



June 11, 2018

# Joint Legislative Audit and Review Commission

Mary G. Morris, CEO  
Virginia529

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# Programs Overview

## Virginia529\* created by 1994 Virginia Acts of Assembly



- Codified at Title 23.1, Chapter 7 (Va. Code § 23.1-700 et seq.)
- Mandate pre-dates I.R.C. § 529, to implement a prepaid tuition program; subsequent amendments reference § 529 and savings programs
- Body politic and corporate and independent state agency created to develop, implement and administer education and disability savings programs

## Active with both national industry organizations and on federal legislative and regulatory issues and initiatives:



- **College Savings Foundation (CSF)**, VA529 CEO Chairman, 2014-2016; Member, Executive Committee, 2014-Present
- **College Savings Plan Network (CSPN)**, VA529 CEO Chair, Federal Initiatives Committee, 2012-Present; Treasurer, 2012-14

## Education Savings



- VA529 is the largest 529 plan in the country
- Constitutes 21.5% of the national 529 market
- One of eleven\*\* states offering a prepaid program

**As of March 31, 2018**

Over 2.6 million accounts & nearly \$70 billion AUM

## Disability Savings



- 2015 General Assembly Session - Amended Virginia529 Enabling Statute
  - Authorized 529A ABLÉ savings trust accounts to assist persons w/ disabilities to save toward qualified disability expenses
  - ABLEnow launched: December 2016
  - ABLEAmerica to launch in 3Q18

**As of March 31, 2018**

Over 2,600 accounts & over \$8.3 million AUM

\*Originally, the Virginia Higher Education Tuition Trust Authority

\*\* Source: Strategic Insights – Market Data on 529 Prepaid Plans by Plan as of 1Q 2018

# Virginia529 Program Timeline

**Prepaid529**  
1996

**Invest529**  
1999

**CollegeAmerica**  
2002

**CollegeWealth**  
2007-2017

**SOAR Virginia**  
2010

**ABLEnow**  
2016  
**ABLEAmerica**  
[2018]



## Prepaid529 Savings Program

contracts provide a defined benefit and serve as a hedge against tuition inflation. Statutory sum sufficient appropriation. Key assumptions – long term investment return, and tuition and fee increases.  
-Virginia529: program sponsor & manager.

## Direct-Sold Savings Program

with 20 Investment options including age-based and static portfolios with a diverse range of investment managers.  
-Virginia529: program sponsor & manager.

## Advisor-Sold Savings Program

with a wide selection of portfolios from the American Funds, one of the largest mutual fund families in the country.  
-Virginia529 is the program sponsor and the American Funds is the program manager.

## Direct Savings Program

in conjunction with two banks, FDIC-insured savings accounts.  
-Virginia529: program sponsor & manager.  
-CollegeWealth being discontinued.  
-Long-term intent to transfer accounts/funds to Invest529 FDIC Insured Portfolio.

## Early Commitment Scholarship Program

to inspire eligible high school students to reach post-secondary goals. Partnership with Virginia's college access providers.  
-Virginia529: program sponsor & manager.

## Disability Savings Programs

**Direct & Advisor-Sold** to encourage and assist individuals and families in saving to support individuals with disabilities.  
-Virginia529 is the program sponsor and manager for ABLEnow.  
-American Funds will be program manager for ABLEAmerica.

## Accounts and Assets Under Management as of 3/31/2018

| Programs                            | Accounts         | Gross Account Growth in fiscal 2017 (Percent) | Assets Under Management (\$ Billions)** | Percent of National 529 (and 529A) Market**** |
|-------------------------------------|------------------|---|---|---|
| <b>College Savings</b>              |                  |   |   |   |
| <b>Prepaid529</b>                   | 63,858           | 5.6%  | \$2.69                                  | 11.1%   |
| <b>Direct-Sold Savings Programs</b> |                  |   |   |   |
| <b>Invest529</b>                    | 272,299          | *15.0%  | \$4.41                                  | *2.7%   |
| <b>CollegeWealth</b>                | 12,590           |   | \$0.05                                  |   |
| <b>Advisor-Sold Savings Program</b> |                  |   |   |   |
| <b>CollegeAmerica</b>               | 2,290,665        | ***2.6%                                       | \$61.96                                 | 47.3%   |
| <b>Totals**</b>                     | <b>2,639,412</b> |   | <b>\$69.11</b>                          | <b>21.5%</b>                                  |
| <b>Disability Savings</b>           |                  |   |   |   |
| <b>ABLEnow</b>                      | 2,615            | N/A   | \$8.37                                  | ****7%  |

\*Includes both Invest529 and CollegeWealth. Growth figures adjusted to exclude 3,350 Invest529 accounts setup during March 2017 to facilitate the Union CollegeWealth Transition.

\*\*Figures may not foot due to rounding.

\*\*\*Net Account Growth in Fiscal 2017 (Percent)

\*\*\*\*Market shares shown by program represent share of industry AUM for the corresponding product or sales channel (i.e., prepaid, direct-sold savings and advisor-sold savings). Total market share represents total VA529 assets as a percent of total industry 529 assets.

## Virginia529 Account Growth

|                       | <u>Fiscal Year 2017*</u> |       | <u>Fiscal Year 2016</u> |       | <u>Fiscal Year 2015</u> |       | <u>Fiscal Year 2014</u> |       |
|-----------------------|--------------------------|-------|-------------------------|-------|-------------------------|-------|-------------------------|-------|
|                       | Net                      | Gross | Net                     | Gross | Net                     | Gross | Net                     | Gross |
| <b>Prepaid529</b>     | -1.6%                    | 5.6%  | -1.9%                   | 5.5%  | -2.2%                   | 5.0%  | -1.1%                   | 5.6%  |
| <b>Invest529</b>      | 12.9%                    | 15.4% | 9.7%                    | 13.7% | 12.2%                   | 16.5% | 11.8%                   | 16.9% |
| <b>CollegeAmerica</b> | 2.6%                     | N/A   | 2.7%                    | N/A   | 1.2%                    | N/A   | 2.8%                    | N/A   |
| <b>CollegeWealth</b>  | -14.6%                   | 10.4% | 11.4%                   | 17.5% | 17.9%                   | 23.6% | 24.8%                   | 30.7% |

\* Gross accounts opened during FY as of 3/31/2018, except for CollegeAmerica (net)

# Fiscal 2018 Plan Highlights

- ❑ **RFP for Independent Auditor in conjunction with APA**
  - ✓ Eide Bailly engaged as auditor - March 2018 - for FY2018 audit
- ❑ **Implemented new phone system - 8x8**
- ❑ **Continued enhancement of on-line functionality for customers**
  - ✓ Launched online gifting platform
  - ✓ Commenced payroll deduction Online Assist
- ❑ **Statewide payroll system project launched**
  - ✓ (CIPPS to Cardinal) - recently postponed indefinitely by Administration
- ❑ **Implemented Phase 1 of EDM workflow solution: Human Resources and Document Imaging**
- ❑ **Completed dissolution of College Savings Systems (CSS) relationships/contracts**
- ❑ **Disaggregated Invest529 Vanguard LifeStrategy Funds in passively-managed portfolios to reduce fees**
- ❑ **H.R. 1 2017 (Federal Legislation)** effective January 1, 2018
  - **529 Education Savings Plans**
    - ✓ Allows for up to \$10,000/student of tuition expenses for public, private or religious elementary or secondary school as qualified expenses
    - ✓ Assets in a 529 education savings account may be rolled to an ABLE disability savings account
  - **529A Disability Savings Plans**
    - ✓ A working designated beneficiary may contribute additional amount(s)
    - ✓ ABLEnow account owner/beneficiary may claim the federal Savers Credit

# Virginia529's Mission:

*Making college more accessible and affordable...*

## prepaid529™

- ❖ Affordability: increased challenges given historic changes in public college and university tuition
  - Annual review of actuarial assumptions (long term rate of return, tuition inflation) and pricing methodology
- ❖ Contract pricing - primary driver = change in weighted average tuition
  - 1996 (1st enrollment) - 73% purchased four-year contract
  - 2017-18 (current enrollment) - 18% purchased 8 semester (four-year) contract
  - Although contract sales increased 8% in 2017-18 enrollment, average semesters purchased fell from 3.54 to 3.39
- ❖ Actions to enhance affordability and accessibility
  - In 2013 moved from one year to semester contracts
  - Offer installment plans as well as lump sum payments
  - Moderated price increases in 4 of last 5 years - a balance of risk v. sustainability
  - No fees are charged to Prepaid529 participants
  - Sustainability Study and development of benefit structure change proposal

# Virginia529's Mission:

*Making college more accessible and affordable...* (cont.)

## invest529™

- ❖ May open accounts with no minimum balance, no account opening fees, no minimum contributions
- ❖ 20 low-priced investment options including target date portfolios
- ❖ Low administrative fees (10 basis points or 1/10th of 1%) - reduced 3 times in last 8 years
- ❖ Institutional share class fees - with no minimum account balance
- ❖ Consistently one of fastest growing direct programs in country
- ❖ Morningstar GOLD rated:
  - Invest529 retained Gold – Morningstar's highest rating for years 2016 and 2017
  - Morningstar cited the program's strong managers, recent fee reductions and an asset allocation of the age-based portfolios that includes a mix of passive and active strategies
  - Only 4 of the (over 60) college savings programs evaluated by Morningstar received this rating (VA, IL, NV, UT)

| Morningstar Pillars |            |
|---------------------|------------|
| Process             | ⊕ Positive |
| Performance         | ⊕ Positive |
| People              | ⊕ Positive |
| Parent              | ⊕ Positive |
| Price               | ⊕ Positive |

*"Virginia continues to lower the plan's cost. After reducing its program management fee to 0.10% from 0.15% in July 2016, the plan has shifted to cheaper share classes in five underlying funds. The age-based portfolios remain attractively priced, particularly given their significant use of actively managed strategies."*

Source: Morningstar Invest529 Analysis - October 2017

**Virginia529<sup>SM</sup>**

# **Prepaid529 Funded Status**



# JLARC 2017 Quadrennial Actuarial Audit of Virginia529 Prepaid

## GRS Primary Findings –

- I. Prepaid529 is actuarially sound (i.e., the Fund has sufficient assets, including the value of future installment payments due under current contracts, to cover the actuarially estimated value of the tuition obligations under those contracts, including any administrative costs associated with those contracts), and
- II. Primary actuarial assumptions (including the investment return assumption of 6.25 percent and the tuition increase assumption of 5.00 percent for the first two years and 6.50 percent thereafter) are reasonable.
  - In addition, GRS found the data used by Milliman appropriate and that Milliman followed the appropriate ASOP's as well as agreeing with other assumptions.

# JLARC 2017 Quadrennial Actuarial Audit of Virginia529 Prepaid (cont.)

## GRS's Summary of Areas Addressed –

- GRS agreed with Milliman that Prepaid529 was actuarially sound because it had sufficient assets (including the value of future installment payments due under current contracts) to cover the actuarially estimated value of the tuition obligations under those contracts (including any administrative costs associated with those contracts).
- **GRS agreed that based on the current funding level (129 percent with a 96 percent probability of Prepaid529 funds exceeding obligations) and the average load of about 11 percent on contract prices to increase the actuarial reserve of the program, the pricing methodology was actuarially sound.**
- GRS recommended, as a result of the actuarial soundness, funding level, and average load on contract pricing, two options to be considered going forward:
  - Based on the funding level of the program, VA529 could decrease the pricing reserve on Prepaid529 contracts.
  - Prepaid529 could consider an asset allocation that further reduces risk to maintain a surplus position if there is adverse future investment experience. They noted that a change in asset allocation would likely require a change in the investment return assumption used in the actuarial valuation.

