

Virginia529

College Savings Plan



PRESENTATION TO:

Joint Legislative Audit and Review Commission

July 14, 2014

Presented by:

Mary Morris, Chief Executive Officer

Mission Statement

Continue to be a national leader in 529 programs by providing superior, affordable, innovative, tax-advantaged college savings options to assist families and others in achieving their higher education goals.



Accounts and Assets Under Management as of March 31, 2014

Programs	Accounts	Gross Account Growth in fiscal 2014 (Percent)	Assets Under Management (\$ billions)**	Percent of National 529 Market (Prepaid & Savings)
prePAID	70,489	5.0%	\$ 2.29	1.1%
Direct Savings Programs				
inVEST	169,745	*13.0%	\$ 2.67	*1.3%
CollegeWealth	13,241	*N/A	\$.08	*N/A
Advisor Savings Program				
CollegeAmerica	2,090,266	***1.5%	\$ 45.27	21.5%
Totals**	2,343,741		\$ 50.31	23.9%

* Includes both inVEST and CollegeWealth through March 31, 2014

**Figures may not foot due to rounding

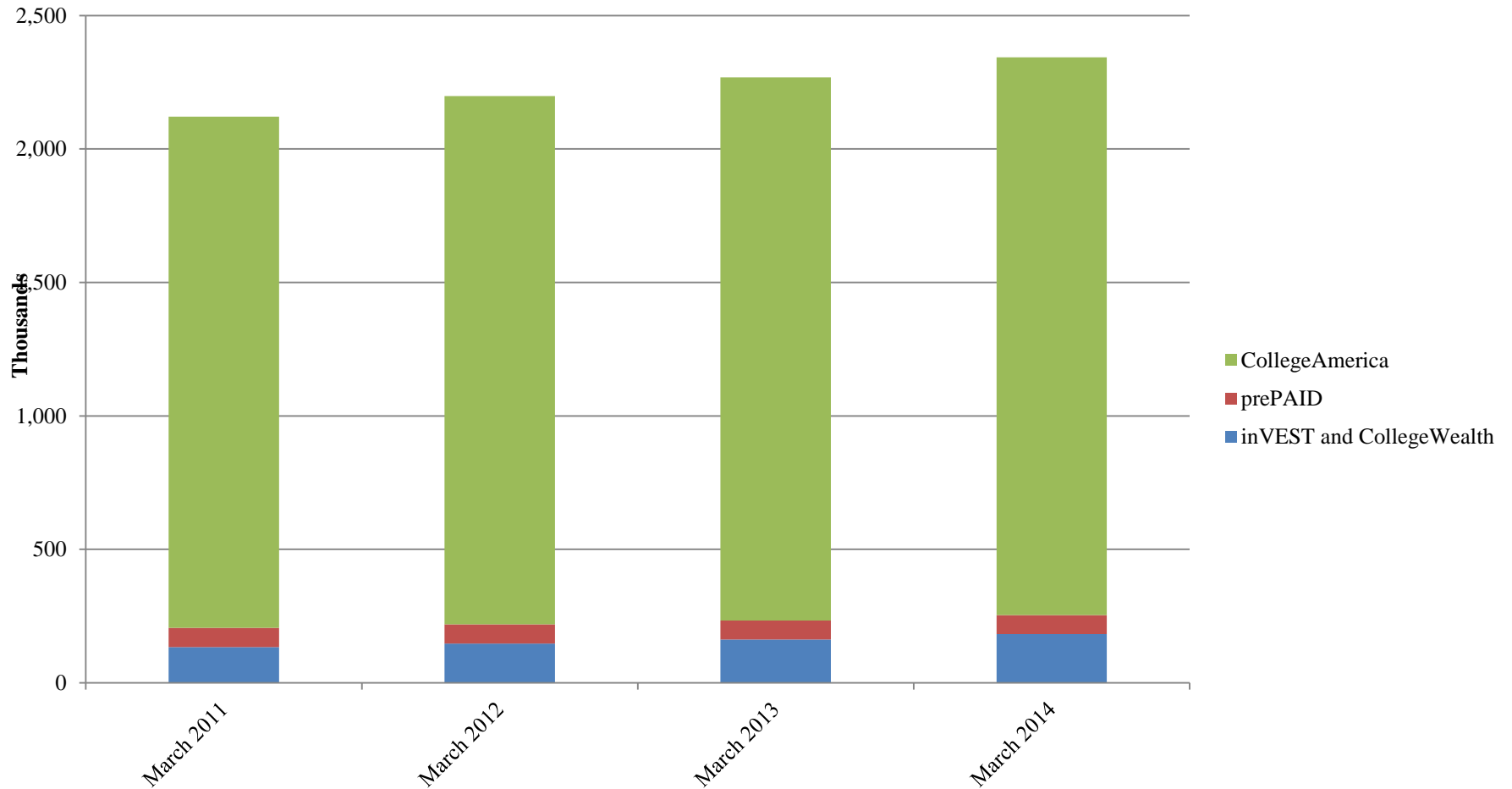
***Net Account Growth in Fiscal 2014 (Percent) through March 31, 2014

Virginia529 Account Growth

VA529 Account Growth						
	Fiscal Year 2013		Fiscal Year 2012		Fiscal Year 2011	
	Net Growth ¹	Gross Growth	Net Growth ¹	Gross Growth	Net Growth ¹	Gross Growth
prePAID	-1.7%	4.6%	-1.6%	3.0%	-0.6%	3.6%
inVEST	10.8%	12.7%	7.9%	10.0%	9.5%	12.3%
CollegeAmerica	3.2%	N/A	2.9%	N/A	2.5%	N/A
CollegeWealth	35.1%	41.2%	52.3%	54.8%	95.1%	103.8%

