

JLARC Legislator's Guide **Virginia529**

2018



JLARC
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

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 three 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. One program allows participants to pre-pay college tuition and fees.

Two recent changes expanded Virginia529's mission beyond college savings. In 2016, Virginia529 launched a program that provides tax-advantaged savings accounts for individuals with disabilities, after the General Assembly, in response to federal legislation, directed Virginia529 to develop a disability savings program. 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 the Prepaid529 defined benefit 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 Prepaid529 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 the Prepaid529 program. In addition, the Auditor of Public Accounts has historically audited Virginia529. Beginning in 2018, Virginia529 will be audited by an independent auditor selected by the Auditor of Public Accounts in conjunction with Virginia529.

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. Key agency duties include directly administering some participant accounts, overseeing investments held 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 have experience in finance, accounting, law, or investment management
3 members appointed by the General Assembly	Members have experience in finance, accounting, law, or investment management
4 members ex officio	Members represent State Council of Higher Education for Virginia, Virginia Community College System, state treasurer, and state comptroller

Virginia529 operations are entirely funded through fees charged under its savings programs; the agency does not receive general fund appropriations. In FY17, Virginia529 collected \$41 million in operating revenues and had operating expenditures of \$25 million. Surplus revenues of approximately \$16 million were allocated to the Prepaid529 fund.

Programs

Virginia529 offers three education savings programs: Prepaid529, Invest529, and CollegeAmerica. Prepaid529 is a defined benefit program that allows participants to prepay college tuition and fees. The other two programs are defined contribution programs that allow participants to save and invest for a range of qualified education expenses. Prepaid529 is open only to Virginia residents, and Invest529 and CollegeAmerica are open to all U.S. residents. Participants in all programs receive federal tax advantages, and Virginia residents receive state tax advantages.

Virginia529 directly manages Prepaid529 and Invest529 accounts and retains external managers to manage the programs' investments. The CollegeAmerica program is largely managed by a third-party program manager under contract with Virginia529. CollegeAmerica is the largest Virginia529 program, and approximately 10 percent of its accounts are based in Virginia.

Virginia529 offers two additional programs that are not solely related to education savings. The ABLEnow program, launched in 2016, provides tax-advantaged savings accounts for individuals with disabilities. According to federal statute, funds in ABLEnow accounts are to be disregarded when determining eligibility for certain federal means-tested benefits programs. SOAR Virginia is a scholarship program for high school students which assists with the college admissions process and with financial aid applications, and provides a scholarship contribution of up to \$2,000 to a Virginia529 account.

Virginia529 education savings programs

<i>Program</i>	<i>Accounts</i>	<i>Assets</i>
Prepaid529	63,371	\$2,703,931,435
Invest529	275,911	4,379,204,801
CollegeAmerica	2,282,170	61,636,062,532

Virginia529 disability savings program

ABLEnow	2,533	\$5,488,742
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SOURCE: Virginia529 (December 2017).

NOTE: Approximately 10 percent of CollegeAmerica accounts are based in Virginia. CollegeWealth was closed to new participants in FY17. Legacy CollegeWealth customers are included in Invest529 accounts and assets.

Virginia529 education savings programs

Prepaid529 is a defined benefit program that offers prepaid college tuition contracts to Virginia residents. Prepaid529 benefits pay the normal full-time undergraduate tuition and mandatory fees at public colleges and universities in Virginia. Prepaid529 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 \$168 million in benefits in FY17.

Invest529 is a savings program sold and managed directly by Virginia529. Account owners may choose from 21 different investment options, including traditional investments and portfolios that adjust over time with the age of the beneficiary. The program distributed \$260 million to participants in FY17.

NOTE: CollegeWealth, which was closed to new participants in 2017, allowed participants to invest in FDIC-insured savings products through participating banks. The program was closed in conjunction with the creation of an FDIC-insured portfolio as part of the Invest529 program. Distributions from legacy CollegeWealth accounts in FY17 are included in the Invest529 program distributions.

CollegeAmerica is a savings program offered in partnership with a private mutual fund company, Capital Group, which is the program manager. Account owners work with private financial advisors to build their portfolios using the Capital Group's American Funds mutual funds. The program distributed \$3.5 billion to participants in FY17.

