



# 9<sup>TH</sup> ANNUAL COLLEGE SAVINGS INDICATOR

## EXECUTIVE SUMMARY OF KEY FINDINGS

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### INTRODUCTION

This summary presents key findings from Fidelity Investments' 9th Annual College Savings Indicator Study. The study was designed to measure college savings behaviors, attitudes and expectations among parents with children they intend to send to college.

Boston Research Technologies, an independent research firm, conducted the online study on behalf of Fidelity Investments from June 5 – July 6, 2015, among a national sample of 2,470 families with children 18 years old and younger. All families had annual household income of at least \$30,000.

### **KEY FINDINGS: Saving for college is at an all-time high, but there is still work to be done; Millennial parents committed to saving, lessening potential college debt for their children**

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- Overall, parents plan to cover 66% of the total cost of college, up from 64% reported in 2014. However, they are on track to cover only 27% of that college funding goal by the time their child reaches college age.
- The good news is that the number of parents saving and planning is at an all-time high:
  - 69% of parents have started saving
  - 73% of parents are saving monthly, putting away a median amount of \$232 per month
  - 62% of parents saving for college report they have a financial plan in place to help them reach their college savings goals
  - 39% of families are investing in 529 college savings plans, 89% of which have either increased their savings or continued to save at the same rate over the past 12 months
- Likely motivated by their own experiences with student debt, Millennials seek to cover more of their children's college costs, and are establishing solid savings habits early:
  - Millennial parents plan to cover 74% of their children's college costs
  - 46% say they plan to foot the full college bill, compared to 32% of Gen X and 27% of Boomers
  - 71% have started saving and 68% have a financial plan in place to help them reach college goals
  - 43% are investing in a tax-advantaged 529 college savings account
- Millennials are influenced by their own experience with student debt
  - 56% who graduated with student debt are still paying back their own loans
  - 87% of Millennials agree that their own student loan debt is motivating them to help their kids save more for college
- Advisors are helping families with college financial discussions and involving their children:
  - 35% of Millennials are working with advisors to help with college planning
  - The topics Millennials are seeking the most help with include: strategies for efficient withdrawals of college savings; tax benefits of 529 plans; the financial aid/grant process; understanding their children's anticipated salary prospects after graduation; and determining the share of costs they and their children should bear, and the debt they and their child may accrue while in college.

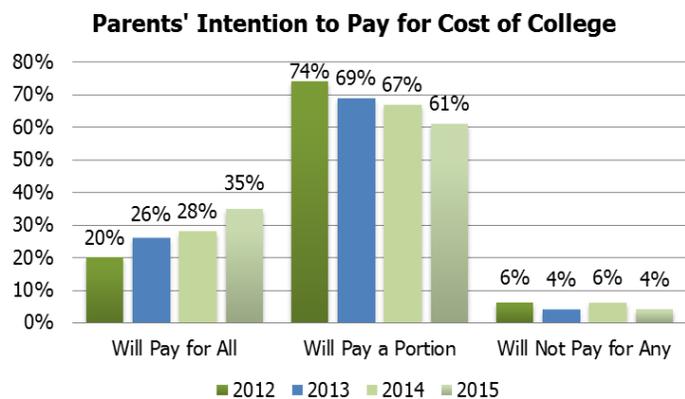


## 2015 COLLEGE SAVINGS INDICATOR: Parents are on track to meet 27% of their college savings goals

Fidelity's College Savings Indicator (CSI) is a national measure of parents' overall preparedness to pay for higher education. The Indicator represents the percentage of projected college costs that the typical American family is on track to cover, based on their current and expected savings, and their college savings goals.

For the first five years of this study (2007-2011), the CSI metric was calculated to measure how prepared the typical American family was to cover 100% of projected college costs. In 2012, the CSI metric was updated to account for the fact that not all parents plan to pay 100% of their children's tuition, fees, room and board. This year, parents' intention to pay for college costs broke down as follows:

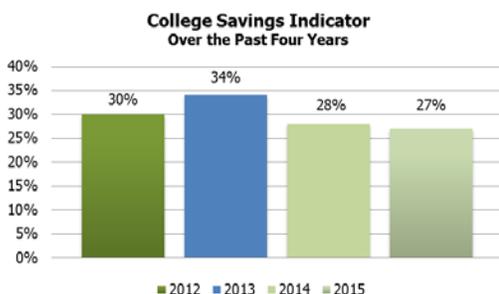
- **35% of parents surveyed plan to pay all costs**, a percentage which has continued to rise over the past four years
- **61% plan to pay a portion**
- **4% will not pay any of their children's college costs**



The 2015 CSI takes into account the portion of costs parents plan to pay and calculates how prepared parents are to achieve that funding goal.

