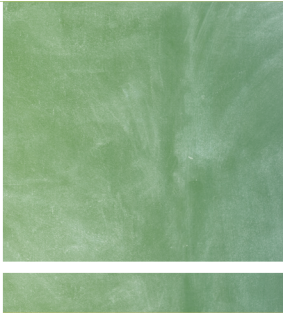


JLARC Legislator's Guide
Virginia529

2020



About Virginia529

The Virginia College Savings Plan, better known as Virginia529, was established by the General Assembly in 1994 to help make college more affordable and accessible to Virginians (Title 23.1, Chapter 7 of the Code of Virginia). Education savings plans are authorized by § 529 of the Internal Revenue Code and are sponsored in 49 states and the District of Columbia. Virginia529 offers education savings programs that participants can use to pay for educational expenses at institutions in Virginia and across the U.S. The programs offer federal and state income tax advantages on education savings and investment earnings.

Two recent changes expanded Virginia529's mission beyond college savings. In 2015, the General Assembly, in response to federal legislation, directed Virginia529 to develop a program that provides tax-advantaged savings accounts for individuals with disabilities. In 2017, the U.S. Congress expanded the allowable use of 529 education savings plans to include tuition at elementary and secondary public, private, and religious schools.

Legislative oversight

The General Assembly makes changes to Virginia529 programs through legislation. The General Assembly also approves Virginia529 spending every year in the Appropriation Act, including appropriations for administrative spending and payments made under Virginia529's defined benefit college savings program.

Under the Virginia College Savings Plan Oversight Act, the Joint Legislative Audit and Review Commission (JLARC) oversees and evaluates Virginia529 on an ongoing basis (Title 30, Chapter 51 of the Code of Virginia). JLARC publishes biennial Virginia529 oversight reports, oversees a quadrennial actuarial audit of Virginia529's defined benefit college savings program, and produces other reports as requested. Virginia529 reports annually to the General Assembly, through JLARC, on the investments held in its programs and the actuarial soundness of its defined benefit college savings program. In addition, the Auditor of Public Accounts, in conjunction with Virginia529, selects an independent auditor to audit the agency.

Operations

Virginia529 is an independent agency governed by an 11-member board, which sets policies and procedures to guide agency operations. The board is assisted by several committees, two of which are statutorily required and include experts from outside the board's membership.

The board appoints a CEO who oversees the day-to-day management of Virginia529 and its programs. An investment director serves at the pleasure of the board and assists with managing program assets. Key agency duties include directly administering some participant accounts, overseeing investments managed by external managers, overseeing third parties who hold other participant accounts and investments, and marketing the programs to customers. As an independent agency, Virginia529 is exempt from some personnel and procurement laws and regulations that apply to executive branch agencies.

Virginia529 board – 11 members

4 members appointed by the governor	Members must have experience in finance, accounting, law, investment management, higher education, or disability advocacy
3 members appointed by the General Assembly	Members must have experience in finance, accounting, law, investment management, higher education, or disability advocacy
4 members ex officio	Members represent State Council of Higher Education for Virginia, Virginia Community College System, state treasurer, and state comptroller

Virginia529's operations are entirely funded through administrative fees charged under its savings programs; the agency does not receive general fund appropriations. In FY19, Virginia529 collected \$46 million in operating revenues and had operating expenditures of \$29 million. Surplus revenues of approximately \$17 million were allocated to the fund supporting its defined benefit college savings program.

Programs

Virginia529 operates several education savings programs: a defined benefit program and two defined contribution programs. The Legacy Prepaid529 program is a defined benefit program that allowed participants to prepay college tuition and fees. The Legacy Prepaid529 program was closed to new participants in 2019, but existing accounts will continue to pay benefits in the future. Virginia529 is currently designing a new defined benefit program, which it intends to open in early 2021. The other two programs offered by Virginia529, Invest529SM and CollegeAmerica®, are defined contribution programs that allow participants to save and invest for a range of qualified education expenses. Invest529 and CollegeAmerica are open to all U.S. residents, but Virginia529's defined benefit program is only open to Virginia residents. Participants in all programs receive federal tax advantages, and Virginia residents receive state tax advantages.

