

ACTUARIAL VALUATION
OF THE
VIRGINIA529 prePAID
AS OF JUNE 30, 2014

By:

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Board of the Virginia College Savings Plan
Commonwealth of Virginia
Virginia College Savings Plan
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Ladies & Gentlemen:

This report presents the results of the actuarial valuation of the Virginia529 prePAID (prePAID) as of June 30, 2014.

Purpose

The main purposes of this report are:

- to calculate the actuarial present value of the obligations under the prepaid tuition contracts purchased through June 30, 2014 and compare the value of those obligations with the assets in prePAID as of that date;
- to review the experience and changes in the actuarial assumptions during the last year and indicate their effects on the results; and
- to set forth the basis for the actuarial assumptions and methods utilized in those calculations.

The results contained in this report are based on contract data and preliminary financial statements provided by the Virginia College Savings Plan. We have relied on this data in preparing this report.

Background

In 1994, the Virginia General Assembly established the Virginia Higher Education Tuition Trust Fund (subsequently renamed the Virginia College Savings Plan) to enhance the accessibility and affordability of higher education for all citizens of the Commonwealth. The prePAID fund consists of payments received pursuant to prepaid tuition contracts, bequests, endowments or grants from the United States government, its agencies and instrumentalities, and any other available sources of funds, public or private. Any moneys remaining in prePAID at the end of a biennium shall remain in prePAID. Interest and income earned from the investment of such funds shall remain in prePAID.

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In 1998, the Virginia General Assembly passed legislation that requires the Governor to include in each year's state budget an amount to cover the Plan's obligations, which include prePAID, in the event "the Plan is unable to meet its current obligations." The Governor has included the provision in subsequent budget submissions to meet the prePAID obligations, and the General Assembly has included the provision in subsequent Appropriation Acts, including Chapter 2 of the 2014 Special Session I Acts of Assembly (2014 Appropriation Act).

Program Design

The Virginia529 prePAID is one of four Section 529 options offered by the Virginia College Savings Plan. Under prePAID, participants purchase tuition contracts that provide coverage of tuition and mandatory fees at a public university and/or community college in Virginia. At redemption, the contract pays the current tuition and mandatory fees at the Virginia public university or community college that the beneficiary attends. The benefits vary if the beneficiary does not attend a Virginia public university or community college. With the establishment of the Virginia529 inVEST Program and other savings programs, contract holders have the option of rolling over the value of their prePAID contract into a savings account. The value of the prePAID contract for such rollovers is the accumulated contributions at the reasonable rate of interest set by the prePAID. This option to roll over the contract has effectively added a minimum benefit to the Program.

Statutory Requirements

The Code of Virginia, Title 23, Chapter 4.9 provides limited guidance for establishing the actuarial basis to evaluate prePAID. The Code requires an annual audit of prePAID and states in part that if the annual accounting and audit "reveal that there are insufficient funds to ensure the actuarial soundness of prePAID, the Board shall be authorized to adjust the terms of subsequent prepaid tuition contracts or arrange refunds for current purchasers to ensure actuarial soundness."

"Actuarial soundness" is not a precise concept and there is no generally accepted understanding of the meaning of this phrase within the actuarial profession, especially with respect to prepaid tuition plans. For purposes of this report, we have assumed that the phrase "actuarially sound," when applied to the Virginia529 prePAID, means that the Fund has sufficient assets (including the value of future installment payments due under current contracts) to cover the actuarially estimated value of the tuition obligations under those contracts (including any administrative costs associated with those contracts).

We have also interpreted these Sections to require that the actuarial liabilities be evaluated using sound actuarial principles that are generally consistent with the practices and principles widely used for retirement programs. Reference to other programs is necessary because of the innovative nature of a prepaid tuition program. No generally accepted standard of practice has evolved within the actuarial profession

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specifically addressing prepaid tuition programs. We chose the standards applicable to retirement programs because these programs generally provide for payments at some future date where that payment has a high probability of payment at, or close to, some specific age.

Valuation Basis

The assumptions selected for this report are intended to be "best estimates".

The method for determining the "best estimate" liability for the Program reflects the possible variability of inflation, tuition, and investment returns and the correlation between each of these variables. The methodology is described in the section below, Variability of Results and Valuation Basis.

prePAID Investment Policy

On June 25, 2009, the Board of the Virginia College Savings Plan adopted a new target asset allocation strategy for the Virginia529 prePAID.

The investment strategy is important because it sets forth acceptable investment allocations among asset classes. The asset allocation affects the magnitude and variability of expected investment returns and therefore the financial structure of the plan. For the valuation, we have assumed that prePAID investments will be allocated as shown below, based on the investment policy target allocations:

Asset Category

Equities	32.5%
Core Fixed Income	25.0%
Non-Core Fixed Income	27.5%
Alternative Investments	15.0%

Actuarial Assumptions

The actuarial assumptions used to prepare this report are summarized in Appendix C. The two most significant of those assumptions are the rates of investment return and tuition growth in the future. The Virginia College Savings Plan selected both of these assumptions. They are:

- the investment return assumption of 6.75% per year, net of investment related expenses (this is unchanged from the assumption used to prepare the prior year's report); and,
- the annual tuition growth rate assumptions summarized in the table below.

	<u>Universities</u>	<u>Community Colleges</u>
Fall 2015 and thereafter	7.5%	7.5%

The tuition growth assumptions are unchanged from the prior year's report.

Summary of Results

The actuarial value of the obligations of the Virginia529 prePAID as of June 30, 2014 is summarized below and compared with the total assets of prePAID.

