COVID Forcing Some Colleges to Close Forever

College savings tips – because the costs of college are not going down

As if the country needed another divisive topic, the debate about reopening schools this fall is splitting communities, educators and families. According to a recently released poll by the Kaiser Family Foundation, 60% of parents want schools to delay openings whereas 34% prefer schools open on time. Want more divisiveness? The KFF reports that Democrats (87%) are overwhelmingly in favor of delaying the start of the school year.

While parents of children in K-12 are struggling with this decision, parents of college-aged kids have another disaster looming large this fall: will their college/university even survive? Consider that revenues are already down for most colleges and universities, no one knows how many kids will even come back to college this fall, and some colleges were really struggling to survive prior to COVID-19, it's a topic that must be addressed – because no one thinks college costs will decline next year.

10-20% of Colleges to Close?

You have likely seen the news reports that so-called "experts" are predicting that approximately 10% to 20% of colleges will have to close their doors permanently due to COVID-19. But a more detailed analysis by a New York University professor actually names which colleges might go belly-up.

New York University professor Scott Galloway analyzed the 437 colleges and universities in the *US News and World Report's Top National College Rankings* and separated them into four quadrants to see which ones were more vulnerable to COVID-19. Each school went into a quadrant titled: Struggle (131 schools); Thrive (88); Perish (89) or Survive (128).

Here are Professor Galloway's quadrant descriptions, taken directly from his blog:

- **Thrive**: The elite schools and those that offer strong value have an opportunity to emerge stronger as they consolidate the market, double down on exclusivity, and/or embrace big and small tech to increase the value via a decrease in cost per student.
- **Survive**: Schools that will see demand destruction and lower revenue, but will be fine, as they have the brand equity, credential-to-cost ratio, and/or endowments to weather the storm.
- **Struggle**: Tier-2 schools with one or more comorbidities, such as high admit rates (anemic waiting lists), high tuition, or scant endowments.
- **Perish**: Sodium pentathol cocktail of high admit rates, high tuition, low endowments, dependence on international students, and weak brand equity.

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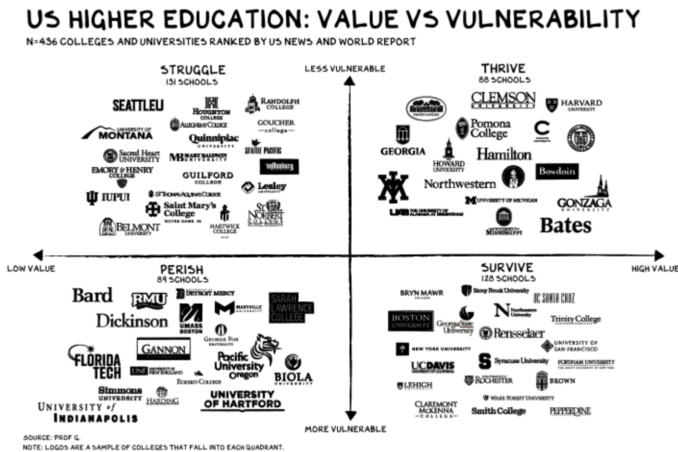
Professor Galloway was quick to point out that his analysis is not peer-reviewed or final and it's more of a working idea to get people talking about whether or not colleges and universities should even open this fall (he's a huge critic of how colleges have responded and strongly advocates only online classes this fall).



Not surprisingly, many schools in the "Perish" quadrant took issue with Professor Galloway's model.

Nevertheless, one thing is for sure: the cost of college will not be cheaper next year, and parents should be prepared to pay more.

Think 529

When it comes to 529 college savings plans, the best strategy is to start early and start big. Don't wait to set up an account until your teenager is starting to wonder which schools might offer skateboarding scholarships. These accounts are excellent vehicles to save for college, in large part because of the tax-free growth they offer. Here are some suggestions for getting the most benefit from a 529 plan.

Start as early as possible. The best time to start a 529 plan is at birth. Well, maybe a few weeks later because you do need to wait until your kid gets a Social Security number. The earlier an account is established, the more years of growth it provides. Ideally, the plan and the child grow together.

In the early years, invest more aggressively. It would be a shame to open a plan for a two-year-old and put everything in a money market fund or bonds when the goal in the early years should be growth. Invest heavily in equities for about the first 10 years then gradually move to bonds and other low-risk options. Many plans have an age-based option that does this automatically.

Fund the plan as much as you can when the child is young. Obviously, this can be a challenge for young families. If you can, however, it's good to start with higher monthly amounts, even if you need to taper off your contributions as the child gets older. The goal is to get as much into the plan as you can.

Pay attention to fees and performance. Investment firms sell many 529 plans, and the commissions you pay them vary. Some offer mutual funds with relatively high annual fees. Fees are required to be clearly disclosed. Look at the performance of the fund managers too.

Compare several state plans. While some states do offer tax breaks for residents who use their 529 plans, you aren't limited to the plan from your own state. You can open new accounts in or move existing accounts to other states.

Avoid Short-Changing Your Retirement

Don't get so excited by the idea of maximizing a 529 plan that you forget one essential guideline: Parents should fund their own retirement accounts ahead of funding college accounts for the kids.

There are many places to find a little extra money for kids' 529 plans. A few possibilities are cash gifts from relatives, contributions from grandparents, tax refunds, or bonuses. But the worst place to find that money is your own retirement fund. It isn't wise to sacrifice a healthy retirement plan in order to create a healthy 529 plan.

Finally, make sure you talk to your financial advisor in order to confirm that the college savings decisions you make are consistent with your overall financial plan.

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