

6 Higher Education Insights in a COVID-19 World and Beyond

Students, families, and higher education institutions navigate a new course of study together



The COVID-19 pandemic has created many challenges for individuals, families, and organizations. From financial distress to business closures to health concerns, virtually every aspect of society as we know it has been altered. And our higher education system is certainly not immune. Students, parents, and the schools themselves are exploring new ways of adapting to this sea of change. Our experts share six higher education planning, investing, funding, and preservation strategies that we hope will be insightful to you and the clients you serve.



1

Asking Your School the Right Questions

Jerry Inglet, EdD
Family Legacy Advisor, Emerald Advisory Services

With so many variables at play, it often takes an education just to plan for higher education, especially in unprecedented times like today.

The world's developments in recent months have charged college students and their parents with evaluating their educational path with a slightly different lens and level of precaution.

Many families in the life cycle of college, even in non-pandemic moments, have consistently placed an emphasis on evaluating the net cost of attending college against the return on investment connected to the credentials pursued, the personal growth achieved, the prospect of employment, and the overall social experience realized by the student. Over and over, families across the world have been asking the question, is it worth it and is the college a fit?

But now, additional questions have gained an elevated standing of priority in this space. More specifically, parents and students want to know:

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Asking the right questions can go a long way in helping families create an attainable higher education plan during a time of much anxiety.

- How will colleges evaluate any significant changes to the income and assets of the family?
- When will the college return to on-campus education, and will the fall semester get delayed?
- How does the college review the transfer of credits if a student decides to stay home and enroll online at a local community college for a semester?
- What is the refund or credit policy of the school during this health pandemic?
- Will the school convert to a *standardized test optional* for admission if SAT and ACT test dates are cancelled?
- Are deposits delayed for incoming freshman?

Asking the prospective or current college these and other important questions can go a long way in easing anxiety and helping families create an active and attainable higher education plan during a time of much uncertainty.



2

Timing is Everything in College Savings Planning

Eric Taylor, CFA

National Investment Advisory Lead, Investment Management

An investor's time horizon is important in any investment strategy, and particularly when saving for a child's education.

Now, more than ever, with the current state of the economy and market volatility, it's important for investors to remember that the longer they are invested, the better off they will be. While there are several factors to consider in college savings planning, starting a college investment program early is a simple, yet very effective, strategy. In addition, the more time an investor has, the more comfort he/she can have with riskier investments like stocks. This concept, time horizon, is important in any investment strategy and especially when thinking about saving for a child's education.

Many college savings investors utilize a glide path approach. They allocate a much higher percentage of the investments to riskier assets when a child is very young and has a long time before college. Even if there is a downturn in the stock markets, there is sufficient time for the account to gain those losses back. The glide path allows the investor to slowly, systematically move the account to investments with less market risk such as bonds over time.

While gap years have become more common in today's society, there is still less flexibility in picking a start date for college than there is a retirement date. This makes understanding the impact of time horizon especially important in college savings planning.

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Early Education is Key When Selecting a Savings Vehicle

Marguerite Weese
National Director, Family Legacy Strategies

Understanding the pros and cons of various savings options can be a good starting point despite today's financial challenges.

Saving and investing during this pandemic is particularly challenging, and many are trading long-term goals for short-term security. However, like any financial goal, planning in advance for higher education expenses is the key to achieving the desired outcome. Many parents and grandparents begin thinking about college planning at the time of the child's birth. Understanding the pros and cons of various savings options is a good starting point.

Two of the more popular college saving options for families are 529 plans and trusts. Since each vehicle has its own advantages, the decision will ultimately depend on the family's specific circumstances and determination of which characteristics are most important.

Advantages of 529 Plans	Advantages of Trusts
Grow tax free if used for qualified educational expenses	Terms of the trust and discretion by the trustee may allow for a broader definition of educational expenses
Can be used for qualified educational expenses, which now include apprenticeships, and up to \$10,000 can be used for grades K-12, as well as to repay the beneficiary's student loan	In addition to educational expenses, trust assets may be distributed for other reasons including health, maintenance, and support
Contributions may be tax deductible at the state level	May provide asset protection
Ability to change beneficiary of the plan to another eligible family member	Allow for a wider array of investment options

Contributions to both a 529 plan and a trust may qualify for the annual gift tax exclusion, which is currently \$15,000 per recipient. Tuition payments made directly to an educational institution are outside of these gifting rules, which could allow for a grandparent to help both now and in the future. Depending on the family's financial circumstances, the tax benefits of the plan must be weighed against more sophisticated planning and gifting strategies associated with a trust as these vehicles are not mutually exclusive.