	Present Value of Obligations For Future <u>Payments</u>	Value of Total prePAID <u>Assets</u>	Actuarial Reserve/ <u>(Deficit)</u>
<i>(Amounts in Millions)</i>			
Virginia529 prePAID:			
Tuition Obligations	\$2,114.8	n/a	n/a
Administrative Expenses	<u>25.6</u>	<u>n/a</u>	<u>n/a</u>
Grand Total	\$2,140.4	\$2,663.7	\$523.3

As indicated above, the Virginia529 prePAID has assets that exceed the "best estimate" of the obligations by roughly \$523.3 million or 24.4%. Unfavorable future experience would adversely affect this position. It would be desirable to maintain and accumulate additional actuarial reserve over time to protect and strengthen this position.

The present value of future obligations for Administrative Expenses reflects the expected costs of maintaining each contract in place (as of June 30, 2014) until all tuition benefits have been paid and the expenses associated with making those payments. It does not include the future expenses of prePAID associated with general overhead and marketing attributable to future contracts. The \$25.6 million administrative expense obligation is equivalent to about \$378 per contract.

Actuarial Gain/Loss Analysis

During the 2014 fiscal year, the actuarial reserve position of prePAID improved from a surplus of \$219.5 million to a surplus of \$523.3 million or 24.4% of obligations. Actuarial gains add to the reserve while actuarial losses decrease the reserve. This year's increase to the reserve is mostly attributable to lower than expected tuition increases and higher than expected investment returns. Each of the factors affecting the change in the actuarial reserve/(deficit) is discussed below.

The actuarial surplus was expected to grow during the year by about \$14.8 million due to the passage of time. (The obligations are calculated as present values which grow with interest with the passage of time.)

The rate of return on prePAID investments (net of investment management fees) for the fiscal year was 11.83% on a time-weighted basis and 11.77% on a dollar-weighted basis. For the previous valuation, a 6.75% rate of return was assumed. This produced a net actuarial gain of approximately \$108.7 million.

The enrollment-weighted average university tuition and mandatory fee amount for the 2014-2015 school year increased by 5.6%, a smaller increase than the 7.5% rate assumed in the prior valuation. Enrollment-weighted tuition and mandatory fees at community colleges increased by about 4.7%, a smaller increase than the 7.5% rate assumed in the prior valuation. These smaller increases resulted in an actuarial gain of \$27.7 million.

Payouts for some of the contract holders are based on the account balance brought forward at the reasonable rate or the account balance brought forward at the actual rate of return on the portfolio. See Appendices C and F for an explanation of the assumptions and the payouts. During the past year the actual rate of return on the portfolio was 11.83% (5.08% more than the 6.75% assumption). The higher than expected actual account balances resulted in an actuarial loss of approximately \$8.2 million.

The Plan sold 3,795 new contracts during the year. Each contract was priced so as to contribute to the actuarial reserve. We estimate that the reserve was increased by approximately \$11.4 million from these new contracts.

prePAID received \$42.3 million in administrative fee revenue from all the Plan programs, including CollegeAmerica. Total agency operating expenses were \$19.5 million, of which \$4.5 million was expected to be provided by the prePAID expense reserve. The balance of the fee revenue, \$27.3 million, is an increase to the reserve.

The assumption for the reasonable rate was changed from 4.0% in all years to 0.08% for 2014-2015 and then 4.0% thereafter. The volatility and correlation assumptions for the investment returns and tuition increases were updated. The combined impact of these changes was a \$17.4 million increase to the reserve.

Several demographic assumptions affecting the measurement of the obligations were modified based on a 2014 study that examined the experience of prePAID for the 10 year period ending June 30, 2013:

1. The assumption for the number of contracts that are cancelled or request a rollover prior to matriculation was increased from approximately 0.05% to 0.50% per year. This increased the reserve by approximately \$12.2 million.
2. The assumptions for the proportion of contract units being redeemed for tuition at Virginia public universities, Virginia private colleges, out of state schools, or requesting a cancellation, transfer, or rollover were changed as follows:

	<u>Previous Assumption</u>	<u>New Assumption</u>
Virginia Public	80.0%	76.0%
Virginia Private	10.0%	7.6%
Out of State	10.0%	11.4%
Cancel/Transfer/Rollover	0.0%	5.0%

This increased the reserve by approximately \$48.9 million.

3. The assumptions for the beneficiary age at which units are first redeemed were modified slightly (see Appendix C). This decreased the reserve by approximately \$5.1 million.
4. The assumption for the ratio of the average cost of a Virginia public university payout relative to enrollment-weighted average tuition was changed from 110% to 108%. The assumption for the ratio of the average cost of a Virginia community college payout relative to enrollment-weighted average community college tuition was changed from 100% to 101%. These two assumption changes increased the reserve by approximately \$24.0 million.

Other experience gains added about \$24.7 million to the reserve. These could be from rollovers, cancellations, forfeitures, or more beneficiaries attending colleges with lower tuition levels than assumed in last year's valuation or other variations from the actuarial assumptions.

In summary, the effect of experience and assumption changes on the actuarial reserve/ (deficit) can be summarized as follows:

(Amounts in Millions)

Actuarial Reserve / (Deficit) as of June 30, 2013	\$ 219.5
Interest on the reserve at 6.75%	14.8
Investment gain (loss)	108.7
Tuition gain (loss)	27.7
Higher than expected actual account balances	(8.2)
Sales of new contracts	11.4
Administrative fee revenue from Virginia529	27.3
Change in demographic assumptions	80.0
Change in other assumptions	17.4
Other experience gains	24.7
Actuarial Reserve / (Deficit) as of June 30, 2014	\$ 523.3

Valuation Basis

The present values of the obligations shown above were based on assumptions which represent an estimate of anticipated experience under the Fund that are reasonably related to past educational cost and investment data. Differences between those projections and actual amounts will depend on the extent to which future experience conforms to the assumptions made for this analysis.