## JLARC: PROPOSED MOTION JULY 10, 2017

Motion to direct the Virginia529 board to develop a detailed written policy by May 15, 2018 that sets forth the actions that will be taken to address the Prepaid529 fund surplus. In developing the policy, the board should consider, but not be limited to, the following options:

1. Reduce the pricing load on future Prepaid529 contracts; and,
2. Provide rebates or dividends to account holders.

The Commission did not take any action on this motion at the July meeting but asked the Virginia529 board chairman to address the Commission at its November 2017 meeting.

- o Chairman McLaughlin addressed JLARC on November 13, 2017.

(Copy of comments included in Appendix)

## Prepaid529 Pricing Reserve Management

### Milliman Letter dtd. Sept. 2017 Provided to JLARC

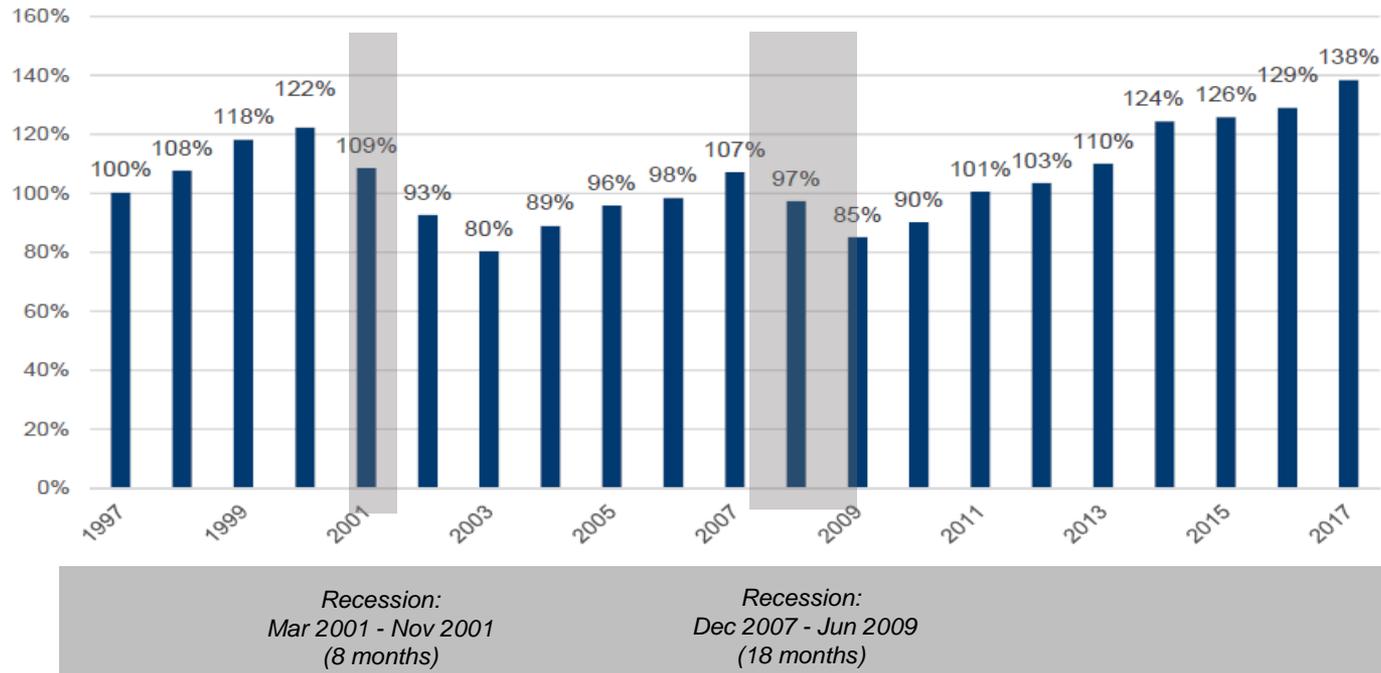
- We [Milliman] are not aware of an industry standard for appropriate target level for the prepaid program's actuarial reserve and the reserve component in contract prices among the various state prepaid tuition programs.
- Unlike pension plans, where the employer is responsible for making annual contributions toward maintaining a fully-funded plan, a prepaid tuition plan charges a one-time premium for a contract and cannot go back to the purchaser and ask for more money if tuition grows more than expected and/or investment returns fall short of those needed to pay promised benefits.
- Milliman has always recommended that prices for prepaid tuition contracts incorporate at least a 10% stabilization reserve component. The purpose is to build a capital base to support the program during difficult economic periods. This 10% target is a compromise between adding enough to build up a capital base and offering a reasonable expected return on investment for the families that purchase these contracts.
- With a 10% reserve, the expected return on the prepaid tuition contract still exceeds the yield on high quality tax-free Virginia general obligation municipal bonds.
- In its relatively short life of 20 years, there have already been two periods where Prepaid529 experienced significant declines to its funded ratio due to high tuition and/or poor investment returns.
- In the 2000-2003 period, the program's funded ratio fell from 122% to 80%. In the 2007-2009 period, the ratio fell from 107% to 85%. Over the 20-year history of the program, the standard deviation of the funded ratio is about 14.1%.
- If the prepaid program experienced a two standard deviation decline in the funded ratio this year, that would eliminate almost the entire reserve. Or, this could happen over a multiple year period like the 2000-2003 and 2007-2009 events.

## 2017 Actuarial Valuation Report - Key Actuarial Assumptions

1. Long-term investment return assumption 6.25%
2. Future tuition growth assumption
  - 5% for 2018-19 academic year, increasing to 6.5% thereafter for four-year and two-year institutions

| Year        | Return |
|-------------|--------|
| 1996 - 2000 | 8.0%   |
| 2001        | 7.5%   |
| 2002        | 7.0%   |
| 2003        | 6.75%  |
| 2004 - 2011 | 7.0%   |
| 2012 - 2014 | 6.75%  |
| 2015 - 2018 | 6.25%  |

Prepaid529 Actuarially Funded Percentage as of June 30th



**Virginia529<sup>SM</sup>**

**Prepaid529  
Investment Study**



# JLARC 2017 Prepaid529 Program Investment Study

September 12, 2016: Commission directed JLARC staff “to review the investment management structure of the VA529 Prepaid529 fund and assess whether there are options to more efficiently manage the fund, including but not limited to, assigning the management of Prepaid529 investments to the Virginia Retirement System or the Virginia Department of Treasury.”

## Finding 1

- JLARC: Recommends that investment management not be reassigned. Virginia529 has a “well-defined investment management structure that is similar to other institutional investors and prepaid programs..”
- VA529:
  - ✓ VA529 concurs with the finding and recommendation

## Finding 2

- JLARC: “Prepaid529 has a well-defined investment management structure that utilizes investment experience and incorporates checks and balances. The Virginia529 board and its Investment Advisory Committee (IAC) oversee investment of the Prepaid529 fund. The board and IAC receive guidance and support from Virginia529 staff and an investment consultant when making investment decisions. The investment management structure for Prepaid529 is similar to those in other states where a college savings plan agency, as opposed to a state treasurer or investment board, is responsible for investment management of prepaid programs.”
- VA529:
  - ✓ VA529 concurs with the finding

## JLARC 2017 Prepaid529 Program Investment Study (cont.)

| JLARC Recommendations   | Addressed |
|---|-----------|
| Virginia529 should contract with a third party to conduct an independent review of Prepaid529 benchmarks  | ✓         |
| Virginia529 should perform attribution analysis of the Prepaid529 fund at the total fund and asset class level  | ✓         |
| Virginia529 should work with an executive search firm and gather input from the board and members of the IAC to establish roles and responsibilities of an Investment Director position | ✓         |
| The General Assembly may wish to consider amending Virginia529's Enabling Act to create an Investment Director position that would have "investment responsibility" at Virginia529      | ✓         |
| Virginia529 should change the IAC Charter to remove the CFO as an ex-officio voting member  | ✓         |

**Virginia529<sup>SM</sup>**

# **Prepaid529 Proposed Changes to Benefits**



## Prepaid529 – 2016 Sustainability Study

- Prepaid529 is a popular and successful program which weathered two recessions in its relatively short 21 year history - but, required review in light of challenges posed by:
  - Unpredictable tuition growth;
  - Changes in tuition and fee funding models (differential tuition, credit-hour pricing, low-cost options);
  - Disparity among low- to high-tuition public institutions within Commonwealth;
  - Customer expectations of Prepaid529 in light of changes to funding models;
  - Proposed legislation impacting tuition and fee models that may impact Prepaid529; and
  - Changing patterns and choices for post-secondary education.
  
- Challenges highlighted to Commission starting with first presentation in 2012

## Prepaid529 – 2016 Sustainability Study (cont.)

- September 2015 - Virginia529 Board authorized a study, completed in 2016, to examine the long-term sustainability of the Prepaid529 model and the optimum program features for the future. Many options considered, including:
  - i. Maintain the current program unchanged;
  - ii. Maintain the status quo but with minimal modifications (e.g., single-price model; single-tier pricing);
  - iii. Close the current program to new enrollment and manage existing contracts through depletion;
  - iv. Consider a new structure, such as weighted average payout program for new contracts; and/or
  - v. Consider a new structure that includes risk sharing among Virginia529 and Virginia public higher education institutions for new contracts. Florida, Texas and Private College 529 provide possible templates for this model.
- October 2016, Board authorized (i) single tier contract for the 2016-2017 enrollment period and (ii) staff to explore the development and implementation of changes to Prepaid529.
- Summer 2017, Virginia529 met with higher education institutions, General Assembly members and Administration to review and discuss proposed changes.
- October 2017, Board approved legislative proposal to change the benefit structure of the prepaid program, prospectively.
- December 2017, Virginia529 requested legislation, introduced as HB1199 & SB656, to authorize a new benefit structure.

# Advantages of weighted average tuition (WAT) Benefit Structure

- ✓ Significant reduction in cost of getting started;  
*(100 Units = 1 Year WAT v. 1 unit = 1 semester)*
- ✓ Reduced contract price versus the existing program structure;
- ✓ Reduce risk of very high payouts to high-cost institutions;
- ✓ Eliminate the wide dispersion of payment amounts to different public institutions in Virginia;
- ✓ Eliminate the issues with no coverage of differential tuition;
- ✓ Increase flexibility of coverage - use for all qualified higher education expenses (tuition and fees, books, room and board, and equipment);
- ✓ Increase flexibility of payments – Account Owner chooses timing of payment, earlier than current; and
- ✓ Increase flexibility of use - same benefit for Virginia public, in-state private or out-of-state depending on best option for student and family.