**2015 CSI:  
Parents are on track to save 27% of their college funding goal**

- Results showed that, on average, parents plan to pay 66% of the total cost of college, up from 64% last year, 62% in 2013 and 57% in 2012. They will rely on contributions from their children, grants, scholarships, student loans, gifts from grandparents, and other sources to make up the difference.
- Based on the average funding goal of 66% for parents in 2015, this results in a CSI score of 27% – meaning that overall, the typical American family who plans to cover two-thirds of college costs (including tuition, fees, room and board) is on track to reach 27% of that funding goal by the time their child is ready to enter college.



- While the 2015 CSI score is down slightly from last year (28%), it should be noted that parents intend to fund a higher average of college costs than in past years, and a larger percentage (35%) of parents plan to pay the full cost of college than any other year of the study.
- The good news is that more parents than ever are saving, and showing positive savings practices, detailed in throughout this report.



## FAMILIES ARE MAKING COLLEGE SAVING A PRIORITY – Saving, Planning and Utilizing 529 College Savings Plans at an All-Time High

Parents report that saving for college is their No. 2 savings priority, behind saving for retirement. Top savings priorities reported:

Savings Priority	Named #1 Savings Priority	Named Among Top 3 Savings Priorities
1. Retirement	26%	64%
2. College	19%	57%
3. Emergency Fund	16%	54%
4. House / Mortgage	16%	44%
5. Pay off credit card debt	15%	38%
6. Future health care	4%	28%
7. Pay off own student loans	4%	15%

The percentage of families saving for college is at an all-time high, with 69% of respondents reporting they have started saving (up from 64% last year, and up from 58% when the study was first conducted in 2007).

- Parents report saving a median of \$2,000 last year for their children’s college education.
  - 70% of parents saved a total of \$1,000 or more in 2014
  - 31% of parents saved a total of \$5,000 or more in 2014
- 73% of the respondents say they are saving monthly, putting away a median amount of \$232 per month.
- On average, parents report that their child was 7.2 years old when they started to save for their college.
- The median amount parents saved for college to date (by age of child):

Age Group	Amount Saved in Total	Median Saved in 2014
0-5	\$22,700	\$1,500
6-13	\$31,000	\$2,000
14-18	\$40,100	\$3,000
<b>Total Population</b>	<b>\$30,900</b>	<b>\$2,000</b>



## PARENTS WITH A PLAN Are Taking More Active Steps and Show More Confidence When it Comes to Saving for College

Sixty-two percent of parents saving for college report they have a financial plan in place to help them reach their college savings goals, up slightly from 59% reported in 2014. Those with a plan in place tend to be more active in the college saving and planning process:

	Have a Plan	No Plan
Have started saving toward college	91%	40%
Amount saved towards college	\$33,100	\$24,000
Feel they are on target to meet college savings goal	48%	23%
Median amount saved monthly	\$250	\$100
Own a 529 college savings plan	56%	13%
Have started talking to their children about how the family will pay for college	67%	41%

### 529 COLLEGE SAVINGS PLAN USE CONTINUES TO RISE

Thirty-nine percent of parents overall report they have opened a 529 plan, up from 32% last year.

- 87% of 529 account owners have a financial plan in place to meet their college savings goals compared to only 45% of those who do not own a 529
- 529 plan owners have saved an average of \$34,900 for college, vs. an average of \$26,500 saved by families without a 529 plan
- 89% of parents say that they have either increased or kept their regular/monthly contributions to their 529 the same in the last 12 months
- While the percentage of parents who say they are very or somewhat familiar with 529 plans continues to rise (58%, compared to 55% last year), 22% still say they've never heard of 529s



## MILLENNIAL PARENTS, IN PARTICULAR, FOCUSED ON SAVINGS

### Committed to Lessening Student Loan Debt Burden for Their own Children

Millennial parents (born 1981-97) are particularly committed to saving for college and are getting started early:

- 71% have started saving for college
- 68% have a financial plan in place to help them reach their college goals

More than any other generation, Millennial parents are adopting strong college savings habits, such as utilizing a 529 plan and saving regularly.

