



Virginia College Savings PlanSM

Education Subcommittee
Senate Finance Committee
Commonwealth of Virginia

Mary G. Morris
Executive Director
December 4, 2008

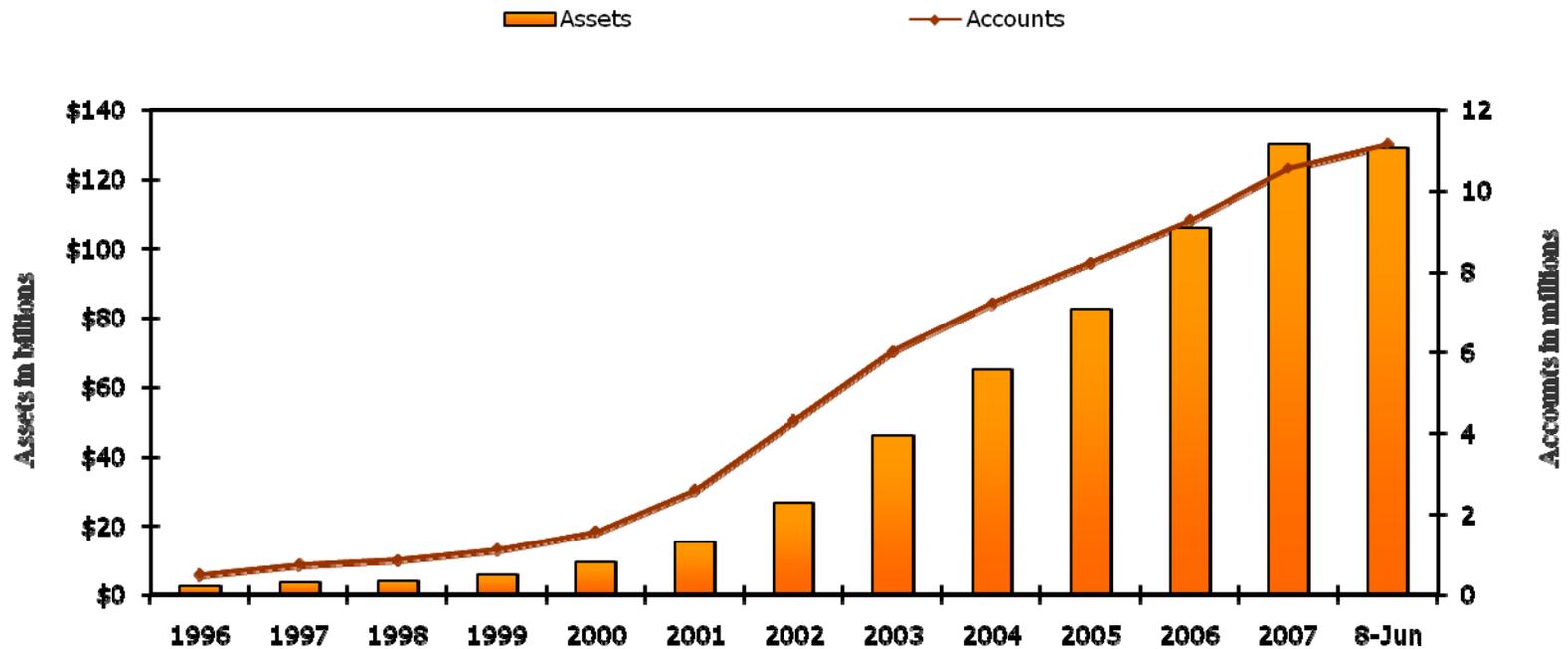
529 Plans

What is a 529 Plan?