## Comparing Current and New Prepaid529 WAT Program

| Benefit  | Prepaid529 WAT Program | Current Program |
|--|------------------------|-----------------|
| Affordable-lower entry price                               | ✓                      |                 |
| Reduces Virginia529's risk profile                         | ✓                      |                 |
| Benefits available for all qualified 529 expenses          | ✓                      |                 |
| Institutions receive funds before add-drop date            | ✓                      |                 |
| Increased flexibility for Account Owners and Beneficiaries | ✓                      |                 |
| Virginia State Tax-Deduction                               | ✓                      | ✓               |

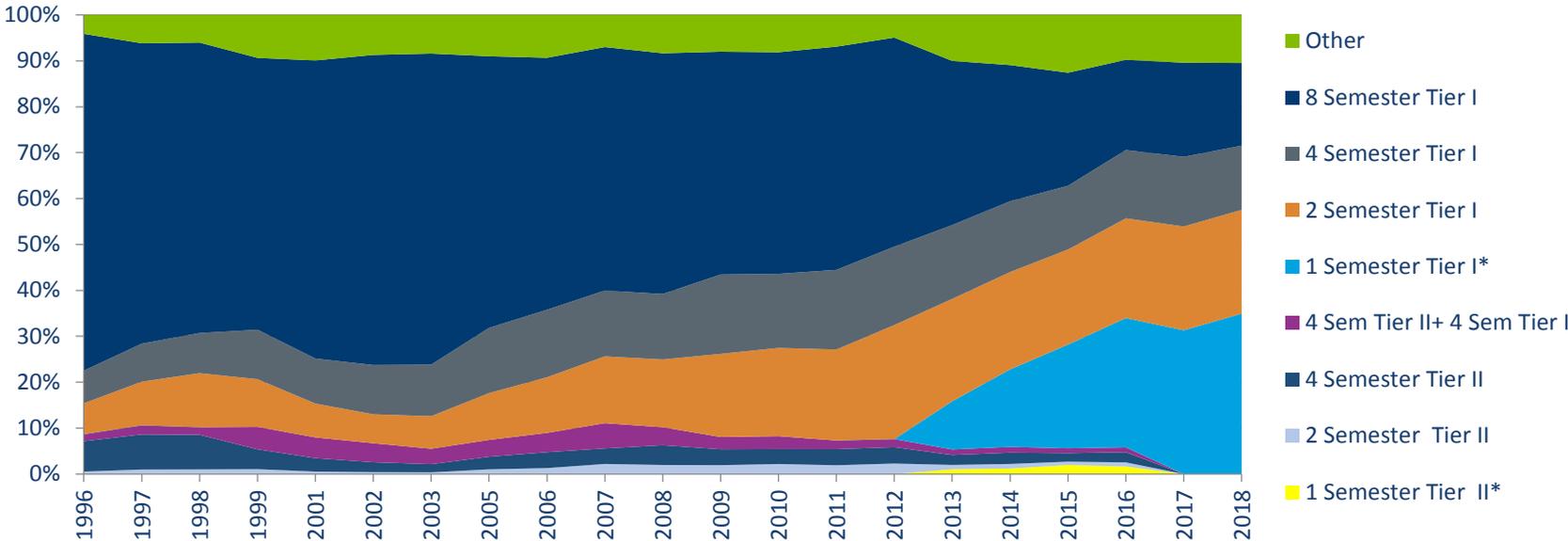
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Appendix



# Prepaid529 Semester Contract Sales by Type

Contract Type as a Percent of Total Contracts by Enrollment Year

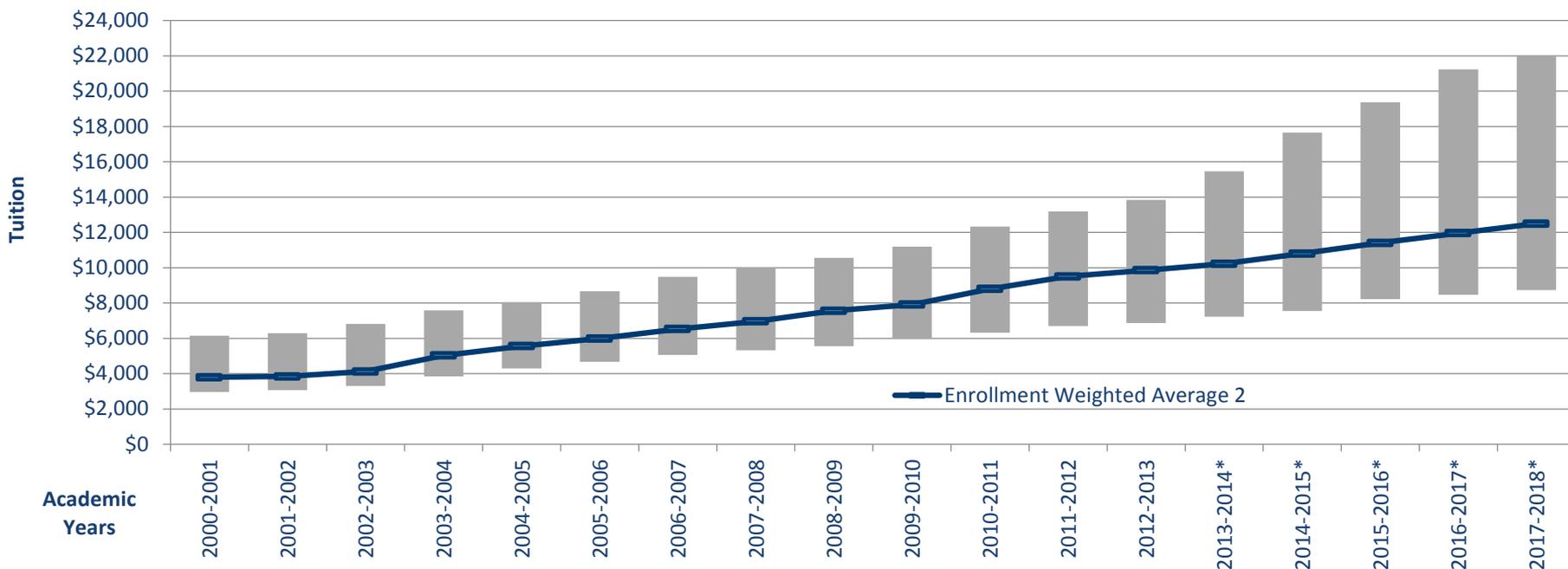


| Type of Contract            | 1996  | 1997  | 1998  | 1999  | 2001  | 2002  | 2003  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017** | 2018  |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|
| 1 Semester Tier II*         | N/A   | 1.0%  | 1.2%  | 2.0%  | 1.6%  | N/A    | N/A   |
| 2 Semester Tier II          | 0.5%  | 1.0%  | 1.0%  | 1.1%  | 0.5%  | 0.4%  | 0.4%  | 1.0%  | 1.3%  | 2.2%  | 2.0%  | 1.9%  | 2.2%  | 1.9%  | 2.3%  | 1.0%  | 1.0%  | 0.7%  | 0.9%  | N/A    | N/A   |
| 4 Semester Tier II          | 6.6%  | 7.6%  | 7.5%  | 4.3%  | 2.9%  | 2.2%  | 1.8%  | 2.7%  | 3.5%  | 3.4%  | 4.3%  | 3.5%  | 3.3%  | 3.5%  | 3.6%  | 2.2%  | 2.5%  | 1.8%  | 2.2%  | N/A    | N/A   |
| 4 Sem Tier II+ 4 Sem Tier I | 1.5%  | 2.0%  | 1.7%  | 4.9%  | 4.5%  | 4.1%  | 3.4%  | 3.7%  | 4.2%  | 5.5%  | 3.9%  | 2.7%  | 2.8%  | 1.9%  | 1.8%  | 1.2%  | 1.3%  | 1.1%  | 1.1%  | N/A    | N/A   |
| 1 Semester Tier I*          | N/A   | 10.5% | 16.9% | 22.6% | 28.2% | 31.3%  | 34.9% |
| 2 Semester Tier I           | 6.7%  | 9.5%  | 11.8% | 10.4% | 7.4%  | 6.3%  | 7.1%  | 10.2% | 12.1% | 14.6% | 14.8% | 18.1% | 19.2% | 19.8% | 24.8% | 22.3% | 21.2% | 20.7% | 21.7% | 22.6%  | 22.6% |
| 4 Semester Tier I           | 7.1%  | 8.3%  | 8.7%  | 10.8% | 9.8%  | 10.7% | 11.2% | 14.2% | 14.7% | 14.3% | 14.3% | 17.3% | 16.1% | 17.4% | 17.1% | 16.1% | 15.4% | 13.9% | 14.9% | 15.2%  | 14.0% |
| 8 Semester Tier I           | 73.4% | 65.4% | 63.3% | 59.2% | 64.9% | 67.5% | 67.8% | 59.2% | 54.9% | 53.0% | 52.4% | 48.5% | 48.3% | 48.6% | 45.5% | 35.8% | 29.7% | 24.6% | 19.7% | 20.5%  | 18.0% |
| Other                       | 4.1%  | 6.2%  | 6.0%  | 9.3%  | 9.9%  | 8.7%  | 8.4%  | 9.0%  | 9.3%  | 7.0%  | 8.3%  | 8.0%  | 8.1%  | 6.9%  | 4.9%  | 10.0% | 10.9% | 12.6% | 9.8%  | 10.4%  | 10.5% |

\*Beginning with the 2012/2013 enrollment period, contracts offered on a semester basis as opposed to a full year

\*\*Beginning with the 2016/2017 enrollment period, Tier II contracts were eliminated

# Virginia Public University Tuition and Fee Ranges



| Academic Year        | 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 | 2013-2014* | 2014-2015* | 2015-2016* | 2016-2017* | 2017-2018* |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|
| Lowest Tuition       | \$ 2,950  | \$ 3,069  | \$ 3,296  | \$ 3,840  | \$ 4,295  | \$ 4,670  | \$ 5,056  | \$ 5,322  | \$ 5,560  | \$ 5,972  | \$ 6,327  | \$ 6,700  | \$ 6,860  | \$ 7,226   | \$ 7,552   | \$ 8,226   | \$ 8,472   | \$ 8,726   |
| Highest Tuition      | \$ 6,148  | \$ 6,294  | \$ 6,817  | \$ 7,584  | \$ 8,054  | \$ 8,666  | \$ 9,473  | \$10,048  | \$10,556  | \$11,190  | \$12,328  | \$13,184  | \$13,835  | \$15,463   | \$17,656   | \$19,372   | \$21,234   | \$ 22,044  |
| Average (1)          | \$ 3,793  | \$ 3,883  | \$ 4,472  | \$ 5,135  | \$ 5,606  | \$ 6,065  | \$ 6,635  | \$ 7,087  | \$ 7,587  | \$ 8,043  | \$ 8,833  | \$ 9,540  | \$ 9,923  | \$10,446   | \$10,969   | \$11,583   | \$12,045   | \$ 12,540  |
| Weighted Average (2) | \$ 3,793  | \$ 3,843  | \$ 4,122  | \$ 5,033  | \$ 5,559  | \$ 5,990  | \$ 6,529  | \$ 6,966  | \$ 7,562  | \$ 7,912  | \$ 8,803  | \$ 9,507  | \$ 9,856  | \$10,225   | \$10,797   | \$11,409   | \$11,961   | \$ 12,494  |

1. Simple average of tuition and fee amounts paid from Prepaid529 per academic year. 2. Enrollment-weighted average tuition and fees as shown in Virginia529 Prepaid529 Annual Valuation report.