#### Millennials



Born 1981 - 1997  
(Ages 34-18)

#### Gen X



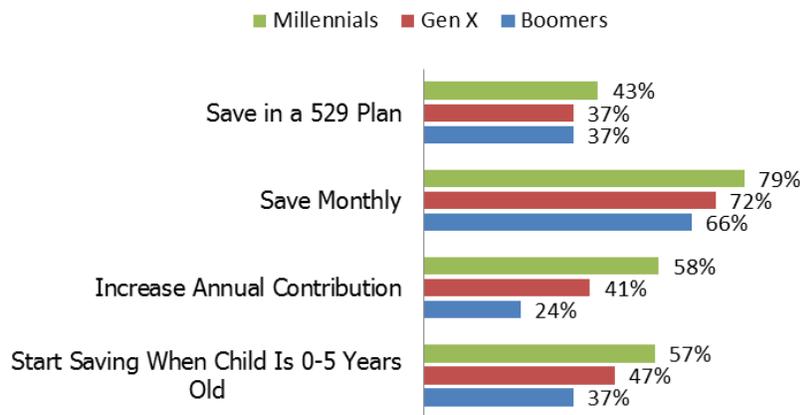
Born 1965 - 1980  
(Ages 50-34)

#### Boomers



Born 1946 - 1964  
(Ages 65-51)

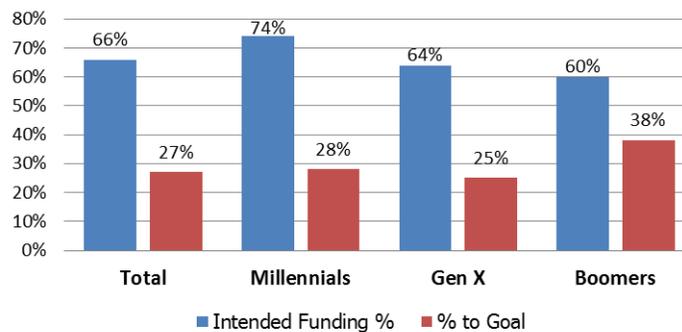
### Millennials Are More Likely To...



These positive savings practices are encouraging, given that this generation plans to cover more college costs more than their older counterparts:

- On average, Millennial parents plan to cover 74% of their children's total college costs
- 46% say they plan to foot the full college bill, compared to 32% of Gen X and 27% of Boomers
- While Millennials are off to a good start by adopting positive savings behaviors; as with all generations, there is still room for improvement; Millennial parents are currently on track to save 28% of their college funding goal (74% of total college costs) by the time their children are ready to head to campus

### Parents' Progress Toward Intended Funding by Generation



Millennials’ ambitious college savings goals are likely rooted in personal experience with student debt:

- 40% of Millennial parents graduated with student loan debt, averaging \$20,800 debt
  - 56% of those Millennial parents who graduated with student debt are still paying back their loans
  - 87% of Millennials who graduated with student loan debt agree that it is motivating them to help their kids save more for college

And many Millennial parents voice concerns as the cost of college continues to rise:

- 82% of Millennial families believe the cost of college is becoming cost prohibitive
- 64% of Millennial parents would not be comfortable with their child graduating with any debt
  - The average amount of debt Millennial parents consider acceptable for their children to carry post-graduation is \$12,200, compared to \$19,800 for Gen X and \$23,900 for Boomers
- 75% agree that student loan debt will hinder their child’s ability to be financially independent post-graduation

### **PARENTS IN THEIR EARLY 30S, THEN AND NOW—AN EVOLUTION IN SAVINGS**

Looking back to Fidelity’s first College Savings Indicator Study in 2007, research shows significant strides made in parents’ savings efforts. Specifically, parents age 30-34 (older Millennials today vs. parents of the same age in 2007) showcase this progress:

<b>Parents Age 30-34 in 2007 (Born 1973-77)</b>	<b>Parents Age 30-34 in 2015 (Born 1981-85)</b>
<b>58% had started saving for college</b>	<b>74% have started saving for college</b>
<b>25% used a dedicated college savings account</b>	<b>40% use a dedicated college savings account</b>
<b>Had saved a median of \$1,000 in 2006</b>	<b>Had saved a median of \$1,500 in 2014</b>
<b>Reported a median of \$3,800 saved overall</b>	<b>Reported a median of \$5,000 saved overall</b>
<b>16% planned to pay for all college costs</b>	<b>48% plan to pay for all college costs</b>
<b>15% worked with a financial professional</b>	<b>38% work with a financial professional</b>



