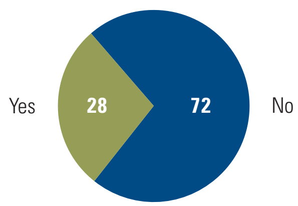
Use of Payroll Deduction and Credit Card or Loyalty Programs to Save for College

Twenty-eight percent of responding parents saving for college are using payroll deduction to help achieve this financial goal (Figure 60). Nine percent are using credit card or loyalty programs, such as Upromise and BabyMint, to save for college (Figure 61).[30] Parents using credit card or loyalty programs to save for college tend to have lower household financial assets than parents not using these programs (Figure 62). In addition, parents heading the households using credit card or loyalty programs to save for college typically are younger than parents of households not using these programs.

FIGURE 60

Use of Payroll Deduction to Save for College

(percent of respondents saving for college)

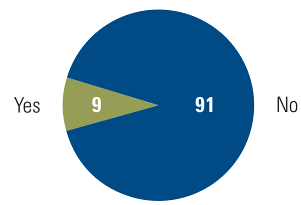


Number of respondents=765

FIGURE 61

Use of Credit Card or Loyalty Programs to Save for College

(percent of respondents saving for college)



Number of respondents=763

[30] Upromise and BabyMint are Internet-based rebate programs. Both programs negotiate rebate deals with various retailers and program participants have a percentage of the money they spend at those retailers automatically deposited into accounts. Both Upromise and BabyMint also offer credit cards that pay money back to cardholders.

FIGURE 62

Characteristics of Responding Households Saving for College by Use of Credit Card or Loyalty Programs

	Using Credit Card or Loyalty Programs to Save for College	Not Using Credit Card or Loyalty Programs to Save for College
Median		
Age[1]	39 years	42 years
Household income	$75,000	$79,300
Household financial assets[2]	$45,200	$100,000[a]
Percent		
Household decisionmaker:		
Male is sole decisionmaker	6	10
Female is sole decisionmaker	10	11
Co-decisionmakers	85	79
Number of children age 18 or younger in household:		
One	39	32
Two	41	46
Three or more	20	22
Married or living with a partner[1]	100	90[a]
College or postgraduate degree[1]	63	54
Employed[1]	78	85
Retired from lifetime occupation[1]	10	4
Participate in or covered by employer-sponsored retirement plan	76	85
Have traditional or Roth IRA	52	52
Primary channel for savings and investments:		
Employer-sponsored retirement plan	44	33
Sales force[3]	39	53
Direct market[4]	17	13
Other channel	0	1

[1] Refers to the household's responding financial decisionmaker for investments.

[2] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[3] Includes full-service brokers, insurance agents, financial planners, and bank representatives.

[4] Includes mutual fund companies and discount brokers.

[a] Responses of respondents who are not using credit card or loyalty programs to save for college are statistically different at the 95 percent confidence level from those of respondents who are using loyalty or credit card programs to save for college.

Note: Number of respondents varies.

Views on Saving for College

The majority of responding parents saving for college believe that it is difficult to save for their own retirement and their children's college education at the same time (Figure 63). Nonetheless, most think that they have been successful at achieving both financial goals and believe they will meet their college savings goals. Some parents, however, indicate that they are currently saving less for retirement because they are saving for college. Others state that they have had to cut back on expenses to save for college. The majority of responding parents saving for college agree that the best way to save for college is through automatic payroll deduction, even though only 28 percent of parents are saving for college this way (refer to Figure 60). Most do not think they need professional financial advice about college savings options, and the majority are not concerned about short-term fluctuations in the value of their college savings investments. At the same time, most agree that investing college savings in the stock market is too risky.

Parents' views on saving for college vary greatly according to their financial situation. Parents with lower household incomes and assets are more likely to say it is difficult to save for their own retirement and their children's college education simultaneously than parents with greater household incomes and financial assets (Figure 64). Parents with lower household incomes are also more likely to say they are saving less for their own retirement in order to save for college, and these parents are more likely to express concern about reaching their college savings goals. As parents' household income and assets increase, so does the likelihood that they describe themselves as successful at saving for retirement and college at the same time.

FIGURE 63

Views on Saving for College

(percent of respondents saving for college)

	Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	*Number of Respondents*
It is difficult to save for retirement and a child's college education at the same time.	35	34	15	15	763
The best way for me to save for college is to have the money automatically deducted from my paycheck.	33	25	18	24	759
My household is successful at saving for retirement and college at the same time.	32	48	13	7	765
I am not concerned about short-term fluctuations in the value of my investments for college expenses.	32	38	16	14	763
Investing college savings in the stock market is too risky for me.	28	30	23	20	763
We have cut back on our expenses in order to save for college.	19	32	29	20	766
I am saving less for my own retirement because I am saving for college.	17	24	27	31	763
I am concerned that we will not reach our savings goals for college expenses.	12	29	33	26	765
I need professional financial advice on education savings options.	12	27	30	31	765

FIGURE 64

Views on Saving for College by Household Income and Financial Assets[1]

(percent of respondents saving for college and indicating "strongly" or "somewhat" agree)

	All Responding Households Saving for College	Household Income			Household Financial Assets[2]		
		Less than $50,000	$50,000 to $74,999	$75,000 or More	Less than $50,000	$50,000 to $149,999	$150,000 or More
My household is successful at saving for retirement and college at the same time.	80	68	74	86[a]	66[c]	85	89
I am not concerned about short-term fluctuations in the value of my investments for college expenses.	70	62	75	72	71	73	69
It is difficult to save for retirement and a child's college education at the same time.	69	83	80	63[a]	80	74	55[d]
Investing college savings in the stock market is too risky for me.	58	71	69	48[a]	69	60	46[d]
The best way for me to save for college is to have the money automatically deducted from my paycheck.	58	59	66	56	69	67	49
We have cut back on our expenses in order to save for college.	51	58	53	50	57	53	46
I am saving less for my own retirement because I am saving for college.	41	52	54	35[a]	45	50	33[d]
I am concerned that we will not reach our savings goals for college expenses.	41	57	49	34[a]	53	43	34[d]
I need professional financial advice on education savings options.	39	32	51[b]	34	46	39	36

[1] Multiple responses included. Number of respondents varies.

