



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

Education savings programs

Disability savings programs

State-sponsored private retirement program

Use of DB529 surplus funds for higher education access and affordability

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 administers 5 savings programs

Defined benefit education programs	Accounts	Assets
Legacy Prepaid529	37,414	\$2.3B
Tuition Track Portfolio	10,762	\$117.1M
Defined contribution programs	Accounts	Assets
Invest529	484,899	\$9.1B
ABLEnow	17,545	\$146.4M
Retirement savings program	Accounts	Assets
RetirePath Virginia	4,076	\$1.7M

Accounts and asset values as of March 31, 2024.

Virginia 529 sponsors 2 national adviser-sold savings programs

National adviser-sold savings programs	Accounts	Assets
CollegeAmerica education savings	2.6M*	\$91.3B
AbleAmerica disability savings	3,035	\$54.0M

Accounts and asset values as of March 31, 2024.

*94% of CollegeAmerica participants are not Virginia residents.

In this presentation

Overview

Education savings programs

Disability savings programs

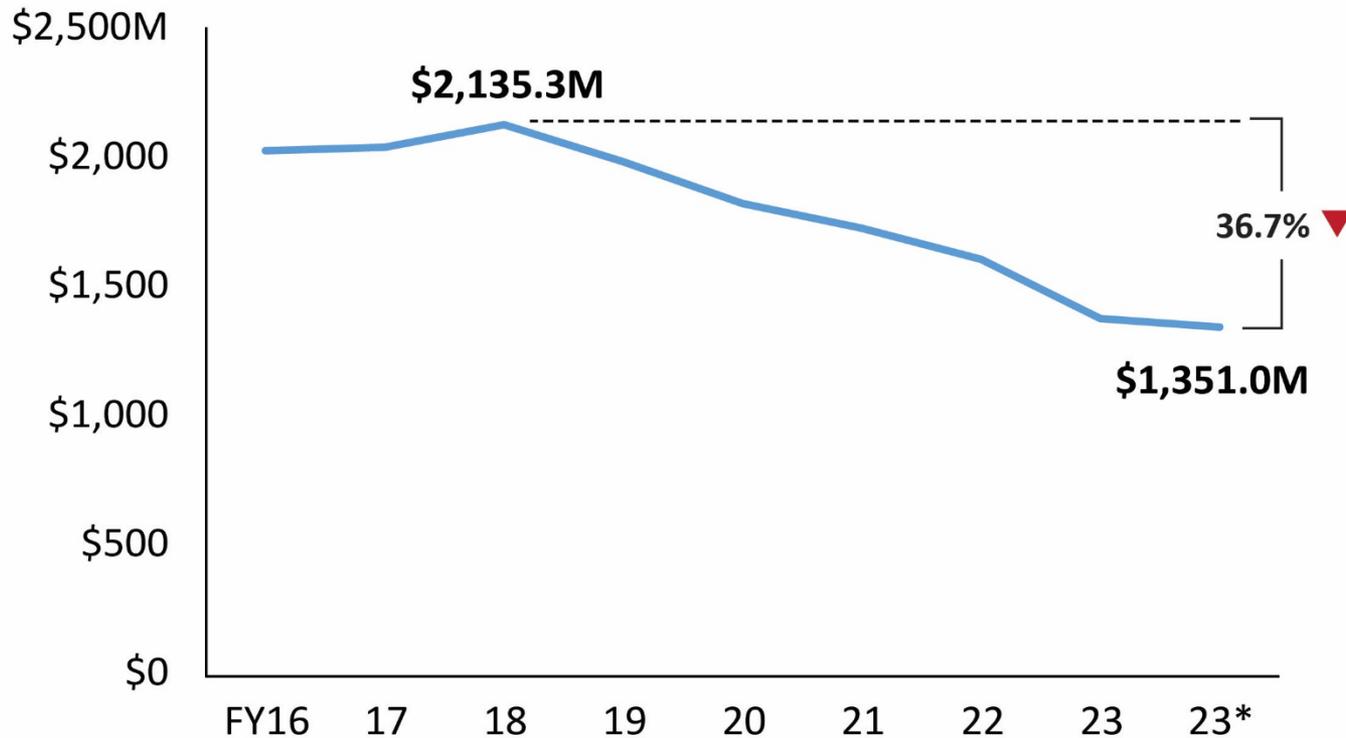
State-sponsored private retirement program