\*Highest tuition paid represents the highest Virginia529 payout based on student cohorts under the William & Mary Promise

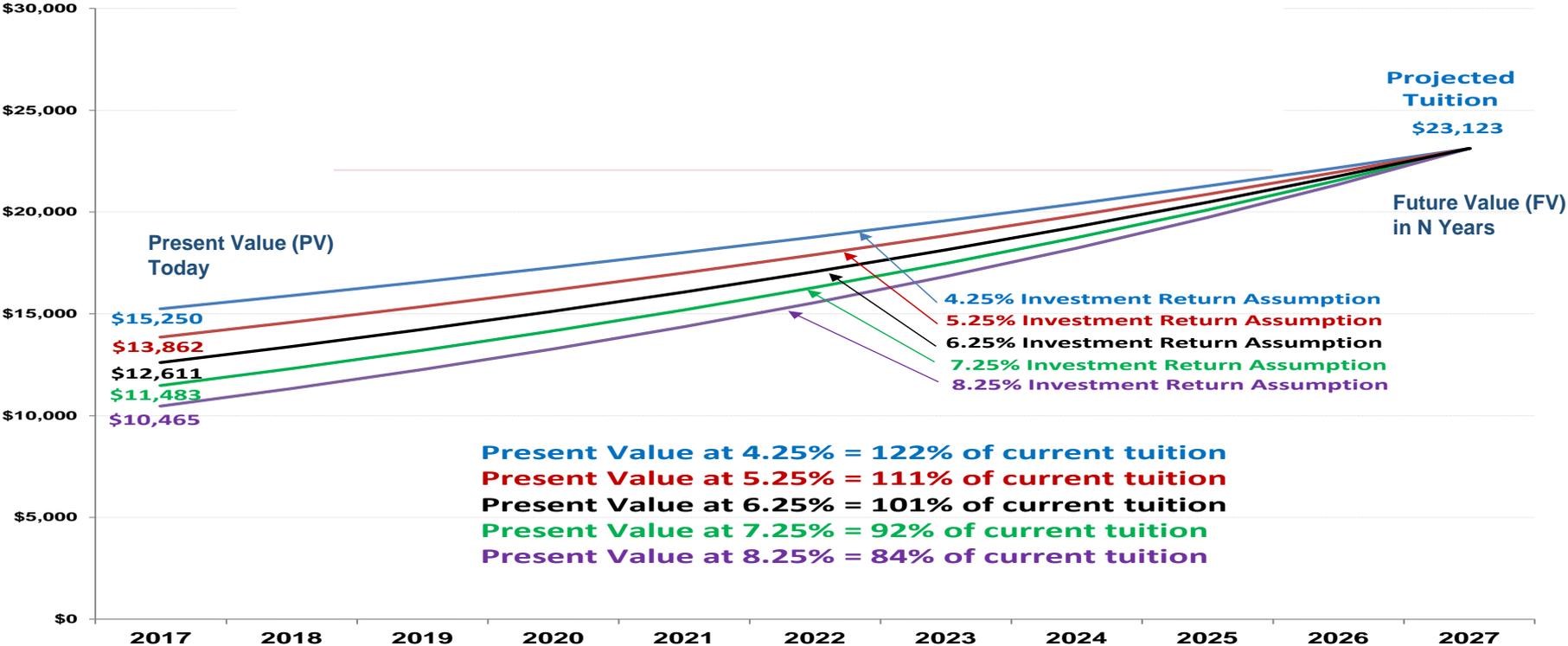
# Prepaid529 Contract Pricing

Discount backward at compound growth rate  
 $PV = FV / (1 + rate)^N$

Accumulate forward at compound growth rate  
 $FV = PV \times (1 + rate)^N$

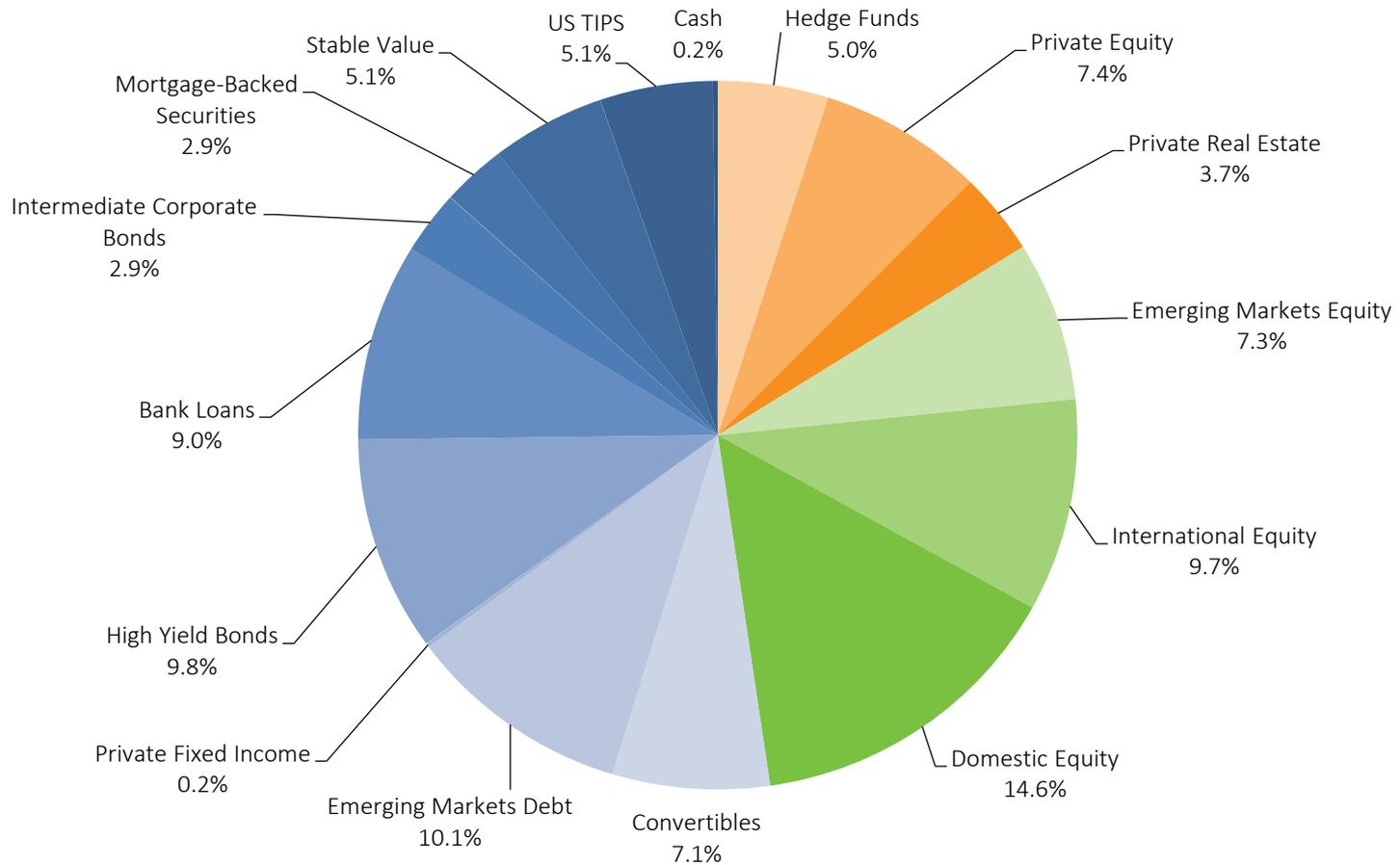
| Compounded Increase in Average Tuition & Fees |            |                   |
|---|------------|-------------------|
|   | University | Community College |
| Over the last 5 years:                        | 4.7%       | 4.7%              |
| Over the last 10 years:                       | 6.2%       | 8.8%              |
| Over the last 15 years:                       | 7.9%       | 10.6%             |
| Over the last 20 years:                       | 5.6%       | 6.7%              |
| Over the last 25 years:                       | 5.7%       | 6.7%              |

2017-2018 Weighted Average Tuition and Fees = \$12,494.  
 Tuition expected to grow at 5.0% for one year and then 6.5% per year thereafter. Projected tuition is discounted to a present value using the investment return assumption



Source: Milliman 2018 Actuarial Methods for Pricing Prepaid Tuition Contracts and the Annual Valuation Presentation and 2017 Actuarial Valuation Report

# prepaid529™ Asset Allocation

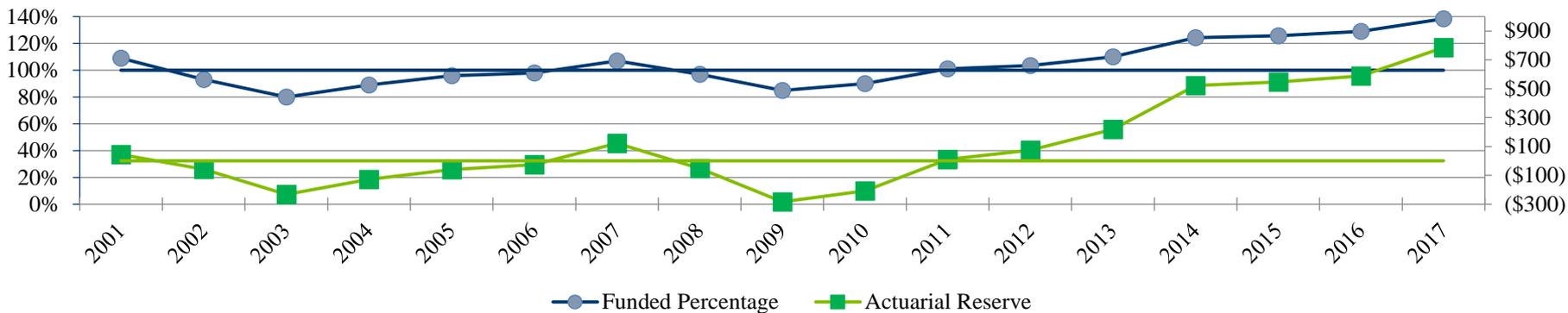


| Asset Category | % of Fund | % Target |
|----------------|-----------|----------|
| Alternatives   | 16.1%     | 15.0%    |
| Equities       | 31.6%     | 32.5%    |
| Fixed Income   | 52.3%     | 52.5%    |

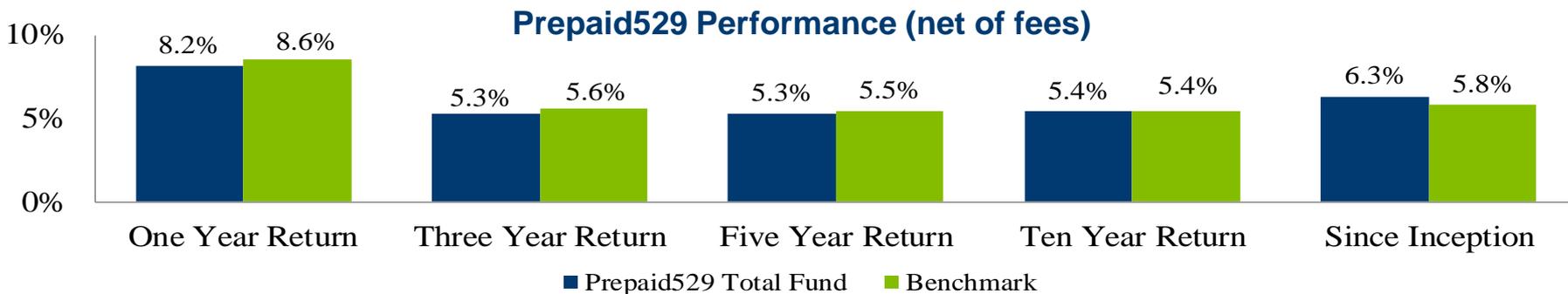
as of March 31, 2018

<sup>1</sup>May not total 100% due to rounding

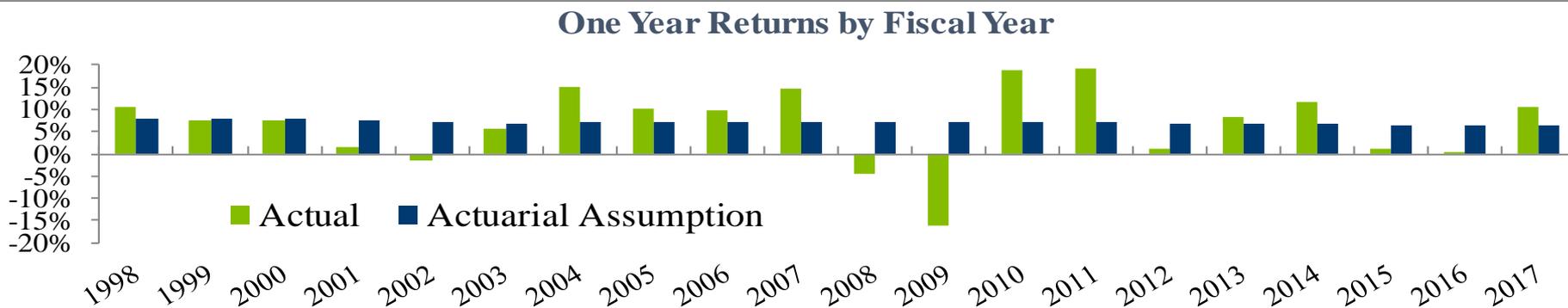
# Prepaid529 Historical Funded Status and Actuarial Reserve



