2025 Quadrennial Actuarial Audit of the Commonwealth Savers Defined Benefit 529 Program

Joint Legislative Audit and Review Commission

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Executive Summary

- The Defined Benefit 529 Program is actuarially sound and the projected Program resources are expected to be more than sufficient to fully meet projected Program contract obligations and Program expenses based on the contracts in force as of June 30, 2024.
- The Program has a funded ratio of **192.8%** and a fund surplus of **$1.2 billion** based on the June 30, 2024 actuarial valuation.
- The Program is projected to have a surplus of **$5.8 billion** at the end of FY 2053 after all tuition obligations have been paid based on the contracts in force as of June 30, 2024.
- The primary actuarial assumptions are reasonable.

Agenda

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

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Background and Purpose of an Actuarial Audit

- In accordance with the Commonwealth Savers Plan Oversight Act, GRS was retained to conduct the 2025 Quadrennial Actuarial Audit of the Commonwealth Savers Defined Benefit 529 Program (the "Program")
  - The Program includes the Legacy Prepaid529 Plan and the Tuition Track Portfolio ("TTP")
- The purpose of this audit is to provide the General Assembly with a comprehensive overview of the actuarial soundness of the Program
- This audit was completed with the cooperation of the Commonwealth Savers staff and their retained actuary, Milliman

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Background and Purpose of an Actuarial Audit

- GRS performed a replication actuarial audit of the June 30, 2024 actuarial valuation of the Program as performed by the retained actuary, Milliman
  - GRS independently calculated the results of the June 30, 2024 valuation using the same contract data and assumptions as used by Milliman

Background and Purpose of an Actuarial Audit

- GRS audit reviewed
  - Reasonableness of funding results and conclusions in the actuarial valuation
  - Assumptions, methods and underlying data used to produce valuation results
  - 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

The Program Is Actuarially Sound

The funding results and conclusions of the June 30, 2024 actuarial soundness valuation of the Program are reasonable

- The Program has assets of $2,509.4 million and obligations of $1,301.8 million
- The Program has an actuarial reserve of $1,207.6 million
- The ratio of assets to obligations, known as the funded ratio, is 192.8%

The projected Program resources are expected to be more than sufficient to fully meet projected Program contract obligations and Program expenses based on the contracts in force as of June 30, 2024

- If all actuarial assumptions are realized, the Program will have more than enough money to pay all the future projected obligations when due
- At the end of the 2053 Fiscal Year, all tuition obligations associated with contracts already purchased are expected to be paid, resulting in a final cumulative surplus of $5,765.8 million

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The Program Is Actuarially Sound

- Following is a comparison of the key actuarial valuation results based on the June 30, 2020 valuation (that GRS previously audited) and the June 30, 2024 valuation

$ in Millions				
Valuation Date		**June 30, 2020**		**June 30, 2024**
Actuarial Reserve	$	1,050.2	$	1,207.6
Funded Ratio		157.4%		192.8%
Estimated Probability of Meeting Program Obligations		99%		99.9%
Projected Surplus as of June 30, 2044*	**$**	**3,765.1**	$	3,566.0
Projected Surplus as of June 30, 2053*			**$**	**5,765.8**

** The obligations for contracts in force as of the valuation date of June 30, 2020 were projected to be paid out by June 30, 2044, with a remaining projected cumulative surplus of $3,765.1 million.*

For comparison purposes, the projected cumulative surplus as of June 30, 2044, based on the June 30, 2024 valuation, is $3,566.0 million.

The obligations for contracts in force as of the valuation date of June 30, 2024 are projected to be paid out by June 30, 2053, with a remaining surplus of $5,765.8 million.

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The projected surplus does not reflect the impact of future sales after the valuation date.

GRS Audit Conclusions

GRS was able to replicate the June 30, 2024 valuation results with a high degree of accuracy

- GRS replicated the total present value of benefits of $1.3 billion within $10.2 million, or 0.8%
- GRS replicated the present value of future installment payments of $53 million (which is included as a component of the total assets of $2.5 billion), within $0.6 million, or 1.1% (0.0% of total assets)

The contract beneficiary data used in the June 30, 2024 valuation is reasonable and appropriate

The assumptions used in the June 30, 2024 valuation are reasonable

- The investment return assumption is 5.75%
- The tuition increase assumption is 4% for Universities and 3% for Community Colleges for the next year (2025-2026 academic year) and 6% each year thereafter for both Universities and Community Colleges
- We believe these assumptions contain some conservatism

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Considerations and Recommendations

GRS has recommended including additional disclosures and information in the actuarial valuation report which we believe will improve transparency and enhance understanding of the valuation results

- Additional rationale for assumptions and description of application of assumptions
- Description of payment of administrative expenses
- Add language in accordance with the Actuarial Standards of Practice
- Add/modify exhibits related to contract data and to illustrate sensitivities to Program risks

Based on GRS' review of the contract data used for the June 30, 2024 actuarial valuation, we recommend Commonwealth Savers continue to review and "clean up" contract data

GRS recommends an experience study within the next five years and continued annual review of the investment return and tuition increase assumptions

Comments and Questions

Disclosures

- 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 Commonwealth Savers 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 the Commonwealth Savers Defined Benefit 529 Program (“Program”).

Disclosures

- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- The actuaries submitting this presentation (Amy Williams and Josh Murner) 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 the Program for JLARC. Additional documentation regarding actuarial assumptions and methods, and important additional disclosures, are provided in the full 2025 Actuarial Audit Report prepared by GRS.

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Disclosures

- 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.