4

Disruptive Times Call for Creative Financing

Ann Silverman
President, Private Banking

Accessing liquidity through securities-based lending can be a viable education funding solution when cash is not readily available.

Plans for education funding can sometimes be disrupted. Whether it's timing issues of bonuses or distributions, or market volatility affecting investment portfolios, a tuition bill may be due at a time that is less than ideal. Of course, the future is difficult to predict; how should parents prepare for unexpected possibilities?

A way to gain control and solve for the funding gap is to have a strategic balance sheet review and pull together a plan that creates quick access to liquidity while maximizing financial planning goals and minimizing the tax impact. The focus is how to supplement personal cash flow without selling personal investments to meet educational expenses

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Having quick access to liquidity without disrupting investments and creating a steep tax bill is important during unpredictable times.

(in excess of an already established Coverdell or 529 Plan). In this situation, accessing liquidity through securities-based lending can be a viable education funding solution.

A securities-based line of credit uses an individual's eligible investment portfolio holdings as collateral, providing access to liquidity without having to sell the investments. This can help avoid creating a steep tax obligation in the case of selling a low-basis holding. In addition, it can avoid selling out in a declining market and locking in losses, eroding portfolio value. This type of line of credit can be used for a host of needs in addition to funding education, ranging from asset purchases to wealth planning to meeting unexpected large expenses.



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Keeping Community Colleges Alive

Walter J. Dillingham Jr., CFA
Managing Director, Endowments & Foundations

Although very difficult in today's climate, philanthropic dollars and endowment funds will be even more important in the future for community colleges to succeed.

Community colleges continue to be an important part of our educational system in the United States, yet the community college arena is being impacted by demographic and economic forces, particularly in today's volatile market environment, and with reduced funding levels from state and local governments, and individual donors.

In addition, the financial distress that the COVID-19 pandemic is creating for many families may impede them from being able to afford the expense of higher education, making endowments that support student aid even more important going forward.

In order for community colleges to succeed, they must continue to look at private philanthropy just as four-year traditional colleges have done for years. Although this is very difficult in today's climate, philanthropic dollars will be even more important in the future, and separate foundations will be a key strategy for enhancing and managing a fundraising plan. Strong community college foundations will be those that can not only maximize their fundraising efforts while effectively managing their endowment funds over the long term, but that can develop a strategic endowment plan to help them plan for the future.

As with many types of public charities, successful foundations grow themselves most effectively by focusing on both their fundraising and investing strategies, hand-in-hand. This is important because over the next decade, Wilmington Trust anticipates future portfolio returns to be lower than historical returns, which will limit the growth of the investments from an internal performance perspective. It will be important to look externally to grow the endowment through new gifts. Thus, the fundraising side of the program will significantly impact endowments/foundations as a key way to grow.

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This is certainly the time for board and committee members to be asking management thoughtful questions as they move toward important decisions.

Board Member Prudence is More Important than Ever

Janet Farrell

Group Vice President, Education & Not-for-Profit Banking

Board members for colleges or universities have the fiduciary duties of care, loyalty, and prudence, and are required to bring their best judgment and skills to the benefit of the educational institution when making decisions. What implications does this have for board members and their advisors in a time as unprecedented as now?

For the current semester, virtually all colleges and universities have moved to an online format. This enables mission fulfillment, but may bring added expenses for technology upgrades or assistance to faculty to adopt this new way of teaching. A board member's duty must balance the desire to provide education and services now with the utmost desire to preserve the health and well-being of the students, faculty, and staff. It also extends to ensuring that the institution emerges from this in as strong a position as possible.

In terms of budgeting, this year the school's finance committee and board should consider a range of scenarios. What are the lessons that the college has learned from this year's abrupt conversion? How have they and how will they continue to adjust various categories of costs? How can they increase flexibility? How much cushion does the investment portfolio provide? Also, a key role for board members is philanthropic, both with their own donations and supporting or encouraging others to donate. This may be a prime area for board members to offer to reach out. Finally, while the institution undoubtedly has an investment policy and formula for allowable draws, these are the times that highlight any weaknesses in those policies.

These are challenging times indeed, but they are exactly the times that require changes. Coupled with the resourcefulness of our nation's colleges and universities, these challenging times can bring surprising insights and results.

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