Dollars in Millions



Ending March 31, 2018





**invest529<sup>SM</sup>**

**Rated Gold**  
by investment  
research firm  
Morningstar

*“A well-diversified approach, strong underlying investments, and a **competitive price tag** make Virginia’s Invest529 plan a topnotch option for college savers. The plan retains its Morningstar Analyst Rating of Gold.”*

*“The plan **complements the traditional stock and bond funds** in its age-based portfolios (recently renamed to reflect beneficiaries’ anticipated college date) with specialty asset classes not often found in direct-sold 529 plans.”*

*“**Virginia continues to lower the plan’s cost.** After reducing its program management fee in July 2016, the plan has shifted to cheaper share classes in five underlying funds. The age-based portfolios remain attractively priced, particularly given their significant use of actively managed strategies.”*

*--Jeff Holt, CFA*

*“The plan’s approach has delivered over the long run, as each age-based portfolio with at least a five-year record topped its custom benchmark since inception as of August 2017.”*

*“Virginia residents **may deduct up to \$4,000** of contributions per account from their state income, leaving little reason to look elsewhere. The attractive offerings mean nonresidents may also want to size it up against other plans.”*



**CollegeAmerica<sup>®</sup>**

**Rated Silver**  
by investment  
research firm  
Morningstar

*“Virginia’s CollegeAmerica boasts **low fees** and one of the 529 industry’s **strongest lineups** of equity and allocation funds. It remains a top choice among advisor-sold options, leading to a Morningstar Analyst Rating of Silver.”*

*“We rate 19 of the plan’s equity and allocation funds; all but one come recommended by us, and 10 receive ratings of Gold, a mark of our highest conviction in the funds’ potential to deliver strong results.”*

*“The equity options are a diverse bunch, but they’re all united by a long-term outlook and multimanager structure that have **produced low-turnover and well-diversified portfolios.**”*

*“In the 529 space or otherwise, few investment firms have actively managed strategies that inspire similar levels of **confidence.**”*

*“The plan also offers some of the **lowest-priced investments in the advisor-sold space**, which gives investors a discernible head start over the competition..... an improved fixed-income operation combined with [American Fund’s] rightfully lauded equity team makes for a strong advisor-sold college savings plan.”*

- ❖ **Invest529 AUM exceeded \$4 Billion as of July 2017**
- ❖ **Disaggregated Invest529 Vanguard LifeStrategy Funds in passively managed portfolios**
- ❖ Provides a defined contribution saving vehicle as a compliment to Prepaid529
- ❖ Consistent returns – long-term outperformance relative to benchmarks
- ❖ Institutional share class fees - no minimum investment beyond \$25 opening balance
- ❖ Offers mix of low-cost, passively and actively-managed static portfolios and age-based portfolios
- ❖ Invest529 Age-Based Portfolios –
  - ✓ **Evolved Invest529 Age-based Portfolios pursuant to glide path**
  - ✓ Added Private Real Estate as a component of Invest529 Age-based Portfolios
    - ✓ Two year transition step prior to final evolution in Age-Based Portfolios
      - 100% Fixed-Income (65% stable value, 20% bond index, 10% emerging debt, 5% high yield bonds) transitioning to 100% stable value
      - Maintain conservative mix while recognizing continued tuition increases while in college
    - ✓ Flexible glide path entry based on participant's risk tolerance, with suggested age bands
      - Beneficiary age ranges are suggestions only – allows for a more conservative or aggressive track depending on investor preference
  - ✓ Progressive glide path - Age-Based Rebalancing Policy provides for interim changes to smooth the evolution between three-year stages

|   | Current Month | 3 Months Ending | Cal Year Ending | 1 Year Ending | 3 Year Ending | 5 Year Ending | 10 Year Ending | Inception Ending | Inception Date |
|---|---------------|-----------------|-----------------|---------------|---------------|---------------|----------------|------------------|----------------|
| <b>AGE-BASED PORTFOLIOS</b>                     |               |                 |                 |               |               |               |                |                  |                |
| <b>2036 Portfolio</b>                           | <b>-0.50</b>  | <b>-0.68</b>    | <b>-0.68</b>    | <b>11.36</b>  |               |               |                | <b>13.95</b>     | <b>Jan-17</b>  |
| 2036 Benchmark                                  | -0.52         | -0.58           | -0.58           | 12.28         |               |               |                | 14.37            |                |
| <b>2033 Portfolio</b>                           | <b>-0.57</b>  | <b>-0.55</b>    | <b>-0.55</b>    | <b>11.10</b>  | <b>6.37</b>   |               |                | <b>6.61</b>      | <b>Jan-14</b>  |
| 2033 Benchmark                                  | -0.57         | -0.59           | -0.59           | 11.53         | 6.49          |               |                | 6.65             |                |
| <b>2030 Portfolio</b>                           | <b>-0.43</b>  | <b>-0.52</b>    | <b>-0.52</b>    | <b>9.96</b>   | <b>5.86</b>   | <b>6.93</b>   |                | <b>7.28</b>      | <b>Jan-11</b>  |
| 2030 Benchmark                                  | -0.41         | -0.56           | -0.56           | 10.21         | 5.92          | 7.03          |                | 7.21             |                |
| <b>2027 Portfolio</b>                           | <b>-0.36</b>  | <b>-0.49</b>    | <b>-0.49</b>    | <b>8.82</b>   | <b>5.31</b>   | <b>6.35</b>   | <b>5.57</b>    | <b>5.20</b>      | <b>Feb-08</b>  |
| 2027 Benchmark                                  | -0.36         | -0.58           | -0.58           | 8.84          | 5.31          | 6.40          | 5.37           | 5.08             |                |
| <b>2024 Portfolio</b>                           | <b>-0.30</b>  | <b>-0.43</b>    | <b>-0.43</b>    | <b>7.75</b>   | <b>4.85</b>   | <b>5.75</b>   | <b>5.15</b>    | <b>5.47</b>      | <b>Aug-05</b>  |
| 2024 Benchmark                                  | -0.31         | -0.55           | -0.55           | 7.57          | 4.78          | 5.72          | 4.67           | 5.03             |                |
| <b>2021 Portfolio</b>                           | <b>-0.05</b>  | <b>-0.35</b>    | <b>-0.35</b>    | <b>6.00</b>   | <b>3.94</b>   | <b>4.89</b>   | <b>4.66</b>    | <b>5.64</b>      | <b>Jan-02</b>  |
| 2021 Benchmark                                  | -0.03         | -0.45           | -0.45           | 5.78          | 3.85          | 4.84          | 4.25           | 5.18             |                |
| <b>2018 Portfolio</b>                           | <b>0.23</b>   | <b>-0.03</b>    | <b>-0.03</b>    | <b>3.41</b>   | <b>2.56</b>   | <b>3.70</b>   | <b>4.12</b>    | <b>4.32</b>      | <b>Jan-00</b>  |
| 2018 Benchmark                                  | 0.25          | -0.16           | -0.16           | 3.18          | 2.48          | 3.67          | 3.64           | 3.26             |                |
| <b>2015 Portfolio</b>                           | <b>0.17</b>   | <b>0.49</b>     | <b>0.49</b>     | <b>1.85</b>   | <b>2.02</b>   | <b>2.74</b>   | <b>3.60</b>    | <b>3.99</b>      | <b>Jan-00</b>  |
| 2015 Benchmark                                  | 0.20          | 0.57            | 0.57            | 1.97          | 1.77          | 2.56          | 2.94           | 3.01             |                |
| <b>PASSIVELY-MANAGED STATIC PORTFOLIOS</b>      |               |                 |                 |               |               |               |                |                  |                |
| <b>Aggressive Growth Portfolio</b>              | <b>-0.99</b>  | <b>-0.54</b>    | <b>-0.54</b>    | <b>12.22</b>  | <b>7.32</b>   | <b>8.93</b>   | <b>6.41</b>    | <b>6.25</b>      | <b>Jan-02</b>  |
| Aggressive Growth Benchmark                     | -1.33         | -0.77           | -0.77           | 12.34         | 7.47          | 8.99          | 6.90           | 6.56             |                |
| <b>Moderate Growth Portfolio</b>                | <b>-0.55</b>  | <b>-0.56</b>    | <b>-0.56</b>    | <b>9.56</b>   | <b>5.93</b>   | <b>7.25</b>   | <b>5.83</b>    | <b>5.80</b>      | <b>Jan-02</b>  |
| Moderate Growth Benchmark                       | -0.81         | -0.74           | -0.74           | 9.65          | 6.06          | 7.15          | 6.15           | 6.02             |                |
| <b>Conservative Income Portfolio</b>            | <b>0.33</b>   | <b>-0.67</b>    | <b>-0.67</b>    | <b>4.28</b>   | <b>2.89</b>   | <b>3.73</b>   | <b>4.04</b>    | <b>4.25</b>      | <b>Jan-02</b>  |
| Conservative Income Benchmark                   | 0.22          | -0.75           | -0.75           | 4.37          | 3.15          | 3.49          | 4.05           | 4.25             |                |
| <b>Total Stock Market Portfolio</b>             | <b>-1.99</b>  | <b>-0.60</b>    | <b>-0.60</b>    | <b>13.80</b>  | <b>10.09</b>  | <b>12.88</b>  | <b>9.56</b>    | <b>8.45</b>      | <b>Aug-05</b>  |
| Ttl Stock Mkt Benchmark                         | -1.99         | -0.63           | -0.63           | 13.77         | 10.08         | 12.89         | 9.55           | 8.45             |                |
| <b>Total Bond Market Portfolio</b>              | <b>0.63</b>   | <b>-1.49</b>    | <b>-1.49</b>    | <b>1.04</b>   | <b>1.01</b>   | <b>1.61</b>   | <b>3.43</b>    | <b>3.72</b>      | <b>Sep-05</b>  |
| Ttl Bond Mkt Benchmark                          | 0.63          | -1.51           | -1.51           | 1.14          | 1.08          | 1.68          | 3.45           | 3.72             |                |
| <b>Ttl International Stock Portfolio</b>        | <b>-0.64</b>  | <b>-0.46</b>    | <b>-0.46</b>    | <b>16.98</b>  | <b>6.81</b>   | <b>6.25</b>   | <b>2.66</b>    | <b>5.15</b>      | <b>Sep-05</b>  |
| Ttl Int'l Stock Benchmark                       | -1.64         | -1.11           | -1.11           | 16.95         | 6.96          | 6.83          | 2.78           | 4.87             |                |
| <b>Inflation-Protected Securities Portfolio</b> | <b>1.00</b>   | <b>-0.95</b>    | <b>-0.95</b>    | <b>0.54</b>   | <b>1.09</b>   | <b>-0.17</b>  | <b>2.59</b>    | <b>3.37</b>      | <b>Sep-05</b>  |
| Inflation-Protected Benchmark                   | 1.04          | -0.82           | -0.82           | 0.82          | 1.18          | -0.10         | 2.74           | 3.47             |                |
| <b>REIT Portfolio</b>                           | <b>3.86</b>   | <b>-8.09</b>    | <b>-8.09</b>    | <b>-4.52</b>  | <b>0.69</b>   | <b>5.64</b>   | <b>6.36</b>    | <b>6.37</b>      | <b>Sep-05</b>  |
| REIT Benchmark                                  | 3.90          | -8.12           | -8.12           | -4.48         | 0.76          | 5.71          | 6.11           | 6.17             |                |
| <b>FDIC-Insured Portfolio</b>                   | <b>0.05</b>   | <b>0.13</b>     | <b>0.13</b>     | <b>0.43</b>   |               |               |                | <b>0.42</b>      | <b>Jan-17</b>  |
| FDIC-Insured Benchmark                          | 0.12          | 0.32            | 0.32            | 0.97          |               |               |                | 0.85             |                |
| <b>ACTIVELY-MANAGED STATIC PORTFOLIOS</b>       |               |                 |                 |               |               |               |                |                  |                |
| <b>Active Aggressive Portfolio</b>              | <b>-0.53</b>  | <b>-0.67</b>    | <b>-0.67</b>    | <b>11.46</b>  |               |               |                | <b>11.69</b>     | <b>Oct-15</b>  |
| Active Aggressive Benchmark                     | -0.52         | -0.57           | -0.57           | 12.28         |               |               |                | 12.18            |                |
| <b>Active Moderate Portfolio</b>                | <b>-0.33</b>  | <b>-0.53</b>    | <b>-0.53</b>    | <b>8.37</b>   |               |               |                | <b>8.71</b>      | <b>Oct-15</b>  |
| Active Moderate Benchmark                       | -0.36         | -0.58           | -0.58           | 8.43          |               |               |                | 8.69             |                |
| <b>Active Conservative Portfolio</b>            | <b>-0.04</b>  | <b>-0.41</b>    | <b>-0.41</b>    | <b>5.20</b>   |               |               |                | <b>5.62</b>      | <b>Oct-15</b>  |
| Active Conservative Benchmark                   | -0.03         | -0.45           | -0.45           | 5.05          |               |               |                | 5.41             |                |
| <b>Socially Targeted Portfolio</b>              | <b>-0.68</b>  | <b>-0.22</b>    | <b>-0.22</b>    | <b>11.54</b>  | <b>8.86</b>   | <b>11.76</b>  |                | <b>12.81</b>     | <b>Nov-09</b>  |
| Socially Targeted Benchmark                     | -2.55         | -0.79           | -0.79           | 13.89         | 10.65         | 13.16         |                | 13.96            |                |
| <b>Stable Value Portfolio</b>                   | <b>0.17</b>   | <b>0.49</b>     | <b>0.49</b>     | <b>1.86</b>   | <b>1.68</b>   | <b>1.55</b>   | <b>2.47</b>    | <b>3.50</b>      | <b>Jan-00</b>  |
| Stable Value Benchmark                          | 0.20          | 0.57            | 0.57            | 1.97          | 1.37          | 1.17          | 1.30           | 2.63             |                |