## **TIME FOR A TUTOR: Guidance Needed to Better Educate Parents About College Issues**

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- Nearly half of parents of all ages report that they'd like additional education when it comes to how to best save for college, saying they either don't know or need more information about the following:
  - The best accounts to save for college: 49%
  - How to invest college savings: 52%
  - Where to go for advice about saving for college: 48%
  - How much to save monthly: 47%
- Most (70%) say they wish there were more specific recommendations / guidelines on how much they should be saving for college.
- Many parents continue to be plagued with misconceptions related to college savings. Two areas of confusion:
  - 53% of parents believe that saving too much will significantly impact their child's eligibility for financial aid
  - 57% of parents believe if their child receives financial aid, they do not have to pay that money back
  - 50% of parents believe that as long as they start saving for college by the time their child starts high school, they'll be OK



## **PARENTS SEEKING GUIDANCE AND WORKING WITH ADVISORS**

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### **2015 College Savings Indicator for Families Working with Advisors**

One-third (33%) of parents surveyed are turning to financial advisors to help them with their college savings decisions. This is a significant increase from 2007 when Fidelity started this study, when 21% of parents were turning to financial advisors for guidance.

Results showed that, on average, families working with advisors plan to cover 78% of the total cost of college. Parents working with advisor tend to be better prepared to pay for higher education than the average family:

- 85% of families saving for college that work with an advisor have a plan in place to reach their college funding goal, compared to only 50% of those who do not use a financial professional.

- While about half the total population are unclear on how best to save for college, those households using advisors are significantly more prepared, with most saying they have a good understanding of the following:
  - Best accounts for college savings: 72% vs. 41% for non-advisor households
  - How to invest their college savings: 70% vs. 39% for non-advisor households
  - Where to go for advice: 74% vs. 41% non-advisor households

## College Savings Behavior of Families Working with Advisors

A larger proportion of parents who work with advisors have started saving for college expenses (89%), well ahead of the 60% of families who do not work with advisors.

Sixty-five percent of families using advisors invest in a tax-advantaged 529 college savings account, vs. 26% of families that do not use advisors.

In 2015, those working with financial advisors are showing a stronger position and confidence toward their college savings compared to those who are not working with a financial professional:

	Have Advisor	No Advisor	All Parents
Have started saving toward college	89%	60%	69%
Amount saved toward college	\$39,400	\$24,800	\$30,900
Have a plan in place to reach their college savings goal	85%	50%	62%
Plan to use a dedicated college savings account to finance children's college education	48%	30%	36%
Own a 529 college savings plan	65%	26%	39%
Have had conversations with children about the total cost of college	75%	60%	65%

Families are looking to financial professionals for help on a wide range of strategies for paying for college, beyond those typically considered:

- Tax benefits of 529 plans (39%)
- Strategies for efficient withdrawals of college savings (39%)
- The financial aid / grant process (39%)
- Strategies for efficient college savings (36%)
- Children's anticipated salary prospects after graduation (35%)

## The Impact of Working with an Advisor for Millennial Parents

More than one-third (35%) of Millennial parents have established a relationship with an advisor in an effort to guide their college planning. Of these parents, more than three-quarters (78%) say working with an advisor has helped them get closer to their goal.

Similar to parents of all ages, Millennials who work with an advisor are closer to achieving their college savings goals. In fact:

	Have Advisor	No Advisor
<b>Amount saved toward college</b>	\$34,500	\$13,100
<b>Have started saving toward college</b>	90%	61%
<b>Have a plan in place to reach their college savings goal</b>	91%	55%
<b>Have started saving in a dedicated college savings account</b>	57%	29%

Millennial parents are committed to saving their children from student loan debt and are taking additional action:

- 79% of Millennials with children older than 15 have talked to their child about the cost of college, compared to 64% of Generation X and 65% of Boomer parents
- Among those using advisors, 55% of Millennials have asked their friends and family to contribute to their children's college savings in lieu of traditional birthday or holiday gifts; this compares to only 44% of Generation X parents and 24% of Boomers

## Role of the Advisor for Millennial Parents

Millennials are proactive about covering the cost of their children's college education, and advisors can help provide the tools and knowledge.