[2] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[a] Responses of respondents with household income of $75,000 or more are statistically different at the 95 percent confidence level from those of respondents with household income of less than $50,000 or $50,000 to $74,999.

[b] Responses of respondents with household income of $50,000 to $74,999 are statistically different at the 95 percent confidence level from those of respondents with household income of less than $50,000 or $75,000 or more.

[c] Responses of respondents with household financial assets of less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household financial assets of $50,000 to $149,999 or $150,000 or more.

[d] Responses of respondents with household financial assets of $150,000 or more are statistically different at the 95 percent confidence level from those of respondents with household financial assets of less than $50,000 or $50,000 to $149,999.

Sources Consulted for Information About Saving for College

Parents in the ICI survey who are saving for college have consulted a variety of sources to learn about how best to achieve this important financial goal. The largest percentage, 61 percent, indicate they have consulted newspaper, newsletter, or magazine articles (Figure 65). Fifty-five percent have sought assistance from friends or family members, and 54 percent have consulted professional financial advisers. Forty-four percent consulted brochures or printed advertisements, and 40 percent obtained information from books. Thirty-six percent consulted the Internet, 23 percent obtained information from their employers, and 21 percent consulted television or radio programs.

Reliance on these sources varied significantly by parents' household income and financial assets. Friends and family were the most frequently mentioned information source for parents with household incomes below $50,000. For parents with household incomes of $75,000 or more, professional financial advisers were mentioned more often as an information source than friends or family. Use of books, professional financial advisers, brochures and printed advertisements, and newspaper, newsletter, or magazine articles for information on saving for college rose with parents' household income and financial assets.

FIGURE 65

Sources Consulted for Information About How Best to Save for College[1]

(percent of respondents saving for college)

	All Responding Households Saving for College	Household Income			Household Financial Assets[2]		
		Less than $50,000	$50,000 to $74,999	$75,000 or More	Less than $50,000	$50,000 to $149,999	$150,000 or More
Newspaper, newsletter, or magazine articles	61	47	55	69[a]	49[b]	67	72
Friends or family members	55	74	62	48[a]	51	67	49
Professional financial adviser	54	42	48	57[a]	44[b]	58	61
Brochures or printed advertisements	44	43	40	46	35[b]	56	48
Books	40	33	31	47[a]	31	36	49
The Internet	36	29	29	43[a]	37	36	38
Employer	23	24	27	21	17	33	21
Television or radio programs	21	25	13	23	18	23	25
Other sources	9	13	11	8	12	9	9

[1] Multiple responses included. Number of respondents varies.

[2] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[a] Responses of respondents with household income of $75,000 or more are statistically different at the 95 percent confidence level from those of respondents with household income of less than $50,000 or $50,000 to $74,999.

[b] Responses of respondents with household financial assets of less than $50,000 are statistically different at the 95 percent confidence level from those of respondents with household financial assets of $50,000 to $149,999 or $150,000 or more.

APPENDIX A:

Research Methodology

This report summarizes results of a survey conducted by RoperASW in 2003 under the direction of the Investment Company Institute (ICI). The survey collected data on saving for college among households with children age 18 or younger.

The survey included sections on the use of state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, Coverdell ESAs, UGMA and UTMA accounts, and taxable investments to save for college. Other sections included questions about respondents' current college savings, college savings goals, and ability to save for retirement and college at the same time. In a separate section, households not saving for college were asked related questions. The final section of the survey collected demographic data of responding households, including household income, household financial assets, level of education, ownership of employer-sponsored retirement plans and IRAs, and use of various sources to purchase investments. The questionnaire was pre-tested to ensure that the questions were understandable to respondents.

Sampling and Interviewing Procedures

Forty percent of the telephone numbers selected for the survey were drawn from a random digit dial national probability sample. Sixty percent of the telephone numbers were drawn from a targeted sample of households with listed telephone numbers and predicted to have children younger than age 18 and incomes of $50,000 or more (referred to as the "targeted sample").[31] The targeted sample was created using a model that incorporates available demographic, financial, and geographic information to build a profile of U.S. households with listed telephone numbers. In this model, multiple regression analysis of both individual household data and U.S. Census data at the block level was used to identify households likely to have incomes of $50,000 or more. Information from school registration lists, magazine subscription lists, and other types of lists was used to identify households likely to have children.

[31] The ICI survey included households with children age 18 because that is the age at which most children graduate from high school.

It was necessary to draw part of the sample of telephone numbers from a population likely to have children and likely to be saving for college because existing research indicated that very small percentages of U.S. households with children own education-targeted savings programs such as state-sponsored 529 plans and Coverdell ESAs. Quotas were used to ensure that a sufficient number of interviews were obtained with households not saving for college as well as households saving for college using state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, Coverdell ESAs, and other types of accounts, including UGMA or UTMA accounts.

All interviews were conducted with the household primary or co-decisionmaker for savings and investments.[32] A total of 918 interviews were completed between April 14 and May 26, 2003—766 with households saving for college and 152 with households not saving for college. Among the households saving for college, 143 had state-sponsored 529 prepaid tuition plan accounts, 290 had state-sponsored 529 college savings plan accounts, 159 had Coverdell ESAs, and 153 had UGMA or UTMA accounts. The average interview length was 23 minutes.

