

How COVID-19 May Be Impacting Your Education Plan

The Coronavirus was a surprise to us all, and we are now just starting to realize the financial impact it may have on our short-term and long-term education planning goals. With so many changes, this article may help narrow down the most important changes to be aware of.

Education Planning

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1. COLLEGE CAMPUSES CLOSING THEIR DOORS

Impact

Students living in dorm rooms and college housing were told to leave their campuses and move back home. Some colleges are refunding their students for room and board. Earlier in the year, many students withdrew from their 529 College Savings Plans to pay for their room and board. Now students and parents are wondering how to avoid getting taxed and penalized on the withdrawal.

Options

- The account owner of the 529 account can “apply” the room and board reimbursement funds towards other housing costs, including paying rent off campus or at home, as long as the beneficiary is still attending school, even virtually, and is considered at least a ½ time student.
- The account owner can “apply” the money towards other qualified education costs the student may incur the remainder of the calendar year.
- The account owner can recontribute the refunded amount back into their 529, but must do so within 60 days of receiving the refund to avoid taxes and penalties on the withdrawal. Check with the 529 plan for processing.

2. THE CARES ACT – PAYMENT PAUSE AND INTEREST WAIVER ON STUDENT LOANS

Impact

Due to the CARES Act, federal student loan borrowers will automatically see payments suspended without incurring any new interest on them for nine months retroactive to March 13th. This policy only applies to federal loans and not private student loans. This option, called forbearance, was set to expire September 30th, however President Trump signed an [executive order](#) on August 8, 2020, extending the payment pause and interest waiver through **December 31, 2020**. Forbearance is not forgiveness, meaning the borrower’s payments will be suspended and the loan balance you had on March 13th will be your loan balance on December 31st, assuming no other payments are made.

Options

- **Find out which student loans are eligible.** Students may have several student loans and may not be sure which ones are eligible. All Federal loans are through the U.S. Department of Education. Eligible loans include [Federal Direct Stafford Loan](#), [Federal Direct Grad PLUS Loan](#), [Federal Direct Parent Plus Loan](#), [Federal Direct Consolidation Loan](#), some [Perkins loans](#) and some under the [Federal Family Education Loan Program](#). Please visit studentaid.gov and log in with your FSA ID or call 1-800-4-FED-AID.

- **Continue to make payments.** Borrowers might want to continue to make payments if they want to pay down their debt faster. If this is an option you want to pursue, you should contact your loan servicer to restart payments. Remember you won't be paying any new interest retroactive to March 13th for 9 months.

3. YOUR 529 COLLEGE SAVINGS STRATEGY

Impact

With an unknown outlook on the market, you may be hesitant to contribute to your 529 or you may be wondering if you should take another look at your current investments within your plan.

Options

- **Continue to contribute.** 529s grow tax deferred and come out tax free if used for qualified education expenses and the beneficiary never owns the assets. Additionally, some states offer a state tax benefit. If you have an automatic contribution plan you are already benefiting from [dollar-cost averaging](#)*. With dollar-cost averaging an investor making regular automatic contributions will purchase fewer shares per dollar invested when the market rises, and when the markets are down the investor will purchase more shares per dollar. **Talk to your Baird Financial Advisor** to discuss your time horizon and education planning goals.
- **Review your investment strategy and performance.** 529 college savings plans offer many investment options to select from including age-based options, static asset allocations, and individual funds. [Section 529 of the IRC allows an owner to make two investment changes per calendar year tax and penalty free.](#) If you are not satisfied with your current 529 plan, account owners are able to [roll from one 529 plan to another 529 plan once every 12th months for the same beneficiary tax and penalty free.](#) **Talk to your Baird Financial Advisor.**

4. FEDERAL TAX FILING FOR 2019 IS NOW 7/15/2020

Impact

The federal income tax-filing deadline has been postponed to July 15, 2020 due to the Coronavirus Pandemic. This doesn't apply to state income tax returns. Each state may or may not have followed the federal deadline. Additionally, for those states that have a 529 state tax benefit, each state's 529 contribution benefit and deadline vary and don't necessarily follow the federal income tax filing deadline.

Options

- Contact your 529 plan. Contribution deadlines for 529s can be found on the 529 plan's website. Your state's tax-filing deadline can commonly be found in your State's Department of Revenue website.
- Check with your Baird Financial Advisor or consult with your tax advisor.

*Dollar cost averaging does not ensure a profit and does not protect against a loss in declining markets. You should consider your financial ability to continue your purchases through periods of low-price levels.

Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing.

Depending on your state of residence, there may be an in-state plan that provides tax and other benefits such as financial aid, scholarships and creditor protection that are not available through an out-of-state plan. Before investing in any state's 529 plan, you should consult your tax advisor.