

Surprise: Teenagers Feel Strong Obligation to Help Parents Meet Skyrocketing Cost of College Education

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BOSTON, August 18, 2004 - While few parents and teenagers may see eye-to-eye on issues related to money, when it comes to paying for college they have more in common than you may think. In fact, virtually all teenagers (95 percent) feel an obligation to shoulder some of the financial burden of their college education, with three-quarters (74 percent) thinking that their parents should only pay half or less, according to a national study released today by Fidelity Investments.

Marking the fourth annual College Savings Month in September, the Fidelity study reveals that the majority of teenagers who think their parents should be responsible for only half or some of the cost of their college education would "feel badly" if their parents paid for all of it. Although it's admirable that teenagers want to help their parents pick up the cost of their college education through student loans, many may not realize the future financial impact of doing so. In fact, in 2002, the average undergraduate debt reached \$17,100 or a monthly payment of \$1822. With rising tuition rates, student loan payments may put considerable stress on college graduates trying to live on entry level salaries.

"The good news is that parents and teens recognize the importance of saving for college, and many have already started to save," said Tracy Lemoine, senior vice president, Fidelity Investments Institutional Services Company, investment manager for the Fidelity Advisor 529 Plan. "However, our research shows there is a significant gap between when parents think they should save for college and when they actually start to save for college. Additionally, many parents are not maximizing their college savings through a tax-advantaged account."

The Fidelity study is designed to better understand parents' and teenagers' behavior, expectations, and concerns on the topic of paying for college. It is part of Fidelity's program to educate families and financial advisors about the importance of having a plan to help with college costs, as well as understand the potential benefits of 529 Plans.

Parental Intentions vs. Financial Reality

The study reveals that under ideal circumstances the vast majority of parents (93 percent) would help pay for their teenager's college education, with half saying they would be willing to pay for all or most. For those parents, it is important to them that their child be able to focus on his or her studies in college and that children not be burdened with debt upon graduation.

Despite the majority of parents' plans to make significant contributions to their child's college education, many wish they could do more. In fact, two-thirds do not plan to contribute as much toward the cost of their teen's college education as they would have under ideal circumstances. Not starting to save early enough was one of the reasons parents cite for the lack of funds. Yet, according to the study, there is a gap between when parents think they should start saving for their child's college education and when they actually do. On average, parents think they should start saving for college before the child is two years old - in reality they start saving when the child is almost six.

Additionally, scholarship expectations are high, with eight out of 10 (79 percent) parents saying they expect to rely on them when paying for college. Teenagers tend to be more realistic than parents, with six in 10 (62 percent) considering a scholarship as an option.

"While outside sources such as scholarships and financial aid can play a role in helping meet the skyrocketing cost of college, it is risky for parents to rely too heavily on their child receiving such funds,"

said Lemoine. "Whether they are just getting started, or they have been saving for years, we encourage families to sit down with a financial advisor to review their college savings goals and strategies, and understand all of the options that are available to them and their children."

Missed Savings Opportunity

While the majority of parents are saving for college (87 percent), only one-third (34 percent) of these parents are utilizing a tax-advantaged investment vehicle such as a 529 Plan. While that number is up significantly over the past few years, the most popular strategy used is simply to make regular deposits into any type of account specifically for college savings.

"While our study shows that the use of tax-advantaged investments, such as a 529 Plan, for college savings has increased since 1999, we believe, as do our advisor clients, that there are additional opportunities to further educate families on the potential benefits of these investment vehicles and help them select the right plan," said Lemoine. "We all know that time in the market is important. With college funds, you typically have a fixed amount of time. If we can help parents start saving for college earlier and use a tax-advantaged plan, like the 529 Plan, we believe they may improve their chances of building the funds they need to help pay for their child's college education."

Teens Are Aware and Concerned

Despite being only a few years away from college, the majority (64 percent) of teenagers report not knowing how much their college education will cost. However, 54 percent equated the cost of an average four-year college education to the cost of a luxury car or a year's worth of their parents' salary, demonstrating they may have a better sense of college costs than they think.

Even though teens feel an obligation to help pay for college and, in fact, the majority have started saving, two-thirds (67 percent) are "somewhat" or "very concerned" about not having enough money to pay for their college education. Of those teens who think their parents should pay for all or most of the cost of their education, almost half (46 percent) say they will not be able to go to college otherwise. In addition, some teens who are concerned about money say their college experience may be affected in the following three ways : 1) They can only go part-time because they have to work to help pay for it; 2) They can only apply to schools with tuition rates below a certain amount; and 3) They can't go to their top choice school.

Despite the concerns of many teens and parents about not having enough money to pay for college, a significant number of families have not discussed the subject. In fact, 42 percent of parents say they did not include the topic of who will pay for college in their college-planning discussions with their teen.

The Fidelity study was conducted by Opinion Research Corporation with 477 college-bound teens (aged 14-17 years old) and 376 parents of college-bound teens with household incomes of \$35,000 or more. Teenagers were surveyed from May 20 to May 30, 2004 and parents from May 27 to June 20, 2004. The maximum margin of error for both surveys is +/-5 percent at the 95 percent confidence level. A similar study was conducted in 1999 among a nationwide sample of 503 parents of college-bound teens.

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About Fidelity Investments

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