Virginia529 disability savings program

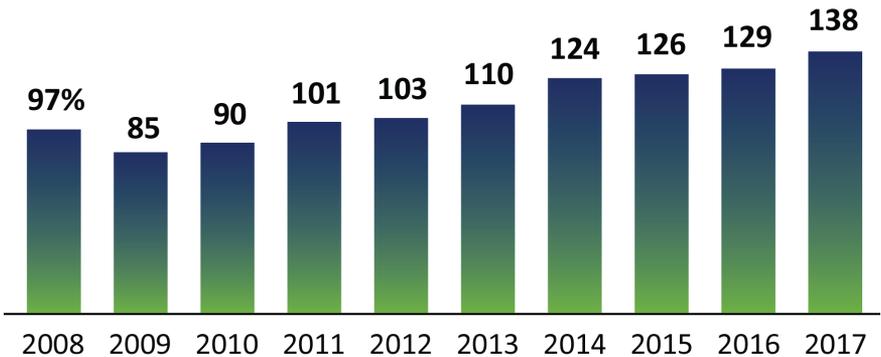
ABLEnow is the Virginia-sponsored Achieving a Better Life Experience (ABLE) savings program for eligible individuals with disabilities. Qualified expenses that can be covered by ABLEnow funds include basic living expenses, transportation, education and training, and assistive technology. ABLEnow is sold directly by Virginia529 in partnership with PNC Bank and account owners may choose from four different investment options. The program distributed \$330,000 to participants in FY17.

Funding for Prepaid529

Prepaid529 is the only defined benefit program offered by Virginia529. Virginia529 uses revenues from Prepaid529 contract sales and investment returns to pay benefits. Contract prices are set at levels that are intended to fully cover future obligations and are revised annually using long-term tuition and investment return assumptions. The program was 138 percent funded, on an actuarial basis, as of June 30, 2017.

Prepaid529 benefits are not guaranteed by the state. However, in the event that Virginia529 does not have sufficient funds, statute requires that a sum-sufficient appropriation be included in the governor’s budget to ensure that Virginia529 can meet its obligations. 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.

Prepaid529 actuarial funded status



SOURCE: Virginia529 Prepaid529 valuation reports.

NOTE: As of June 30 each year.

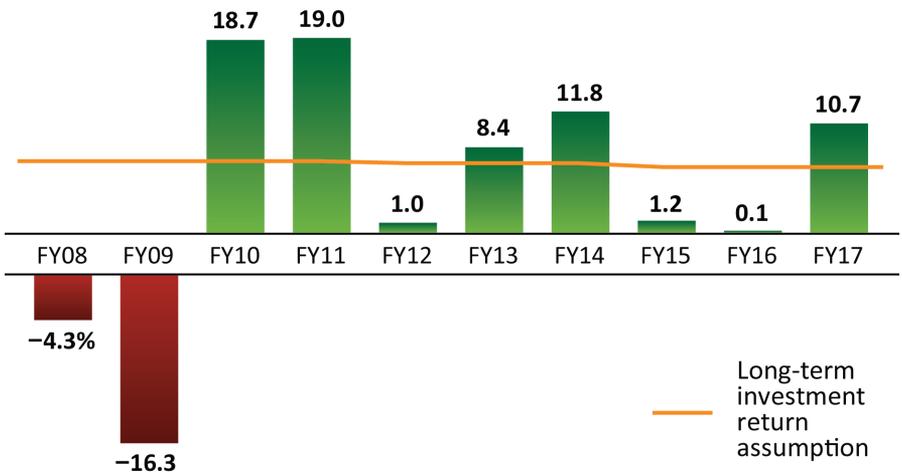
Prepaid529 investments

Virginia529 invests Prepaid529 fund assets in order to generate returns that help to pay benefits to program participants. Virginia529 assumes a long-term rate of return on investments of 6.25 percent, but actual returns vary from year to year.

Prepaid529 has a diversified portfolio of investments that are 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), core fixed income (bonds), non-core fixed income (high yield bonds, convertible bonds, and emerging market debt), and alternative investments (private equity, real assets, 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.

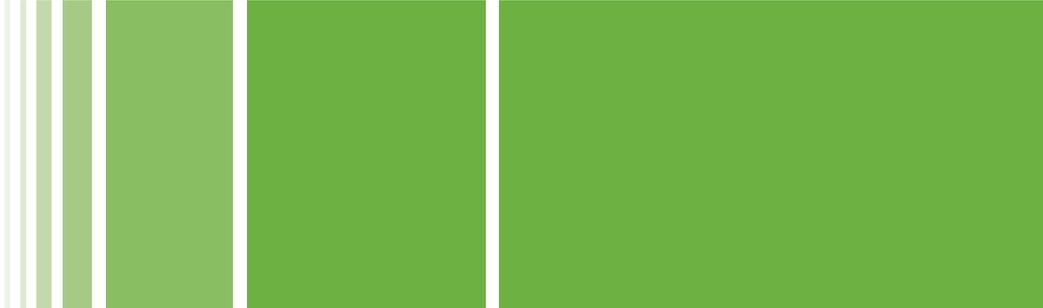
Virginia statute places restrictions on how Prepaid529 fund assets can be used and managed. Prepaid529 assets must be administered solely in the interest of the Prepaid529 program and its contract holders (§ 23.1-706.B). The Virginia529 board has the broad authority for determining how funds are invested, 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).

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 and from 6.75 percent to 6.25 percent in FY15.



For more information on Virginia529,
see virginia529.com.

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