- ✎ Higher education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs
- ✎ Section 529 Internal Revenue Code, enacted in 1996
- ✎ Plans can be used to meet qualified higher education expenses at eligible educational institutions
- ✎ Tax advantaged
- ✎ Two types:
 - Prepaid plans
 - Savings plans

529 Assets and Account Growth

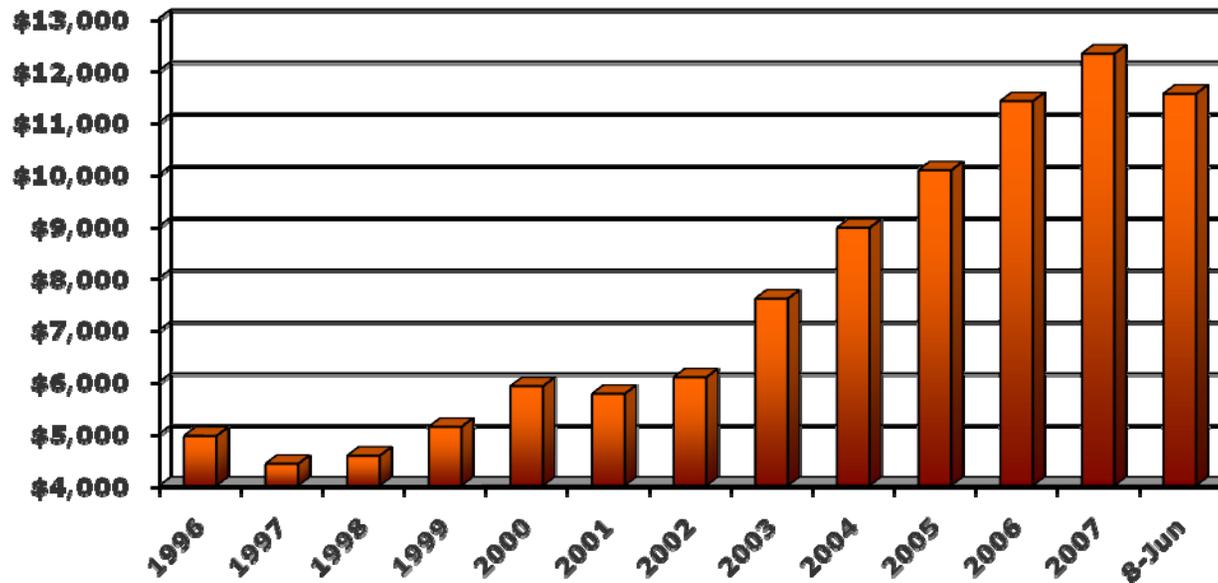
Growth in 529 Plans Nationally



Source: College Savings Plans Network

529 Assets and Account Growth

Section 529 Plan Average Account Size Nationally



Source: College Savings Plans Network

Benefits of 529 Plans

- Federal tax benefits – earnings grow free from federal tax, and withdrawals for qualified higher education expenses are likewise free from federal tax
- State tax benefits – Virginia 529 plan account owners with Virginia taxable income are eligible for up to a \$2,000 tax deduction (\$4,000 beginning in 2009) per contract or account per year with an unlimited carryforward – other states' plans may also provide state tax benefits
- No income limits - no calculations required to determine whether you may contribute
- Virginia has a \$350,000 aggregate limit
- Donor retains control of funds – account owner rather than beneficiary retains control of account assets and determines amount and timing of distributions (VPEP distributions paid directly to college)

Benefits of 529 Plans (cont.)

- ★ You may open an account for your child, grandchild, spouse, friend or yourself
- ★ Plan assets may be used to pay qualified higher education expenses at any eligible educational institution in the world – expenses include tuition, room and board, books, supplies and certain fees (VPEP covers tuition and mandatory fees only)
- ★ Flexible – account owners may change beneficiaries without penalty provided the new beneficiary is a member of the previous beneficiary's family
- ★ Rollovers – Can roll from one program to another
- ★ Low maintenance – Virginia accounts may be set up with a variety of payment plans (depending on VPEP, VEST, etc.) and Virginia savings plans offer a number of investment options