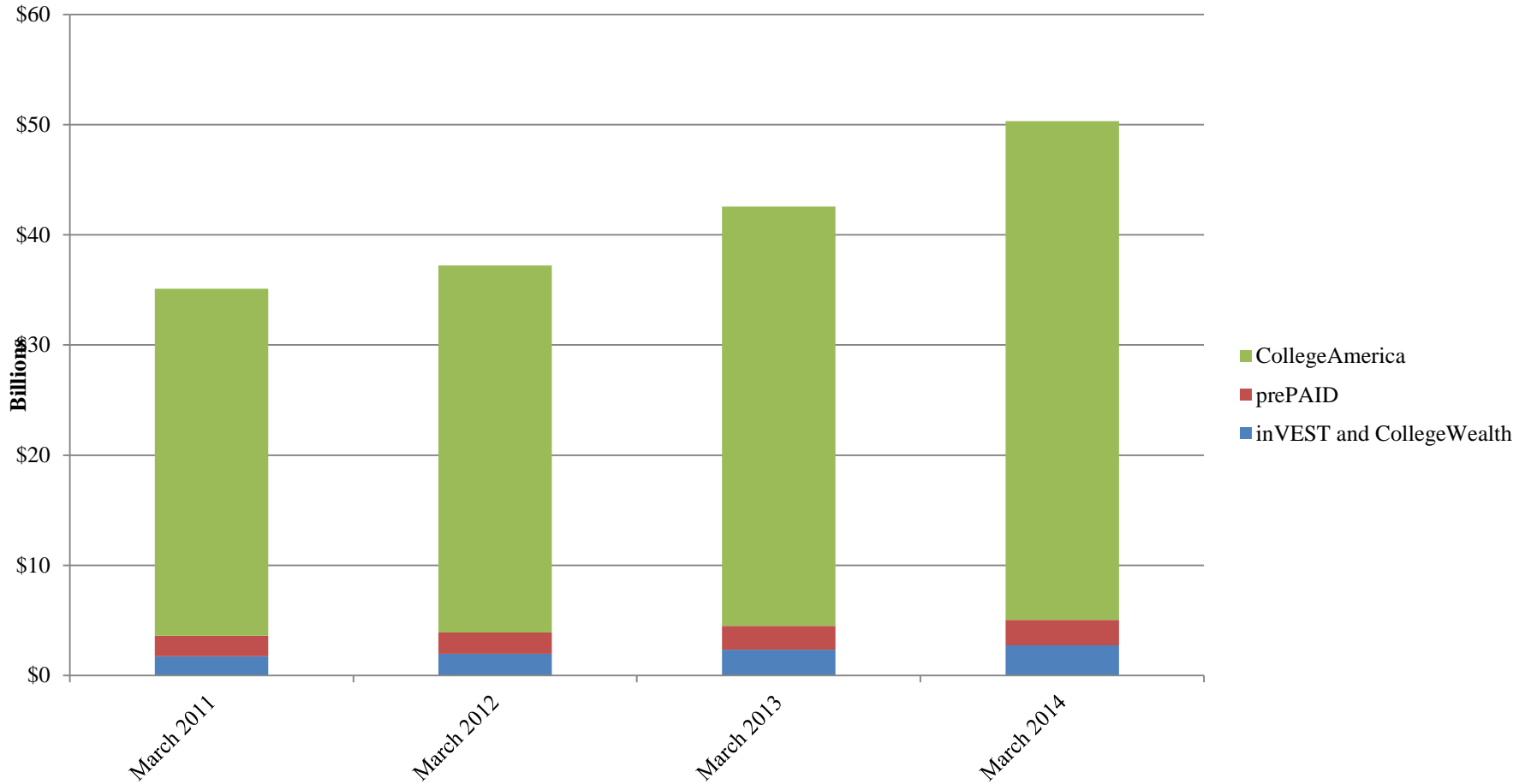
¹On June 27, 2013 VA529 closed all zero balance inVEST accounts with no activity for the trailing 18 months. inVEST number of accounts reported prior to this date have been adjusted retroactively as if the zero balance account policy had been in effect since inception of the inVEST program. Net account growth percentages reflect this adjustment

Virginia529 Accounts



*On June 27, 2013 VA529 closed all zero balance inVEST accounts with no activity for the trailing 18 months. inVEST accounts reported for fiscal years prior to 2013 have been adjusted retroactively as if the zero balance policy had been in effect since inVEST's inception.

Virginia529 Assets Under Management



- **Program and Customer Service Enhancements**

- Achieved \$50 billion in aggregate assets under management - February 2014
- Eliminated online application fees – May 2014
- Increased availability of online transactions – FY14
- Implemented disbursement account for savings programs – 2014 Session budget amendment - effective July 1, 2014

- **prePAID Program**

- 2013-2014 enrollment period - applications increased 16% over 2012-2013
- Quarterly investment performance posted on VA529 website
- JLARC Initial Quadrennial Audit – presented July 2013
- VA529 Actuarial Experience Study – to be presented July 2014

- **Direct Savings Programs: inVEST and CollegeWealth**

- Reduced VA529 administrative fee by 25% from 20 basis points to 15 basis points
- Added CollegeWealth to daily investment performance posted on Virginia529.com
- Opened Rappahannock and evolved Blue Ridge age-based evolving portfolios January 1, 2014

- **Advisor Savings Program: CollegeAmerica**

- Added investment option: American Funds Developing World Growth and Income Fund – March 2014
- Reduced VA529 administrative fees (breakpoint fees reduced on \$AUM > \$30 billion) - effective April 1, 2014
- American Funds waived annual account maintenance fee - effective July 1, 2014
- American Funds contract extended from 2027 to 2040 - March 2014

- **Morningstar** – Retained top-tier, medalist ratings for the two rated programs - inVEST and CollegeAmerica