Weighting Procedures

Completed interviews were weighted to adjust for differences between respondents from the random digit dial sample and the targeted sample on the following four variables:

- awareness and ownership of state-sponsored 529 prepaid tuition plans,
- awareness and ownership of state-sponsored 529 college savings plans,
- awareness and ownership of Coverdell ESAs, and
- ownership of all other investments designated as college savings.

Completed interviews were not weighted on demographic variables from the random digit dial sample because doing so would likely increase substantially the amount of variance in the findings. As a result, the survey responses reflect the college savings behavior of U.S. households with children age 18 or younger, but the survey respondents typically have greater household incomes and financial assets and are more likely to be college-educated and married than all U.S. households with children (Figure 66). As a business application, investment companies can compare survey participants with education-targeted savings program accounts to their own customers who have opened such accounts.

Throughout this report, percentages may not add to 100 because of weighting or rounding. Where respondents were allowed to provide multiple responses, percentages may add to more than 100. Subgroups of respondents on which percentage results are based exclude those respondents who were unable or unwilling to answer the questions that define the subgroups. Some subgroups of respondents are not mutually exclusive. For example, the subgroup of respondents owning state-sponsored 529 prepaid tuition plans includes respondents who also may own state-sponsored 529 college savings plans, and vice versa. Many of the figures in this report include the unweighted number of respondents answering survey questions.

[32] A household consists of all persons who occupy a housing unit. A house, an apartment or other group of rooms, or a single room is regarded as a housing unit when it is occupied or intended for occupancy as separate living quarters. A household includes related family members and all unrelated persons, if any, such as lodgers, foster children, wards, or employees who share a housing unit.

FIGURE 66

Comparison of ICI Survey Respondents to Respondents of Other Surveys that Include Households with Children

	Respondents to the ICI Survey[1]	Households with Children Younger than Age 18 from the ICI 2002 Tracking Survey[2]	Households with Children Younger than Age 18 from the 2001 Survey of Consumer Finances[3]
Median			
Age[4]	42 years	39 years	39 years
Household income	$70,000	$47,200	$51,400
Household financial assets[5]	$67,500	$38,400	$22,000
Percent			
College or postgraduate degree[4]	48	38	35
Married or living with a partner[4]	90	75	75
Employed[4]	84	81	91
Retired from lifetime occupation[4]	5	6	3

[1] Based on a survey of 918 randomly selected U.S. households with children age 18 or younger conducted by the Investment Company Institute in April and May 2003. Of the 918 respondents, 120 were from a random digit dial sample and 798 were from a targeted sample.

[2] Based on a survey of 3,000 randomly selected U.S. households conducted by the Investment Company Institute in May 2002. A total of 1,101 respondents to the survey had children younger than age 18.

[3] Based on a survey of 4,442 randomly selected U.S. households conducted by the Federal Reserve Board between June and December 2001. Of the 4,442 respondents, 2,917 were from a multi-stage area probability sample and 1,532 were from a targeted sample. A total of 1,595 respondents to the survey had children younger than age 18.

[4] Refers to the household's responding financial decisionmaker for investments.

[5] Includes assets in employer-sponsored retirement plans but excludes primary residence.

Note: Number of respondents varies.

Sampling Tolerances

The use of sample surveys is standard practice for constructing estimates about a population. Estimates derived through survey sampling are subject to sampling error. As sample size increases, the level of potential sampling error generally becomes smaller. This confidence level can be used to construct “confidence intervals”—ranges that would include the average estimate taken across all possible samples with known probability. Approximately 95 percent of the intervals figured in all possible samples would contain the average estimate taken across all samples. Figure 67 shows the approximate sampling error for estimates of proportions computed for the sample as a whole and for subsamples of various sizes. The overall sampling error for the survey is ± 3 percent at the 95 percent confidence level.

FIGURE 67

Sampling Error at the 95 Percent Confidence Level for Selected Percentages of Responses, by Sample Size

	Percent of Responses				
Sample Size	10 Percent or 90 Percent	20 Percent or 80 Percent	30 Percent or 70 Percent	40 Percent or 60 Percent	50 Percent
900	2	3	3	3	3
750	2	3	3	4	4
500	3	4	4	5	5
200	4	6	7	7	7
100	6	8	9	10	10
50	9	11	13	14	14

This table shows, for example, that if the sample size is 500 and if 10 percent of the respondents provide the same answer to a question and 90 percent provide the other answer, then, using the same procedures, these responses can be expected to be replicated for the entire population within a range of ± 3 percent 95 percent of the time.

APPENDIX B:

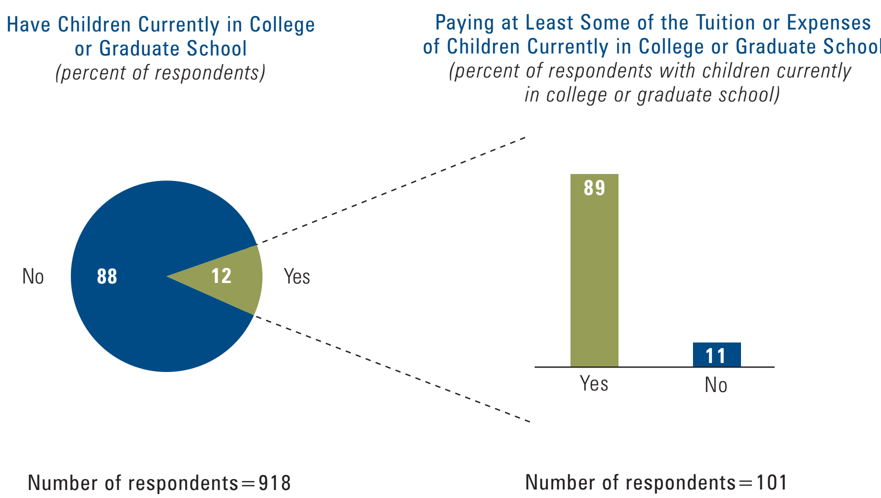
Paying for College Now

Sources of Funding for Current College or Graduate School Tuition and Expenses

Twelve percent of responding parents also have children who are currently in college or graduate school (Figure 68). The vast majority of these parents, 89 percent, are paying at least some of the educational expenses of their children currently in college or graduate school. While a small sample, these findings provide an indication of the current use of college savings funds.

FIGURE 68

Paying for College Now



Note: All respondents also have children age 18 or younger.

Seventy-six percent of responding parents currently paying for college or graduate school used savings accounts to save for their children's tuition and expenses (Figure 69). Thirteen percent used UGMA or UTMA accounts, 5 percent used Coverdell ESAs, 2 percent used state-sponsored 529 prepaid tuition plans, and 1 percent used state-sponsored 529 college savings plans. Thirty percent used other types of accounts to save for college. Most parents currently paying for college or graduate school have withdrawn money from savings accounts to cover college expenses (Figure 70). A very small percentage have tapped employer-sponsored retirement plans or traditional or Roth IRAs to cover college or graduate school expenses.

Types of College Expenses Incurred

Responding parents currently paying for college or graduate school have used the money they saved to pay for a variety of college-related expenses. Ninety-three percent have used the money to pay tuition, 84 percent have used the money to buy books or supplies, and 72 percent have used the money to pay room and board (Figure 71). Less than half of parents currently paying for college or graduate school have used the money to provide their children with allowances, and only 3 percent have used the money to repay college loans.

Fifty-eight percent of responding parents currently paying for college or graduate school indicate that their children are helping to pay for their own education (Figure 72). Forty-nine percent are relying on scholarships, 42 percent are relying on student loans, and 17 percent are relying on gifts or inheritances from relatives to pay current college or graduate school expenses. Ten percent are using personal or home equity lines of credit to pay current college or graduate school expenses.

FIGURE 69

Types of Accounts Used to Save for Education of Children Currently in College or Graduate School[1]

(percent of respondents with children currently in college or graduate school and paying at least some of their tuition or expenses)

Savings account	76
UGMA or UTMA account	13
Coverdell ESA	5
State-sponsored 529 prepaid tuition plan	2
State-sponsored 529 college savings plan	1
Other types of accounts	30

[1] Multiple responses included. Number of respondents varies.

Note: All respondents also have children age 18 or younger.

FIGURE 70

Types of Accounts from Which Withdrawals Were Made to Pay for Education of Children Currently in College or Graduate School[1]

(percent of respondents with children currently in college or graduate school and paying at least some of their tuition or expenses)

Savings account	67
Employer-sponsored retirement plan	4
Traditional or Roth IRA	2
State-sponsored 529 prepaid tuition plan	1
State-sponsored 529 college savings plan	1
Coverdell ESA	0
UGMA or UTMA account	3
Other types of accounts	30

[1] In the 12 months preceding the survey. Multiple responses included. Number of respondents varies.

Note: All respondents also have children age 18 or younger.

FIGURE 71

Types of College and Graduate School Expenses Paid for with Withdrawals[1]

(percent of respondents with children currently in college or graduate school and paying at least some of their tuition or expenses)

Tuition	93
Books or supplies	84
Room and board	72
Allowance	48
Repayment of college loan	3

[1] Multiple responses included. Number of respondents varies.

Note: All respondents also have children age 18 or younger.

FIGURE 72

Reliance on Various Funding Sources to Pay for College or Graduate School[1]

(percent of respondents with children currently in college or graduate school and paying at least some of their tuition or expenses indicating "yes")

Income or savings earned by child	58
Academic or athletic scholarships	49
Student loans	42
Gift or inheritance from a relative	17
Personal or home equity loan or line of credit	10

[1] Multiple responses included. Number of respondents varies.

Note: All respondents also have children age 18 or younger.

APPENDIX C:

Detailed Characteristics of Responding Households Saving for College

FIGURE 73

Detailed Characteristics of Responding Households Saving for College

(percent)

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used: State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
Investment Decisionmaker							
Male is sole decisionmaker	10	9	10	12	12	11	14
Female is sole decisionmaker	11	11	10	10	7	8	14
Co-decisionmakers	80	80	80	78	81	81	73
Number of respondents	766	688	153	461	143	290	159
Marital Status of Respondent							
Married or living with partner	91	91	97	94	95	96	95
Single	5	4	2	2	0	2	3
Divorced or separated	4	4	1	3	2	2	2
Widowed	1	1	0	1	2	0	0
Number of respondents	766	688	153	461	143	290	159
Number of Children Age 18 or Younger in Household							
One	32	32	26	29	27	30	29
Two	46	45	48	51	56	49	51
Three or more	22	23	26	20	17	21	20
Mean	2	2	2	2	2	2	2
Median	2	2	2	2	2	2	2
Number of respondents	766	688	153	461	143	290	159