**Note:** Performance Returns are calculated by BNY Mellon Asset Servicing. They are presented net of management fees and Invest529 administrative fees.

# CollegeAmerica

## *an Advisor-Sold Program*

### ❖ Investment options:

#### ❑ American Funds mutual funds (closed architecture)

- Performance reviewed quarterly by IAC and Board
- American Funds mutual fund investment options approved annually

### ❖ Omnibus Conversions / Transitions – Update

- Edward Jones, Wells Fargo Advisors, Raymond James and over 140 dealers that participate in the Pershing 529 omnibus platform can hold College America assets directly on their systems
- 2016 – Raymond James converted their 529 accounts resulting in a 38% increase in sales YTD
- 2017 - Merrill Lynch launched CollegeAmerica on their brokerage omnibus platform (May). Morgan Stanley expected to launch CollegeAmerica on their omnibus platform (September)
- 2018 and beyond – Active discussions continue with dealer firms including National Financial (NFS)/Fidelity, Charles Schwab, LPL, and UBS

### ❖ Silver-rated by Morningstar

## ABLEnow Investment Portfolios

### Aggressive Growth



Vanguard LifeStrategy  
Growth Fund

Approx. 80% Equity  
Approx. 20% Fixed Income

### Conservative Income



Vanguard LifeStrategy  
Income Fund

Approx. 20% Equity  
Approx. 80% Fixed Income

### Moderate Growth



Vanguard LifeStrategy  
Moderate Growth Fund

Approx. 60% Equity  
Approx. 40% Fixed Income

### Money Market



Fidelity® Investments Money  
Market Government Portfolio

100% Cash & cash equivalents

# ABLEnow<sup>SM</sup>

## Achieving a Better Life Experience

ABLEnow<sup>SM</sup> is a new way to save, invest and pay for qualified disability-related expenses. Now, for the first time ever, eligible individuals can save up to \$14,000 a year without endangering eligibility for certain benefit programs critical to their health and well-being.

ABLEnow accounts are made possible by the Achieving a Better Life Experience (ABLE) Act, which authorized states to establish tax-advantaged savings programs for individuals with disabilities and their families.

### Who is Eligible?

Individuals who developed the onset of their disability before the age of 26 may be eligible to open an ABLEnow account. ABLEnow accounts are available to eligible U.S. citizens and legal residents, regardless of state residency.

### Why Save with ABLEnow?

#### It's Flexible

ABLEnow accounts are designed to be flexible—easy to manage, easy to contribute and easy to use to pay for qualified disability expenses. There's no minimum to open an account. Pay for qualified expenses online or with the ABLEnow Card.

#### It's Tax-Advantaged

Earnings grow free from federal taxes. In addition, some states may offer state tax incentives. For example, in Virginia, earnings grow free from federal and state taxes. Virginia also offers an annual state income tax deduction of up to \$2,000 per contributor for contributions to an ABLEnow account.

#### It Doesn't Impact Benefits

Generally, funds in an ABLEnow account are disregarded when determining eligibility for certain federal means-tested benefits programs, such as Medicaid and Supplemental Security Income (SSI). For these rules and details, please visit [able-now.com](http://able-now.com).

### ABLEnow Card



ABLEnow account holders receive the ABLEnow Card—a debit card providing a simple, fast way to pay for qualified disability expenses.

## Qualified Disability Expenses

ABLEnow accounts may be used to pay a variety of expenses related to maintaining health, independence and quality of life.



Basic living expenses



Health and wellness



Housing



Financial management



Transportation



Education and training



Assistive technology



Legal fees



“An ABLEnow account will allow our family to save for Larry’s future. He’ll be able to have his own money. The financial stability ABLEnow offers will give him freedom and independence.”



“ABLEnow allows many parents to plan for their child’s future for the first time. Anyone can contribute—family and friends—and money saved in this account won’t jeopardize disability benefits.”



“This offers hope for the future. Before ABLEnow, I could only have enough funds in my account to pay monthly bills. I couldn’t save. Now, I can start building a nest egg and not have to worry as much about the future.”

Learn more at [able-now.com](https://able-now.com)

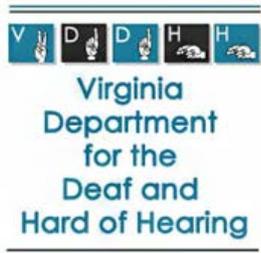
## ABLE - Accounts and Assets Under Management

As of: March 31, 2018

| Program                                     | Accounts                      | Assets Under Management | Current Month Additions/Conts. <sup>(1)</sup> | Change from Prior Month | June 30, 2017 |
|---|-------------------------------|-------------------------|---|-------------------------|---------------|
| <b>ABLEnow</b>                              |                               |                         |   |                         |               |
| <b>Total Active Accounts <sup>(2)</sup></b> | <b>2,615</b>                  |                         | <b>201 *</b>                                  | 8.3%                    | 1,517         |
| <b>Total Dollars Under Management</b>       |                               | <b>\$ 8,368,967</b>     | <b>\$ 635,120</b>                             | 8.2%                    | 2,780,851     |
| <b>ABLEnow Portfolios</b>                   | <b>Consumers with Balance</b> | <b>Total Assets</b>     |   |                         |               |
| Money Market                                | 131                           | \$ 491,283              | 53,094  | 12.1%                   | 128,264       |
| Conservative Income                         | 51                            | \$ 145,225              | 25,311  | 21.1%                   | 26,156        |
| Moderate Growth                             | 102                           | \$ 621,074              | 96,152  | 18.3%                   | 147,600       |
| Aggressive Growth                           | 178                           | \$ 1,594,188            | 100,495                                       | 6.7%                    | 435,636       |
| <b>ABLEnow Deposit Account</b>              | <b>Consumers with Balance</b> | <b>Total Assets</b>     |   |                         |               |
| NOW Account                                 | N/A                           | \$ 5,517,196            | 360,067                                       | 7.0%                    | 2,043,195     |

# Community Outreach

- Creating partnerships and developing relationships with state and national partner organizations
- Event attendance/speaking engagements



VIRGINIA DEPARTMENT OF SOCIAL SERVICES



*Building a better economic future for Americans with disabilities*



*Dream Save Achieve*

BORN·THIS·WAY **A&E**



# ABOUT THE PROGRAM

## GOALS

Inspire 10th, 11th, and 12th grade students from low- and moderate-income households to:

- Complete high school and earn diplomas
- Pursue higher education
- Complete higher education, earning associate, bachelor or technical degrees

## HISTORY

Established as a pilot program in 2010 and made permanent in 2015, SOAR Virginia further expands Virginia529's mission to make higher education more affordable and accessible, especially to students who face financial obstacles.

Virginia529 commits scholarship dollars towards an Invest529 account each year of high school

SOAR Virginia is supported by Virginia529's non-general operating funds

## HOW IT WORKS

SOAR Virginia scholars can expect to:

- Commit to the SOAR Virginia Pledge
- Explore interests, skills and opportunities
- Plan for college and possible careers
- Complete college and financial aid applications
- Earn up to \$2,000 in scholarship<sup>1</sup>

<sup>1</sup>For 10th and 11th grades, scholars will be awarded \$500 in an Invest529<sup>®</sup> account. For 12th grade, scholars will be awarded \$1,000 in an Invest529<sup>®</sup> account.

## PARTNERS

Virginia529 partners with college access providers across the Commonwealth to offer the SOAR Virginia program in select high schools.



Early Identification Program

## WHAT SOAR VIRGINIA SCHOLARS SAY:

"I grew up in a family where education was not highly emphasized. When I was selected for SOAR and had to maintain a certain GPA, I started working harder in school and received grades beyond my expectations."

"Financial aid was kind of a mystery to me, but the program put me on track for success and taught me what it takes to be successful."

"If it weren't for this program, I would have been lost in high school. It gave me hope and it taught me how to accomplish things on my own. I became more responsible and ambitious and I will be forever grateful."