A prime source of variation will be normal fluctuations that occur in the rate of increase in tuition, investment returns, and expense inflation. One way of estimating the range of possible outcomes is to stochastically model the financial operation of prePAID using "Monte Carlo" techniques. This approach involves preparing 1,000 projections of financial results under randomly derived scenarios of tuition growth, investment returns, and expense inflation. Each of these scenarios is based on statistical factors such as standard deviation and correlation that were established by reviewing historical results adjusted where appropriate to reflect current conditions. By tabulating the results under all of these projections we estimated the probability that current assets, along with all anticipated contract payments plus investment returns, will be sufficient to cover the obligations of the Virginia529 prePAID.

We have summarized in the table below the results of this process. It is important to understand that these results are only illustrative of the range of results that are possible and are dependent on the assumptions utilized. The assumptions are presented in Appendix C.

(Amounts in Millions)

<u>Percentage of "Best Estimate" Reserve</u>	<u>Total prePAID Fund Value at June 30, 2014</u>	<u>Probability of prePAID Funds Exceeding Obligation</u>
80%	\$1,712.3	7%
90%	1,926.4	25%
100%	2,140.4	50%
110%	2,354.5	74%
120%	2,568.5	87%
124%	2,663.7	91%*
130%	2,782.6	95%
140%	2,996.6	98%
150%	3,210.6	99%

*actual Fund position.

The present value of obligations for future payments shown previously is the amount of assets necessary to have a 50% probability of meeting all program obligations, including administrative costs, associated with current contracts. The actual prePAID fund balance at June 30, 2014 of \$2,663.7 million is 124.4% of the actuarially determined "Best Estimate" Reserve amount of \$2,140.4 million. As indicated in the above table, this prePAID fund balance is estimated to have a 91% probability of being adequate to satisfy all prePAID obligations using current assumptions.

Cash Flow Projection

The table in Appendix E shows a cash flow projection based on a set of deterministic assumptions that produce the same Present Value of Obligations for Future Payments as the "best estimate" actuarial assumptions used in the Monte Carlo simulations. The deterministic cash flow projection assumes that University and Community College tuition increase 7.5% per year, and prePAID assets earn 6.50% each year. The starting Market Value of Invested Assets as of July 1, 2014 is \$2,445.9 million. At the end of the 2039 Fiscal Year all tuition obligations associated with contracts already purchased are expected to have been paid resulting in a final cumulative surplus of \$2,525.9 million. Since the actuarial assumptions are intended to represent "best estimates" of future expenses, there is a 50% chance that actual results will be better than this projection and a 50% chance that actual results will be worse.

Variability of Results

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: future experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and increases or decreases expected as part of the natural operation of the methodology used for these measurements. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Data Reliance

In performing this analysis, we relied on data and other information (some oral and some in writing) provided by the staff of the Virginia College Savings Plan. This information includes, but is not limited to, contractual provisions, contract holder data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

Actuarial Assumptions

All costs, liabilities, and other factors for prePAID have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of prePAID and reasonable expectations). Further, the actuarial assumptions in the aggregate are reasonable and are related to the experience of prePAID and to reasonable expectations. The following actuarial assumptions were set by the Virginia College Savings Plan:

- 1) the investment return assumption of 6.75% per year, and;
- 2) the tuition growth assumption for universities of 7.5% per year and the tuition growth assumption for community colleges of 7.5% per year.

Certification

Based on the foregoing assumptions, the Virginia529 prePAID has sufficient assets, including the value of future installment payments, to cover the actuarially estimated value of the tuition obligations under all contracts outstanding as of the valuation date (including any administrative costs associated with those contracts). This determination has been based on reasonable actuarial assumptions that represent the Virginia College Savings Plan's best estimate of anticipated experience under prePAID taking into account past experience and future expectations.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

Third Party Distribution

This report was prepared exclusively for the Virginia College Savings Plan for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning the Virginia College Savings Plan's operations, and uses the Virginia College Savings Plan's data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

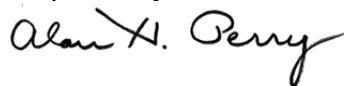
Qualifications

We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

The consultants who worked on this assignment are actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

We look forward to reviewing the results of our analyses with you at your earliest convenience.

Respectfully submitted,



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Virginia529 prePAID

I. Statement of Assets as of June 30, 2014

<u>Investments</u>	<u>Market Value</u>
1) Equities	\$ 965,558,654
2) Fixed Income including Accrued Interest	1,327,096,896
3) REIT Fund and Real Estate	75,088,562
4) Cash & Cash Equivalents	60,620,393
5) Prepaid Assets	67,296
6) Other Receivables	3,930,522
7) Accounts Receivable	12,323,672
8) Property & Equipment	9,558,432
9) Accounts Payable	(1,399,689)
10) Accrued Liabilities	(6,707,603)
11) Other Payables	(215,018)
Total Market Value of Investments	\$ 2,445,922,117
Present Value of Installment Contract Receivables	<u>217,829,355</u>
Value of Total Fund Assets	\$ 2,663,751,472

II. Reconciliation of Investments

1) Market Value of Investments at June 30, 2013	\$ 2,180,163,752
2) Contract Purchase Payments	128,291,622
3) Application Fees	295,588
4) Administrative Fee Revenue	42,333,292
5) Interest and Dividends	55,746,736
6) Realized and Unrealized Gains/(Losses)	202,705,920
7) Tuition Payments, Refunds and Rollovers	(140,268,766)
8) Administrative Expenses	(19,522,257)
9) Investment Management Fees	(5,936,964)
10) Net Transfers to the Commonwealth	(196,527)
11) Net Effect of Changes in Accruals of Assets and Liabilities	<u>2,309,720</u>
12) Market Value of Investments at June 30, 2014	\$ 2,445,922,117
Time-weighted rate of return	11.83%
Dollar-weighted rate of return	11.77%

Appendix A

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Virginia529 prePAID
Contract Data as of June 30, 2014 – Contracts Purchasing Tier I Units Only - Number of Contracts*

