

## 529 College Savings Plans: Market Volatility During Uncertain Times

The novel coronavirus (COVID-19) continues to be a central focus around the world, and has material implications for the economy, fiscal and monetary policy, and global financial markets. These types of events are why TIAA's 529 college savings plans were designed to weather uncertainty. The impact on stock markets thus far has been notable, with the U.S. equity market exhibiting more pronounced volatility than in recent years. These reduced valuations and market swings can present challenges for plan participants who are investing with purpose, like those saving in a 529 college savings plan. However, this kind of volatility should not be unexpected.

"Market downturns are simply part of the college saving experience," said Mark Kantrowitz, publisher of SavingForCollege.com. During any 17-year period, he calculates, the stock market typically will suffer at least three corrections (considered a drop of 10%) and at least one bear market (a drop of 20%). It might feel comforting to abandon an investment strategy to avoid volatility during these downturns; however, this is not advised.

In the wake of the 2008 financial crisis, an estimated 10% of investors liquidated their entire 529 accounts, with 20% switching to less risky assets, Kantrowitz said (savers were surveyed in 2010.) These individuals, unfortunately, mistimed the market rebound and subsequent robust economic recovery. As a result, they were left worse off than if they had maintained a long-term view and stayed the course.

TIAA-CREF Tuition Financing, Inc. (TFI) has been managing state 529 college savings programs since 1998, and currently serves as program manager for eight 529 plans across the nation. TFI's dedicated and experienced investment team designs 529 plan investment menus with a long-term view and investor behavior during volatile times in mind.

"Asset diversification is key," said Jeremy Thiessen, Senior Director and Head of Investments at TFI. "The diverse assets and allocation of our enrollment date and age-based portfolios are designed to weather short-term swings and be there for beneficiaries when they are ready to use it."

For 529 plan accounts where the beneficiary is at or approaching enrollment, TFI programs feature a unique, compelling solution for portfolio stability. A significant portion of the asset allocation at or near their enrollment date is dedicated to a stable value, principal-protected, insurance-backed product called the Funding Agreement, which provides principal protection with a guaranteed crediting rate.

“The Funding Agreement can significantly reduce volatility from risk assets with stability and a reliable income stream,” said Thiessen. TFI also offers the Funding Agreement to account owners as an individual portfolio option within all of the programs it manages, serving as a safe, liquid alternative for those who are more risk-averse.

TFI accesses the research and investment perspectives of investment affiliates across the firm—notably Nuveen, TIAA’s asset management affiliate. According to Nuveen’s Global Investment Committee, “We don’t think investors should change their long-term investment approaches.” The report goes on to say that “we think investors should NOT try to exit and re-enter into stocks or other risk assets to avoid the turmoil. Instead, we think investors should stay focused on their long-term goals, stick with rebalancing plans and review asset allocation strategies.”

With more than 20 years of strategic investment experience in the 529 industry, having weathered a number of different market environments over that time, TFI has applied experience, expertise and industry best practices to help investors achieve their education savings objectives.

“It is during times like these that investors must remember that 529 college savings plans are long-term vehicles,” said Thiessen. “While it may be uncomfortable in the short term, a strong asset allocation design and sound discipline can help investors and savers stay the course.”