FIGURE 73 *(continued)*

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used: State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
Age of Respondent							
Under 35	18	18	13	16	10	18	18
35 to 44	47	47	45	52	55	53	52
45 or older	35	35	42	32	35	29	30
Mean	41 years	41 years	43 years	41 years	42 years	41 years	41 years
Median	42 years	42 years	42 years	41 years	42 years	40 years	40 years
Number of respondents	745	669	150	445	138	281	153
Race of Respondent[1]							
Caucasian	92	92	94	91	95	96	86
African-American	4	4	2	3	3	0	4
Hispanic	4	4	4	3	5	2	2
American Indian or Alaska native	2	2	0	2	0	2	3
Asian	1	1	2	3	2	0	4
Other	3	3	3	4	3	2	5
Education Level of Respondent							
High school or less	14	15	5	6	3	4	8
Some college or associate's degree	30	30	20	21	25	13	22
Completed four years of college	28	28	28	33	31	39	32
Some graduate school	7	7	13	8	8	11	8
Completed graduate school	20	20	34	32	33	33	30
Number of respondents	761	683	153	457	142	288	158
Employment Status of Respondent							
Employed	85	84	79	89	90	90	87
Employed full-time	71	70	68	76	73	77	75
Employed part-time	14	14	11	13	17	13	12
Not employed	15	16	21	11	10	10	13
Number of respondents	759	681	152	456	142	288	157
Retirement Status of Respondent							
Retired from lifetime occupation	4	4	3	4	7	2	3
Not retired from lifetime occupation	96	96	97	96	93	98	97
Number of respondents	762	684	153	457	142	288	158

FIGURE 73 *(continued)*

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used: State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
Education Level of Spouse or Partner[2]							
High school or less	20	20	7	11	8	11	11
Some college or associate's degree	27	27	20	22	21	16	25
Completed four years of college	28	27	32	33	32	36	31
Some graduate school	6	7	11	7	10	7	7
Completed graduate school	19	19	30	27	29	30	26
Number of respondents	712	640	150	440	137	280	149
Employment Status of Spouse or Partner[2]							
Employed	83	84	84	84	85	83	85
Employed full-time	68	69	66	69	72	69	71
Employed part-time	15	15	18	15	13	13	14
Not employed	17	16	16	16	15	18	15
Number of respondents	712	640	150	440	137	280	149
Retirement Status of Spouse or Partner[2]							
Retired from lifetime occupation	3	3	4	4	5	4	4
Not retired from lifetime occupation	97	37	96	96	95	96	96
Number of respondents	639	639	150	439	137	280	148
Total Household Income							
Less than $25,000	2	2	0	2	3	0	5
$25,000 to $49,999	13	14	14	6	6	5	7
$50,000 to $74,999	31	31	17	21	17	16	23
$75,000 to $94,999	21	22	22	18	17	24	16
$95,000 to $109,999	14	14	16	16	17	22	14
$110,000 to $149,999	11	10	17	21	26	16	23
$150,000 to $189,999	5	5	8	8	11	8	5
$190,000 to $219,999	1	1	2	2	0	3	0
$220,000 or more	3	3	5	5	3	5	7
Mean	$87,800	$87,400	$110,500	$108,600	$104,000	$112,600	$108,200
Median	$78,000	$75,000	$87,400	$99,200	$100,000	$99,900	$93,500
Number of respondents	623	556	117	372	118	233	121

FIGURE 73 *(continued)*

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used: State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
Total Household Savings and Investments[3]							
Less than $10,000	9	9	2	4	3	3	5
$10,000 to $19,999	10	10	3	5	0	3	7
$20,000 to $29,999	6	6	3	3	3	3	2
$30,000 to $49,999	9	9	9	8	10	8	7
$50,000 to $74,999	13	14	16	11	7	11	12
$75,000 to $99,999	4	4	9	9	17	6	5
$100,000 to $249,999	30	30	24	32	27	33	36
$250,000 to $499,999	13	13	21	16	17	19	17
$500,000 or more	7	7	13	12	17	14	9
Mean	$151,800	$152,300	$208,800	$197,200	$217,200	$221,400	$178,800
Median	$87,500	$87,500	$120,000	$129,100	$109,400	$150,000	$147,100
Number of respondents	579	516	118	348	109	221	117
Employer-Sponsored Retirement Plan Participation or Coverage							
Household participates in or is covered by employer-sponsored retirement plan	84	84	85	89	87	89	89
Household does not participate in or is not covered by employer-sponsored retirement plan	16	16	15	11	13	11	11
Number of respondents	753	678	152	449	137	284	155
Household Contributed to Employer-Sponsored Retirement Plan in 2002[4]							
Yes	91	91	99	94	94	95	94
No	9	9	1	6	6	5	6
Number of respondents	636	573	134	390	114	245	138
Traditional or Roth IRA Ownership							
Household owns traditional or Roth IRA	52	53	69	73	64	75	78
Household does not own traditional or Roth IRA	48	47	31	27	36	25	22
Number of respondents	747	670	152	450	137	283	156