Matriculation Year	Total Years of Community College Purchased										Total by Payout Year	Percent of Total
	Total Years of University Purchased											
	0	0.5	1	1.5	2	2.5	3	3.5	4	4.5		
2000-2001	0	1	0	3	0	1	0	29	0	1	35	0.1%
2001-2002	0	3	0	2	0	0	0	50	0	2	57	0.1%
2002-2003	0	11	0	6	0	0	0	66	0	8	91	0.1%
2003-2004	0	5	0	14	0	4	0	114	0	5	142	0.2%
2004-2005	0	21	0	21	0	4	0	142	0	12	200	0.3%
2005-2006	0	34	0	41	0	6	0	266	0	20	367	0.6%
2006-2007	0	47	0	46	0	22	0	365	0	42	522	0.8%
2007-2008	0	45	0	74	0	13	0	485	0	44	661	1.0%
2008-2009	0	68	0	93	0	31	0	663	0	66	921	1.4%
2009-2010	0	84	0	112	0	44	0	932	0	93	1,265	2.0%
2010-2011	0	173	0	253	0	64	0	2,626	0	116	3,232	5.0%
2011-2012	0	233	0	296	0	107	0	2,857	0	127	3,620	5.6%
2012-2013	0	362	0	550	0	129	0	2,956	0	141	4,138	6.4%
2013-2014	0	473	1	639	0	158	1	2,988	0	126	4,386	6.8%
2014-2015	1	635	2	620	0	167	2	3,020	0	141	4,588	7.1%
2015-2016	1	575	3	666	1	125	3	2,962	0	120	4,456	6.9%
2016-2017	12	596	4	594	1	165	1	2,827	0	127	4,327	6.7%
2017-2018	56	636	9	578	5	165	2	2,628	1	144	4,224	6.6%
2018-2019	42	597	18	578	3	116	3	2,541	1	158	4,057	6.3%
2019-2020	56	515	13	527	6	122	1	2,262	0	136	3,638	5.7%
2020-2021	56	444	13	430	4	107	2	1,906	0	109	3,071	4.8%
2021-2022	66	486	14	462	16	118	3	1,884	1	127	3,177	4.9%
2022-2023	74	434	14	433	10	79	0	1,355	1	50	2,450	3.8%
2023-2024	53	398	14	314	9	75	2	1,230	0	54	2,149	3.3%
2024-2025	77	339	8	298	8	66	1	976	3	72	1,848	2.9%
2025-2026	74	295	18	244	6	39	2	839	0	43	1,560	2.4%
2026-2027	81	271	6	208	1	28	1	623	1	24	1,244	1.9%
2027-2028	68	266	15	210	6	38	2	547	1	30	1,183	1.8%
2028-2029	51	196	7	149	5	15	2	424	0	16	865	1.3%
2029-2030	54	172	7	105	0	9	1	325	0	11	684	1.1%
2030-2031	68	106	14	93	5	14	0	223	0	8	531	0.8%
2031-2032	84	77	9	70	1	4	0	152	1	9	407	0.6%
2032-2033	20	29	2	23	0	1	0	61	0	3	139	0.2%
Total	994	8,627	191	8,752	87	2,036	29	41,324	10	2,185	64,235	
Percent of Total	1.5%	13.4%	0.3%	13.6%	0.1%	3.2%	0.0%	64.3%	0.0%	3.4%		

* Table only includes contracts with at least one semester of tuition remaining.

Virginia529 prePAID
Contract Data as of June 30, 2014 – Contracts Purchasing Tier II Units Only - Number of Contracts*

Matriculation Year	Total Years of Community College Purchased												Total by Payout Year	Percent of Total	
	Total Years of University Purchased														
	0.5	1	1.5	2	2.5	3	3.5	4	4.5	5	5.5	10			
2000-2001	0	1	0	5	0	0	0	0	0	0	0	0	0	6	0.2%
2001-2002	0	0	0	18	0	0	0	0	0	0	0	0	0	18	0.5%
2002-2003	0	2	0	13	0	0	0	0	0	0	0	0	0	15	0.5%
2003-2004	0	2	0	7	0	1	0	0	0	0	0	0	0	10	0.3%
2004-2005	0	4	0	21	0	3	0	0	0	0	0	0	0	28	0.8%
2005-2006	0	4	0	42	0	2	0	0	0	0	0	0	0	48	1.5%
2006-2007	0	1	0	28	0	4	0	0	0	0	0	0	0	33	1.0%
2007-2008	0	4	0	50	0	6	0	0	0	0	0	0	0	60	1.8%
2008-2009	0	3	0	40	0	4	0	0	0	0	0	0	0	47	1.4%
2009-2010	0	1	0	58	0	8	0	0	0	0	0	0	0	67	2.0%
2010-2011	0	20	0	82	0	6	0	0	0	0	0	0	0	108	3.3%
2011-2012	0	18	0	109	0	18	0	0	0	0	0	0	0	145	4.4%
2012-2013	1	37	0	167	0	28	0	0	0	0	0	0	0	233	7.1%
2013-2014	0	42	0	153	0	21	0	0	0	0	0	0	0	216	6.5%
2014-2015	0	57	0	174	0	32	0	0	0	0	0	0	0	263	8.0%
2015-2016	0	44	0	164	0	17	0	0	0	0	0	0	0	225	6.8%
2016-2017	2	53	0	145	0	12	0	2	0	0	0	0	0	214	6.5%
2017-2018	3	46	0	128	0	18	0	1	0	0	1	2	2	199	6.0%
2018-2019	7	35	0	101	1	16	0	0	0	0	0	2	2	162	4.9%
2019-2020	5	39	0	89	0	19	0	2	0	0	1	1	1	156	4.7%
2020-2021	2	41	1	90	1	11	0	1	0	2	0	0	0	149	4.5%
2021-2022	4	42	2	91	1	11	0	1	0	0	0	1	1	153	4.6%
2022-2023	5	37	0	83	1	3	0	1	0	0	0	0	0	130	3.9%
2023-2024	7	41	1	65	0	9	0	1	0	0	0	1	1	125	3.8%
2024-2025	1	35	0	45	1	5	0	0	0	0	0	0	0	87	2.6%
2025-2026	2	33	1	39	0	4	0	0	0	0	0	2	2	81	2.5%
2026-2027	4	12	0	40	0	11	0	1	0	0	0	0	0	68	2.1%
2027-2028	6	16	0	34	0	5	0	0	0	1	0	0	0	62	1.9%
2028-2029	5	19	0	33	0	1	0	1	0	0	0	0	0	59	1.8%
2029-2030	5	11	0	34	0	2	0	0	0	0	0	0	0	52	1.6%
2030-2031	12	10	0	16	1	1	1	3	0	0	0	0	0	44	1.3%
2031-2032	8	6	0	12	0	1	0	0	0	0	0	0	0	27	0.8%
2032-2033	0	7	0	4	0	0	0	0	0	0	0	0	0	11	0.3%
Total	79	723	5	2,180	6	279	1	14	0	3	2	9	9	3,301	
Percent of Total	2.4%	21.9%	0.2%	66.0%	0.2%	8.5%	0.0%	0.4%	0.0%	0.1%	0.1%	0.3%	0.3%		

