



Saving for College in a Volatile Market

T. Rowe Price financial planners provide perspective for investors in 529 savings plans.

April 2020

KEY INSIGHTS

- Understandably, investors in 529 savings accounts are anxious during times of extreme market volatility.
- Making drastic shifts in your investment strategy could be detrimental in the long run.
- Enrollment-based portfolios are managed to become more conservative over time.

Volatile financial markets can be stressful, and they can feel especially unsettling to parents who are seeing the balances in their 529 college savings plan accounts decline. We've asked T. Rowe Price Certified Financial Planners Judith Ward and Roger Young to discuss their perspectives on college savings—not only as planners, but also as parents.

Most 529 savings plans are broadly diversified, and the typical enrollment-based portfolio is automatically managed to become more conservative as a child approaches college age. But these features have not spared the portfolios from the impact of the current market downturn. With most major asset classes—except U.S. Treasuries—being battered, even more conservative, bond-heavy portfolios have been affected.

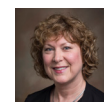
The temptation in extreme circumstances is to change your strategy in the belief that doing so will secure the financing of

your child's education. Ward and Young understand that impulse, especially Young, who has a child in college and one rapidly approaching college age. But he also understands the risks. "While this market may be driving you emotionally to pull everything out or make dramatic changes to your strategy, it's better to stick to your plan," says Young.

Furthermore, says Young, "For most people with kids not yet in college, typical recovery time for an aged-based portfolio is generally within your time horizon through college graduation."

The Risks of Dropping Out

In this troubling market environment, you may feel pressure to take all of your assets out of your 529 account, but pulling out of a 529 plan altogether can be a particularly damaging move. Investors in a 529 plan can get significant tax benefits that they could lose altogether. And because of those potential benefits, the Internal



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Revenue Service has rules about taking a distribution from a 529 plan. In most cases, if you withdraw money from the account for anything except education expenses, you must pay a 10% penalty on any earnings, along with any applicable income taxes.

In many 529 plans, it’s also possible to move assets to a portfolio dominated by cash or very short-term bonds. This option may seem appealing in the midst of market turmoil, but it also has risks for parents who still have many years until college expenses come due. Pulling out of equity markets when they are at such a low point effectively locks in your losses while preventing you from benefiting from any future upswings in the market that can help you recover previous losses. As Ward explains, this is especially true in the early days of a market recovery.

“In environments like this,” she explains, “we typically can anticipate significant market gains on the heels of the downturn, but it is almost impossible to predict when that will happen. Missing the upturn can seriously limit your ability to recover.”

History Class

Market upswings are as unpredictable as declines, and history shows that a significant amount of the long-term return available from investing in stocks comes immediately after a significant decline. The graph on the next page shows that after market corrections (defined as a drop of at least 10%), the stock market typically recovered in three to six months. For the two bear markets (defined as a decline of at least 20%), stocks were back to their prior levels within four to five years. Trying to time the market can result in two types of losses. First, converting stocks to cash after they have lost value can lock in those losses. Second, you could miss out on gains when the market rallies if you wait too long to get back in.

Though not all recoveries have been the same, the broad pattern has been clear: Investors who maintain their exposure to stocks during a market downturn tend to get better results once the market recovers.

Dealing With Near-Term Tuition Bills

The circumstances may be a bit different if your child will be attending school in the next couple of years. Even though some portfolios are designed to become more conservative as time passes, you will still have some equity exposure along with holdings in bonds. What’s the right approach if the tuition bill is coming soon?