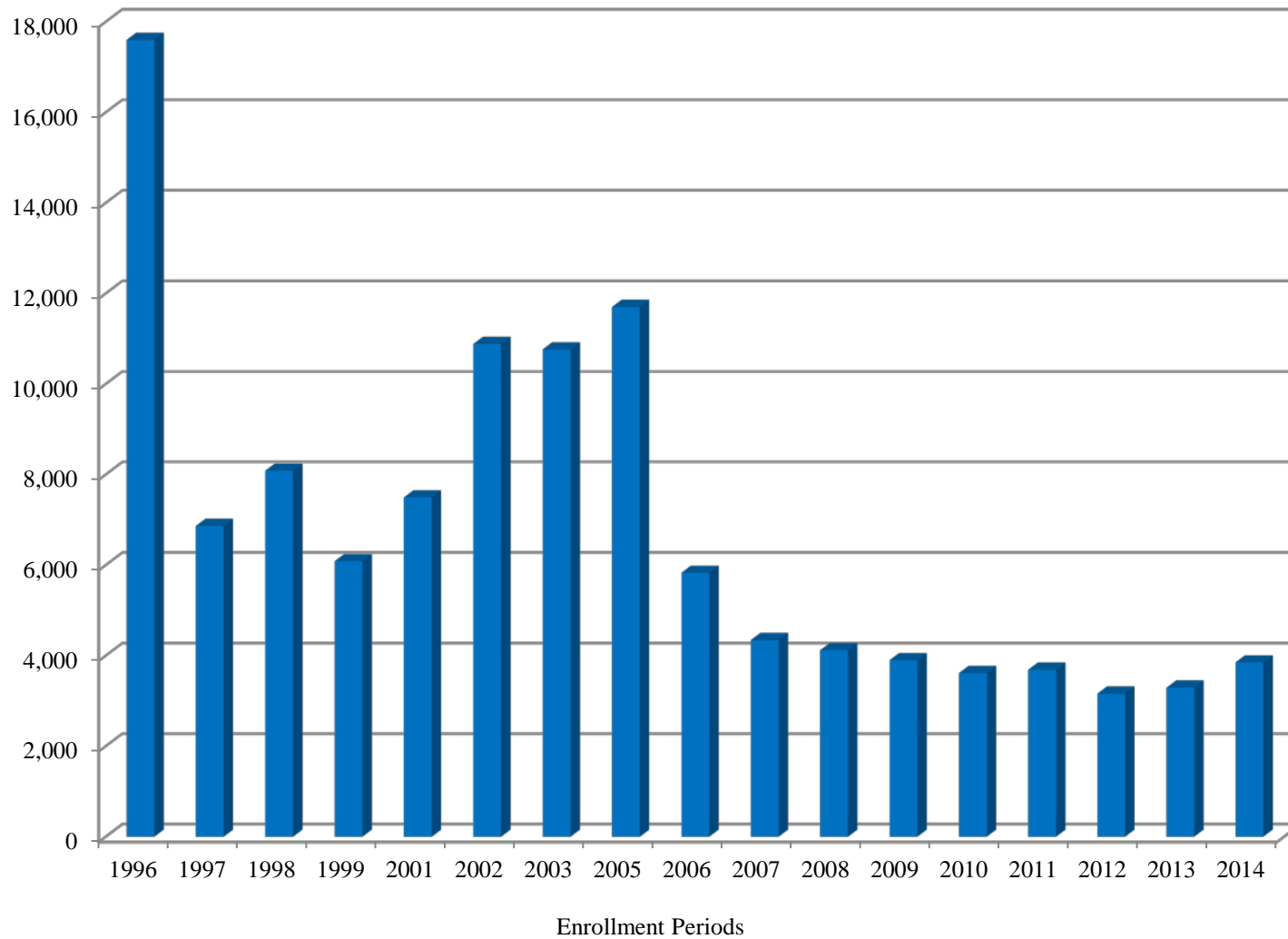
- **Investment Administration**

- Chapter 23 Virginia Acts of Assembly 2014 Session - establishes VA529 as a body politic and corporate (VA529 is qualified institutional buyer)
- Disaggregated core fixed income category of prePAID portfolio
- Added new private equity, convertible bond and senior secured bank loan managers in prePAID portfolio

Virginia529 Industry Standing

- ✓ Largest 529 Plan in nation - \$52 billion in \$AUM as of May 31, 2014
- ✓ Control about 24% of 529 plan market based on \$AUM as of December 31, 2013
- ✓ One of twelve states that manage a prepaid tuition program with ongoing enrollment
- ✓ Active with two primary industry groups;
 - College Savings Plans Network (CSPN), an affiliate of the National Association of State Treasurers; CEO serves as Treasurer
 - College Savings Foundation; CEO serves as Chairman
- ✓ Active in legislative and regulatory issues at federal level
- ✓ Provide software development and technical services for 529 plan recordkeeping services to four states

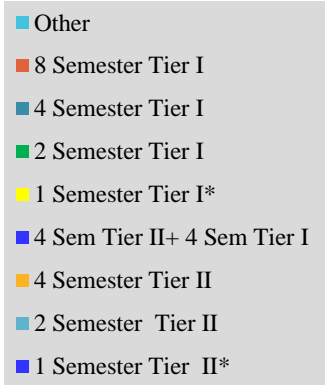
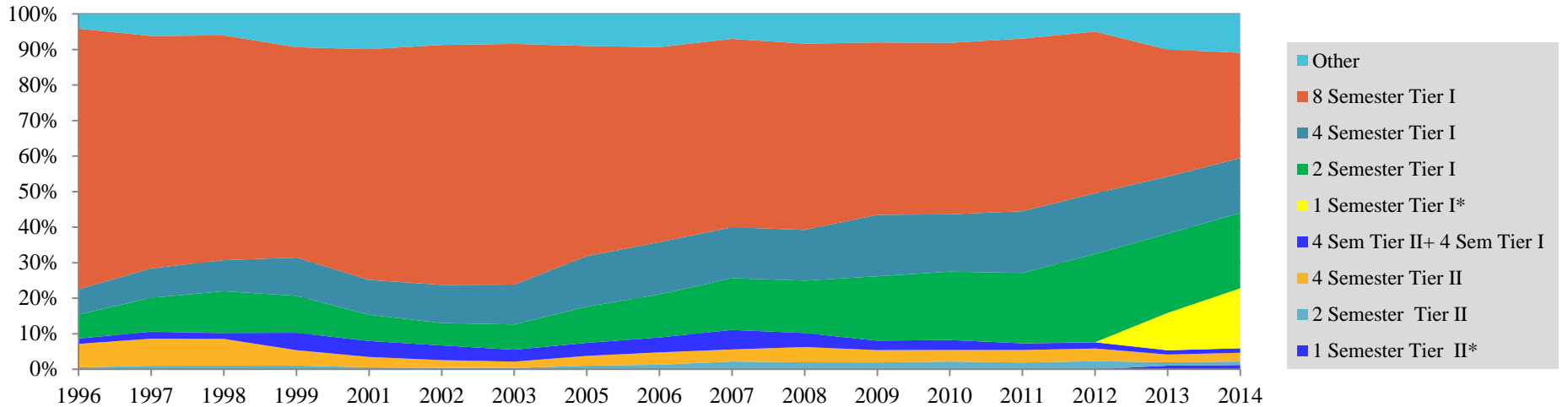
prePAID Applications



