COVID-19's Effect on Your 529 Plan Account, and What Actions You Should Consider

Updated as of March 31, 2020

We recognize you may have concerns about how the pandemic and the resulting market downturn have adversely affected your Scholars Choice 529 Plan account.

For many, the best course of action is probably to do nothing. But you have several different options to help mitigate market effects. So, here are possible actions you should discuss with your Financial Advisor.

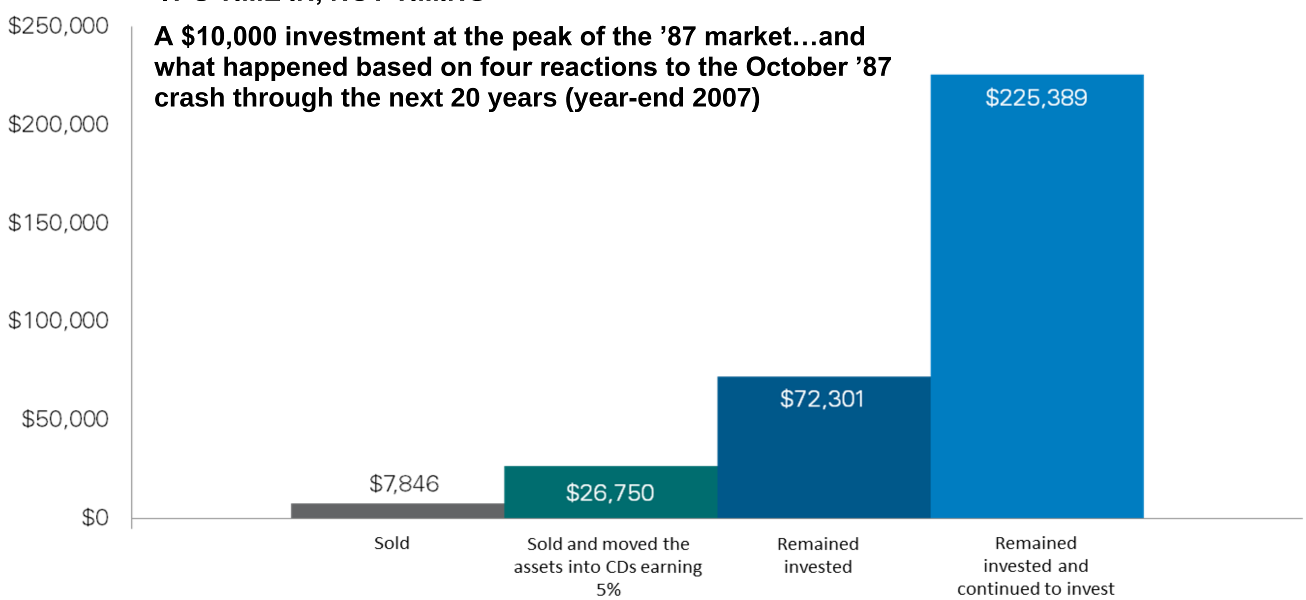
- **Stay the Course**

  If your time horizon – the time until the beneficiary expects to attend school – is 1.5 or more years, you should carefully consider any drastic changes to your allocation.

  Many investors are tempted to seek safety in times of a market downturn – the problem is, very often, they end up locking in their losses, and potentially missing all or a big part of the eventual market recovery.

  Here are hypothetical examples of four different reactions to the 1987 stock market "crash."

STAYING IN THE MARKET:
IT'S TIME IN, NOT TIMING



Source: Thomson InvestmentView. **Past performance is no guarantee of future results. This chart is for illustrative purposes only and is not indicative of performance of any specific investment.** Please note that the above illustration does not take into account any fees, expenses or taxes. An investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. The chart above illustrates a hypothetical investment of $10,000 invested in the Standard & Poor's 500 Index (S&P 500) on September 30, 1987, near the market high, and then the subsequent financial impact of various investment strategies on the same portfolio implemented on October 31, 1987, after the market crash on October 19, 1987 and through December 31, 2009. The hypothetical "Remained invested and continued to invest" assumes a monthly investment of $200.00. A CD is a debt instrument issued by a bank that usually pays an interest rate set by competitive forces in the marketplace. CDs are FDIC-insured up to $250,000 and offer a fixed rate of return, but they may be subject to fluctuating rates and early withdrawal penalties.