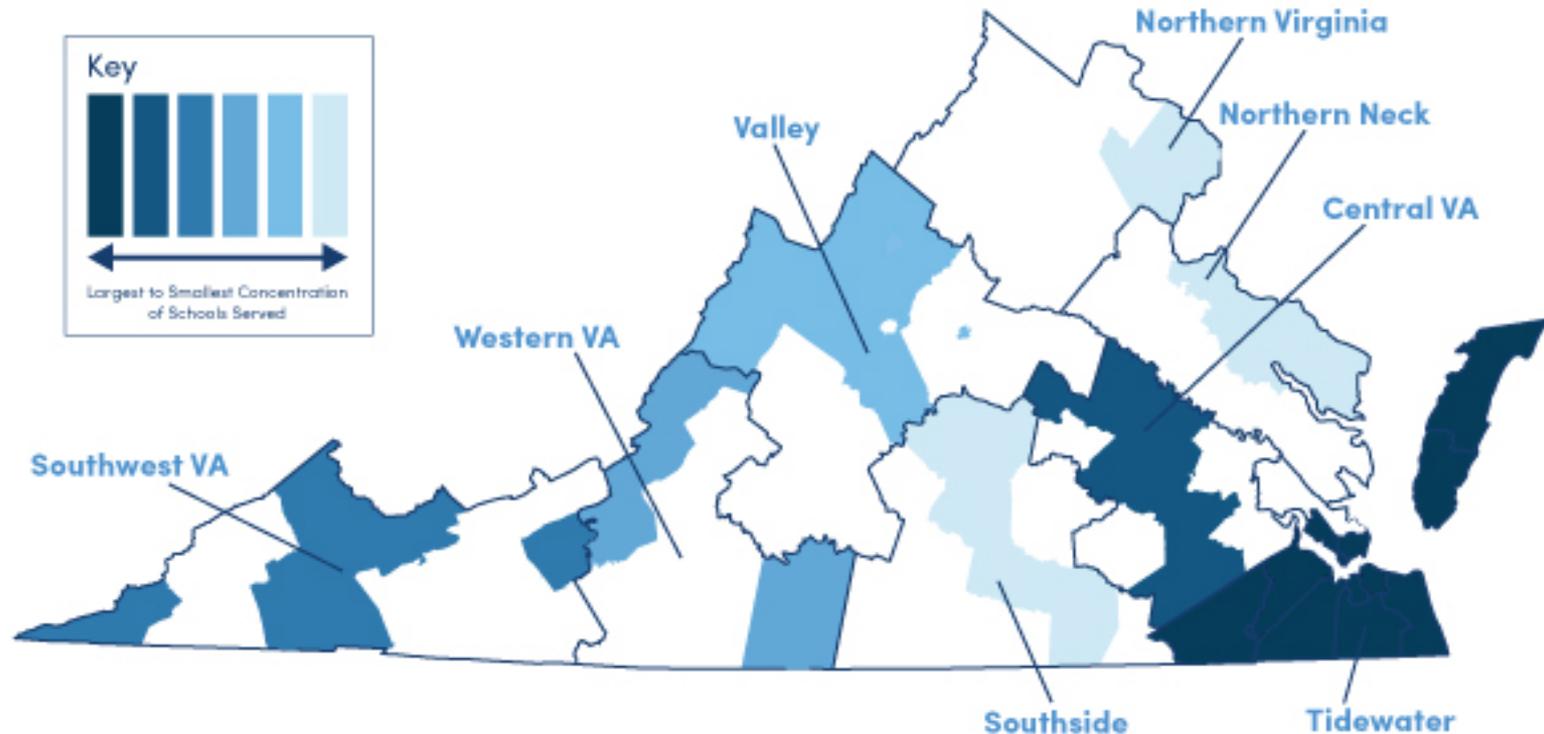
# 2017-2018 ENROLLMENT SUMMARY

Virginia  
529

- ▶ More than **1000** new students enrolled for the 2017-2018 school year
- ▶ More than **2800** total students participating in the program during the 2017-18 school year
- ▶ **More than 60 School Districts Participating**
  - SOAR Virginia operates across Virginia from the Eastern Shore to Lee County
  - **114** high schools<sup>1</sup> served

<sup>1</sup>Schools are selected using SCHEV study of need

## Schools and Counties Served by SOAR Virginia



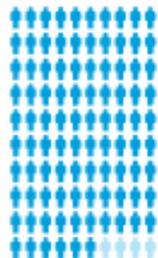


# 2016-2017 Program Results

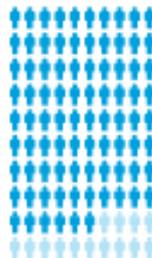
SOAR Virginia is an early commitment scholarship program developed and sponsored by Virginia529 College Savings Plan that encourages students to commit to earning good grades, being good citizens, pursuing higher education and rewards them with scholarship support up to \$2,000 and services from college access providers.

More than  
**3,700**  
students served

96% completed  
or are continuing  
in the program



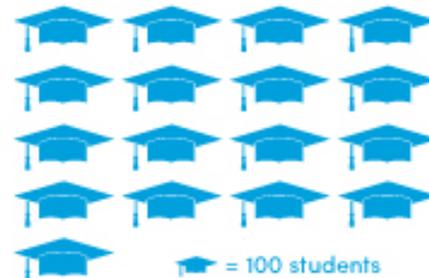
86% earned  
scholarship  
awards



More than  
**1,700**

scholars have graduated  
from high school and  
the program

Many earned advanced  
diplomas



Most SOAR Virginia graduates go on to attend  
four-year public colleges in Virginia

Spread across approximately 80 different higher education institutions

**90%**

Virginia  
Colleges

**81%**

Public  
Colleges

**77%**

4-Year  
Colleges



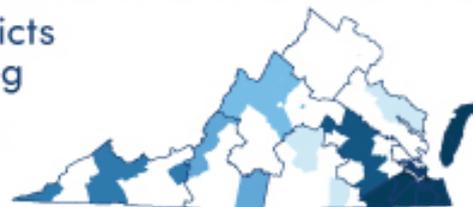
Over  
**\$4**

million in scholarship  
support awarded

With over \$650,000 distributed  
to date

**54** school districts  
participating

SOAR Virginia operates across  
Virginia from the Eastern  
Shore to Lee County



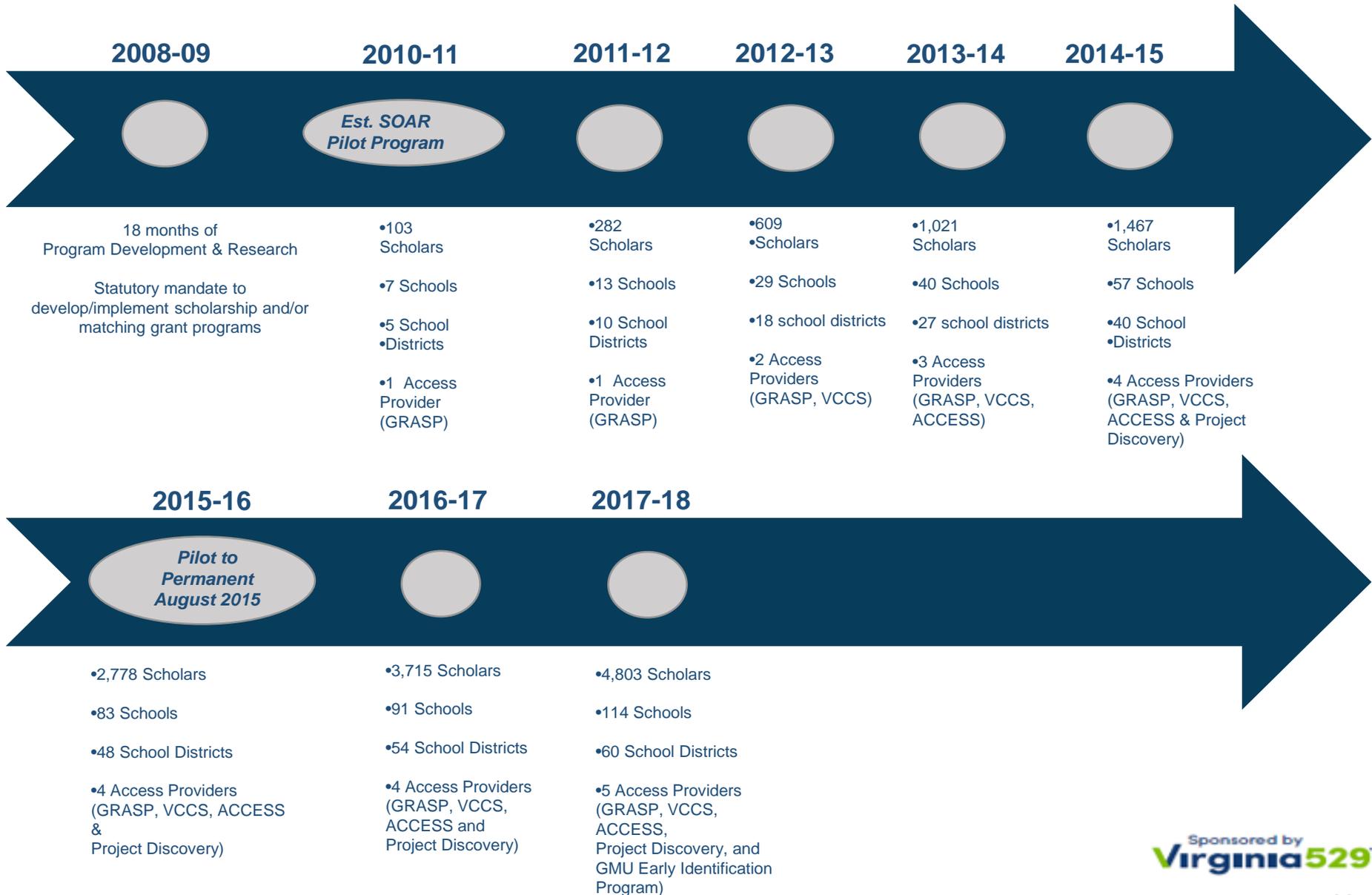
15 participating districts are  
high need as identified by  
State Council of Higher Education for Virginia

91 high schools provide SOAR Virginia services

A high need district is defined as a district that is significantly underperforming in graduation rate and dropout rate and is above the state average in at least one of the following two categories: percentage of students qualifying for the National School Lunch (NSLP) program or percentage of students from low-income families.

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# SOAR Virginia® Timeline





**JLARC  
November 13, 2017**

**Remarks of Shawn McLaughlin  
Chairman, Virginia529 Board**

Good morning. My name is Shawn McLaughlin. I am the Chairman of the Virginia529 Board. Thank you for inviting me to speak.

Virginia529 manages the largest college savings program in the country with over \$66 billion in AUM as of October 31st. Of that, about \$2.6 billion is invested in the Prepaid529 program.

Prepaid529 is Virginia529's oldest program having its first open enrollment period in 1996/1997. Over its twenty years, more than 123,000 prepaid tuition contracts have been purchased, with over 63,000 funded accounts currently waiting for maturity and distribution. Our first tuition distribution year was in 2001 and we have distributed over \$1.5 billion to from the program in the last 17 years – almost \$170 million in FY2017 alone and of that, over \$112.5 million was distributed to Virginia public universities and community colleges.

Prepaid529 is a successful and well-managed program, as evidenced by biennial JLARC reports issued in 2014 and 2016 and two quadrennial actuarial audits performed by Gabriel, Roeder, Smith (GRS), the actuary selected by JLARC to review our actuarial assumptions. The results of those audits were presented to the Commission in July 2013 and July 2017. The prepaid trust fund was 138% funded, on an actuarial basis, as of June 30, 2017. We have been pleased to see a steady growth in funded status from the low experienced during the recession of 2008-2009. As you probably are aware, an actuarial funded status of 100% translates into a 50% chance that assets will be sufficient to meet future obligations. All of this is determined by our actuary, Milliman, Inc, based on their actuarial simulations. At the current funded status, Milliman estimates the Program has an actuarially determined 99% chance of meeting future obligations – a highly desirable status. Of course, all such valuations and reports on funded status are tools, representing a point in time, designed to provide valuable information about the overall financial strength and solvency of the program.

### 2017 GRS Report

In July 2017, GRS provided a written report on its second quadrennial actuarial audit of Virginia529. The two key findings in the 42 page report are (1) Prepaid529 is actuarially sound and (2) the assumptions used in Prepaid529s actuarial report are reasonable. [SLIDE 4]

The GRS report also included a summary of eight areas and minor recommendations they noted while performing the audit. Again, the high level take-away is that GRS reported that the Virginia529 report on actuarial findings, assumptions and conclusions are reasonable and appropriate. The areas noted are summarized in SLIDES 5 AND 6.

Today I will address only one of those minor recommendations as it is the item isolated for further consideration by JLARC staff in their July 2017 report and is the primary reason for my visit with you today.

GRS first noted on page 2 of their 2017 Report that the pricing methodology for Prepaid529 is actuarially sound. The report further noted that as a result of the actuarial soundness, funding level and average load on contract pricing, Virginia529 should CONSIDER two options: (1) decrease the pricing reserve and/or (2) modify the asset allocation of investments to further reduce risk. It is important to note

that the actuarial soundness and funding level are two extremely POSITIVE aspects of our Prepaid529 program. The pricing reserve has increased slightly over our 10% target, to near 11% last year because of strong performance and other favorable results. I note also that the JLARC staff recommendation with respect to this item is different from the GRS recommendation and I will address that after I address the foundational issues of our asset allocation and pricing reserve strategies.