Among Millennials, there are some myths surrounding college savings and finance:

- 57% of Millennials believe that saving too much will impact their child's eligibility for financial aid, compared to 51% of Generation X and 53% of Boomers
- 66% of Millennials believe financial aid is funding for college that does not need to be paid back, compared to 55% of Generation X and 53% of Boomers
- 58% of Millennials believe that they will be OK as long as they start saving for college by the time their child starts high school, compared to 48% of Generation X and 46% of Boomers

Advisors can help debunk these myths. With Millennials in the initial stages of setting up a family, they have time to improve their knowledge on college savings, start saving and grow their investments.

Advisors can take advantage of Millennial parents' willingness to have conversations with their children about college costs by playing the crucial role of an intermediary in sometimes delicate family discussions. Advisors could help Millennials evaluate whether it is realistic to bear the burden of paying for their children's college and not to ask their children for financial contributions by covering a few example topics:

- Helping determine the share of college costs children should bear
- Setting expectations of the debt parents and children may accrue
- Child's planned major

## APPENDIX: Respondent Profile

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The profile of families surveyed is as follows:

- 80% of respondents are married couples
- Average household income is \$89,700
- Average of 2 children in household; 69% have at least two children
- Ages of children:
  - 35% have children under 6 years old
  - 33% 6-9
  - 32% 10-12
  - 49% 13-18
  - 13% 19-22
  - 9% 23+
- More than six-in-ten (61%) parents surveyed graduated from college and 85% completed at least some college coursework

## APPENDIX: Indicator Calculation

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The College Savings Indicator was calculated by Strategic Advisers, Inc. in collaboration with Fidelity Investments Research and Analysis.

As part of the study, Fidelity conducted a survey of parents with college-bound children of all ages. Parents provided data on their current and projected household asset levels including college savings, use of an investment advisor and general expectations and attitudes toward financing their children's college education. Using Fidelity's proprietary asset-liability modeling engine, the company was able to calculate future college savings levels per household against anticipated college costs. The results provided insight into the financial challenges parents face in saving for college. Data for the Indicator (number of children in household, time to matriculation, school type, current savings and expected future contributions) are collected by Boston Research Technologies, an independent research firm, through an online survey of 2,470 parents nationwide with children aged 18 and younger who are expected to attend college, who have household incomes of \$30,000 a year or more, and who are the financial decision makers in their household. College costs are sourced from the College Board's Trends in College Pricing 2014. Future assets per household are computed by Strategic Advisers, Inc. (a registered investment adviser and wholly owned subsidiary of FMR LLC). Within Fidelity's asset-liability model, Monte Carlo simulations are used to estimate future assets at a 75 percent confidence level. The results of the Fidelity College Savings Indicator may not be representative of all parents and students meeting the same criteria as those surveyed for this study.

Since 2007, Fidelity has calculated the College Savings Indicator to show how prepared the typical American family is to cover all 100% of projected college costs. (In 2012, this metric was updated to take into account the portion of total college costs families intend to pay, if not the full 100%.)

## **COLLEGE COSTS**

The growth time horizon until college expenses commence was determined using each child's age and the time span until they turn age 18. The child's actual grade was not taken into account.

The type of education institution and intended years of attendance, as indicated by the respondent, were factored into the Cost of Attendance estimates. If respondents were unsure of either, then median costs across education institutions and intended years of attendance served as proxies. The median cost was used when respondents indicated that their child would attend a vocational-technical school.

An inflation rate of 5.0% was used to determine college costs in the future.

## **COLLEGE SAVINGS**

Variables for current savings, expected future contributions and expected annual gifts were used to determine the future value of total savings.

Contributions growth was based on respondent-provided data and an assumed wage growth rate (1.5% merit increase over a general inflation of 2.5%) annually.

Savings and contributions are split into equal segments among the total number of pre-college aged children.

During the time period that a child is attending college the balance of that child's savings is assumed to be put into a cash account and continues to grow.

Growth of assets was computed using a stochastic 75% confidence level and the asset mix defining each respondent's estimate of the percentage of assets held in stocks or stock mutual funds.

## **READINESS INDICATOR**

To compute the Readiness Indicator per respondent, SAI determined each child's coverage for their anticipated expenses:

The Readiness Indicator for each child equals the total estimated assets accumulated for the child divided by the total expected cost of college for the child that the parent plans to cover.

The Indicator was then averaged among all children mentioned by the respondent and who meet the inclusion criteria based on their current age.

All households were capped at 100% readiness.

The median was then found for the cohort of all participating respondents.

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