

The Impact of Stock Market Performance on How Families Save for College

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EXECUTIVE SUMMARY

FastWeb conducted a college savings survey on April 15-21, 2010 to explore the impact of stock market performance in 2008 and 2009 on how families save for college using 529 college savings plans. In 2008 the S&P 500 index decreased by 38.5% and continued decreasing by another 25.1% through March 9, 2009 when the stock market began improving through the end of 2009. While the S&P 500 grew 64.8% from March 9, 2009 through December 31, 2009, the index still ended down 24.0% relative to the start of 2008 and 28.8% relative to the market peak on October 9, 2007.¹ These dramatic stock market shifts had the potential to affect how families save for college using 529 plans, influencing their risk tolerance, contribution rates and when they take distributions to pay for college costs.

The survey results included the following key findings:

- More than half of the parents with 529 college savings plans reported a decrease in value in 2008, with two-thirds of them reporting a decrease in value of more than 10%. Nearly a quarter reported a decrease in value of more than 30%.
- One-fifth of the parents switched to a more conservative mix of investments and three-quarters left the asset allocation unchanged. Parents whose plans decreased by more than 30% were twice as likely to switch to a more conservative mix of investments as parents who experienced investment losses of less than 20%.
- One-third of parents stopped contributing to their 529 college savings plans and almost one-tenth decreased the contributions but did not stop them. About two-thirds of parents who lost more than 30% stopped contributing compared with less than two-fifths of parents who lost less than 30%.
- 10% of parents reporting a decrease in the value of their 529 college savings plans said that they have liquidated or will liquidate the plan by taking a nonqualified distribution.
- Almost two-fifths of parents reporting a decrease in the value said that they would delay taking a distribution from their 529 college savings plans in order to give the plan time to recover.
- When asked whether the law should be changed to allow 529 college savings plan distributions to be used to make payments on education loans as a qualified distribution, more than three-quarters of parents were in favor.

¹ The S&P 500 opened at 1,467.97 on 1/2/2008 and closed at 903.25 on 12/31/2008. The S&P 500 opened at 902.99 on 1/2/2009 and closed at 676.53 on 3/9/2009. The S&P 500 closed at 1,115.10 on 12/31/2009. The S&P 500 closed at 1,565.15 on 10/9/2007.

- Almost all parents who said that changing the law would be very beneficial to them and nearly three-quarters of parents who would find it somewhat beneficial were in favor of changing the law. Half of parents who would not find it beneficial were nevertheless in favor of changing the law.

Generally, more than half of parents became more conservative in their investment decisions in some manner in response to the market downturns. This included changes in asset allocations, the amount of monthly contributions or liquidating their investments. Three-fifths of parents who experienced investment losses became more conservative in their investment decisions. Parents who had greater losses were more likely to become more conservative.

Recommendations:

- Congress should consider amending section 529(e)(3) of the Internal Revenue Code of 1986 to include payments on qualified education loans within the definition of qualified higher education expenses. The survey results demonstrate overwhelming nationwide support for such a change.

METHODOLOGY

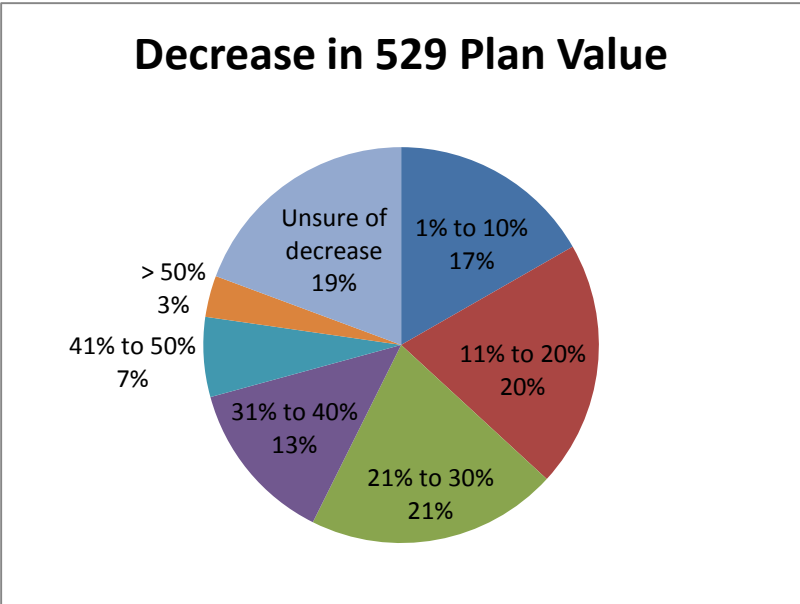
FastWeb conducted a college savings survey from April 15, 2010 to April 21, 2010 to help identify the impact of stock market performance on how families save for college using 529 college savings plans. The survey was mentioned in the regular FastWeb parent email newsletter and in solo email solicitations sent to 391,325 parents of currently enrolled high school and college students. The survey was not incentivized. The survey was designed and implemented with help from the Monster Insights group. A copy of the survey solicitation and survey questions appear in the appendix.

