

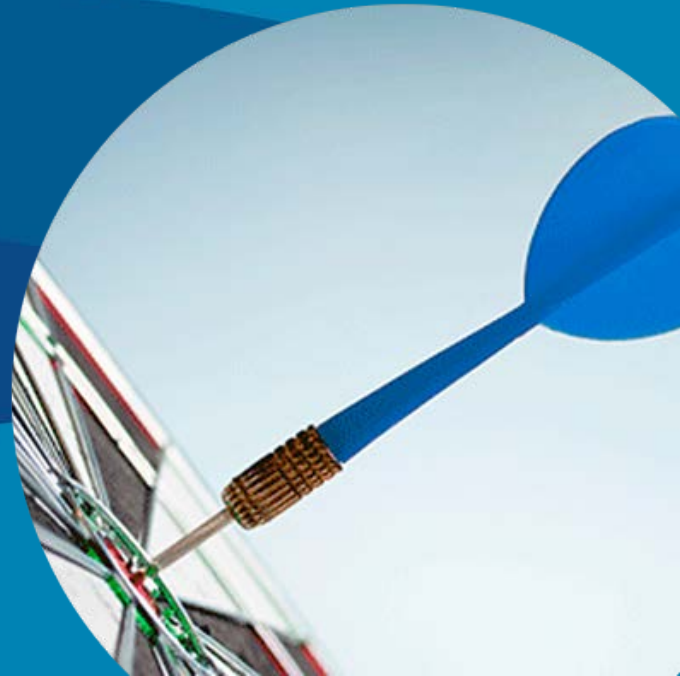
Joint Legislative Audit and Review Commission

2017 Quadrennial Actuarial Audit of the Virginia 529 Prepaid 529 Program

July 10, 2017

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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 2017 Quadrennial Actuarial Audit of the Virginia529 Prepaid529 Program (“Prepaid529”)
- The purpose of this audit is to provide the General Assembly with a comprehensive overview of the actuarial soundness of the Prepaid529
- This audit was completed with the full and willing cooperation of the Virginia529 staff and Milliman

Background and Purpose of an Actuarial Audit

- GRS performed a non-replication actuarial audit of the June 30, 2016 actuarial valuation of the Prepaid529 as performed by the retained actuary, Milliman
- GRS audit reviewed
 - Reasonableness of funding results and conclusions in the actuarial valuation, based on
 - Detailed review of calculations for 14 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

Background and Purpose of an Actuarial Audit

- GRS audit reviewed
 - Content, detail, format and clarity of actuarial valuation report
 - Whether the actuarial valuation was performed in compliance with principles and practices promulgated by the Actuarial Standards Board
 - Pricing to support actuarially sound funding

Review Confirms that Prepaid529 is Actuarially Sound

- GRS Audit Conclusions
 - The funding results and conclusions are reasonable
 - Prepaid529 assets are 129.0% of best estimate liability with a 96% 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 promulgated by the Actuarial Standards Board

Review Confirms that Prepaid529 is Actuarially Sound

- GRS Audit Conclusions
 - Primary actuarial assumptions and methods are reasonable
 - Investment return assumption
 - Tuition growth assumption

Pricing Methodology is Reasonable

- GRS Audit Conclusions
 - The ***current pricing methodology*** is consistent with actuarially sound funding
 - Contract prices are on average 111% of the expected present value of obligations
 - This pricing strategy is in place given the risks inherent in the Prepaid529 program, and Virginia529's desire to maintain certain reserves as a cushion against such risks

Considerations and Recommendations

- GRS identified the following assumptions that Virginia529 and Milliman should continue to review on an annual basis
 - Sustainability of the ultimate Weighted Average Tuition (WAT) Increase Assumption of 6.50% (versus the investment return assumption of 6.25%)
 - Rate at which contract beneficiaries are assumed to utilize contract benefits on an annual basis (utilization rate)
 - Rate at which contract holders cancel, forfeit and/or rollover their account balances (forfeiture assumption)

Considerations and Recommendations

- GRS identified the following relatively minor recommendations for Virginia529 and Milliman to refine and add clarity to the actuarial valuation results
 - Review actuarial valuation methodology (to be consistent with actual administration) for contract holders with remaining payments due beyond projected college enrollment year
 - Add additional disclosures to actuarial report to provide clarity and consistency with Actuarial Standards of Practice Nos. 4 and 41
 - Add additional disclosures to the pricing analysis and enrollment forms regarding the pricing load and the assumptions used and components included in the present value of obligations to determine the pricing load

Considerations and Recommendations

- GRS recommends that Virginia529 and Milliman review the following
 - Contract prices are on average 111% of the expected present value of obligations
 - Prepaid529 assets are 129.0% of best estimate liability with a 96% probability of assets exceeding liabilities
 - As a result, GRS recommends two options going forward
 - Consider when/if it is appropriate to reduce the pricing load in light of the funding level
 - Consider an asset allocation (investment policy) that further reduces risk in order to maintain a surplus position if there is adverse future experience

Comments and Questions



Disclosures



Disclosures

- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- The actuaries submitting this presentation (Lance J. Weiss and Amy Williams) 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 Prepaid529 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 Prepaid529 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 Prepaid529.

Disclosures

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