

POTENTIAL USES FOR DEFINED BENEFIT 529 SURPLUS FUNDS

Defined Benefit 529 Surplus Funds, 2022

RECOMMENDATIONS

Removing DB529 fund surplus funds ► The General Assembly may wish to consider directing in statute the removal of actuarial surplus funds from the Defined Benefit 529 fund 1) in annual increments over a period of at least five years, and 2) up to an amount that would maintain an annual funded status of at least 125 percent for the Legacy Prepaid529 and Tuition Track Portfolio programs through FY44 based on the Virginia529 board's approved investment return and tuition increase assumptions. (Recommendation 1)

Independent committee to approve surplus withdrawals ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 (DB529) fund in statute, it may wish to consider establishing an independent standing committee that includes members with investment and actuarial expertise to review each planned annual withdrawal using updated actuarial and liquidity modeling and approve each annual withdrawal. Following the planned withdrawals of surplus funds, the General Assembly should direct that the independent standing committee have ongoing responsibility to evaluate the actuarial surplus of the DB529 fund at least every two years for the purpose of determining whether additional surplus funds can be removed subject to maintaining a funded status of at least 125 percent and ensuring adequate fund liquidity. (Recommendation 2)

Establishing account holder refunds as a permitted use of DB529 surplus funds ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund to return surplus funds to Legacy Prepaid529 account holders, it may wish to consider amending the Code of Virginia to provide clear statutory authority and direction to Virginia529 that surplus funds can be used to provide refunds to account holders. (Recommendation 3)

Plan for returning money to account holders ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund to return surplus funds to Legacy Prepaid529 account holders, it may wish to consider requiring Virginia529 to develop a plan for returning surplus funds to account holders. Virginia529 should provide the plan to the House Appropriations Committee, the Senate Finance and Appropriations Committee, and the Joint Legislative Audit and Review Commission prior to implementing it. (Recommendation 4)

Establishing higher education access and affordability programs as a permitted use of DB529 funds ► Establishing If the General Assembly directs the removal of actuarial

surplus funds from the Defined Benefit 529 (DB529) fund to provide funding for higher education access and affordability programs, it may wish to consider amending §23.1-701.C of the Code of Virginia to specify funding for higher education access and affordability programs as an allowable use of surplus funds derived from administrative fee proceeds allocated by Virginia529 to the DB529 fund. (Recommendation 5)

Legal immunity for Virginia529 board to disburse DB529 surplus funds ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund to provide funding for higher education programs, it may wish to consider amending §23.1-701.D of the Code of Virginia to provide Virginia529 board members with immunity from legal liability for disbursing surplus funds. (Recommendation 6)

Dedicated fund for higher education access and affordability ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund and designates funds for higher education access and affordability, it may wish to consider establishing in statute a dedicated fund for the purpose of annually allocating surplus funds to meet higher education access and affordability needs. (Recommendation 7)

Giving SCHEV authority to allocate access and affordability funds ► If the General Assembly directs the creation of a dedicated higher education fund with actuarial surplus funds from the Defined Benefit 529 fund, it may wish to consider (i) authorizing in statute the types of access and affordability programs that could receive allocations of dedicated fund assets, (ii) giving the State Council of Higher Education for Virginia (SCHEV) responsibility for making allocations of fund assets within those statutory guidelines, and (iii) directing SCHEV to establish an advisory committee to advise the council on making allocations of dedicated fund assets that comprises individuals with higher education experience and includes a representative of the Virginia Community College System and a representative of Virginia's historically black colleges and universities. (Recommendation 8)

Managing dedicated higher education fund ► If the General Assembly directs the creation of a dedicated higher education fund with actuarial surplus funds from the Defined Benefit 529 (DB529) fund, it may wish to consider directing Virginia529 to manage the investment of fund assets together with DB529 funds but to account for them separately. (Recommendation 9)

POLICY OPTIONS

Designating surplus fund uses ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund, it could designate 60 percent of removed surplus funds to be returned to Legacy Prepaid529 account holders and 40

percent of removed surplus funds to support higher education access and affordability programs. (Option 1)

Returning funds to account holders: beneficiaries who attend schools with below-average tuition ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund and designates funds for Legacy Prepaid529 account holders, it could direct Virginia529 to return funds to account holders whose beneficiary attended, attends, or will attend a higher education institution with tuition that is less than the weighted average tuition at the time of attendance. (Option 2)

Returning funds to account holders: repricing Legacy Prepaid529 contracts ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund and designates funds for Legacy Prepaid529 account holders, it could direct Virginia529 to return funds to account holders whose contract price was higher than the weighted average tuition (WAT) for the difference between the contract price paid and WAT at the time. (Option 3)

Returning funds to account holders: same refund for all Legacy Prepaid529 contracts ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund and designates funds for Legacy Prepaid529 account holders, it could direct Virginia529 to return to all account holders the same refund for each of the Prepaid529 contracts they purchased. (Option 4)

Returning funds to account holders: Giving Virginia529 board discretion on how to return funds ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund and designates funds for Legacy Prepaid529 account holders, it could give the Virginia529 board discretion to determine how best to return funds to account holders. (Option 5)

Access and affordability options: Grants for students with high financial need ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund and designates funds for higher education access and affordability, it could use the funds to provide additional grants for high financial need or at-risk students. (Option 6)

Access and affordability options: progression bonuses ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund and designates funds for higher education access and affordability, it could use the funds to pilot a new state financial aid progression bonus program that requires public higher education institutions to provide bonuses of at least \$1,200 to students who re-enroll for their sophomore, junior, and senior years. (Option 7)

Access and affordability options: grants for students facing financial emergencies ► If the General Assembly directs the removal of actuarial surplus funds from the

Defined Benefit 529 fund and designates funds for higher education access and affordability, it could use the funds to establish a state emergency financial aid program that provides public higher education institutions with grant funding for students who are facing a financial emergency that puts them at risk of dropping out. (Option 8)

Access and affordability options: support services for at-risk students ► If the General Assembly directs the removal of actuarial surplus funds from the Defined Benefit 529 fund and designates funds for higher education access and affordability, the State Council of Higher Education for Virginia could conduct a review to estimate the need for additional support services for at-risk high school and postsecondary students and the annual cost of providing these services. (Option 9)

Dedicated fund for access and affordability ► The General Assembly could direct Virginia529 to allocate future net administrative fee proceeds to a dedicated fund for higher education access and affordability. The allocation of net fee proceeds could be contingent on the Defined Benefit 529 fund having a funded status of at least 125 percent and having adequate liquidity to meet projected cash flow needs. (Option 10)