Virginia College Savings Plan

Virginia College Savings Plan

💰 **The VCSP is...**

- An independent state agency
- An administrator of Internal Revenue Code §529 Qualified Tuition Programs
- The country's largest 529 plan, assisting more than 1.5 million families save for their children's higher education

💰 **Investment options:**

- VPEPSM
- VESTSM
- CollegeAmerica[®]
- CollegeWealthSM

529 Assets Under Management

as of June 30, 2008

Assets Under Management - All Programs					
	VEST	VPEP	CollegeAmerica	CollegeWealth	Totals
Total Unique Active Accounts #s	103,453	71,812	1,699,707	108	1,875,074
Total Accounts Opened Since Inception	113,359	93,775	4,873,272	108	5,080,508
Dollars Under Management	\$1,103,993,019	\$1,543,434,647	\$24,823,062,496	\$884,890	\$27,471,356,659

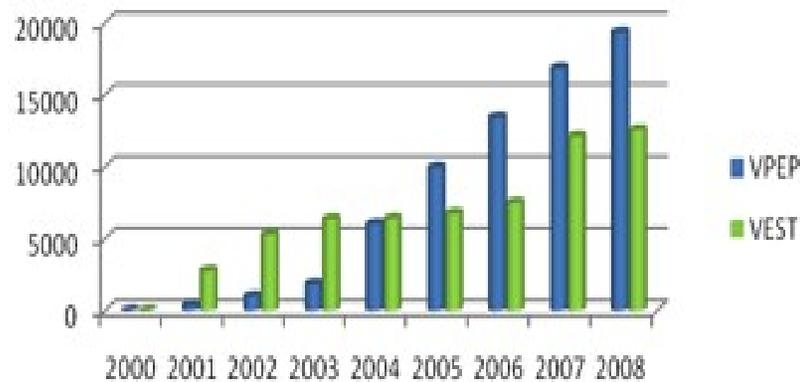
Program Benefits

- Distributions began in 2000
- Over \$451 million distributed through 10/31/08
(VPEP and VEST)
- Student Attendance – 2008-2009 Academic Year
 - 69% in-state public four-year institutions*
 - 12% community college
 - 6% in-state private
 - 13% at more than 460 out-of-state schools

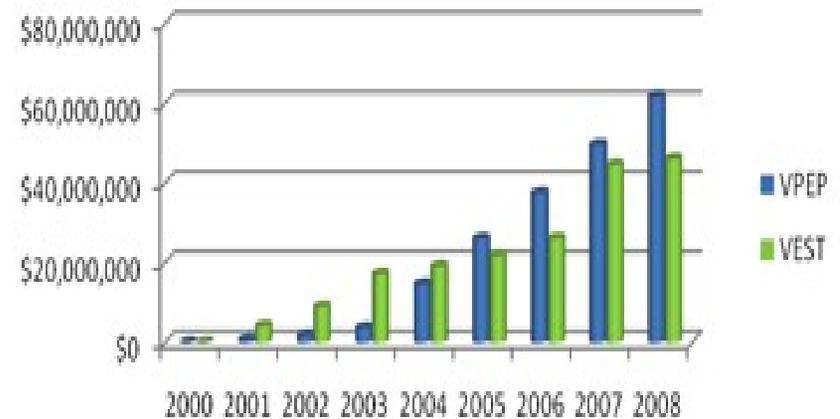
* 41% of students (28% overall) attending in-state public institutions attend University of Virginia, Virginia Tech and William & Mary

VPEP & VEST Payouts Per Fiscal Year

VPEP and VEST Distributions Per Fiscal Year
Number of Payments Made on Behalf of Beneficiaries