* Table only includes contracts with at least one semester of tuition remaining.

Virginia529 prePAID
Contract Data as of June 30, 2014 – Contracts Purchasing Tier I and Tier II Units - Number of Contracts*

Matriculation Year	Total Years of Community College Purchased																												Total by Payout Year	Percent of Total		
	Total Years of University Purchased																															
	0.5	0.5	0.5	0.5	1	1	1	1	1	1	1	1	1	1	1.5	1.5	2	2	2	2	2	2	2.5	3	3	3	3	3			4	5
0.5	1	1.5	2	0.5	1	1.5	2	2.5	3	4	5	1	1.5	1	1.5	2	3	4	5	1.5	1	2	3	4	5	4	5	5				
2000-2001	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0.0%
2001-2002	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	4	0.1%
2002-2003	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	2	0	0	0	0	0	0	0	1	0	0	0	6	0.2%	
2003-2004	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	6	1	0	0	0	0	0	0	0	0	0	0	0	9	0.3%	
2004-2005	0	0	0	0	0	1	0	0	0	1	0	0	0	0	0	0	9	0	1	0	0	0	0	0	0	0	0	0	0	12	0.4%	
2005-2006	0	0	0	0	0	0	1	0	0	0	0	0	0	0	2	0	15	0	1	0	0	0	0	0	0	0	1	0	20	0.7%		
2006-2007	0	0	0	0	0	2	0	1	0	0	1	0	0	0	2	0	27	1	1	1	0	0	0	0	0	0	0	0	36	1.2%		
2007-2008	0	0	0	0	0	2	0	0	0	1	0	0	0	0	0	30	1	0	0	0	0	1	0	0	0	0	0	0	35	1.2%		
2008-2009	0	0	0	0	0	5	0	2	0	3	0	0	0	0	6	0	44	0	0	0	0	1	0	0	0	3	0	64	2.2%			
2009-2010	0	0	0	0	0	9	0	0	0	2	0	0	0	0	2	0	69	2	0	1	0	1	0	0	0	1	0	87	3.0%			
2010-2011	0	0	0	0	0	6	0	5	0	7	1	0	0	0	2	0	126	4	0	1	0	2	0	1	0	3	0	158	5.4%			
2011-2012	0	0	0	0	0	9	0	8	0	6	0	0	0	0	7	0	142	1	2	0	0	1	1	0	0	3	0	180	6.1%			
2012-2013	0	0	0	0	0	15	0	9	0	10	2	0	0	0	9	0	129	3	0	0	0	1	1	1	0	1	0	181	6.1%			
2013-2014	0	0	0	0	0	18	0	11	0	18	2	0	0	0	4	0	155	3	1	1	0	0	2	1	0	2	0	218	7.4%			
2014-2015	0	0	0	0	0	15	0	8	0	19	0	1	0	0	16	0	176	3	0	0	0	0	0	0	0	1	0	239	8.1%			
2015-2016	0	0	0	0	0	16	0	5	0	6	0	0	0	0	21	0	137	1	0	0	0	2	0	1	0	3	0	192	6.5%			
2016-2017	0	0	0	1	0	10	0	6	0	7	0	1	0	0	17	0	151	0	3	0	0	1	0	0	0	2	0	199	6.8%			
2017-2018	1	1	1	0	1	22	0	5	0	7	0	0	2	0	9	0	145	5	1	0	0	1	0	0	0	1	0	202	6.9%			
2018-2019	0	1	0	0	0	14	0	3	0	7	0	0	0	0	7	1	134	2	0	0	0	3	0	1	0	1	0	174	5.9%			
2019-2020	1	0	0	0	0	23	0	3	0	8	1	1	0	0	8	1	133	3	0	0	0	1	0	0	0	2	0	185	6.3%			
2020-2021	0	0	0	0	0	10	0	3	0	4	2	0	0	1	10	0	96	4	0	0	0	2	0	0	0	0	0	132	4.5%			
2021-2022	1	1	0	0	0	11	0	0	1	4	2	0	0	0	6	0	93	1	0	1	0	3	0	1	0	4	0	129	4.4%			
2022-2023	0	0	0	0	0	6	0	4	0	5	1	0	0	0	6	1	71	4	0	0	0	3	1	0	0	0	1	103	3.5%			
2023-2024	0	0	0	0	1	3	0	3	0	7	2	0	0	0	8	0	62	3	1	0	0	0	0	0	0	2	0	92	3.1%			
2024-2025	0	0	0	0	1	2	1	2	0	5	0	1	0	0	7	0	51	0	0	1	0	1	0	0	0	1	0	73	2.5%			
2025-2026	0	0	0	0	1	2	2	7	0	3	0	0	0	0	4	0	36	4	0	0	0	0	0	0	0	1	0	60	2.0%			
2026-2027	0	0	0	0	0	3	0	1	0	3	1	0	0	0	5	0	24	0	0	0	0	0	0	0	0	1	0	38	1.3%			
2027-2028	1	0	0	0	1	3	0	2	0	2	1	0	0	0	3	0	25	1	0	1	0	0	1	0	0	0	0	41	1.4%			
2028-2029	0	0	0	0	0	3	0	2	0	3	1	0	0	0	2	0	13	0	0	0	1	0	0	0	0	0	0	25	0.8%			
2029-2030	0	0	0	0	1	2	0	2	0	1	0	0	0	0	0	13	0	0	0	0	0	0	0	0	0	0	0	19	0.6%			
2030-2031	0	0	1	0	0	2	0	2	0	0	0	0	0	0	3	0	9	0	1	1	0	0	0	0	0	0	0	20	0.7%			
2031-2032	2	0	0	0	2	0	0	0	0	1	0	0	0	0	0	5	0	0	0	0	0	0	0	0	0	0	0	10	0.3%			
2032-2033	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	3	0	0	0	0	0	0	0	0	0	0	0	4	0.1%			
Total	6	3	2	1	8	214	3	96	1	142	18	4	2	1	169	3	2,135	47	12	8	1	24	6	6	1	33	0	1	1	2,948		
Percent of Total	0.2%	0.1%	0.1%	0.0%	0.3%	7.3%	0.1%	3.3%	0.0%	4.8%	0.6%	0.1%	0.1%	0.0%	5.7%	0.1%	72.4%	1.6%	0.4%	0.3%	0.0%	0.8%	0.2%	0.2%	0.0%	1.1%	0.0%	0.0%	0.0%			