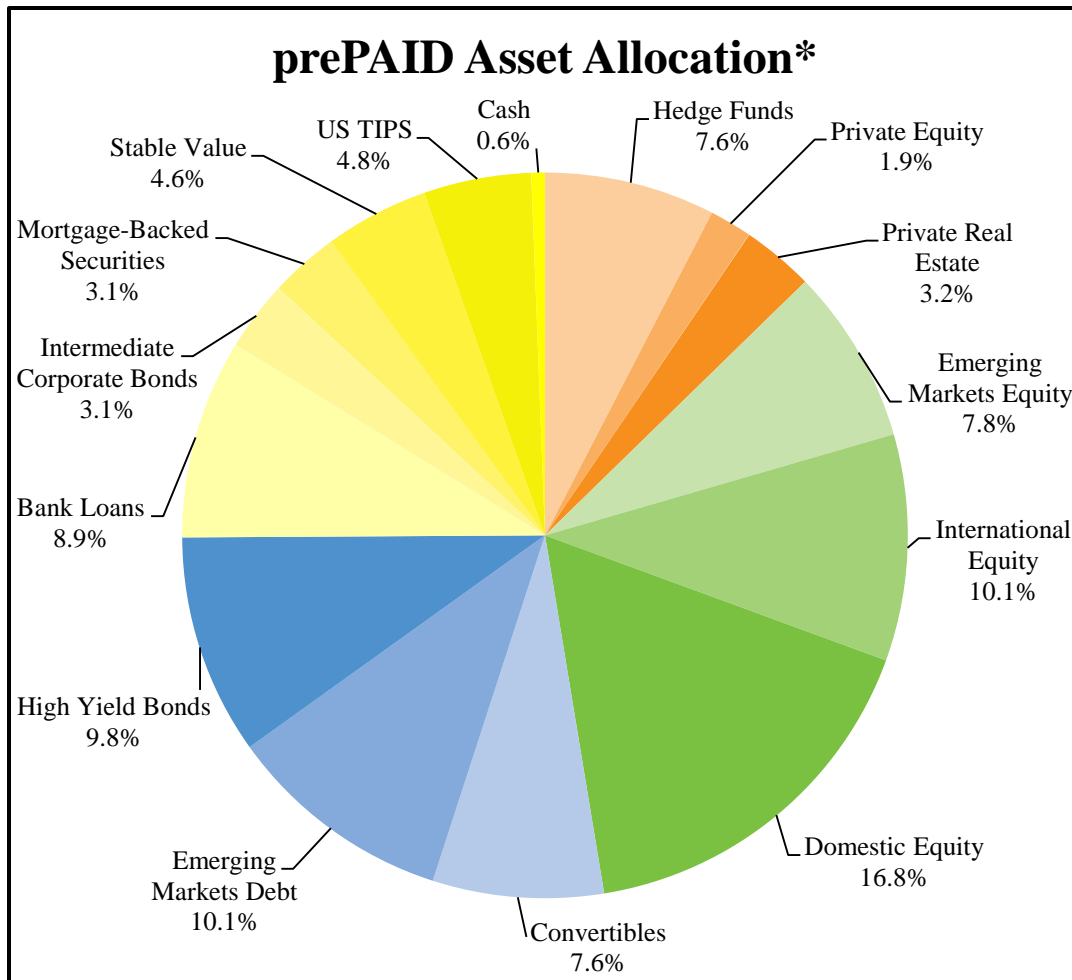
Note: 2000 and 2004 enrollment periods were changed/delayed.

prePAID Semester Contract Sales by Type

Contract Type as a Percent of Total Contracts by Enrollment Year



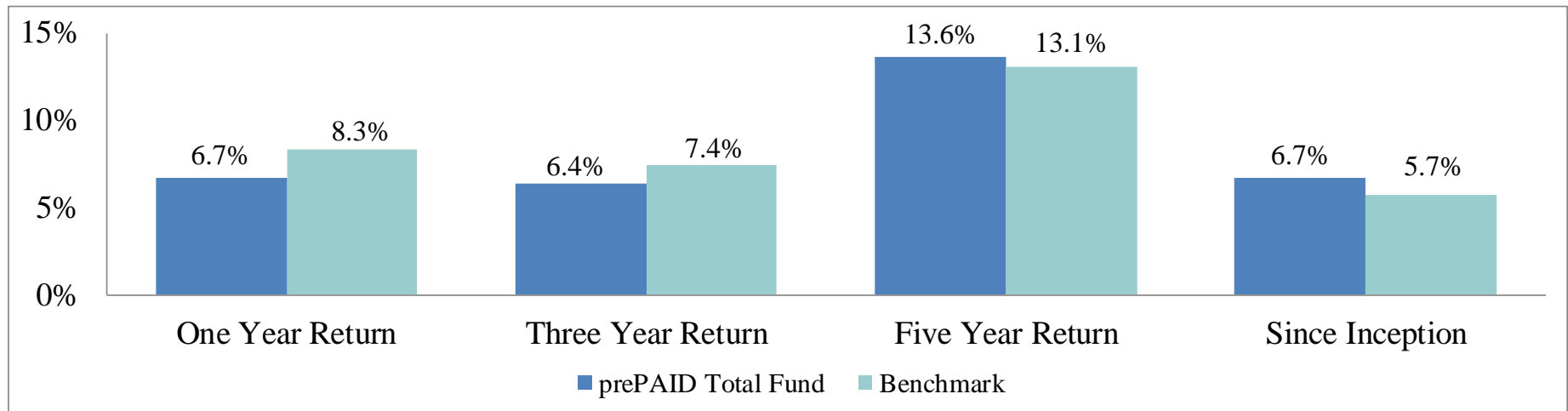
Type of Contract	1996	1997	1998	1999	2001	2002	2003	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1 Semester Tier II*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.0%	1.2%
2 Semester Tier II	0.5%	1.0%	1.0%	1.1%	0.5%	0.4%	0.4%	1.0%	1.3%	2.2%	2.0%	1.9%	2.2%	1.9%	2.3%	1.1%	1.0%
4 Semester 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%	2.3%	2.5%
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 Semester Tier I*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10.5%	16.9%
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%	22.2%	21.2%
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%	16.0%	15.4%
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%	35.7%	29.7%
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%