Virginia529 directly manages the Legacy Prepaid529 and Invest529 programs and retains external managers to manage the programs' investments. The CollegeAmerica program is largely managed by a third-party manager under contract with Virginia529. CollegeAmerica is the largest Virginia529 program, and approximately 7 percent of its accounts are based in Virginia.

Virginia529 offers three additional programs that are not solely related to education savings. ABLEnow® and ABLEAmericaSM are the Virginia-sponsored Achieving a Better Life Experience (ABLE) savings programs offering tax-advantaged savings accounts for eligible individuals with disabilities. Qualified disability expenses that can be covered by ABLE program funds include basic living expenses, transportation, education and training, and assistive technology. SOAR Virginia is a scholarship program for low-income high school students, which assists with the college admissions process, and provides a scholarship contribution of up to \$2,000 to an Invest529 account.

Virginia529 education savings programs

Program	Accounts	Assets
Legacy Prepaid529	60,717	\$2,867,537,932
Invest529	344,582	\$5,537,054,196
CollegeAmerica	2,379,298	\$70,504,495,480

Virginia529 disability savings program

ABLEnow	7,069	\$29,889,332
ABLEAmerica	570	\$5,900,828

SOURCE: Virginia529 (December 2019).

Virginia529 education savings programs

Legacy Prepaid529 is a defined benefit program that offered prepaid college tuition contracts to Virginia residents. The program was closed to new participants in 2019. Legacy Prepaid529 benefits pay the normal full-time undergraduate tuition and mandatory fees at public colleges and universities in Virginia. Benefits can be used at private and out-of-state institutions but may not cover the full cost of tuition and fees. The program paid \$125 million in benefits in FY19.

A new defined benefit option will be offered to Virginia residents starting in early 2021. The new option will pay the *weighted average* of normal full-time undergraduate tuition and mandatory fees across public colleges and universities in Virginia. The new option will pay the same benefit regardless of the institution attended (Virginia public, private, or out-of-state).

Invest529 is a savings program sold and managed directly by Virginia529. Account owners may choose from 21 different investment options, including traditional investments such as target enrollment portfolios, an FDIC-insured savings option, and a variety of static portfolios, including passive and active target risk options. The program distributed \$369 million to participants in FY19.

CollegeAmerica is a savings program offered in partnership with a private mutual fund company, the American Funds, which is the program manager. Account owners work with private financial advisers to build their portfolios using the American Funds' mutual funds. The program distributed \$4.8 billion to participants in FY19.

Virginia529 savings programs for individuals with disabilities

ABLEnow is a savings program for individuals with disabilities that is sold directly by Virginia529 in partnership with PNC Bank. Account owners may choose from five different investment options. The program distributed \$4.8 million to participants in FY19.

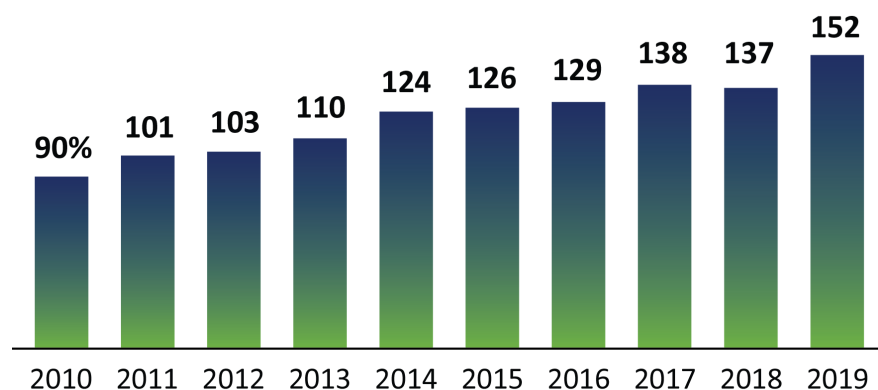
ABLEAmerica is a savings program for individuals with disabilities that is sold in partnership with American Funds. Account owners work with private financial advisers to build their portfolios using American Funds' mutual funds. Account owners can choose from seven different investment options. The program distributed \$1.1 million to participants in FY19.