- ### Dollar-Cost Averaging

  If your time horizon -- the time until the beneficiary expects to attend school -- is 1.5 or more years, dollar-cost averaging may be an option.[1]

  Because it's impossible to "time the market," this strategy allows you to move your assets to a portfolio that seeks to help manage your principal in the short term, and ease back into the equity markets over the longer term.

  Here's how dollar-cost averaging works: you can exchange some or all of your current holdings into the Scholars Choice Cash Reserve Portfolio, and -- at the same time -- set up automatic transfers from the Cash Reserve Portfolio to one or more different investment options on a scheduled, periodic basis (e.g., monthly, quarterly, semi-annually).[1]

  Speak with your Financial Advisor about the available investment options, and which may be best for your goals. *(Note: Feature not available at all broker-dealer firms; speak with your Financial Advisor.)*

  Periodic investment plans do not ensure a profit and do not protect against investment loss in declining markets. Since dollar-cost averaging involves continuous investment in securities regardless of fluctuating price levels of such securities, an investor should consider his/her financial ability to continue purchasing through periods of low price levels.

- ### Reallocate

  If your time horizon -- the time until the beneficiary expects to attend school -- is 1.5 or fewer years, speak with your Financial Advisor about the available investment options, and which may be best for your goals.

  (IMPORTANT: Federal rules allow 529 Account Owners to change their allocation up to twice per calendar year.)

- ### Use other sources to pay immediate expenses

  If you must make a tuition payment within the next few months, and the market value of your Scholars Choice account is still significantly down, you may not want to take a distribution from your account -- instead consider the following options:

  – using another source for the needed money, or

  – taking a student loan, as now, as a result of the SECURE Act, 529 plan account owners can repay up to $10,000 of student loans with withdrawals from their 529 plan account -- free from federal taxes.

  (IMPORTANT: Most states have yet to rule as to whether a 529 Plan withdrawal -- used to make student loan payments -- will be free from state tax. Also, the interest portion of a student loan payment -- for which a 529 plan withdrawal is used -- would not be eligible for the student loan interest deduction.)

A Reminder About Refunds from Qualified Higher Education Institutions

If the beneficiary of your Scholars Choice® College Savings Program 529 Account has received a refund from an educational institution for tuition, room & board, or any other qualified expense, that money can be reinvested into your Scholars Choice® College Savings Program 529 Account without tax or penalty on the earnings, as long as you do so within 60 days of the date of the refund. Note: IRS Notice 2020-23 extended the deadline for 529 account recontributions for Qualified Higher Education Expense refunds from 60 days to before or on July 15, 2020. More information can be found at https://www.irs.gov/pub/irs-drop/n-20-23.pdf.

[1] Dollar-cost averaging and auto-rebalancing are not available through all selling institutions.

While the Cash Reserve Option will invest all of its assets in a money market mutual fund and will value its units based on the underlying money market fund share value, the Cash Reserve Portfolio itself is not a money market mutual fund. The Cash Reserve Option will not seek capital appreciation and it may underperform other investment options. You could lose money by investing in this investment option. Although the money market fund in which your investment option invests (the "underlying fund") seeks to preserve its value at $1.00 per share, the underlying fund cannot guarantee it will do so. An investment in this investment option is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The underlying fund's sponsor has no legal obligation to provide financial support to the underlying fund, and you should not expect that the sponsor will provide financial support to the underlying fund at any time.

An investor should consider the Program's investment objectives, risks, charges and expenses before investing. The Program Disclosure Statement and Participation Agreement (www.scholars-choice.com/pds) contains more information and should be read carefully before investing. If an investor and or an investor's beneficiary are not Colorado taxpayers, they should consider before investing whether their home states offer 529 plans that provide state tax and other benefits such as financial aid, scholarship funds, and protection from creditors that are only available to state taxpayers investing in such plans.

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