FIGURE 73 *(continued)*

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used: State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
Household Contributed to IRA in 2002[5]							
Yes	57	57	61	60	56	61	64
No	43	43	39	40	44	39	36
Number of respondents	459	420	119	324	92	206	123
Household Savings and Investments in Employer-Sponsored Retirement Plans or IRAs[6]							
Less than $10,000	13	13	8	8	4	6	9
$10,000 to $19,999	11	11	6	8	11	12	9
$20,000 to $29,999	10	9	10	8	7	9	9
$30,000 to $49,999	13	14	6	12	15	12	9
$50,000 to $74,999	16	15	17	16	15	16	12
$75,000 to $99,999	7	7	10	7	7	9	6
$100,000 to $249,999	23	24	29	30	26	22	36
$250,000 to $499,999	6	6	10	8	11	10	9
$500,000 or more	1	1	2	3	4	3	0
Mean	$82,500	$82,300	$111,800	$109,200	$107,700	$116,800	$105,300
Median	$50,000	$50,000	$77,000	$68,000	$52,900	$67,900	$80,300
Number of respondents	470	414	97	302	96	198	96
Channels Through Which Household Owns Savings and Investments[1]							
Sales force (total)	87	88	95	86	87	87	84
Bank or savings institution	69	70	71	62	65	60	59
Full-service broker	36	36	56	44	40	43	47
Independent financial planner	28	28	21	31	33	37	25
Insurance agent	27	27	24	26	33	26	20
Accountant	7	6	9	9	8	9	12
Direct market (total)	44	44	63	57	55	59	62
Mutual fund company	33	34	51	39	42	45	38
Discount broker (total)	20	20	36	31	25	28	40
Discount broker only available online	8	8	16	13	8	15	16
Discount broker with walk-in offices and online account access	16	15	29	26	21	23	35
Employer-sponsored retirement plan	81	82	83	78	78	83	77
Other channel	7	6	8	6	5	6	7

FIGURE 73 *(continued)*

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used		
					State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
Primary Channel Through Which Household Owns Savings and Investments							
Sales force (total)	51	53	46	46	54	39	42
Bank or savings institution	26	27	11	16	21	12	15
Full-service broker	14	14	25	15	15	14	15
Independent financial planner	8	8	7	11	13	14	7
Insurance agent	3	3	4	3	3	0	4
Accountant	1	1	0	2	3	0	4
Direct market (total)	14	13	22	23	18	19	30
Mutual fund company	8	7	9	12	10	12	15
Discount broker (total)	6	6	13	11	8	7	15
Discount broker with walk-in offices and online account access	5	5	12	8	5	5	13
Discount broker only available online	1	1	1	3	3	2	2
Employer-sponsored retirement plan	34	33	32	30	28	42	26
Other channel	1	1	0	1	0	0	2
Number of respondents	713	642	148	432	133	272	150
Investments Owned Outside Employer-Sponsored Retirement Plan or IRAs[1]							
Bank savings accounts	95	96	97	90	95	92	87
Mutual funds	58	59	72	66	68	70	66
U.S. Savings Bonds	56	56	55	60	61	60	59
Individual stocks or bonds, excluding U.S. Savings Bonds	49	50	66	57	59	60	59
Certificates of Deposit	38	39	43	34	36	34	34
Fixed or variable annuities	17	17	24	20	24	21	18
Other investments	20	21	22	19	17	21	20

FIGURE 73 *(continued)*

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used		
					State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
Financial Goals[1]							
Pay for education	100	100	100	100	100	100	100
Finance retirement	94	93	97	96	95	96	97
Provide for emergencies	85	86	85	83	83	81	81
Pay down debt	59	59	48	53	54	51	53
Save for a vacation	54	54	44	50	49	49	48
Buy a car or other large item	33	34	23	30	22	32	32
Buy a house	24	24	15	21	15	19	25
Some other goal	10	10	10	11	10	11	12
Primary Financial Goal							
Pay for education	36	37	33	37	36	43	36
Finance retirement	27	27	43	30	24	28	34
Pay down debt	20	20	15	15	21	15	8
Buy a house	7	7	2	8	7	6	12
Provide for emergencies	4	4	5	5	7	4	3
Save for a vacation	1	1	0	1	0	0	2
Buy a car or other large item	1	1	0	2	2	2	3
Some other goal	3	3	2	2	2	2	2
Number of respondents	754	677	151	455	143	285	158

[1] Multiple responses included. Number of respondents varies.

[2] Percent of respondents married or living with a partner.

[3] Includes assets in employer-sponsored retirement plan but excludes primary residence.

[4] Percent of respondents whose households participate in or are covered by employer-sponsored retirement plans.

[5] Percent of respondents whose households own IRAs.

[6] Percent of respondents whose households participate in or are covered by employer-sponsored retirement plans or own IRAs.

FIGURE 74

Detailed Expectations and Attitudes About Saving for College

(percent of respondents saving for college)

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used		
					State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
Number of Years Household Has Been Saving for College							
1 year	7	6	2	8	12	11	3
2 to 3 years	19	18	12	20	15	17	22
4 to 5 years	20	21	17	19	22	22	19
6 to 10 years	33	33	46	33	32	30	34
11 to 15 years	13	12	10	13	17	15	12
16 or more years	9	10	13	7	2	4	9
Mean	7.4 years	7.8 years	8.9 years	7.1 years	6.9 years	6.7 years	7.6 years
Median	6.0 years	6.0 years	8.0 years	6.0 years	6.0 years	5.6 years	6.0 years
Number of respondents	753	677	152	455	139	286	159
Current College Savings							
Less than $2,500	13	13	5	10	8	9	12
$2,500 to $4,999	11	10	1	9	5	5	14
$5,000 to $9,999	16	15	15	18	15	16	18
$10,000 to $19,999	20	21	18	19	18	21	16
$20,000 to $49,999	27	27	42	24	28	28	20
$50,000 to $74,999	7	7	11	11	10	9	12
$75,000 to $99,999	2	2	3	3	5	5	2
$100,000 or more	5	5	5	6	10	7	4
Mean	$23,600	$23,700	$30,800	$28,100	$36,000	$31,100	$23,100
Median	$10,000	$12,000	$20,000	$15,000	$19,700	$16,500	$10,000
Number of respondents	677	604	133	412	134	261	136

