PART 3 IN SERIES

COVID & College:
Preparing for the financial aid crunch

Investing for college during and after COVID may be even more important than it was before

A college plan is essential at all times, but especially in these days of lingering COVID uncertainties and shrinking financial aid expectations. With free aid likely harder to come by and student debt already at unmanageable levels, many families may need to invest even more to pay their share of college costs.

Michael Conrath, CFP®, CRPC®
Head of Education Savings,
J.P. Morgan Asset Management

Financial aid: An overlooked casualty of the pandemic

Like so much in life, college has felt the full brunt of COVID. The virus quickly shut down campuses last spring, resulting in billions in lost revenue. Those losses mounted as enrollment declined for the fall 2020 semester, particularly among incoming freshmen uninterested in remote learning and international students unable to travel. On the plus side, college costs posted some of their smallest increases in decades, with many schools freezing or cutting tuition in an effort to recruit students.

Looking ahead to fall 2021, applications are up at elite universities and large state colleges but down at other institutions. One reason: Many big-name colleges stopped requiring SAT/ACT scores during the pandemic, which encouraged students to apply to schools that might otherwise be beyond their reach. This trend toward more selective and expensive colleges may just be beginning, as 70% of admissions directors say they plan to remain "test optional" going forward.[1]

Overlooked amid these developments is the negative long-term impact COVID could have on financial aid. Even before the crisis, need-based grants paid only a fraction of total college costs. In coming years, aid may fall further for two reasons:

1 | Changes to federal financial aid rules are expected to reduce eligibility for higher-earning families

2 | Financial challenges at colleges could mean less money for student aid

A combination of declining aid and high college costs could create a perfect storm for families already concerned about student debt burdens. The solution is to work with a financial professional to plan carefully and invest regularly, generously and tax-efficiently.

GRANTS WERE ALREADY PAYING FEWER COSTS BEFORE COVID

Percent of total college costs covered by need-based grants[2]

52% of families **received no grant money** in the latest school year.

[1] Inside Higher Ed, *2020 Survey of College and University Admissions Officers*. [2] Sallie Mae, *How America Pays for College*, 2011 and 2020. Based on four-year public colleges.

1 | Changes to federal financial aid rules

New formula for calculating eligibility expected to negatively affect higher-earning families

In simple terms, here's how federal financial aid works: The U.S. Department of Education calculates how much a family is expected to pay, based on information provided on the Free Application for Federal Student Aid (FAFSA). Colleges then use loans, grants, scholarships and other aid to make up the difference.

New laws enacted last December as part of COVID relief will significantly overhaul both the form to be filled out and the formula for determining eligibility. The goal is to simplify the process and encourage more families to apply, but many may end up with less aid.

In this paper, we'll focus on only the new rules expected to most affect middle- and high-income families. **Those changes are currently set to take effect for the 2024-25 school year.**

No more breaks for multiple children in college

Sending two or more kids to college in the same year can challenge even affluent households. Under current rules, families with multiple attendees get a major financial aid break because their share of costs is ***divided*** **by the number of college students**.

For example, suppose the Smiths are expected to pay $30,000 for one child in the current federal formula. Their contribution drops to $15,000 per child if a second student attends, $10,000 per child for three students and so on. The end result: Lower family costs per child and greater eligibility for financial aid.

