



Virginia529 Oversight Report

JLARC oversight of Virginia529

- Virginia College Savings Plan Oversight Act* requires JLARC to
 - Oversee Virginia529 on a continuing basis
 - Report on investments and other issues
 - Conduct a quadrennial actuarial analysis

*Code of Virginia, Title 30, Chapter 51.

In this presentation

Overview

Defined benefit college savings program

Other education savings programs

Disability savings programs

Study of state-sponsored retirement program

State 529 plans

- Authorized by §§ 529–529A of Internal Revenue Code
- Tax-advantaged savings for education (1996) and individuals with disabilities (2014)
- 49 states have established plans

Virginia529 programs

Education and disability programs <i>managed by Virginia529</i>	Assets
Invest529 education savings	\$5.0B
Legacy Prepaid529 college savings	\$2.5B
ABLEnow disability savings	\$33.5M

National education program <i>sponsored by Virginia529</i>	Assets
CollegeAmerica* education savings	\$61.0B
AbleAmerica disability savings programs	\$6.4M

Asset values as of March 31, 2020. ABLEnow is administered by PNC Bank.

*90% of program participants are not Virginia residents.

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Legacy Prepaid529 fund declined in 2020, largely because of COVID-19 pandemic

- 2020 assets (\$2.5 billion) 10% lower than 2019 assets (\$2.8 billion)
- Three asset classes
 - Fixed income (54%)
 - Public equity (27%)
 - Alternatives (19%)

Legacy Prepaid529 program was closed to new participants in 2019. 2020 investment returns and asset value are as of March 31, 2020. 2019 asset value as of June 30, 2019.

Legacy Prepaid529 total fund underperformed all benchmarks except the ‘since inception’

Total fund	CY to date	1-year	3-year	5-year	10-year	Since inception
Return	-11.7%	-5.2%	1.6%	2.5%	4.8%	5.6%
Benchmark	-9.8	-2.1	3.3	3.8	5.4	5.2
Difference	-1.9	-3.1	-1.7	-1.3	-0.6	0.4

Returns as of March 31, 2020. Inception date of October 1997.

Asset class returns underperformed most benchmarks

Asset class	1-year	3-year	5-year	10-year	Since inception
Fixed income	x	x	x	x	✓
Public equity	x	x	x	x	✓
Alternatives	x	✓	✓	x	x

✓ = Return met or exceeded benchmark x = Return below benchmark

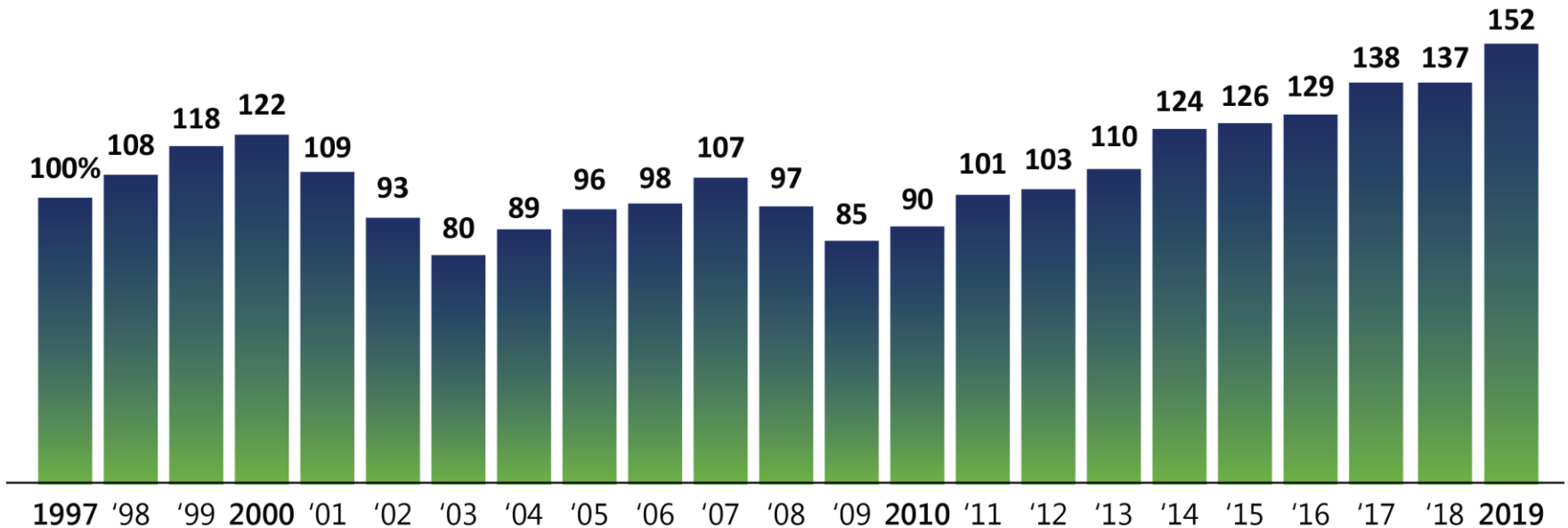
Performance as of March 31, 2020. Fixed income and public equity asset classes have inception date of October 1997; alternatives asset class inception was May 2005.