FIGURE 74 *(continued)*

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used: State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
Total Expected College Savings							
Less than $5,000	4	5	1	2	3	0	2
$5,000 to $9,999	5	5	0	2	3	0	0
$10,000 to $19,999	14	15	13	10	5	9	14
$20,000 to $49,999	35	34	33	31	34	26	30
$50,000 to $74,999	15	15	22	20	16	14	26
$75,000 to $99,999	7	7	9	8	8	12	6
$100,000 to $149,999	9	9	8	14	13	19	12
$150,000 or more	11	10	14	14	18	21	10
Mean	$92,700	$94,000	$221,400	$109,000	$157,400	$112,600	$66,400
Median	$35,000	$35,000	$50,000	$50,000	$50,000	$70,200	$50,000
Number of respondents	679	609	132	413	131	262	139
Likelihood of Meeting College Savings Goals							
Very likely	38	37	36	46	52	46	42
Somewhat likely	49	50	47	42	38	44	46
Somewhat unlikely	9	9	14	8	8	6	9
Very unlikely	4	4	3	3	2	4	3
Number of respondents	762	684	153	461	143	290	159
"Very" or "Somewhat" Likely to Rely on Various Funding Sources[1]							
Academic or athletic scholarships	69	70	64	62	63	64	60
Student loans	65	67	57	57	53	57	59
Income or savings earned by child	61	62	57	53	46	53	55
Personal or home equity loan or line of credit	28	29	30	20	13	19	24
Gift or inheritance from relative	26	26	31	24	25	22	25
IRA withdrawals	21	21	16	24	17	21	29
Borrow from retirement plan	13	13	9	10	7	6	12

FIGURE 74 *(continued)*

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used: State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
"Strongly" or "Somewhat" Agree with Statements About Saving for College[1]							
My household is successful at saving for retirement and college at the same time.	80	80	90	85	85	90	83
It is difficult to save for retirement and a child's college education at the same time.	69	70	67	63	66	62	61
I am not concerned about short-term fluctuations in the value of my investments for college expenses.	70	69	71	74	75	75	76
The best way for me to save for college is to have the money automatically deducted from my paycheck.	58	58	55	58	61	57	54
Investing college savings in the stock market is too risky for me.	58	58	44	45	55	34	41
We have cut back on our expenses in order to save for college.	51	52	44	48	51	51	44
I am saving less for my own retirement because I am saving for college.	41	42	35	34	43	36	29
I am concerned that we will not reach our savings goal for college expenses.	41	43	42	31	24	36	32
I need professional financial advice on education savings options.	39	39	33	34	29	35	37

FIGURE 74 *(continued)*

	All Responding Households Saving for College	Using Taxable Accounts to Save for College	Using UGMA or UTMA Accounts	Using Education-Targeted Savings Programs to Save for College	Types of Education-Targeted Savings Programs Used: State-Sponsored 529 Prepaid Tuition Plan	State-Sponsored 529 College Savings Plan	Coverdell ESA
Sources Consulted for Information About How Best to Save for College[1]							
Newspaper, newsletter, or magazine articles	61	61	72	72	78	79	67
Friends or family members	55	56	55	55	61	55	53
Professional financial adviser	54	54	65	65	63	72	63
Brochures or printed advertisements	44	44	52	58	59	60	59
Books	40	40	42	48	56	46	48
The Internet	36	35	38	51	54	54	48
Employer	23	23	21	22	24	27	20
Television or radio programs	21	21	18	27	29	23	29
Other sources	9	9	10	8	10	6	10
Use of Credit Card or Loyalty Programs to Save for College							
Yes	9	8	8	15	20	17	14
No	91	92	92	85	80	83	86
Number of respondents	763	685	151	458	142	287	159
Use of Payroll Deduction to Save for College							
Yes	28	28	22	32	32	34	32
No	72	72	78	68	68	66	68
Number of respondents	765	687	152	460	142	289	159
Expect Assistance from Relatives to Pay for College Education[1]							
Child him- or herself	58	58	55	52	48	55	53
Grandparents	30	31	33	27	33	28	26
Former spouse or partner	7	8	2	3	2	2	3
Aunts or uncles	5	5	3	5	5	4	5
Any of the above	72	73	67	66	63	65	67

[1] *Multiple responses included. Number of respondents varies.*

APPENDIX D:

Description of State-Sponsored 529 Prepaid Tuition Plans[33]

Account Description

Prepaid tuition plans allow a parent, grandparent, or family friend to establish an account in the name of a student and "lock in" the cost of a specified number of academic periods or course units at current prices, typically at the public colleges and universities located in the state sponsoring the program. There are two main types of prepaid tuition plans—prepaid units and contracts. Prepaid unit plans sell units representing a fixed percentage of tuition. Under a contract plan, participants agree to purchase a specified number of years of tuition, mandatory fees, and/or room and board.

Eligibility

Generally, an account holder can open an account on behalf of any eligible beneficiary. An account holder may be a parent, grandparent, unrelated party, and, in some states, a business. Most states impose age, grade, residency, relationship, or other requirements on either the account holder or the beneficiary. There are no adjusted gross income limits.

Availability

Seventeen states offer prepaid tuition plans (Alabama, Colorado, Florida, Illinois, Kentucky, Maryland, Massachusetts,[34] Michigan, Mississippi, Nevada, New Mexico, South Carolina, Tennessee, Texas, Virginia, Washington, and West Virginia). Details of the plans vary from state to state. Some of these plans are no longer accepting new enrollments.

Key Features

- Some states permit new enrollments only during certain periods each year.
- Most states provide some type of guarantee such as full faith and credit obligations or a statutory guarantee.
- Most states require a minimum contribution in order to enroll.
- While policies vary by state, most states allow for funds to be used for any qualified higher education expense such as tuition, fees, room and board, books, supplies, and equipment required for enrollment.