Asset Category	Target
Domestic Equity	15%
International Equity	17.5%
Alternatives	15%
Core-Fixed Income	25%
Non-Core Fixed Income	27.5%

* Numbers may not add to 100% due to rounding

prePAID Performance ending March 31, 2014



*June 30, 2014 performance numbers will be available August 2014

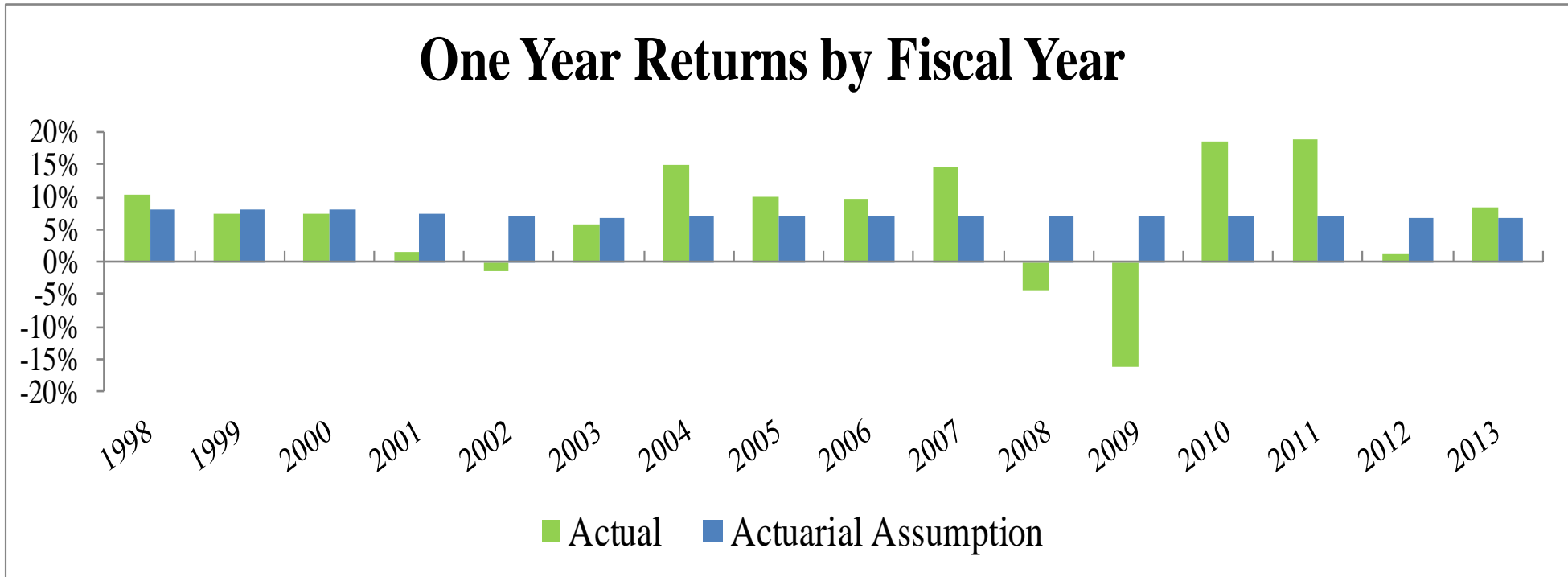
- Key assumptions for VA529 prePAID **actuarial valuation report**
 - Long-term investment return assumption
 - Future tuition growth assumption

2013 Actuarial Valuation Report

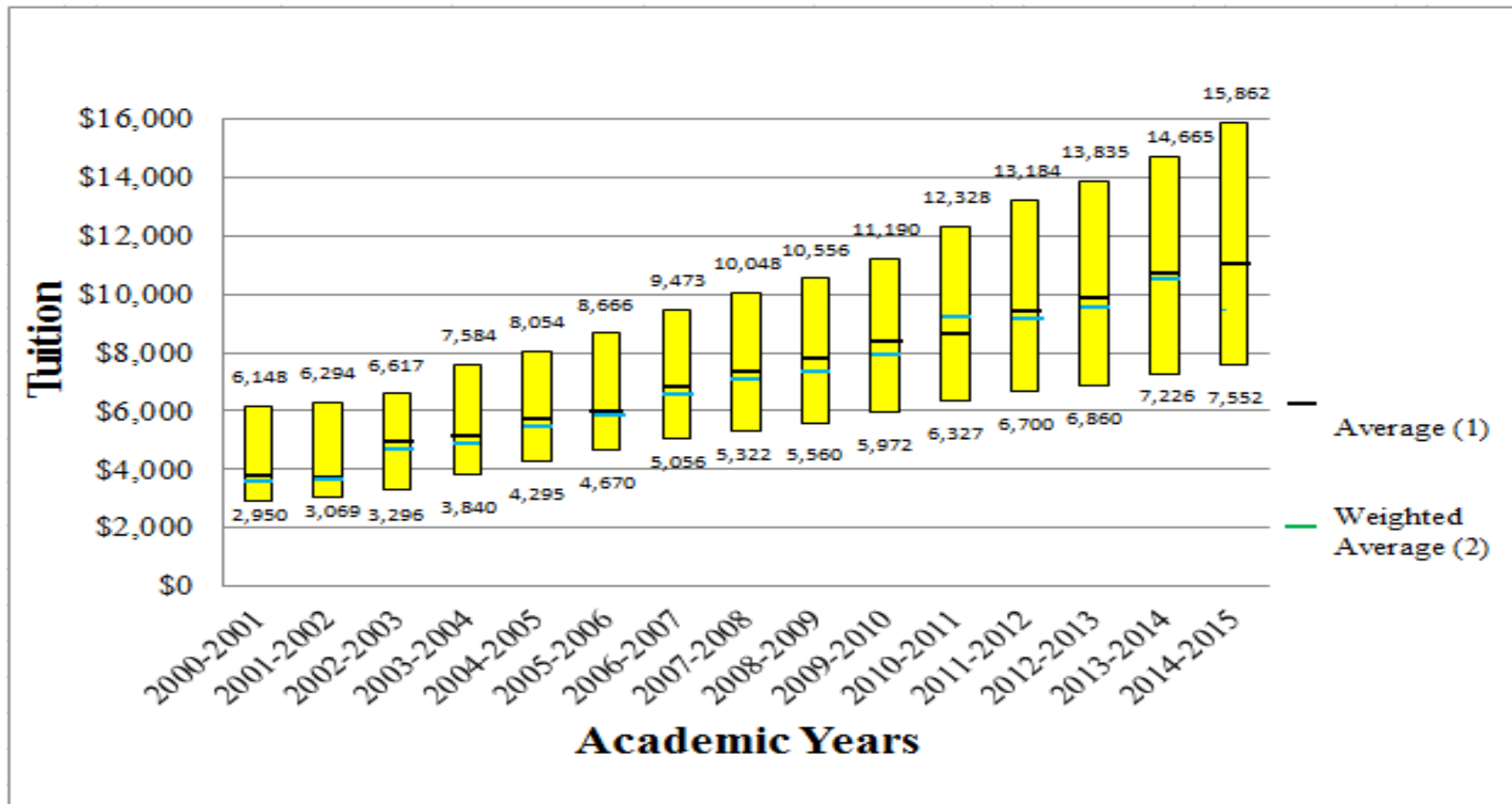
- Long-term investment return assumption: **6.75%**
- Future tuition growth assumptions:
 - Four-year colleges and universities: **7.5%**
 - Two-year colleges (community colleges): **7.5%**