There were a total of 4,996 responses by the cutoff date, yielding a confidence interval of +/- 1.39% at the 95% confidence level for the US college student population as a whole. Of the responses, 1,014 (20.3%) had a 529 college savings plan. The rest of the analysis was restricted to these responses, yielding a confidence interval of +/- 3.08% at the 95% confidence level for the US population of 4.7 million parents with 529 college savings plans.

CHANGE IN INVESTMENT VALUE

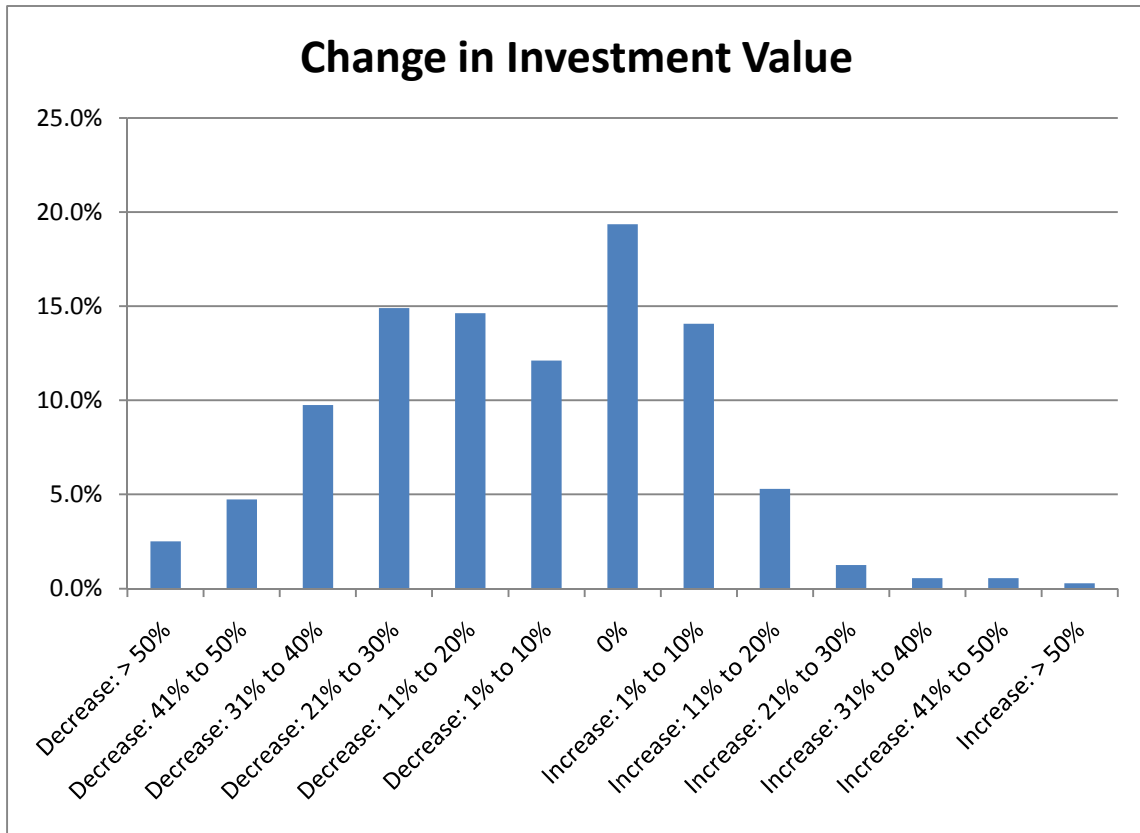
More than half of the parents reported that their 529 college savings plans had decreased in value from the beginning of 2008. 21% of the parents reported that their 529 plan increased in value from the beginning of 2008, 14% that the plan stayed the same, 51% that the plan decreased in value and 14% were unsure of the plan's performance. Of those who had invested prior to 2008, 52% reported that the plan had decreased in value, compared with 24% of those who started investing during 2008. There were no statistically significant differences in investment performance according to whether the parents had children in grade school, high school, college or graduate school.