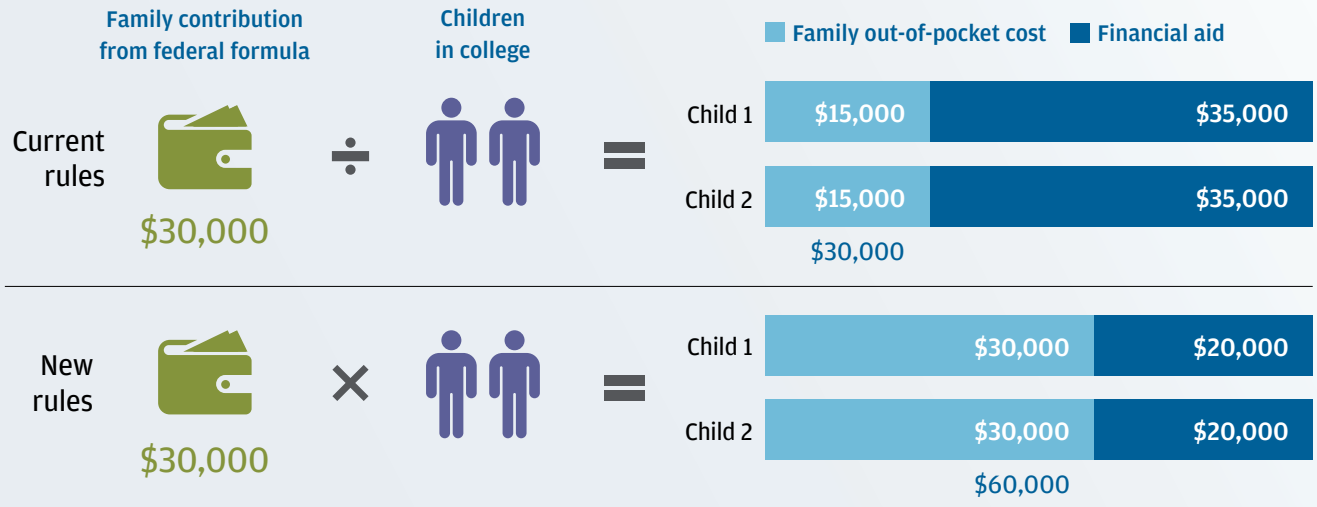
Under new rules, a family's share is ***multiplied*** **by the number of college students**. So in our example, the Smiths would be expected to pay $30,000 for each child, significantly increasing their out-of-pocket costs while reducing financial aid need.

This change may ultimately affect more families than first thought. With students routinely taking five, six or more years to complete degrees, it increases the likelihood of younger siblings enrolling before older ones graduate.

In addition to the FAFSA, some colleges require a second application known as the CSS Profile to award institutional aid. Subject to change, under the CCS Profile those schools will continue to offer a multi-child discount while following the new rules for federal aid.

MORE THAN ONE CHILD IN COLLEGE MAY SOON MEAN LESS FEDERAL AID

Two children from the same family attending the same $50,000 university in the same year[1]



[1] For illustrative purposes only. This example reflects only the FAFSA rule change regarding multiple children in college at the same time. Other rule changes may result in more or less federal aid, depending on a family's circumstances.

Other FAFSA changes that could result in less aid

The new rules do not reverse the trend of families being allowed to exclude fewer investments from the federal formula.

For example, parents aged 49 could shield $53,700 in 2009, but just $6,800 in 2021.[1] The good news is that the U.S. government considers only a maximum of 5.64% of non-retirement savings and investments above the protected amount. In other words, if you have $100,000 invested in a 529 college savings plan, only up to $5,640 is factored into your eligibility equation.

Some single parents may qualify for less aid when new rules take effect.

Today, the custodial parent who housed a child for most of the previous 12 months is required to fill out the FAFSA, using only his or her financial information. If that person is the lower wage earner, the student would generally receive more aid.

In the future, however, the higher earner may often be the applicant. Under new rules, parents providing the most financial support to children must complete the FAFSA based on their income and investments.

Eligibility for Federal Pell Grants will not be extended to higher-income families.

In a two-parent household with two dependent kids, for instance, maximum grants would be awarded only to those below 175% of the poverty line – or $46,375 today.[2]

KEY TAKEAWAY: REVIEW AND REVISE YOUR PLAN

A financial professional can make sure your college plan reflects the potential for less federal aid, as well as strategies for meeting the extra costs with investments instead of loans.

GOOD NEWS FOR GRANDPARENTS, AUNTS, UNCLES AND OTHERS INVESTING FOR COLLEGE

Starting in 2022, withdrawals from college accounts owned by grandparents and others outside the nuclear family will have no impact whatsoever on federal financial aid eligibility.[3] Currently, those withdrawals must be reported two years later on the FAFSA as student income. **The change will enable family members and friends to invest and withdraw without jeopardizing aid.**

How withdrawals from grandparents and others affect federal aid

Before 2022 50% may count as student income

2022 and beyond 0% counts as student income

New rules taking effect later than planned

Most new FAFSA rules were originally scheduled to begin with the 2023-24 school year. However, the Department of Education has already delayed them one year, and final dates could still change again. Given the uncertainties, it's important to be even more flexible with your college planning and less dependent on financial aid.