* Table only includes contracts with at least one semester of tuition remaining.
 The table excludes 6 records that do not fit into any of the combinations shown.

Virginia529 prePAID

Participant Data as of June 30, 2014 – Remaining Years of Tuition

<u>Expected Payout Year</u>	<u>University Years</u>	<u>Community College Years</u>
2014-2015	20,069	1,236
2015-2016	17,811	1,059
2016-2017	16,845	913
2017-2018	16,136	875
2018-2019	14,473	734
2019-2020	13,800	715
2020-2021	12,756	661
2021-2022	11,653	595
2022-2023	10,287	533
2023-2024	8,917	468
2024-2025	7,660	398
2025-2026	6,349	335
2026-2027	5,264	277
2027-2028	4,386	236
2028-2029	3,576	199
2029-2030	2,831	163
2030-2031	2,233	137
2031-2032	1,708	103
2032-2033	1,186	74
2033-2034	726	44
2034-2035	407	25
2035-2036	192	14
2036-2037	71	8
2037-2038	28	4
2038-2039	<u>6</u>	<u>1</u>
Total	179,370	9,807

Virginia529 prePAID

Summary of Actuarial Assumptions

Investment / Economic Assumptions for Simulation Model:

The standard deviation and correlation assumptions are based on actual historical returns and tuition growth. Expected return assumptions are based on Milliman's investment assumptions, but are adjusted so that the expected annualized return on the portfolio is 6.75%, which is the assumption set by the Board.

	<u>Inflation</u>	<u>Reasonable Rate</u>	<u>Global Equity</u>	<u>Non-Core Fixed Income</u>	<u>Core Fixed Income</u>	<u>Alternative Investments</u>	<u>University Tuition</u>	<u>CC Tuition</u>
Expected Arithmetic Mean Annual Return	2.50%	4.00%	9.50%	6.00%	4.18%	9.00%	7.58%	7.64%
Standard Deviation	2.00%	2.00%	17.35%	10.45%	4.75%	15.05%	4.60%	7.10%
Correlation:								
Inflation	1.00	0.56	0.21	0.02	0.19	0.24	0.16	0.00
Reasonable Rate		1.00	0.21	0.15	0.44	-0.01	-0.01	-0.41
Global Equity			1.00	0.58	0.06	0.56	0.04	-0.04
Non-Core Fixed Income				1.00	0.55	0.34	0.39	0.39
Core Fixed Income					1.00	-0.24	0.25	0.25
Alternative Investments						1.00	-0.20	-0.14
University Tuition							1.00	0.80
CC Tuition								1.00

Based on the economic assumptions above, the expected long-term annualized compound rate of return on investments is 6.75%. The expected long-term annualized compound rate of tuition growth is 7.5% per year for university and community college tuition. The Reasonable Rate for 2014-2015 was set equal to 0.08% for all simulations.

Matriculation and Bias:

Starting in the year of matriculation, it is assumed that 76% of beneficiaries will attend a public university in Virginia, 7.6% will attend a private university in Virginia, and 11.4% will attend a university in another state, and 5.0% will request a cancellation, transfer, or rollover to a savings plan. Weighted average tuition for four-year public universities in Virginia was adjusted with a 8.0% load to add a bias for matriculation at more expensive schools. Weighted average tuition for two-year community colleges in Virginia was adjusted with a 1.0% load to add a bias for matriculation at more expensive schools. The highest tuition for a public university in Virginia was assumed to be 50% higher than weighted average tuition. Out-of-state students and contracts requesting a rollover are assumed to receive a benefit equal to the payments made on the contract plus interest at the composite reasonable rate of return.

Virginia529 prePAID

Summary of Actuarial Assumptions
(continued)

Combination Contracts:

For combination contracts a portion of the remaining university and community college years are assumed to be paid each year. For combination contracts currently in payout with only university years or community college years remaining, the applicable remaining years are assumed to be paid.