Of the parents who reported a decrease in value, two-thirds reported a decrease in value of more than 10% and almost a quarter reported a decrease in value of more than 30%. 17% reported a decrease of 1% to 10%, 20% reported a decrease of 11% to 20%, 21% reported a decrease of 21% to 30%, 13% reported a decrease of 31% to 40%, 7% reported a decrease of 41% to 50%, 3% reported a decrease of more than 50%, and 19% were unsure of the amount of the decrease.



Of the parents who reported an increase in value, half reported an increase of less than 10% and two-thirds reported an increase of less than 30%. 46% reported an increase of 1% to 10%, 17% reported an increase of 11% to 20%, 4% reported an increase of 21% to 30%, 2% reported an increase of 31% to 40%, 2% reported an increase of 41% to 50%, 1% reported an increase of more than 50% and 28% were unsure of the amount of the increase.

The following chart illustrates the distribution of parents reporting a change in investment value.

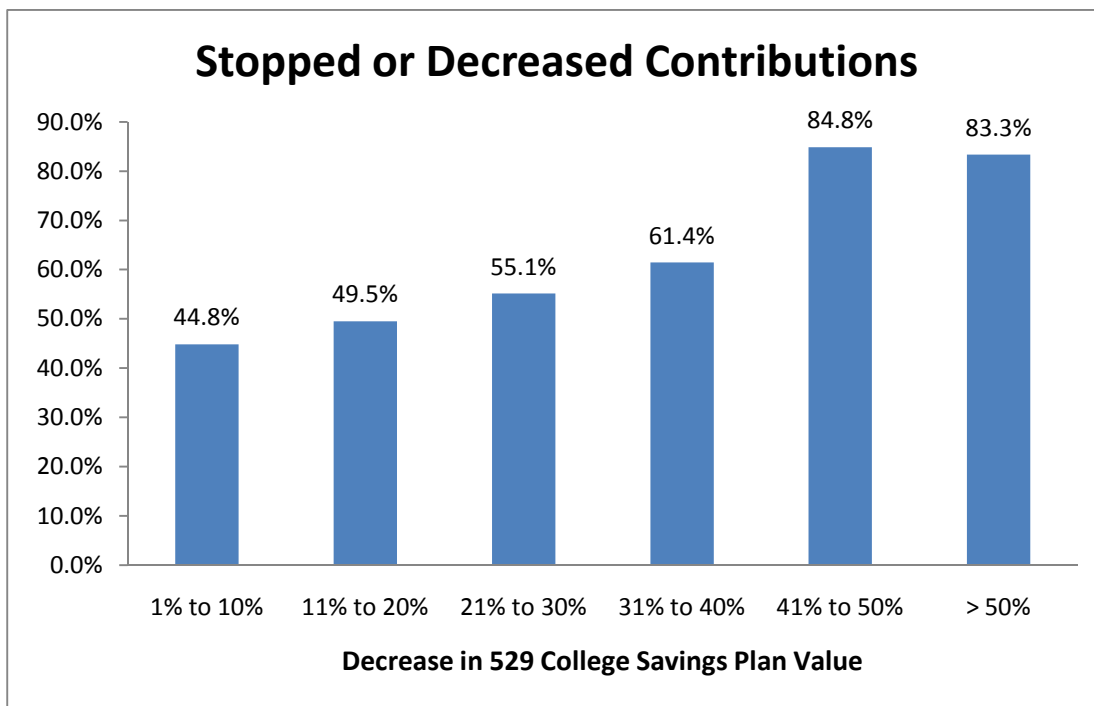


RESPONSES TO CHANGES IN INVESTMENT VALUE

In response to their 529 college savings plan's performance, 21% of parents switched to a more conservative mix of investments, 76% left the asset allocation unchanged and 4% switched to a more aggressive mix of investments. Parents who had greater losses were more likely to switch to a more conservative mix of investments. 20.2% of parents whose investments had lost 1% to 20% switched to a more conservative mix of investments, compared with 29.1% of parents whose investments had lost 21% to 30% and 39.8% of parents who investments lost more than 30%.

Of the parents reporting a decrease in investment value, 10% said that they have liquidated or will liquidate their 529 college savings plan by taking a nonqualified distribution because of the plan's decrease in value. 81% said that they would not and 9% were unsure.

One third (33%) of parents had stopped contributing to their 529 college savings plans, 9% decreased the contributions but did not stop them, 53% did not change the amount of the contributions and 6% increased the amount of their contributions. Parents who had greater losses were more likely to stop contributing to their 529 college savings plans, with 63.6% of parents who lost more than 30% stopping compared with 38.8% of parents who lost 1% to 30%. The following chart shows how the percentage of parents stopping or decreasing their contributions increased with greater investment losses.



Of the parents reporting a decrease in investment value, 37% said that they would delay taking a distribution from their 529 college savings plan in order to give it time to recover. 46% said that they would not delay taking a distribution and 17% were unsure.