Funding for Legacy Prepaid529

Virginia529 uses revenues from Legacy Prepaid529 contract sales and investment returns to pay benefits for this defined benefit program. Contract prices were set at levels intended to fully cover future obligations and were revised annually using long-term tuition and investment return assumptions. The program was 152 percent funded, on an actuarial basis, as of June 30, 2019.

Legacy Prepaid529 benefits are not guaranteed by the state. However, statute requires that a sum-sufficient appropriation be included in the governor's budget to ensure that Virginia529 can meet its obligations. In the event that Legacy Prepaid529 does not have sufficient funds, the General Assembly would then decide whether to include the funding in the Appropriation Act. Under the requirement, any such funding must be repaid to the state, interest-free, from Virginia529's excess operating revenue.

Legacy Prepaid529 actuarial funded status



SOURCE: Virginia529 Prepaid529 valuation reports.

NOTE: As of June 30 each year.

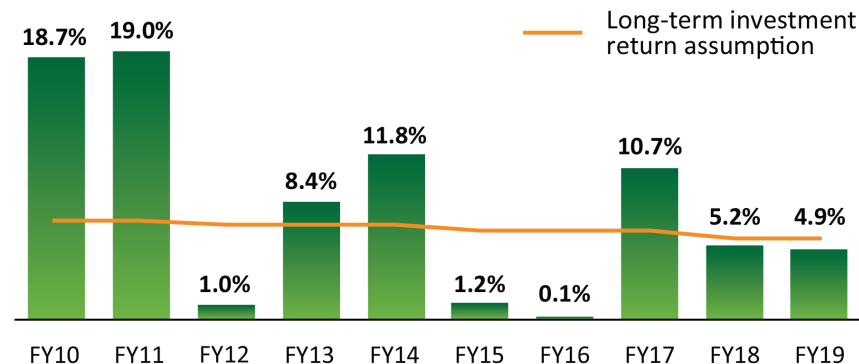
Legacy Prepaid529 investments

Virginia529 invests Legacy Prepaid529 fund assets to generate returns that help to pay benefits to program participants. Virginia529 assumes a long-term rate of return on investments of 5.75 percent, but actual returns vary from year to year.

Legacy Prepaid529 has a diversified portfolio of investments that is allocated among different asset classes, with the goal of achieving its assumed long-term return with acceptable risk and liquidity. The asset classes are public equity (stocks), fixed income (investment grade bonds, high yield bonds, bank loans, private debt, convertible bonds, and emerging market debt), and alternative investments (private equity, real estate, and hedge funds). Asset allocations are set by the Virginia529 board, and investments are managed by external private investment managers under the oversight of Virginia529 staff and Virginia529's Investment Advisory Committee. Virginia529 also contracts with an investment consultant to provide additional expertise to the investment management process.


Virginia statute places restrictions on how Legacy Prepaid529 fund assets can be used and managed. Legacy Prepaid529 assets must be administered solely in the interest of the Legacy Prepaid529 program and its contract holders (§ 23.1-706.B). The Virginia529 board has broad authority for determining how funds are invested, but in doing so, shall act as a trustee using the "prudence, discretion, and intelligence" with which they would exercise the management of their own affairs (§ 23.1-706.A).

Legacy Prepaid529 one-year investment returns



SOURCE: Virginia529 annual reports and investment data.

NOTE: Investment return assumption was reduced from 7.0 percent to 6.75 percent in FY12, from 6.75 percent to 6.25 percent in FY15, and from 6.25 percent to 5.75 percent in FY18.



For more information on Virginia529,
see virginia529.com.

JLARC.VIRGINIA.GOV

919 East Main Street Suite 2101 Richmond, VA 23219