Use of DB529 surplus funds for higher education access and affordability

Virginia 529 administers 2 defined benefit college savings programs

- Legacy Prepaid 529
 - 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 Prepaid 529
 - Pays the same weighted-average tuition benefit regardless of college attended
- Programs combined into single Defined Benefit 529 (DB529) fund for actuarial and investment purposes

Total actuarial liabilities of DB529 programs have declined in recent years



*Actuarial liabilities as of December 31, 2023. All other years as of June 30.

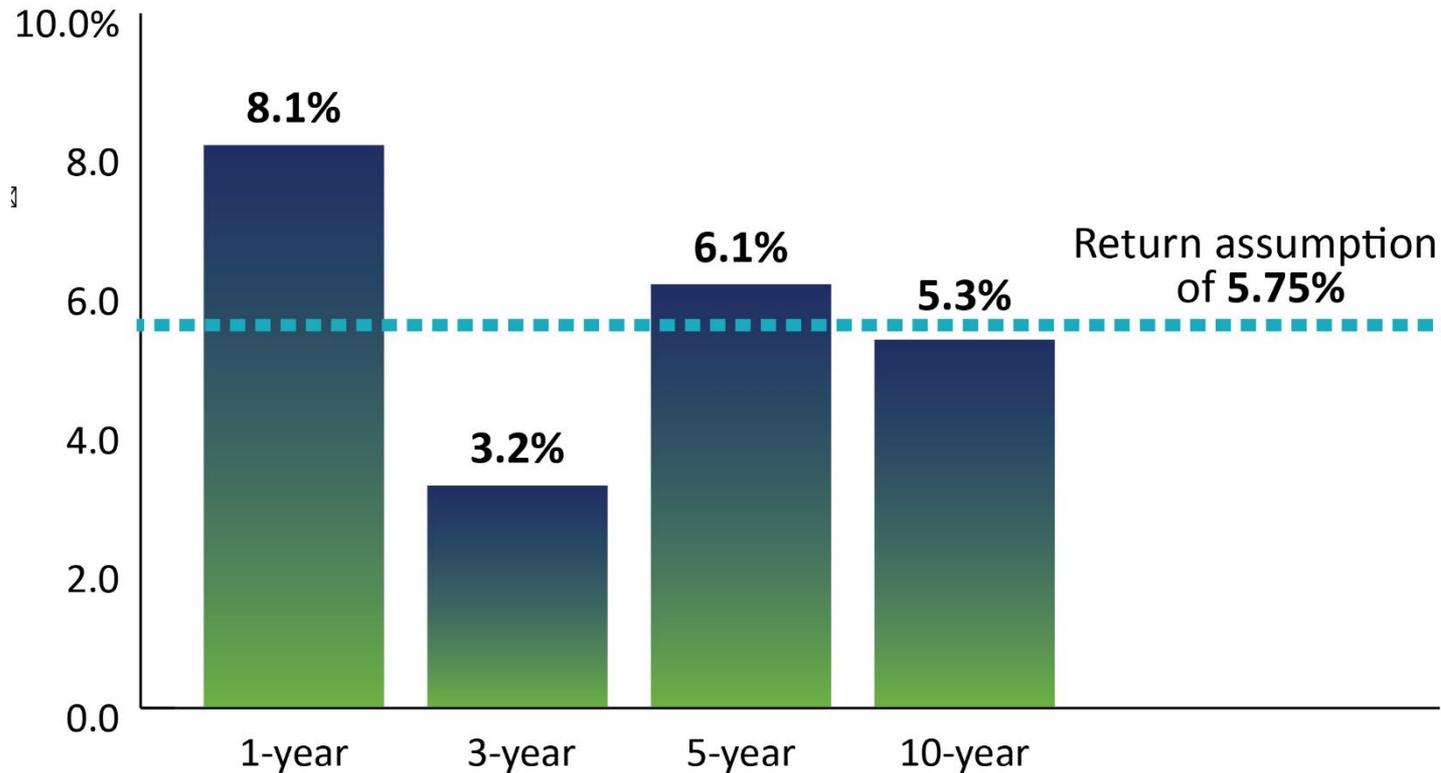
Combined DB529 assets have remained at approximately \$3 billion in recent years