USING 529 PLAN DISTRIBUTIONS TO MAKE PAYMENTS ON EDUCATION LOANS

Many families would like to be able to delay taking a distribution from their 529 college savings plans to give them time to recover from their losses. They would pay for college using student loans instead of 529 college savings plan distributions. However, current law does not include qualified education loans within the definition of a qualified higher education expense. If a family were to take a distribution to make payments on education loans it would be considered a nonqualified distribution and the earnings would be subject to income taxes and a 10% tax penalty.

When asked whether the law should be changed to permit 529 college savings plan distributions to be used to make payments on education loans, 76% said yes, 9% said no and 16% were unsure.

Due to low response rates in certain states, disaggregating the data by state yielded statistically significant results for only nine states. These states are reported in the following table.

State	% Yes
New York	83%
California	74%
New Jersey	83%
Pennsylvania	80%
Illinois	80%
Michigan	83%
Massachusetts	91%
Ohio	71%
Texas	77%

There were no statistically significant differences according to investment performance, except for parents who were unsure of their investment performance. 76% of parents whose investments increased, 77% of parents whose investments stayed the same and 77% of parents whose investments decreased felt that the law should be changed, compared with 67% of parents who were unsure of their investment performance.

More than four-fifths (82%) of parents who said that they would delay taking a distribution from their 529 college savings plans are in favor of changing the law to allow 529 plan distributions to be used for making student loan payments, compared with 74% of parents who said that they would not delay taking a distribution. 77% of parents whose 529 plans lost 1% to 30% were in favor of changing the law, compared with 81% of parents whose 529 plans lost more than 30%.

39% of parents felt that changing the law would be very beneficial to them, 37% said that it would be somewhat beneficial and 24% said that it would not be beneficial. Self-interest plays a role in support for changing the law, with 97% of parents who would find it very beneficial and 73% of parents who would find it somewhat beneficial in favor of changing the law, but even 48% of parents who would not find it beneficial were nevertheless in favor of changing the law. Only a quarter of parents who would not find it beneficial were opposed to changing the law, with the rest not sure.

If the law were changed, 30% of parents said that they would use a 529 plan distribution to make payments on their children's education loans. 28% said no and 43% said maybe.