*Key actuarial assumptions for 2014-2015 will be set in August 2014

prePAID Annual Return History



*June 30, 2014 performance numbers will be available August 2014



- (1) Simple average of tuition and fee amounts paid from prePAID per academic year
- (2) Enrollment-weighted average tuition and fees as shown in VA529 prePAID Annual Valuation report

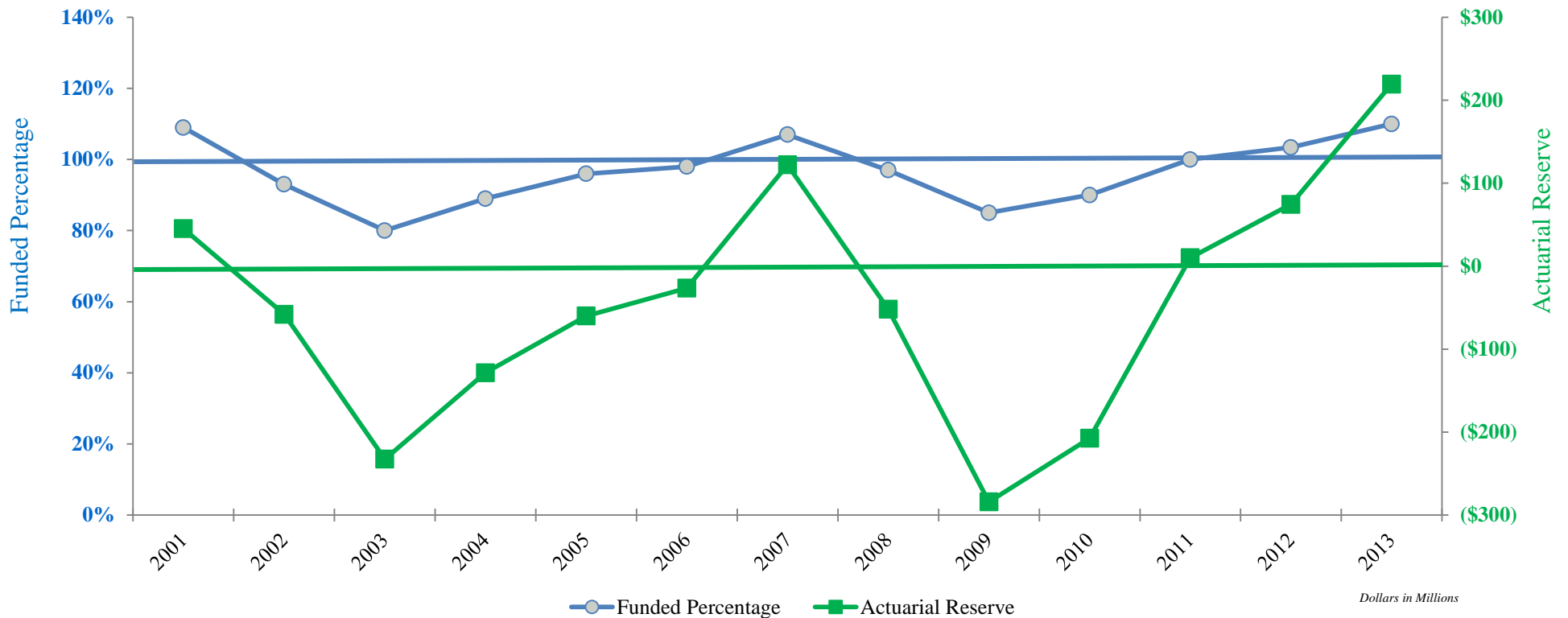
Actuarial Valuations Since Inception

(Amounts in Millions)

FY Ended:	Actuarial Value of Program Assets	Actuarial PV of Future Obligations	Actuarially Funded Percentage	Actuarial Reserve (Deficit)
2001	\$576.2	\$531.0	109%	\$45.2
2002	723.9	781.8	93%	(57.9)
2003	945.2	1,177.8	80%	(232.6)
2004	1,029.3	1,157.7	89%	(128.4)
2005	1,370.4	1,430.4	96%	(60.0)
2006	1,591.0	1,617.5	98%	(26.5)
2007	1,852.7	1,730.5	107%	122.2
2008	1,839.6	1,891.4	97%	(51.8)
2009	1,625.7	1,909.8	85%	(284.1)
2010	1,888.6	2,096.0	90%	(207.4)
2011	2,224.3	2,215.3	100%	9.0
2012	2,249.5	2,175.3	103%	74.2
2013	2,408.5	2,189.0	110%	219.5

FY 2014 actuarial funded status will be available October 2014

prePAID Historical Funded Status and Actuarial Reserve



FY 2014 actuarial funded status will be available October 2014

- Virginia higher education tuition and fee policies have evolved significantly since enactment of Title 23, Chapter 4.9 in 1994

- Trends include:
 - ✓ Additional charges for certain majors/courses of study (variously called fees or differential tuition)
 - ✓ Move from block charge for full-time students (12-18 credit hours) to:
 - Charges per credit hour (e.g., Virginia Commonwealth University)
 - Definitions of full-time which include less than 18 hours in a block charge
 - ✓ Tuition guarantees for new students/variability in charges based on class/credits/status (e.g., William & Mary Promise)

How best to implement the letter and intent of 70,000+ prePAID contracts as the variance from a traditional standard of a single in-state, undergraduate tuition for all full-time students widens annually?