Utilization:

It is assumed that participants will begin utilizing their contract at the following rates, and then redeem up to two semesters of tuition per year until the contract is depleted:

Years since Matriculation <u>Year</u>	Number of Semesters of Tuition Purchased						
	<u>1 - 2</u>	<u>3 - 4</u>	<u>5 - 6</u>	<u>7 - 8</u>	<u>9 - 10</u>	<u>11-12</u>	<u>13+</u>
0	50%	60%	60%	80%	85%	85%	100%
1	15%	10%	20%	10%	8%	15%	
2	10%	15%	10%	5%	7%		
3	10%	5%	5%	5%			
4	5%	5%	5%				
5	5%	5%					
6	5%						

Previous assumptions:

Years since Matriculation <u>Year</u>	Number of Semesters of Tuition Purchased						
	<u>1 - 2</u>	<u>3 - 4</u>	<u>5 - 6</u>	<u>7 - 8</u>	<u>9 - 10</u>	<u>11-12</u>	<u>13+</u>
0	35%	60%	60%	85%	85%	100%	100%
1	20%	10%	20%	7%	8%		
2	15%	15%	10%	5%	7%		
3	10%	5%	5%	3%			
4	10%	5%	5%				
5	5%	5%					
6	5%						

Virginia529 prePAID

Summary of Actuarial Assumptions
(continued)

Forfeiture: It is assumed that contracts will be forfeited prior to the year of matriculation at a rate of 0.5% per year.

Expenses: The expenses included in the present value of future obligations are those relating to:

Annual Maintenance Expense per Contract = \$53.96

Annual Distribution Cost per Contract in Payment Status = \$23.89

The expense assumptions were developed from a cost analysis by Virginia College Savings Plan staff.

These expenses are assumed to increase annually at the rate of inflation plus 0.5%.

Virginia529 prePAID

Derivation of Enrollment-Weighted Average Tuition
and Mandatory Fees at Four Year Universities
Based on Projected Enrollment for 2014-2015

<u>School</u>	<u>Tuition and Fees 2014-2015</u>	<u>Fall On Campus In-State Undergraduate FTE for 2014-2015</u>	<u>Percent Distribution</u>
Christopher Newport	\$11,646	4,822	3.69%
George Mason	\$10,382	17,835	13.66%
James Madison	\$9,662	13,114	10.05%
Longwood	\$11,580	4,025	3.08%
Mary Washington	\$10,312	3,805	2.91%
Norfolk State	\$7,552	4,956	3.80%
Old Dominion	\$9,250	16,004	12.26%
Radford	\$9,360	8,183	6.27%
University of Virginia	\$13,006	10,183	7.80%
UVA - Wise	\$8,868	1,501	1.15%
Virginia Commonwealth - 2014 Students	\$12,398	5,052	3.87%
Virginia Commonwealth - 2013 Students	\$12,398	5,052	3.87%
Virginia Commonwealth - Returning Students	\$10,635	10,104	7.74%
Virginia Military Institute	\$15,518	921	0.71%
Virginia Tech	\$12,017	17,402	13.33%
Virginia State	\$8,002	3,442	2.64%
William & Mary - 2014 Students	\$17,656	1,036	0.79%
William & Mary - 2013 Students	\$15,656	1,036	0.79%
William & Mary - Returning Students	\$14,274	2,071	1.59%
Weighted Average Tuition and Fees*	\$10,797	130,542	100.00%

* Assumes that 2013 and 2014 students are each 25% of total FTE for William & Mary and Virginia Commonwealth.

Appendix D
(Page 1 of 3)

This work product was prepared solely for the Virginia College Savings Plan for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Virginia529 prePAID

Derivation of Enrollment-Weighted Average Tuition
and Mandatory Fees at Community Colleges

<u>School</u>	<u>Tuition and Fees 2014-2015</u>	<u>Annualized In-State FTE Academic Year 2013-2014</u>	<u>Percent Distribution</u>
Blue Ridge	\$5,114	2,779	2.41%
Central Virginia	\$4,544	2,607	2.26%
Dabney S. Lancaster	\$4,432	714	0.62%
Danville	\$4,432	2,518	2.18%
Eastern Shore	\$4,448	491	0.43%
Germanna	\$4,640	4,347	3.76%
J Sargeant Reynolds	\$4,723	7,694	6.66%
John Tyler	\$4,352	5,601	4.85%
Lord Fairfax	\$4,475	3,907	3.38%
Mountain Empire	\$4,448	1,841	1.59%
New River	\$4,434	2,739	2.37%
Northern Virginia	\$5,176	32,061	27.76%
Patrick Henry	\$4,443	2,107	1.82%
Paul D Camp	\$4,420	837	0.72%
Piedmont Virginia	\$4,516	2,900	2.51%
Rappahannock	\$4,534	1,866	1.62%
Richard Bland	\$5,058	1,018	0.88%
Southside Virginia	\$4,432	3,476	3.01%
Southwest Virginia	\$4,416	1,738	1.50%
Thomas Nelson	\$4,443	6,724	5.82%
Tidewater	\$5,205	19,026	16.47%
Virginia Highlands	\$4,448	1,588	1.37%
Virginia Western	\$4,771	4,930	4.27%
Wytheville	\$4,448	<u>1,992</u>	<u>1.72%</u>
Weighted Average Tuition and Fees	\$4,835	115,501	100.00%

Virginia529 prePAID

History of Enrollment-Weighted Average Tuition and Mandatory Fees
at Four Year Universities and Community Colleges in Virginia