- Combined DB529 assets consist of
 - \$2.4 billion for the Legacy Prepaid529 and TTP defined benefit programs
 - \$532 million designated by Virginia529 for higher education access and affordability
- DB529 programs' assets are commingled and managed through a single investment fund

Asset values as of March 31, 2024.

DB529 showed mixed performance compared with long-term return assumption

(March 31, 2024)



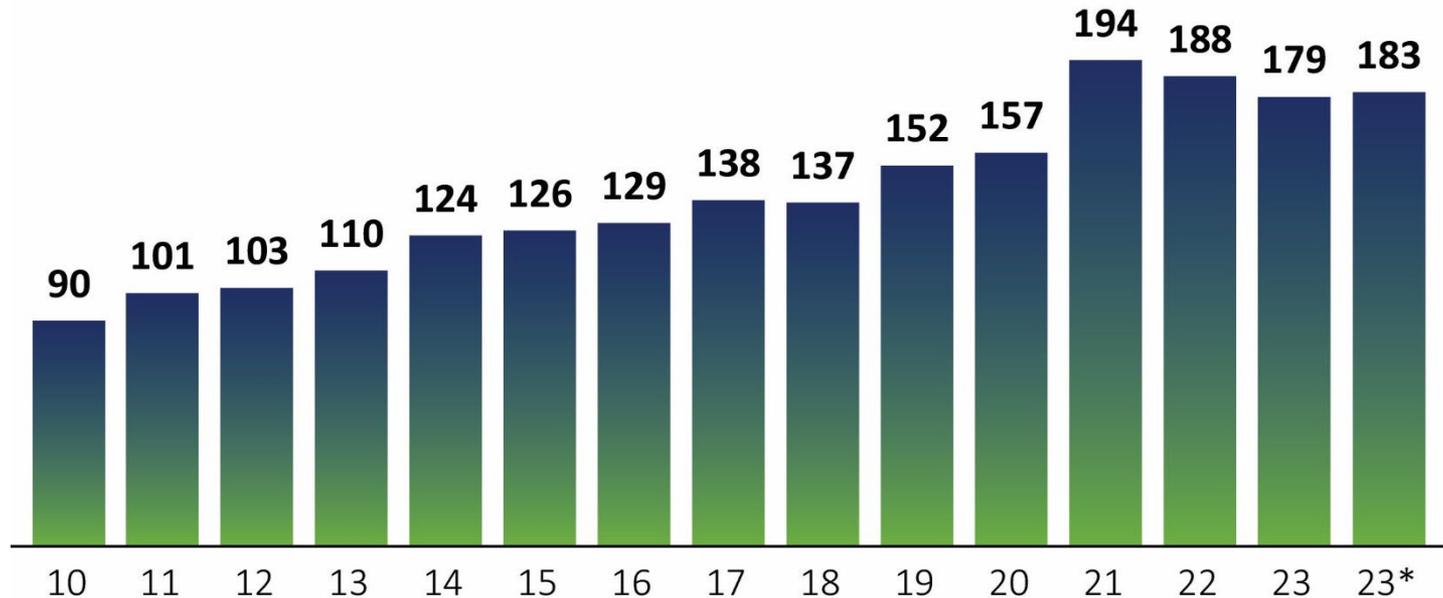
Asset classes showed mixed performance, and total fund underperformed for all periods

(March 31, 2024)

Asset class (% of fund)	1-year	3-year	5-year	10-year
Fixed income (55.0%)	✓	✓	✗	✗
Alternatives (24.4%)	✗	✓	✓	✓
Public equity (20.6%)	✓	✗	✗	✗
Total fund	✗	✗	✗	✗

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

DB529 fund has funded status of 183% and actuarial surplus of \$1.1 billion



- FY23 funded status would be 216% without board allocation of \$500M to Access fund

*Funded status as of December 31, 2023. All other years as of June 30.

