



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 and other education savings programs

Disability savings programs

State-sponsored private retirement program

Higher education access and affordability initiative

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 savings programs

Education and disability programs <i>managed by Virginia529</i>	Accounts	Assets
Invest529 education savings	430,043	\$7.6B
Defined benefit college savings program	53,979	\$3.1B
ABLEnow disability savings	12,881	\$87.7M

National education program <i>sponsored by Virginia529</i>	Accounts	Assets
CollegeAmerica education savings	2.5M*	\$86.3B
AbleAmerica disability savings program	1,826	\$25.7M

Accounts and asset values as of March 31, 2022.

*94% of program participants are not Virginia residents.

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Defined benefit college savings programs

- Legacy Prepaid529
 - Closed to new participants in 2019 but continues to pay benefits to existing participants
- Tuition Track Portfolio (TTP)
 - Opened in 2021 as successor to Legacy Prepaid529
 - Same weighted-average tuition payout regardless of college attended
- Programs combined into single Defined Benefit 529 fund for actuarial and investment purposes

Defined Benefit 529 fund declined slightly in 2022 after substantial increase in 2021

- 2022 assets (\$3.1 billion) 3% lower than 2021 assets (\$3.2 billion)
- Assets increased 19% (\$521 million) from 2020 to 2021
- Three asset classes
 - Fixed income (56%)
 - Public equity (24%)
 - Alternatives (20%)

2022 investment returns and asset value are as of March 31, 2022. 2021 asset value as of June 30, 2021.

Defined Benefit 529 fund underperformed benchmarks in several time periods

Total fund	CY to date	1-year	3-year	5-year	10-year	Since inception
Return	-3.4%	5.6%	9.0%	7.5%	6.5%	6.5%
Benchmark	-1.9	4.7	9.5	8.1	6.9	6.0
Difference	-1.5	0.9	-0.5	-0.6	-0.4	0.5

Returns as of March 31, 2022. Inception date of October 1997.

Fixed income and public equity asset classes underperformed in most time periods

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

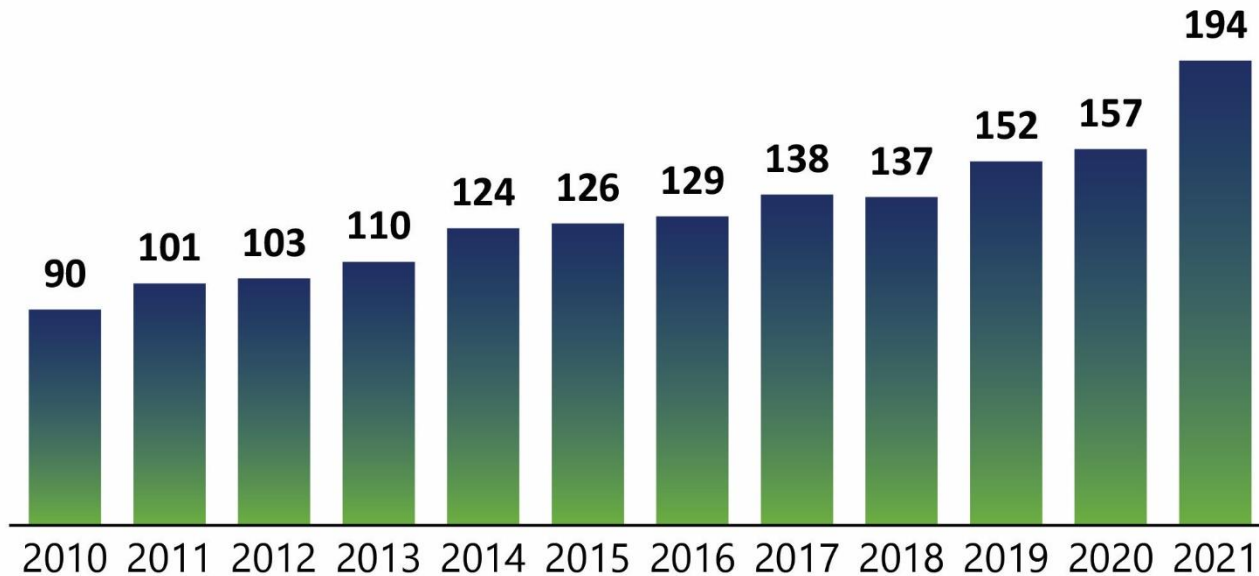
✓ = Return met or exceeded benchmark ✗ = Return below benchmark

Performance as of March 31, 2022. Fixed income and public equity asset classes have inception date of October 1997; alternatives asset class inception was May 2005.

Performance relative to benchmarks is critical for the Defined Benefit 529 fund

- Investment returns are a key source of income for the Defined Benefit 529 fund
- Other primary income source is payments by account holders for prepaid contracts
 - Payments are based on purchase price and cannot be increased
- Given the high funded status, the main impact of underperformance is forgone income

Defined benefit 529 fund has funded status of 194% and actuarial surplus of \$1.6 billion



- Estimated 99% probability that Defined Benefit 529 fund assets will be sufficient to meet all future obligations

Funded status as of June 30 of each year.

Long-term investment return assumption reduced

- Board reduced long-term investment return assumption to 5.5% in 2021
 - Previous assumption was 5.75%
- Based on expected decline in future returns for public and private equity markets

Participation and assets in other education savings programs increased over past decade

- **Invest529** investment accounts, sold directly by Virginia529
 - Number of accounts grew 11% per year
 - Assets grew 14.5% per year (\$7.6 billion in total assets)
- **CollegeAmerica** investment accounts, sold by advisers
 - Number of accounts grew 2.5% per year
 - Assets grew 11% per year (\$86 billion in total assets)

Average annual growth in number of unique program accounts.

College savings programs underperformed most investment benchmarks in most time periods

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

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

Performance as of March 31, 2022.

In this presentation

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ABLE programs allow tax-advantaged savings for individuals with disabilities

- **ABLEnow** program, sold directly by Virginia529, launched in 2016
 - 12,881 accounts and \$87.7 million in assets
 - Investment portfolio options underperformed benchmarks
- **ABLEAmerica**, sold by advisers, launched in 2018
 - 1,826 accounts and \$25.7 million in assets
 - Majority of investment options outperformed benchmarks for one-year period

Assets and performance as of March 31, 2022. Underperformance of ABLEnow options is largely the result of fair value pricing.

In this presentation

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Virginia529 is implementing a state-sponsored private retirement program

- HB 2174 (2021) created a state-sponsored retirement program for private-sector employees
 - Employers with 25+ employees required to participate
 - Employees must work 30+ hours per week to be eligible
- Program must open by July 1, 2023
- Later in 2022, Virginia529 will estimate number of participants, program assets, and annual fees

In this presentation

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Virginia529 is substantially increasing funding for higher education access and affordability

- Board and DPB approved more than \$13 million in new spending on access and affordability (to be spent over FY21–23)
 - Substantial increase over \$2 million annual spending for SOAR Virginia
- New funding supports coaching and advising services and scholarships for at-risk high school students
 - Funding is from net operating revenue generated by program fees
- General Assembly removed \$16 million in additional funding for FY23–24 pending a JLARC review

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