<u>Academic Year</u>	<u>University Tuition and Fees</u>	<u>% Increase</u>	<u>Community College Tuition and Fees</u>	<u>% Increase</u>
1988-1989	\$2,377		\$778	
1989-1990	2,544	7.0%	798	2.5%
1990-1991	2,702	6.2%	894	12.0%
1991-1992	2,985	10.5%	1,050	17.4%
1992-1993	3,357	12.5%	1,230	17.1%
1993-1994	3,659	9.0%	1,320	7.3%
1994-1995	3,789	3.6%	1,359	3.0%
1995-1996	3,949	4.2%	1,445	6.3%
1996-1997	4,002	1.3%	1,445	0.0%
1997-1998	4,095	2.3%	1,445	0.0%
1998-1999	4,217	3.0%	1,445	0.0%
1999-2000	3,721	(11.8%)	1,159	(19.8%)
2000-2001	3,793	1.9%	1,159	0.0%
2001-2002	3,843	1.3%	1,159	0.0%
2002-2003	4,122	7.3%	1,671	44.3%
2003-2004	5,033	22.1%	1,882	12.6%
2004-2005	5,559	10.5%	2,006	6.5%
2005-2006	5,990	7.8%	2,135	6.4%
2006-2007	6,529	9.0%	2,269	6.3%
2007-2008	6,966	6.7%	2,404	5.9%
2008-2009	7,562	8.6%	2,584	7.5%
2009-2010	7,912	4.6%	2,781	7.6%
2010-2011	8,803	11.3%	3,285	18.1%
2011-2012	9,507	8.0%	4,179*	27.2%*
2012-2013	9,856	3.7%	4,426	5.9%
2013-2014	10,225	3.7%	4,619	4.4%
2014-2015	10,797	5.6%	4,835	4.7%

* Starting with the 2011-2012 year, Community College Tuition and Fees is measured as an enrollment-weighted average. Prior to that, a non-enrollment-weighted average was used. Enrollment numbers taken from SCHEV's website.

Compounded Increase in Average Tuition

Over last 5 years:	6.4%	11.7%
Over last 10 years:	6.9%	9.2%
Over last 15 years:	7.4%	10.0%
Over last 20 years:	5.4%	6.6%
Over last 25 years:	6.0%	7.5%

Virginia529 prePAID

Cash Flow Projection
(amounts in millions)

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Installment Payments*</u>	<u>Tuition Benefits</u>	<u>Expenses</u>	<u>Investment Income</u>	<u>Ending Balance</u>
2015	\$2,445.9	\$52.6	\$224.3	\$4.1	\$149.6	\$2,419.7
2016	2,419.7	44.6	214.0	4.0	148.1	2,394.4
2017	2,394.4	36.5	217.9	3.7	146.1	2,355.4
2018	2,355.4	29.6	225.2	3.5	142.9	2,299.2
2019	2,299.2	24.5	217.8	3.0	139.7	2,242.6
2020	2,242.6	20.1	223.5	2.7	135.4	2,171.9
2021	2,171.9	16.9	222.4	2.5	131.0	2,094.9
2022	2,094.9	13.7	219.1	2.2	125.9	2,013.2
2023	2,013.2	11.1	209.2	2.0	121.0	1,934.1
2024	1,934.1	8.6	196.2	1.7	116.5	1,861.3
2025	1,861.3	6.5	182.3	1.4	112.2	1,796.3
2026	1,796.3	4.9	163.7	1.2	108.9	1,745.2
2027	1,745.2	3.5	146.3	1.0	106.4	1,707.8
2028	1,707.8	2.4	131.5	0.8	104.7	1,682.6
2029	1,682.6	1.5	115.5	0.7	103.8	1,671.7
2030	1,671.7	0.8	98.4	0.5	103.9	1,677.5
2031	1,677.5	0.4	83.5	0.4	105.1	1,699.1
2032	1,699.1	0.1	68.5	0.3	107.1	1,737.5
2033	1,737.5	0.0	51.1	0.2	110.5	1,796.7
2034	1,796.7	0.0	33.4	0.1	115.1	1,878.3
2035	1,878.3	0.0	20.1	0.1	121.2	1,979.3
2036	1,979.3	0.0	10.2	0.0	128.1	2,097.2
2037	2,097.2	0.0	4.1	0.0	136.0	2,229.1
2038	2,229.1	0.0	1.7	0.0	144.8	2,372.2
2039	2,372.2	0.0	0.4	0.0	154.1	2,525.9

* Future installment payments for contracts as of June 30, 2014.

Appendix E

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Virginia529 prePAID

prePAID Tuition Benefits

For beneficiaries attending a Virginia public college, university, or community college, prePAID will pay the full amount of in-state undergraduate tuition and all mandatory fees for a normal full-time course load for a general course of study on a semester-by-semester basis for the type of school and number of years purchased. The prePAID payments to in-state public schools will not exceed the actual cost of the in-state undergraduate tuition and mandatory fees. The contract-holder has the option to transfer the total amount of all payments, accumulated at the reasonable rate of return, to a Virginia529 savings program, and request a distribution from the respective program to pay for qualified higher education expenses.

For beneficiaries attending a Virginia independent (private) college or university, prePAID will pay to the Virginia private school, including certain private career schools, the lesser of 1) the payments made on the contract plus the actual rate of return earned on the Fund or 2) the highest in-state undergraduate tuition and mandatory fees at a Virginia public school in the same academic year the benefits are used. All payments will be made directly to the school on a semester-by-semester basis following the school's add-drop period. The student or his or her family is responsible for any additional expenses not covered by prePAID. The contract-holder has the option to transfer the total amount of all payments, accumulated at the reasonable rate of return, to a Virginia529 savings program and request a distribution from the respective program to pay for qualified higher education expenses.

For beneficiaries attending an out-of-state public or private college or university, prePAID will pay the lesser of 1) the payments made on the contract plus interest at the composite reasonable rate of return or 2) the average in-state undergraduate tuition and mandatory fees at Virginia public schools for the same academic year the benefits are used. All payments will be made directly to the school on a semester-by-semester basis. The student or his or her family is responsible for any additional expenses not covered by prePAID. The contract-holder has the option to transfer the total amount of all payments, accumulated at the reasonable rate of return, to a Virginia529 savings program and request a distribution from the respective program to pay for qualified higher education expenses.

The reasonable rate of return tracks the quarterly performance of the Institutional Money Funds Index as reported in the Money Fund Monitor by iMoneyNet.

Appendix F

This work product was prepared solely for the Virginia College Savings Plan for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.