Virginia529 is using risk-based capital model to help assess financial health of DB529 fund

- Risk-based capital (RBC) models used in banking and insurance industries, but not typically college savings programs, to determine capital reserves
 - Virginia529 is only state using RBC to help assess a DB529 program's financial health
- RBC capital reserve requirement could reduce the actuarial surplus of DB529 fund by \$147 – \$184 million*
- JLARC staff are assessing use and appropriateness of RBC for DB529 fund with a third-party consultant

*Based on actuarial valuation as of December 31, 2023.

Participation and assets in defined contribution education savings programs increased

- **Invest529** investment accounts are sold directly by Virginia529
 - Number of accounts grew 9.9% per year*
 - Assets grew 12.4% per year (\$9.1 billion in total assets)
- **CollegeAmerica** investment accounts are sold by advisers
 - Number of accounts grew 2% per year*
 - Assets grew 7.3% per year (\$91.3 billion in total assets)

*Average annual growth in number of unique program accounts between FY15 and FY24.

Defined contribution college savings programs showed mixed performance

(March 31, 2024)

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

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

In this presentation

Overview

Education savings programs

Disability savings programs

State-sponsored private retirement program

Use of DB529 surplus funds for higher education access and affordability

ABLE programs allow tax-advantaged savings for individuals with disabilities

- **ABLEnow** accounts are sold directly by Virginia529 (launched in 2016)
 - 17,545 accounts and \$146.4 million in assets
- **ABLEAmerica** accounts are sold by advisers (launched in 2018)
 - 3,035 accounts and \$54 million in assets
- ABLEnow and ABLEAmerica investment options showed mixed performance

Accounts, assets, and performance as of March 31, 2024.

In this presentation

Overview

Education savings programs

Disability savings programs

State-sponsored private retirement program

Use of DB529 surplus funds for higher education access and affordability

Virginia529 completed implementing a state-sponsored private retirement program in 2023

- HB 2174 (2021) created a state-sponsored retirement program for private-sector employees
 - Employers with 25+ employees required to participate if they don't already offer a retirement program
 - Employees must work 30+ hours per week to be eligible
- Virginia529 launched RetirePath Virginia statewide in June 2023
- 4,076 employee savings accounts and \$1.7 million in assets

Accounts and assets as of March 31, 2024.

Virginia529 conducting outreach and considering financial penalties for noncompliant employers

- Virginia529 is conducting outreach to noncompliant employers about program requirements
 - Largest area of employer noncompliance is failure to register with the program or certify an exemption
- Statute requires Virginia529 to develop enforcement mechanisms, including penalties up to \$200 per eligible employee each year
 - Virginia529 staff developed options for assessing penalties, but they have not yet been considered by board
- Employer compliance will be critical to program's success

In this presentation

Overview

Education savings programs

Disability savings programs

State-sponsored private retirement program

Use of DB529 surplus funds for higher education access and affordability

Board allocated \$500 million in DB529 surplus funds in 2023 for education initiatives

- Allocation followed 2022 JLARC report, *Defined Benefit 529 Surplus Funds*
- Board has considered using surplus funds for 2 purposes
 - Support higher educational accessibility programs for underserved students
 - Provide additional benefits to Legacy Prepaid529 contract holders
- No surplus funds have been spent because Virginia529 has not received appropriation authority
- Substantial additional surplus funds can be allocated to education initiatives

Workgroups examining use of DB529 surplus funds for education access and affordability

- Workgroups created to review use of surplus funds for higher education access and affordability
- Legislative staff workgroup to consider withdrawals of surplus funds and guidelines for their use
 - Required by 2023 Appropriation Act
 - Final report must be issued by October 15, 2024
- Workgroup of 5 senators to examine potential uses of surplus funds
 - Designated by SFAC chair

Legislation introduced but not enacted in 2023 and 2024 to authorize removal and use of DB529 surplus funds to support higher education access and affordability.

JLARC staff for this report

Kimberly Sarte, Associate Director

Jamie Bitz, Chief Legislative Analyst for Ongoing Oversight