[1] U.S. Department of Education. [2] Based on U.S. Health and Human Services Department's 2021 poverty guidelines. [3] May apply to withdrawals made in 2021, depending on the Department of Education's phased timeline for implementing new rules, which has not yet been finalized as of this writing.

2 | Financial challenges at colleges

Less money coming into colleges could mean less going out to students

The U.S. government isn't the only source of financial aid. Each year, colleges award billions in need-based grants and merit-based scholarships. However, COVID has brought on financial challenges that may hinder college-based aid for years to come.

One analysis found that the **pandemic has cost colleges $183 billion** in lost revenue and added expenses.[1] Congress provided some relief under various COVID bills, but much of that money had to go toward emergency student aid. What's left is a gaping financial hole that may be difficult to fill.

State funding, a major revenue stream for public colleges, fell sharply after the Great Recession and still hasn't rebounded to pre-2007 levels.[2] Going forward, spending may remain under pressure as states look to close their own budget gaps resulting from the pandemic.

Colleges can't typically rely on **endowments** to stay afloat in hard times. What's more, few schools have the large endowments to meet student aid needs, and most (73%) say they have no plans to increase withdrawals.[3]

Colleges may be unable to boost revenue simply by recruiting more students, as they have done in the past. **Enrollment** was dropping before COVID and is on course to continue shrinking as the population of high school graduates declines steadily through 2037.[4]

Lastly, **expenses** could rise as colleges undo cost-cutting measures taken during the pandemic, putting more strain on finances and the dollars available for student aid.

KEY TAKEAWAY:
PREPARE FOR HIGHER COLLEGE COSTS

Even if aid doesn't go down, prices may go up as colleges address their budget shortfalls. Either outcome could increase your out-of-pocket expenses, and both together would demand even more from your investments.

What does the future hold? A lesson from the Great Recession

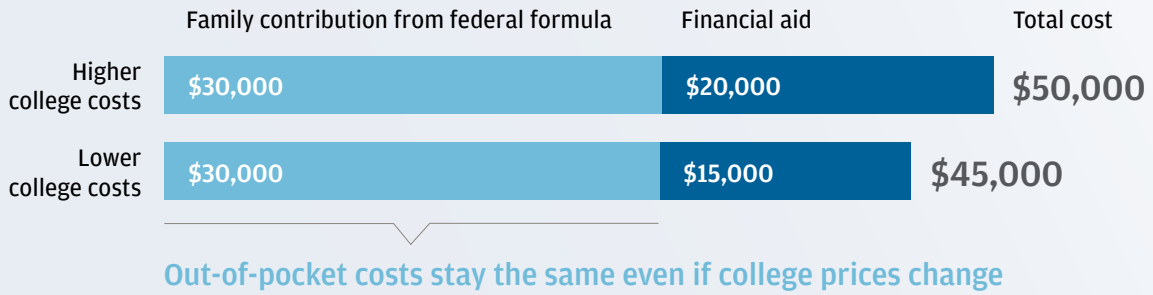
Although we've never seen a crisis like COVID before, the environment going forward may be similar to the decade following the Great Recession of 2007-08. Back then, a severe economic downturn contributed to falling college enrollment and rapidly rising costs. Because financial aid didn't keep pace, student loan debt soared among families not prepared to pay with investments.

Ten years following the Great Recession (2009-2019)

College enrollment[5]	-5%
College costs[6]	+44%
Financial aid[6]	+19%
Student loan debt[7]	+110%

Q: COULD I INVEST LESS IF COLLEGE COSTS GO DOWN?
A: LOWER COLLEGE COSTS DON'T NECESSARILY MEAN LOWER FAMILY COSTS.

Even if current tuition cuts and freezes continue beyond the pandemic, lower prices would likely reduce your financial aid package, not your out-of-pocket costs or need to invest. Remember, federal aid is basically the difference between college costs and what the government expects you to pay.