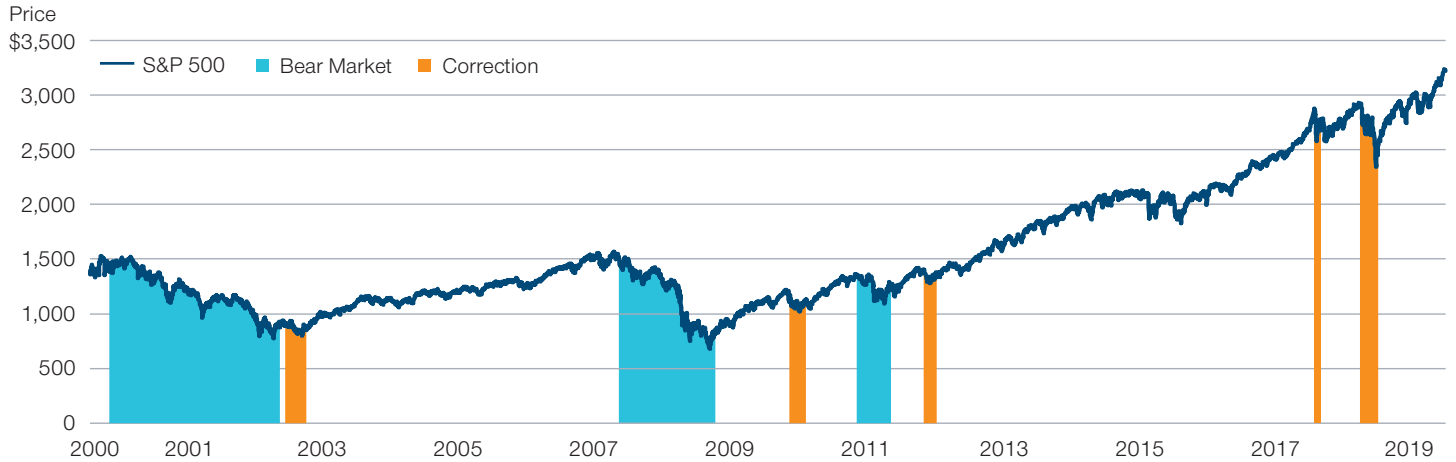
One option, says Ward, is to direct new contributions to the most conservative portfolio so that you have choices when it is time to pay tuition.

Another option is to shift money needed for imminent college bills to a more conservative portfolio within the 529 lineup—one dominated by cash or short-term bonds. Of course, most enrollment-based portfolios are designed to shift asset allocations to more conservative investments as the child nears college. Keep in mind, the rules of 529 plans only allow two investment changes for a particular beneficiary during a calendar year.

Stay on Track

While the cause of the current economic and market backdrop is unique, there have been a few historical precedents. A good way to get your college funding back on track is to prepare properly for the market’s recovery. It’s worth remembering why your enrollment-based portfolio has stock exposure in the first place—because over the long term, stocks historically have outperformed every other asset class and given investors the best opportunity to grow their assets faster than tuition inflation.

(Fig. 1) Bear Markets and Corrections January 2000–December 2019



Event	Date	Duration	% Drop	Recovery	% cumulative gain after trough		
					1 Year	3 Years	5 Years
Tech Bubble Crash	4/7/00–10/9/02	2.5 years	-48.77	5 years	33.73%	52.86%	101.50%
Pre-Iraq War	11/27/02–3/11/03	3.5 months	-14.71	2.5 months	38.22	60.37	64.93
Global Financial Crisis	10/9/07–3/5/09	1.5 years	-56.39	4 years	66.83	99.89	174.53
Greek Debt Crisis/Flash Crash	4/15/10–7/2/10	2.5 months	-15.61	4 months	30.83	57.84	103.09
Debt Ceiling Debate/S&P Downgrade	4/29/11–10/3/11	5 months	-19.39	3 months	32.00	79.03	96.61
Post QE/China Growth Slowdown	8/10/15–2/11/16	6 months	-13.07	4 months	27.29	48.15	N/A
Jan/Feb 2018 Correction	1/26/18–2/8/18	0.5 months	-10.16	6.5 months	4.92	N/A	N/A
Q4 2018 Sell-Off	9/20/18–12/24/18	2 months	-19.78	4 months	37.10	N/A	N/A

Drop is based on the percentage drop from the highest market index value just prior to the correction to the lowest market index value. Recovery is defined as the length of time for the market to return to the previous highest market index value, rounded to the nearest number of months.

This chart is for illustrative purposes only and does not predict or project the performance of any specific security. Investors cannot invest directly in an index. All investments involve risk, including possible loss of principal. **Past performance cannot guarantee future results.**

Sources: T. Rowe Price; S&P.

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