DEMOGRAPHIC DISTRIBUTION

Of the survey respondents who had a 529 college savings plan, 94% had started investing in a 529 college savings plan before 2008, 3% during 2008 and 3% after 2008.

21% of the parents had just one child, 50% had two, 16% had three, 5% had four and 8% had five or more children. The average number of children was 2.3.

27% of the parents had at least one child in grade school, 71% had at least one child in high school, 59% had at least one child in college and 5% had at least one child in graduate school. 13% of the children were in grade school, 39% in high school, 31% in college and 3% in graduate school.

APPENDIX: SURVEY INVITATION

Are you having difficulty viewing our HTML email? [View this email in a browser window](#)



Dear Fastweb Parent,

You are invited to participate in a survey of parents to better understand your experience in saving for college during these challenging economic times.

To participate, please take the survey now.

[Take the Survey Now >](#)

The survey won't take more than 5 minutes. All survey responses are confidential and for research purposes only. Results will be reported in the aggregate.



Thank you in advance for participating in this survey.

Best regards,
Fastweb

Responses will be kept confidential and will be reported in aggregation with all other responses. No one will be able to trace your responses to you personally

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APPENDIX: SURVEY QUESTIONS

This survey is designed to evaluate the ways in which the stock market performance in 2008 and 2009 has affected how families save for college.

This survey is for market research purposes only. If you agree to participate, your participation will involve completing a survey which should take no more than 5 minutes. You may choose not to answer some of the questions.

You can view a complete copy of the Monster Privacy Statement online, <http://about.monster.com/privacy/>.

By participating in the survey, you are giving permission for Monster to use your responses for market research purposes.

1. When did you start your investment in a 529 college savings plan?

- Prior to 2008
- During 2008
- After 2008
- I do not have a 529 college savings plan

2. How did your 529 college savings plan(s) value perform from the beginning of 2008 through year end?

- Increased in value → Continue with 2d
- Stayed the same → Continue with 3
- Decreased in value → Continue with 2a, 2b and 2c
- Unsure of its performance → Continue with 3

2a. How much did your 529 college savings plan(s) decrease in value?

- 1% to 10%
- 11% to 20%
- 21% to 30%
- 31% to 40%
- 41% to 50%
- More than 50%
- Unsure of decrease

2b. Will you delay taking a distribution from your college savings plan to give it time to recover?

- Yes
- No
- Unsure

2c. Have you liquidated or will you liquidate your 529 college savings plan by taking a nonqualified distribution because of the plan's decrease in value?

- Yes
- No
- Unsure

2d. How much did your 529 college savings plan(s) increase in value?

- 1% to 10%
- 11% to 20%
- 21% to 30%
- 31% to 40%
- 41% to 50%
- More than 50%
- Unsure of increase

3. Have you changed your asset/investment allocation in response to the performance of your 529 college savings plan? (If you changed your asset allocation more than once, please answer about the first change.)

- Switched to a more conservative mix of investments
- Left asset allocation unchanged
- Switched to a more aggressive mix of investments

4. How has the performance of your 529 college savings plan affected how much you contribute to the plan?

- Stopped contributing to the 529 college savings plan
- Decreased contributions
- Did not change amount of contributions
- Increased contributions

5. Current law prohibits 529 college plan distributions to be used to make payments on education loans. Do you feel this law should be changed to allow such distributions?

- Yes
- No
- Not sure

6. Do you think it would be beneficial for you to change the law that prohibits using 529 college plan distributions to make payments education loans?

- Very Beneficial
- Somewhat Beneficial
- Not Beneficial

7. If the law that prohibits using 529 college plan distributions to make payments to educational loans were changed to allow payments, would you take a distribution to make a payment on your or your children's education loans?

- Yes
- No
- Maybe

8. Which state do you reside in?

states: _____

9. What grades are your children in?

- | | | |
|---------|-----------------------|---------------------------|
| Child 1 | <input type="radio"/> | Grade School (K-8th) |
| Child 2 | <input type="radio"/> | High School (9th - 12th) |
| Child 3 | <input type="radio"/> | College |
| Child 4 | <input type="radio"/> | Graduate School |
| Child 5 | <input type="radio"/> | N/A |