

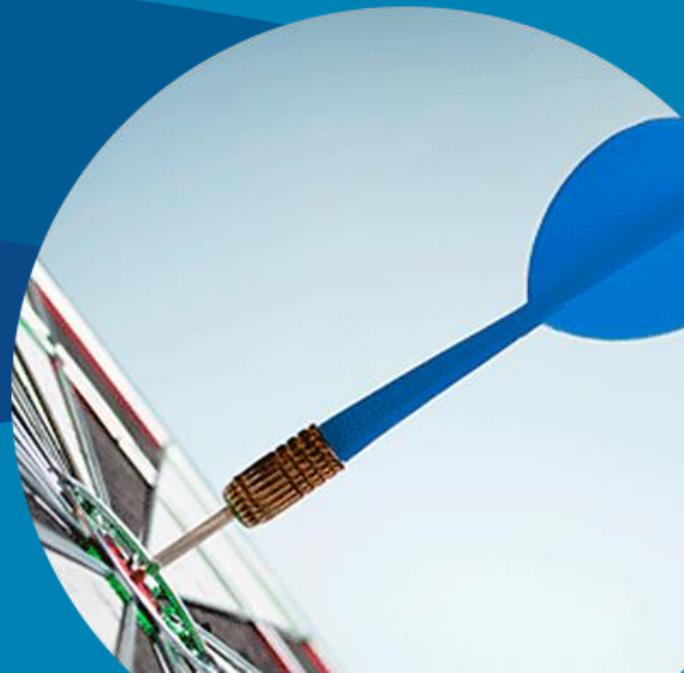


# Joint Legislative Audit and Review Commission

## 2021 Quadrennial Actuarial Audit of Virginia 529 Prepaid 529 Program

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# Executive Summary

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- Prepaid529 is actuarially sound and has more than sufficient assets to cover the actuarially estimated value of tuition obligations.
- Prepaid529 has a funded ratio of **157.4 percent** and a fund surplus of **\$1.1 billion** based on the June 30, 2020 actuarial valuation.
- Prepaid529 is projected to have a surplus of **\$3.8 billion** at the end of FY 2044 after all tuition obligations have been paid.
- The primary actuarial assumptions are reasonable.
- Prepaid529 was closed to new enrollments as of May 1, 2019. Effective February 2021, Virginia529 launched the Tuition Track Portfolio (“TTP”) as a replacement for Prepaid529.

# Agenda

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

# Background and Purpose of an Actuarial Audit

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- In accordance with the Virginia College Savings Plan Oversight Act, GRS was retained to conduct the 2021 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 Prepaid529
- This audit was completed with the full and willing cooperation of the Virginia529 staff and their retained actuary, Milliman

# Background and Purpose of an Actuarial Audit

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- GRS performed a non-replication actuarial audit of the June 30, 2020 actuarial valuation of Prepaid529 as performed by the Virginia529 retained actuary, Milliman
- GRS audit reviewed
  - Reasonableness of funding results and conclusions in the actuarial valuation, based on:
    - Detailed review of calculations for 16 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

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- 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

# Review Confirms That Prepaid529 is Actuarially Sound

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- GRS Audit Conclusions
  - The funding results and conclusions in the 2020 actuarial valuation of Prepaid529 are reasonable
  - Prepaid529 has a funded ratio of **157.4 percent** and a fund surplus of **\$1.1 billion** based on the June 30, 2020 actuarial valuation
  - Prepaid529 is projected to have a surplus of **\$3.8 billion** at the end of FY 2044 after all tuition obligations have been paid
  - 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

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- GRS Audit Conclusions
  - Primary actuarial assumptions and methods are reasonable
    - Investment return assumption
    - Inflation rate assumption
      - The current inflation rate assumption of 2.5% is at the high end of the range of reasonable assumptions
    - Tuition increase assumption
      - The ultimate 6.0% tuition increase assumption is at the high end of the range of reasonable assumptions

# Considerations and Recommendations

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- GRS recommends that Virginia529 and Milliman conduct an experience study within 12 months to review the economic and demographic actuarial assumptions, paying special attention to the:
  - Tuition increase assumption
  - Inflation rate
  - Reasonable rate assumption
    - Used if beneficiaries (1) do not attend a Virginia public institution or (2) roll funds into another college savings account

# Considerations and Recommendations

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- 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
    - Contract holders with fewer than .25 remaining semesters of tuition
    - Contracts with a status of cancelled, pending cancellation and 10-year time limit reached
  - Add additional disclosures to actuarial report to provide more clarity in accordance with Actuarial Standards of Practice Nos. 4 and 41

# Considerations and Recommendations

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- Prepaid529 was closed to new enrollments as of May 1, 2019
  - Effective February 2021, Virginia529 launched the Tuition Track Portfolio (“TTP”) as a replacement for Prepaid529
  - According to Virginia529:
    - The two programs will be combined and the assets will be commingled for investment purposes
    - There will be one actuarial valuation report prepared in future years for the combined assets and programs
  - GRS recommends that attention be given in the next audit to:
    - The actuarial assumptions for future tuition increases
    - The impact on the funded status of the combined program from the inclusion of the TTP

# Comments and Questions

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# Disclosures

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# Disclosures

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- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- The actuaries submitting this presentation (Amy Williams and Lance Weiss) are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.
- This is one of multiple documents comprising the actuarial audit results of 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 2021 Actuarial Audit Report of Prepaid529 prepared by GRS.

# Disclosures

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- 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 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 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 Prepaid529.

# Disclosures

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- 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.
- 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.