### Asset Allocation

The Virginia529 Board and Investment Advisory Committee examine the Program's asset allocation annually. The review for 2017 is complete and no changes in the allocation strategy were recommended. The current strategy provides a balanced portfolio with what the Committee and Board have determined are appropriate risk characteristics. The Board has intentionally adopted an approach with a defensive position designed to minimize downside risk while capturing upside potential. I understand that the Program's investment governance, experience and results were discussed at some length in July. I will not go further into our asset allocation strategy unless you have specific questions. Our results have been excellent to date – as evidenced by the strength of our funded status.

### Actuarial Pricing Reserve

Virginia529 has always used a prudent pricing strategy which includes pricing for an actuarial reserve; since 2008, we have made a conscious effort to maintain an actuarial reserve of 10%. Included in the Appendix, pages 11-12, to our presentation is a letter dated September 18, 2017 from our actuary, Milliman, Inc. specifically addressing the need for an actuarial reserve and expressing their endorsement of the practices of Virginia529 in this regard reserve as a necessary part of a successful program. No state prepaid program of which we are aware has an official target for their reserve levels. GRS, at the July meeting of this body (JLARC), in response to questions as to an appropriate reserve amount, confirmed that the current Prepaid529 reserve is, in their opinion, "reasonable".

Prepaid plans are defined benefit plans. But unlike a DB pension plan, in which the employer is responsible for making annual contributions toward maintaining a funded plan, a prepaid tuition program charges a one-time contract price and cannot later go back to the purchaser and request additional funds. For this reason, Virginia529 prudently include the reserve when it computes prices annually in advance of each prepaid enrollment period. This is akin to an insurance company assessing a small amount in its periodic premiums to build a capital reserve.

It is also similar to the Commonwealth's rainy day fund which allocates certain revenues to prepare for years in which it may experience a revenue shortfall.

### Virginia529 Prudent Management

The twenty plus year record of Prepaid529 illustrates why the Board does not panic when actuarial funded status dips below 100% in times of financial turbulence or celebrate when it moves above a 100% funded status. It also explains why it is so important to follow our methodology and maintain our pricing model in good and bad years – avoiding short term thinking or behaviors and keeping our eye on the future health of the program. As you can see in the chart on **SLIDE 3** of our presentation, Prepaid529's funded status has always shown volatility, as we would expect. For example, in the period following the recession of the early 2000's and then the tech bubble crash, Prepaid529's funded ratio declined from 122% to 80%. Over the next several years, it moved slowly back above 100%. In the 2007-2009 period during and following the so-called Great Recession, the funded ratio dropped from 107% to 85%. During these periods Prepaid529 benefited from having a solid capital cushion. And, based on experience and understanding our

investments, as the economy improved so did the funded status of the Prepaid529 program.

The current healthy funded status is primarily the result of an eight-year bull market that is now in extra innings. It is also the result of several recent years of relatively modest tuition growth, driven in part by temporary increases in state funding of Virginia's public universities based on federal fund availability and to a renewed focus on college affordability and tuition and fee policies. We have been reducing our tuition increase assumption for the past few years.

Virginia529 has always priced the Prepaid529 contracts using sound actuarial assumptions. At the same time we remain cognizant of the growing cost of the contracts as a result of tuition growth and its impact on access and affordability. Since its inception, the Program has seen single year tuition in erases as high as 22.1%. Volatility in the financial markets and tuition inflation and tuition and fee policies make managing the prepaid portfolio challenging to be sure.

To ensure we are doing the best for the citizens of the Commonwealth, the committees of Virginia529 and the Board annually review the pricing reserve and funded status when contracts are priced for the

upcoming enrollment period. Our starting point is current enrollment weighted average tuition at Virginia public universities, growing that amount by our assumed tuition increase assumption (5% for 2017-18 and 6.5% thereafter) then discounting back using our assumed long-term investment return assumption (6.25%. During this review, we determine whether, and how much, prices will increase. Historically, contract prices reflect recent tuition increases; however, sometimes that is not required. For example, in 2016 there was no price increase even though weighted average tuition increased by almost 5%. In 2017, contract prices will increase by 4.1% although weighted average tuition grew by 4.5%. This reflects, in part, the Board's sensitivity to contract prices and their impact on the ability of families to participate in the program.

**JLARC Staff Recommendation: Written Funded Status Policy**

As an offshoot of the GRS recommendations related to the pricing reserve and asset allocation, and based on discussions with other prepaid programs as a part of their recently concluded Virginia529 Investment Study, JLARC staff in July proposed that the Commission adopt a motion directing the Virginia529 Board to develop a detailed written policy regarding funded status. Staff proposed that Virginia529 be required to report back to the Commission with a written funded status policy that would be triggered at some unstated funded level at which

point the Board would consider certain actions including but not limited to reducing the pricing load on future contracts and providing rebates to existing account owners. No action was taken on the motion but the Commission did issue this invitation to discuss the topic. We appreciate the opportunity to discuss our asset allocation, pricing and funded status philosophy.

We believe that a written funded status policy is ill advised and that our pricing reserve is appropriate, as discussed already at length. Further, any consideration of any kind of rebate or adjustment to existing contracts would be an extreme measure for an extreme circumstance which does not currently exist. We see significant potential harm to the prepaid program with such a move,

For some context, of the eleven other states with open prepaid tuition programs, only two - Maryland and Mississippi - have any written policy related to funded status. The Maryland policy is completely discretionary and does not mention their reserves, just funded status. They have selected a funded status of 130% as the point at which they might consider some type of unspecified action. Despite being above 130% funded the past few years, the Maryland 529 board has declined to take any action, recognizing that the current funded level is

primarily attributable to market gains from a long bull market which could change quickly.

Mississippi has a policy for their newly opened prepaid program - which came about as a result of having to close their original program due to its severely underfunded status and other challenges. The Mississippi funded status policy provides a vehicle to perhaps reimburse the state for any payments made to the older legacy program. As best we can tell - and based on news reports at the time the legacy program was closed - it ran into trouble because the plan did not follow a prudent pricing strategy and provided for **NO PRICING RESERVE**. Mississippi has adjusted for those shortcomings in their new program. A chart with pertinent information on each open prepaid program is provided for your information on **SLIDE 9**. In addition, **SLIDE 8** contains information on the funded status and reserves/deficits of other prepaid and prepaid-like programs.

We certainly recognize the necessity of always reviewing our assumptions and pricing methodology - and remaining focused on providing programs to help make college more affordable and accessible and a prepaid program that is priced as low as possible while ensuring our ability to meet all future obligations. Having said that, we believe

that adopting a written policy that would dictate some action at an arbitrarily determined funded status would be a grave mistake and potentially politicize a process that for more than twenty years has avoided that pitfall.

### Virginia529 Board and Staff Experience and Results

The Virginia529 Board is comprised of the State Treasurer, State Controller, Director of SCHEV, Chancellor of the Virginia Community College System and seven citizen members, four appointed by the Governor, two by the Speaker of the House and one by the Senate Rules Committee. Virginia529 has always utilized both an Investment Advisory Committee and an Audit and Actuarial Committee, both of which may have Board and non-Board members and all members have specific professional credentials required to serve.

In addition, we are advised by our investment consultant, Mercer, and our actuary, Milliman, Inc. Our two savings programs are rated annually by Morningstar, an independent investment research organization and again this year our Invest529 program received their highest rating, Gold - one of only four programs in the country to receive that rating. In their rating, Morningstar looks at five factors which go to the core of our governance structure. And finally, we are

subject to an annual audit by the APA and the oversight of this Commission. We hope and believe that all of the above is sufficient to convey – and ensure - the dedication to professional governance which I believe is a hallmark of Virginia529 and to ensure that all aspects of the prepaid program will be administered properly and fairly for all participants and potential participants.

The Board takes very seriously our mission to help make college more affordable and accessible to all Virginians. We have done what we can to lower the entrance cost and increase affordability of the Prepaid529 program. Several years ago we moved from yearly contracts to semester contracts to cut in half the cost of getting started. As an aside, a concern about affordability is one of many reasons we will be requesting a legislative change in the benefit structure of the program in 2018, which I understand was mentioned at the July Commission meeting. A discussion of that proposal is beyond the scope of today's meeting, but Virginia529 staff is continuing outreach efforts to discuss this with each of you individually.

Virginia529 staff and its Board and committees have effectively managed the program from inception through significant tuition increases, changes in higher education funding models and historic

capital market disruptions and are committed to continuing to do so in the future. We have never wavered from our duty to act in the best long-term interest of the Program, contract holders and the Commonwealth in pricing and administering contracts. Being prudent stewards has allowed us to weather past storms and will allow us to do so in the future, something not all prepaid programs across the country have been able to do, and we are confident in our ability to do our job and fulfill our mission without the recommended written funded status policy.

I would be happy to take any questions and our CEO, Mary Morris is here also to answer any specific questions you may have. [PAUSE FOR QUESTIONS...THEN]

If there are no [further] questions, if I might take a few minutes to update you about our actions with respect to the five staff recommendations arising out of the recently completed Investment Study?

JLARC staff in late 2016 and 2017 undertook a study regarding the investment responsibility for the prepaid program and ultimately recommended no changes in that structure. As part of the review, they looked at all aspects of our investment operations and had four specific

recommendations. I know these were addressed in some detail by Ms. Morris in July when the report was first issued and the recommendations were being addressed. I can report that all recommendations have been substantially accepted and are either complete or in progress.

1. **Change IAC charter to remove CFO from IAC membership:**  
**COMPLETE.** Although there were historical reasons that the CFO was an IAC members, staff and the IAC and Board agreed that this change was acceptable.
2. **Perform attribution analysis of Prepaid529 fund:**  
**COMPLETE.** In conjunction with Mercer, staff developed a quarterly attribution analysis report to review. Although this attribution was being reviewed by the IAC, the report provides more transparency and a more formal review.
3. **Contract with 3<sup>rd</sup> party to review benchmarks:**  
**IN PROGRESS.** A full review of benchmarks was already on the work plan for the IAC and, in light of the staff recommendation, that work is being accelerated. We are first addressing benchmarks for alternative investments and plan to complete the entire study and make changes by the end of FY18. We continue to work with Mercer and will consider whether an independent review is necessary once the initial work is complete.

**4. Work with a search firm, gather input from the IAC and board to establish roles and responsibilities of an Investment Director:**

**IN PROGRESS.** In addition to the recommendation to change the composition of its investment team and responsibilities, staff also suggested the General Assembly may wish to consider including the ID position in the Virginia529 enabling legislation. These two final recommendations have generated the most discussion and disagreement between JLARC and Virginia529 staff. The initial recommendation was modified after some discussions and we appreciate that. This has been discussed and considered in depth by Virginia529 staff and the IAC and the Board and we believe that we are substantially complying with the intent of the recommendation – if not the exact letter in terms of process. Although we believe the current structure is appropriate and functioning well, we are always willing to consider new information and opinions and consider ways to enhance our operations. As our portfolio grows as does the sophistication of our investments, an enhanced focus on the investment team is appropriate.

This recommendation has far reaching implications for the administration of the Plan and will take some time to implement. Staff and our committees and board have been involved in developing an implementation plan - which involves a reorganization of the finance division of the agency. We have accepted most aspects of the JLARC staff recommendation and VA529 management is in the middle of a search for an Investment Director. The position was posted for almost a month, in a wide variety of sources and we received over 30 applications. Staff is currently reviewing those applications and will be interviewing soon, with the hope of having an ID on board by the first of the year. We believe these actions obviate any need to address this position in our enabling legislation.

Do you have any questions on any of these items? If not, thank you for your time and consideration. We appreciate the support that Virginia529 - and now our ABLE disability savings initiatives - have always received from the Virginia General Assembly and we look forward to continuing our work to help families plan and save for higher education and disability expenses.



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