[33] Information in this description is based on provisions governing 529 plans in effect as of June 2003. While many state plans include some or all of the features described, the specific rules governing 529 plans vary greatly from state to state. Certain tax benefits described may be subject to indexing, cost of living increases, sunset rules, or other statutorily imposed increases and decreases.

[34] The Massachusetts prepaid tuition plan has not qualified under Section 529.

- While contributions are not deductible at the federal level, some states do provide tax incentives for investments in prepaid tuition programs.
- Qualified distributions are not subject to federal income tax; state tax treatment of distributions varies.
- Some states limit usage to certain public colleges and universities.
- If the beneficiary does not attend college, the account holder may choose to hold the investment in the program until a later date when the beneficiary may decide to attend college, or to transfer the benefits to another member of the beneficiary's family. The account holder may also request a refund, and the account will be refunded according to the program's policy. By federal law, a refund penalty will be assessed, except in the case of the beneficiary's death, disability, or receipt of a scholarship.
- The money in the plan is controlled by the account owner, not the beneficiary.

APPENDIX E:

Description of State-Sponsored 529 College Savings Plans[35]

Account Description

Savings plans allow participants to save money in a special college savings account on behalf of a designated beneficiary for qualified higher education expenses. Contributions can vary, depending on the individual's savings goals. The plans offer a variable rate of return, although some programs guarantee a minimum rate of return.

Eligibility

Generally, an account holder can open an account on behalf of any eligible beneficiary. An account holder may be a parent, grandparent, or unrelated party. Eligibility requirements on beneficiaries relating to age, grade, state residency, or relationship are rare. There are no adjusted gross income limits.

Availability

Savings plans are available in the District of Columbia and every state except Washington.

Key Features

- Special gift tax rules allow an individual to contribute up to $55,000 in any single year, provided that he or she does not make another contribution to the plan within the following 5 years.
- The total contribution limit varies by state, and the majority of states have limits in excess of $200,000 per student.
- Some college savings plans provide income tax advantages exclusively for the residents or taxpayers of the sponsoring state. These benefits may include deductions for contributions to the plan and/or exemptions from state tax for qualified distributions.
- Qualifed withdrawals are not subject to federal income tax and, in some states, state income tax.
- Account holders can change their account investments once every calendar year or when the account beneficiary is changed.
- If withdrawals are made for any reason other than qualified education expenses, the earnings portion of the withdrawal is taxed as ordinary income and may be subject to additional penalties.
- The money in the plan is controlled by the account owner, not the beneficiary.

[35] Information in this description is based on provisions governing 529 plans in effect as of June 2003. While many state plans include some or all of the features described, the specific rules governing 529 plans vary greatly from state to state. Certain tax benefits described may be subject to indexing, cost of living increases, sunset rules, or other statutorily imposed increases and decreases.

APPENDIX F:

Description of Coverdell Education Savings Accounts[36]

Account Description

Coverdell ESAs are trusts or custodial accounts that are maintained exclusively for the purpose of paying for the qualified education expenses of a designated beneficiary.

Eligibility

Coverdell ESAs may be established by anyone whose adjusted gross income does not exceed the following IRS limits: $110,000 for single tax filers or $220,000 for joint tax filers. Phase out begins at $95,000 for single filers and $190,000 for married individuals who file jointly.

Key Features

- The beneficiary must be a child under the age of 18 unless the beneficiary has "special needs," as defined in IRS regulations.
- Up to $2,000 per child can be contributed in a given tax year.
- Contributions are nondeductible, but contributions and earnings can be withdrawn tax- and penalty-free if used for qualified education expenses, such as tuition, room and board, books, and supplies (including computers).
- The account balance can be transferred to the account of another family member without tax penalty.
- Funds may be used for college expenses as well as a variety of public or private elementary and high school expenses.
- The entire account must be distributed before the beneficiary's 30th birthday unless the beneficiary has "special needs," as defined in IRS regulations.
- Withdrawals after the beneficiary's 30th birthday or withdrawals for unqualified expenses are subject to income taxes and a 10 percent penalty.

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[36] Information in this description is based on provisions governing Coverdell ESAs in effect as of June 2003. Certain tax benefits described may be subject to indexing, cost of living increases, sunset rules, or other statutorily imposed increases and decreases.

APPENDIX G:

Description of UGMA and UTMA Accounts[37]

Account Descriptions

UGMA and UTMA accounts are established by an adult for the benefit of a minor. The Uniform Gift to Minors Act (UGMA) authorizes a custodial arrangement for cash, bank accounts, stocks, and bonds. The Uniform Transfer to Minors Act (UTMA) allows the custodian to hold real estate and other property, including limited partnership interests, on behalf of the child.

Eligibility

UGMA and UTMA accounts may be opened by anyone. There are no adjusted gross income limits.

Key Features

- Individuals may contribute up to $11,000 and taxpayers filing jointly may contribute up to $22,000 annually to each beneficiary's account without triggering the federal gift tax. Contributions in excess of these limits may subject the contributor to the gift tax.
- In addition to education expenses, the money in the account can be used for almost any reason for the child's benefit until the child reaches the age of majority (age 18 or 21, depending on the state).
- The custodian of the account has complete control as to how the money is invested until it is turned over to the child when the child reaches the age of majority. At that time, the child can use the proceeds of the account as he or she sees fit.
- If the beneficiary is under age 14, the first $750 of unearned income is tax-free; the second $750 of unearned income is taxed at the child's income tax rate; and unearned income that exceeds $1,500 is taxed at the parent's income tax rate. If the beneficiary is age 14 or older, all investment earnings are taxed at the child's income tax rate.

[37] Specific rules vary from state to state.

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