[1] *The Chronicle of Higher Education*, February 2021. [2] The College Board, based on state funding per full-time student in inflation-adjusted dollars. [3] Inside Higher Ed, *2020 Survey of College and University Business Officers*. [4] Western Interstate Commission for Higher Education, *Knocking at the College Door*, December 2020. [5] National Center for Education Statistics, based on total undergraduate fall enrollment. [6] The College Board, based on costs at four-year public colleges and total aid for undergraduates. [7] Federal Reserve Bank of New York.

Action plan: Invest more for college, depend less on financial aid

Work with a financial professional on your college plan

Together, you can determine your college planning needs and your "number" – the total investments you should have accumulated today or the monthly investments for getting started. Meet regularly to track progress toward your goals and make adjustments as needed.

Invest in a 529 college savings plan

A 529 plan offers tax advantages that may allow you to grow college funds faster than taxable investments and better keep pace with tuition inflation. Consider starting with extra cash, tax refunds, transfers from existing education accounts or other dollars outside your normal budget.

Add to your account regularly and automatically

Maximize the power of compounding by setting up automatic monthly transfers from a checking account to your 529 plan. Increase contributions whenever your income rises or living expenses decline.

Get grandparents and others involved

Take advantage of changing FAFSA rules that will exclude all non-parent accounts from federal financial aid considerations, starting with withdrawals made in 2022.[3] With a 529 plan, family and friends can make large tax-free gifts that are removed from their taxable estate.

Pay down your own student debt

As part of COVID relief, the U.S. government has waived student loan payments and accrued interest through at least September 30, 2021. Any payments made before then go entirely to principal, enabling you to pay down debt faster and free up money for a child's college fund.

Invest more to expand your college options

Nearly half of colleges (45%) aggressively recruit students able to pay with little or no financial aid, and that number may rise as COVID-impacted schools seek to attract more applicants.[1] A bigger investment portfolio not only opens the door to more colleges, it may also improve your child's chances of being accepted.

No matter how much you invest, it's important to submit a FAFSA for each year of college. Even if you don't qualify for need-based aid, the application is often used to award merit-based scholarships.

KEY TAKEAWAY: FAMILIES WITH COLLEGE PLANS ARE BETTER PREPARED[2]

MORE FUNDS

2x

more invested for college

EARLIER STARTS

2x

more likely to start investing by child's age 6

LESS DEBT

47%

less expected student loan debt

[1] Inside Higher Ed, *2020 Survey of College and University Admissions Officers*. [2] Sallie Mae, *Higher Ambitions: How America Plans for Post-secondary Education*, 2020.
[3] May apply to withdrawals made in 2021, depending on the Department of Education's phased timeline for implementing new rules, which has not yet been finalized as of this writing.

Investing in 529 plans during the current environment

With the pandemic continuing and the financial aid landscape changing, 529 plans offer key features and benefits to help you prepare:

- **Tax-advantaged investing** that gives you the potential to keep more for college and rely less on financial aid
- **Minimal impact on financial aid eligibility** now and even less under new federal rules taking effect in 2024
- **Diversified investment portfolios** to help navigate market volatility arising from the pandemic
- **Flexibility to change beneficiaries** and use funds at any accredited institution if COVID changes your plans[1]

FOR MORE INFORMATION

- Consult your financial professional
- Visit www.ny529advisor.com
- Call 1-800-774-2108 (M-F, 8am-6pm ET)

ADDITIONAL COLLEGE PLANNING RESOURCES

COLLEGE PLANNING ESSENTIALS

2021 Edition

Get the latest insights into college tuition costs, financial aid, 529 plans and much more.

"COVID & COLLEGE" SERIES

Part 1: Investing for the future in an uncertain present

Discover how COVID is changing the college experience, but not the plan to pay for it.

Part 2: Taking control of college investment plans

Explore three key aspects of college planning you can control during the pandemic and beyond.

[1] To search for accredited institutions, visit https://fafsa.ed.gov/spa/fsc/#/SEARCH.

June 2021 (7/1/21)

J.P.Morgan
Asset Management