- Work closely and collaboratively with JLARC, General Assembly leadership and public universities
- Consider legislative changes to enabling statutes
- Secure agreement from all parties to include VA529 in discussions about tuition and fee policies which may adversely impact the prePAID program
- Currently a policy issue, not a funding issue

- 2014 Session – Budget Amendment
 - ✓ Savings program revenues moved from Appropriations Act to reflect true status of funds – customer contributions and earnings
 - ✓ Cardinal Project – moved issue to forefront
 - ✓ Will provide for significant improvements to customer service (enhanced distribution processing, ACH distributions)
 - ✓ Eliminates risk of not funding payments due to budget negotiations

- 2015 Session Legislation –
 - ✓ Anticipate conforming enabling legislation to Appropriation Act structure
 - ✓ Consider further amendments to eliminate risk of not timely funding payments due to budget negotiations

Questions



Appendix

Long-term Investment Return Assumptions

Year	Return
1996 - 2000	8.0%
2001	7.5%
2002	7.0%
2003	6.75%
2004 - 2011	7.0%
2012 - 2014	6.75%*

*Approved and recommended by IAC in June 2014, Board to consider in August 2014

in VEST Performance as of 3/31/14

	Current Month	3 Months Ending	Cal Year Ending	1 Year Ending	3 Year Ending	5 Year Ending	10 Year Ending	Inception Ending	Inception Date
AGE-BASED EVOLVING PORTFOLIOS									
Rappahannock Portfolio	1.17	2.08	2.08					2.08	Dec-13
<i>Rappahannock Benchmark</i>	0.54	1.84	1.84					1.84	
James River Portfolio	0.98	1.98	1.98	10.33	8.39			8.74	Jan-11
<i>James River Benchmark</i>	0.54	1.84	1.84	10.85	7.93			8.60	
Eastern Shore Portfolio	0.84	1.87	1.87	9.90	7.51	15.60		5.02	Feb-08
<i>Eastern Shore Benchmark</i>	0.50	1.75	1.75	10.23	7.03	15.29		4.84	
Alleghany Portfolio	0.71	1.78	1.78	8.62	6.99	14.99		5.66	Aug-05
<i>Alleghany Benchmark</i>	0.42	1.70	1.70	8.75	6.51	13.88		5.06	
Chesapeake Portfolio	0.60	1.72	1.72	7.56	6.53	14.01	6.06	6.10	Jan-02
<i>Chesapeake Benchmark</i>	0.38	1.67	1.67	7.70	6.14	12.49	5.56	5.52	
Potomac Portfolio	0.47	1.57	1.57	6.65	5.87	12.83	5.80	4.70	Jan-00
<i>Potomac Benchmark</i>	0.31	1.55	1.55	6.65	5.51	10.88	5.22	3.36	
Southside Portfolio	0.34	1.42	1.42	4.32	4.57	11.26	5.34	4.45	Jan-00
<i>Southside Benchmark</i>	0.23	1.43	1.43	4.26	4.21	8.93	4.70	3.26	
Blue Ridge Portfolio	0.11	0.31	0.31	-0.04	1.87	8.31	4.17	3.87	Jan-00
<i>Blue Ridge Benchmark</i>	0.07	0.22	0.22	0.14	1.58	5.39	3.44	2.73	
Piedmont Portfolio	0.11	0.31	0.31	1.28	2.12	2.78	3.60	4.03	Jan-00
<i>Piedmont Benchmark</i>	0.07	0.22	0.22	0.86	0.86	0.88	2.17	3.02	
STATIC PORTFOLIOS									
Aggressive Portfolio	0.38	1.70	1.70	15.27	9.44	16.82	6.33	5.88	Jan-02
<i>Aggressive Benchmark</i>	0.35	1.78	1.78	15.73	10.12	16.79	6.72	6.30	
Moderate Portfolio	0.29	1.79	1.79	11.26	8.02	13.85	5.87	5.64	Jan-02
<i>Moderate Benchmark</i>	0.24	1.86	1.86	11.82	8.52	13.75	6.20	6.02	
Conservative Portfolio	0.12	1.98	1.98	3.53	4.51	7.67	4.34	4.40	Jan-02
<i>Conservative Benchmark</i>	0.01	1.97	1.97	4.59	5.06	7.05	4.50	4.60	
Socially Targeted Portfolio	0.47	0.82	0.82	19.89	15.22			15.60	Nov-09
<i>Socially Targeted Benchmark</i>	0.83	1.77	1.77	21.66	14.46			16.58	
Total Stock Market Portfolio	0.51	2.00	2.00	22.48	14.44	21.85		7.47	Aug-05
<i>Ttl Stock Mkt Benchmark</i>	0.51	2.00	2.00	22.50	14.47	21.87		7.47	
Total Bond Market Portfolio	-0.16	1.88	1.88	-0.37	3.57	4.56		4.47	Sep-05
<i>Ttl Bond Mkt Benchmark</i>	-0.16	1.81	1.81	-0.27	3.56	4.60		4.45	
Ttl International Stock Portfolio	0.39	0.78	0.78	12.51	4.25	15.22		5.34	Sep-05
<i>Ttl Int'l Stock Benchmark</i>	0.37	0.94	0.94	14.42	6.12	15.22		4.80	
Inflation-Protected Securities Portfolio	-0.52	2.05	2.05	-6.88	3.23	4.58		4.21	Sep-05
<i>Inflation-Protected Benchmark</i>	-0.49	1.91	1.91	-6.68	3.31	4.70		4.34	
REIT Portfolio	0.53	9.94	9.94	4.06	10.39	28.52		6.53	Sep-05
<i>REIT Benchmark</i>	0.53	9.95	9.95	4.08	10.44	28.58		6.20	