Virginia 529 revised asset allocation policy and benchmarks for Legacy Prepaid 529

- Revised target policy decreases allocation to public equity and increases allocation to alternatives
 - Fixed income (52.5%)
 - Public equity (22.5%)
 - Alternatives (25.5%)
- New benchmarks implement changes recommended by JLARC consultant

In 2018, JLARC worked with Callan LLC to assess the Legacy Prepaid 529 benchmarks. The assessment was directed by the 2018 Appropriation Act.

Funded status of Legacy Prepaid529 reached all-time high in 2019



- Estimated 99% probability that Prepaid529 assets will exceed obligation

Funded status as of June 30 of each year.

2019 legislation limited pricing reserve based on funded status

- Pricing reserve (add-on fee) is intended to protect the fund from risk by building an asset reserve
- Capped at 5% when funded status is 105% or higher
- Cannot exceed 10% when funded status is below 105%
- Implemented JLARC recommendation that Virginia529 develop guidelines for pricing reserve based on funded status

HB 1611 (2019 session) was enacted in response to a recommendation in JLARC's 2018 biennial Virginia529 oversight report.

High funded status may allow options to support college affordability

- Carefully consider whether a pricing reserve is needed in the future
- Examine how excess operating revenue, currently allocated to Legacy Prepaid529 fund, could best support college affordability goals

Key actuarial assumptions changed

- Long-term investment return decreased to 5.75%
 - Previous assumption was 6.25%
- Tuition growth assumption decreased to 4% for 2020–21 and 2021–22 (6.5% each year after)
 - Previous assumption was 5% for 2018–2019 (6.5% each year after)

New defined benefit program will replace Legacy Prepaid529

- Same weighted-average tuition payout regardless of college attended
- Participants have more flexibility to use funds
- JLARC reviewed proposed new program and found it would address concerns with Legacy Prepaid529
- Virginia529 should monitor new program to ensure adequate participation

HB 1972/SB 1315 (2019) allowed Virginia529 to implement a weighted-average tuition program.

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Participation and assets in education savings programs increased over past decade

- **CollegeAmerica** investment accounts, sold by advisers
 - Number of accounts grew 2% per year
 - \$61 billion in assets (10% growth per year)
- **Invest529** investment accounts, sold directly by Virginia529
 - Number of accounts grew 11% per year
 - \$5.0 billion in assets (14% growth per year)

Average annual growth in number of unique program accounts.

CollegeAmerica generally outperformed investment benchmarks, but Invest529 did not

Program	1-year	3-year	5-year	10-year
CollegeAmerica	✓	✓	✓	✓
Invest529	✗	✗	✗	✗

- ✓ Returns for majority of options exceeded benchmarks
- ✗ Returns for majority of options did not exceed benchmarks

Performance as of March 31, 2020.

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ABLE programs allow tax-advantaged savings for individuals with disabilities

- **ABLEnow** program, sold directly by Virginia529, launched in 2016
 - 7,882 accounts and \$33.5 million in assets
 - Investment portfolio options underperformed benchmark
- **ABLEAmerica**, sold by advisers, launched in 2018
 - 658 accounts and \$6.4 million in assets

Assets and performance as of March 31, 2020.

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Virginia529 study of potential state-sponsored retirement program

- 2020 General Assembly directed study (HB 775)
- Study topics
 - Interest among private employers
 - Likely program costs
 - Experience of other states
 - Appropriate entity to operate a program
- JLARC staff will monitor the study

JLARC staff for this report

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