



Joint Legislative Audit and Review Commission

2013 Quadrennial Actuarial Audit of the Virginia529 prePAID Program

July 8, 2013

Amy Williams, ASA, MAAA, FCA
Paul Wood, ASA, MAAA, FCA



Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com



Agenda

- ◆ Background and Purpose of an Actuarial Audit
- ◆ GRS Audit Conclusions
- ◆ Considerations and Recommendations
- ◆ Comments and Questions



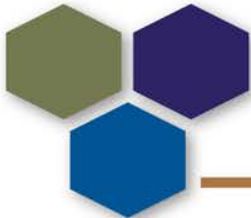
Background and Purpose of an Actuarial Audit

- ◆ In accordance with the Virginia College Savings Plan Oversight Act, GRS was retained to conduct the 2013 Quadrennial Actuarial Audit of the Virginia529 prePAID Program (“prePAID”)
- ◆ The purpose of this audit is to provide the General Assembly with a comprehensive overview of the actuarial soundness of the prePAID



Background and Purpose of an Actuarial Audit

- ◆ GRS performed a non-replication actuarial audit of the prePAID including:
 - ▶ Review of reasonableness of funding results and conclusions in the actuarial valuation based on:
 - Detailed review of calculations for 10 sample contract holders (“test lives”) to validate overall results based on the stated assumptions and methods
 - Review of assumptions, methods and underlying data used to produce valuation results:
 - Contract and Plan Asset Data
 - Weighted Average Tuition and Fee Calculation
 - Economic and Demographic Assumptions
 - Valuation Methods
 - Whether the valuation was performed in accordance with principles and practices prescribed by the Actuarial Standards Board
 - ▶ Review of content, detail, format and clarity of actuarial valuation report
 - ▶ Review of pricing to support actuarially sound funding
- ◆ This audit was completed with the full and willing cooperation of the VA529 staff and Milliman



Review Confirms that prePAID Program is Actuarially Sound

◆ GRS Audit Conclusions:

- ▶ The funding results and conclusions of the June 30, 2012, actuarial soundness valuation of the prePAID are reasonable (prePAID assets are 103.4% of best estimate liability with a 59% probability of assets exceeding liabilities)
 - Contract data supports results
 - Conducted in accordance with generally accepted practices for actuaries, as well as the principles and practices prescribed by the Actuarial Standards Board
 - Assumptions are reasonable, however, modifications to certain assumptions could be considered



Pricing Methodology is Reasonable

◆ GRS Audit Conclusions:

- ▶ The current pricing methodology is reasonable and consistent with actuarially sound funding
 - Assets are currently 103.4% of best estimate liabilities
 - Contract prices are on average 110% of the expected present value of obligations
 - This is reasonable given the risks inherent in the prePAID program and VA529's desire to maintain certain reserves as a cushion against such risks



Considerations and Recommendations

- ◆ GRS identified four assumptions used in the actuarial valuation that the VA529 and Milliman should consider reviewing:
 - ▶ Rate of Return Assumption of 6.75%
 - ▶ Weighted Average Tuition (WAT) Increase Assumption of 7.50% for all years
 - ▶ Forfeiture Assumption (rates of cancellation)
 - ▶ Bias Load for Community College WAT



Considerations and Recommendations

- ◆ GRS identified three relatively minor recommendations for the VA529 and Milliman to refine valuation results and add additional support for certain assumptions:
 - ▶ Provide additional disclosure on the expense assumption
 - ▶ Review the methodology for calculating the present value of future installment contract payments
 - ▶ Provide additional disclosure on all assumptions used to develop the 10% load on pricing



Comments and Questions





Disclosures

- ◆ Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this presentation concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.
- ◆ This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- ◆ The actuaries submitting this presentation (Amy Williams and Paul Wood) are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.
- ◆ This is one of multiple documents comprising the actuarial audit results of the prePAID for the Joint Legislative Audit and Review Commission. Additional documentation regarding actuarial assumptions and methods, and important additional disclosures are provided in the full Actuarial Audit Report of the prePAID prepared by GRS.



Disclosures

- ◆ This study was performed at the request of the Commonwealth of Virginia Joint Legislative Audit and Review Commission (“JLARC”). It may be shared with other interested parties only with the permission of the JLARC. If shared with other parties, it should be shared in its entirety.
- ◆ This report was prepared by Gabriel, Roeder, Smith & Company (“GRS”) in its role as actuary for the JLARC in accordance with the Virginia College Savings Plan Oversight Act (§30-330 – §30-335 of the *Code of Virginia*) to provide the General Assembly with a comprehensive overview of the actuarial soundness of the prePAID. This report should not be relied upon for any other purpose or by any other party. GRS is not responsible for the unauthorized use of this report.



Disclosures

- ◆ Future actuarial measurements may differ significantly from the current and projected measurements presented in this presentation due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.
- ◆ If you need additional information to make an informed decision about the contents of this presentation, or if anything appears to be missing or incomplete, please contact us before relying on this presentation.