prePAID Performance as of 3/31/14

Name	3 Month	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
prePAID Total Fund	1.8%	1.8%	6.7%	6.4%	13.6%	6.4%	6.7%	Oct-97
<i>Total Fund Index¹</i>	1.9%	1.9%	8.3%	7.4%	13.1%	5.6%	5.7%	Oct-97
prePAID Total Equity	2.1%	2.1%	16.3%	9.5%	19.8%	8.0%	7.4%	Oct-97
<i>Total Equity Index²</i>	1.2%	1.2%	17.2%	9.1%	17.7%	6.3%	5.4%	Oct-97
prePAID Total Domestic Equity	2.9%	2.9%	24.7%	14.2%	23.8%	9.3%	8.2%	Oct-97
<i>Domestic Equity Index³</i>	2.0%	2.0%	22.6%	14.6%	21.9%	7.8%	6.4%	Oct-97
prePAID Total International Equity	1.2%	1.2%	8.0%	4.8%	15.6%	8.1%	6.8%	Oct-97
<i>International Equity Index⁴</i>	0.3%	0.3%	9.5%	3.1%	15.4%	7.3%	5.4%	Oct-97
prePAID Alternatives	0.4%	0.4%	3.9%	4.0%	17.4%		4.2%	May-05
<i>Alternatives Index⁵</i>	1.6%	1.6%	7.7%	7.0%	23.4%		5.0%	May-05
prePAID Total Fixed Income	1.9%	1.9%	1.3%	5.0%	8.6%	5.1%	6.0%	Oct-97
<i>Fixed Income Index⁶</i>	2.3%	2.3%	2.5%	5.9%	7.7%	5.3%	5.9%	Oct-97
prePAID Non Core Fixed Income	2.5%	2.5%	4.3%	6.4%	12.7%		6.0%	May-05
<i>Non-Core Fixed Index⁷</i>	3.1%	3.1%	7.1%	8.5%	16.5%		7.0%	May-05
prePAID Core Fixed Income	1.3%	1.3%	-1.9%	3.2%	6.3%	4.2%	5.5%	Oct-97
<i>Core-Fixed Income Index⁸</i>	1.5%	1.5%	-2.0%	3.3%	4.3%	4.2%	5.3%	Oct-97

¹35% MSCI ACWI Index, 3.3% NCREIF ODCE Index, 0.7% Russell 3000 + 3%, 6.2% Citigroup 3-Month T-Bill + 3.5%, 2.1% Citigroup 3-Month T-Bill + 4%, 10% Barclays US Corporate High Yield Index, 7.7% BofA ML US Convertibles Index, 10% JPMorgan EMBI, 15% Barclays Capital US Aggregate Index, 5% Barclays US TIPS Index, 5% Citigroup 3-Month T-Bill + 1%

²100% MSCI AC World Index

³100% Russell 3000 Index

⁴57% MSCI EAFE, 43% MSCI Emerging Markets

⁵27% NCREIF ODCE Index, 6% Russell 3000 + 3%, 50% Citigroup 3-Month T-Bill + 3.5%, 17% Citigroup 3-Month T-Bill + 4%

⁶14% BofA ML Global 300 Convertibles Index, 18% Barclays US Corporate High Yield Index, 18% JPMorgan EMBI, 30% Barclays Capital US Aggregate Index, 10% Barclays US TIPS Index, 10% Citigroup 3-Month T-Bill + 1%

⁷28% BofA ML Global 300 Convertibles Index, 36% Barclays US Corporate High Yield Index, 36% JPMorgan EMBI,

⁸60% Barclays Capital US Aggregate Index, 20% Barclays US TIPS Index, 20% Citigroup 3-Month T-Bill + 1%

prePAID Payments – FY2013 Virginia Public Universities

Virginia Public Universities	prePAID payments to Colleges	Students with prePAID Contracts
Christopher Newport University	\$4,846,029	480
College of William & Mary	\$8,296,722	633
George Mason University	\$6,894,490	817
Longwood University	\$4,019,022	428
Norfolk State University	\$69,309	14
Old Dominion University	\$3,567,312	540
Radford University	\$3,434,886	437
University of Mary Washington	\$3,193,501	374
Virginia Commonwealth University	\$9,916,478	1,144
Virginia State University	\$183,413	29
Virginia Tech	\$20,038,410	1,928
JMU	\$9,128,017	1,095
VMI	\$983,502	79
UVA Wise	\$187,272	28
UVA	\$16,280,866	1,394
Total Virginia Public Universities	\$91,039,230	9,420

prePAID payments – FY2013
Virginia Community Colleges and Richard Bland College

Community College	prePAID payments to Comm Colleges	Students with prePAID Contracts
Blue Ridge Community	\$104,044	39
Central Virginia Community	\$59,436	27
Dabney S Lancaster Community	\$25,624	10
Danville Community	\$33,567	12
Eastern Shore Community	\$4,014	3
Germanna Community	\$226,044	105
J Sargeant Reynolds Community	\$399,062	183
John Tyler Community	\$296,138	136
Lord Fairfax Community	\$127,348	70
Mountain Empire Community	\$10,246	5
New River Community	\$104,184	43
Northern Virginia Community	\$1,653,015	648
Patrick Henry Community	\$26,507	12
Paul D Camp Community	\$4,686	3
Piedmont Virginia Community	\$139,602	63
Rappahannock Community	\$32,377	16
Richard Bland College	\$77,383	28
Southside Virginia Community	\$27,320	14
Southwest Virginia Community	\$12,041	5
Thomas Nelson Community	\$152,101	69
Tidewater Community	\$514,187	197
Virginia Highlands Community	\$15,238	7
Virginia Western Community	\$127,012	53
Wytheville Community	\$24,205	7
Total Virginia Community Colleges	\$4,195,379	1,755

prePAID payments – FY2013 In-State Private & Out-of-State

Other Colleges	prePAID payments to Colleges	Students with prePAID Contracts
In-State Private	\$6,901,183	840
Out-of-State	\$10,593,851	1,829
Total Other Colleges	\$17,495,034	2,669

Grand Total Students with prePAID Contracts FY2013: 13,844

Grand Total prePAID Payments to Colleges FY2013: \$112,729,643