VEST and VPEP Funds Distributed
per Fiscal Year



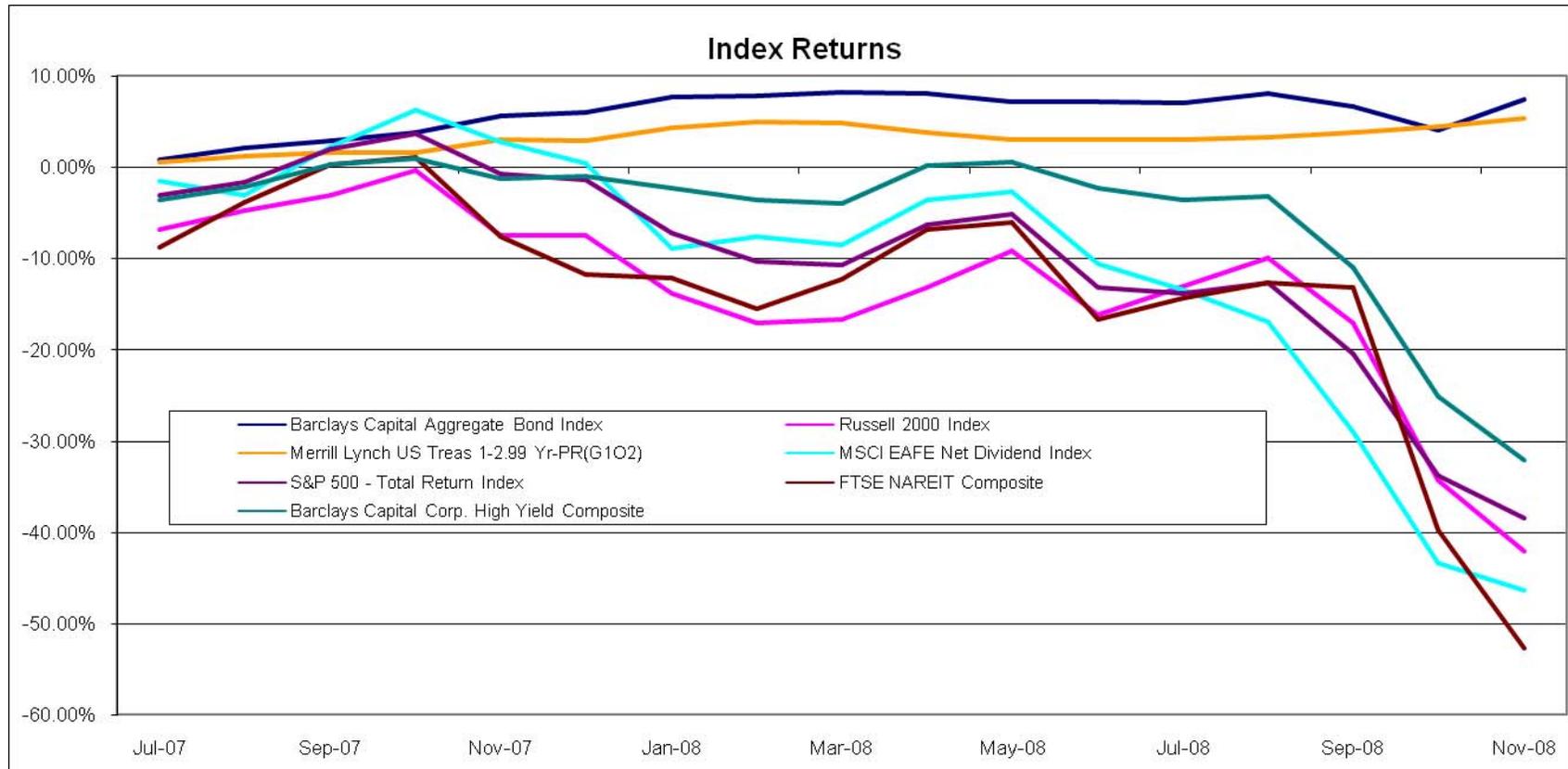
State of the Financial Markets

“Today almost every financial journal or investment letter carries a list of reasons why investors are standing on the sidelines. They usually include (1) continued inflation; (2) illiquidity in the banking system; (3) shortage of energy; (4) possibility of further outbreak of hostilities in the Middle East; and (5) high interest rates. These are serious problems.”

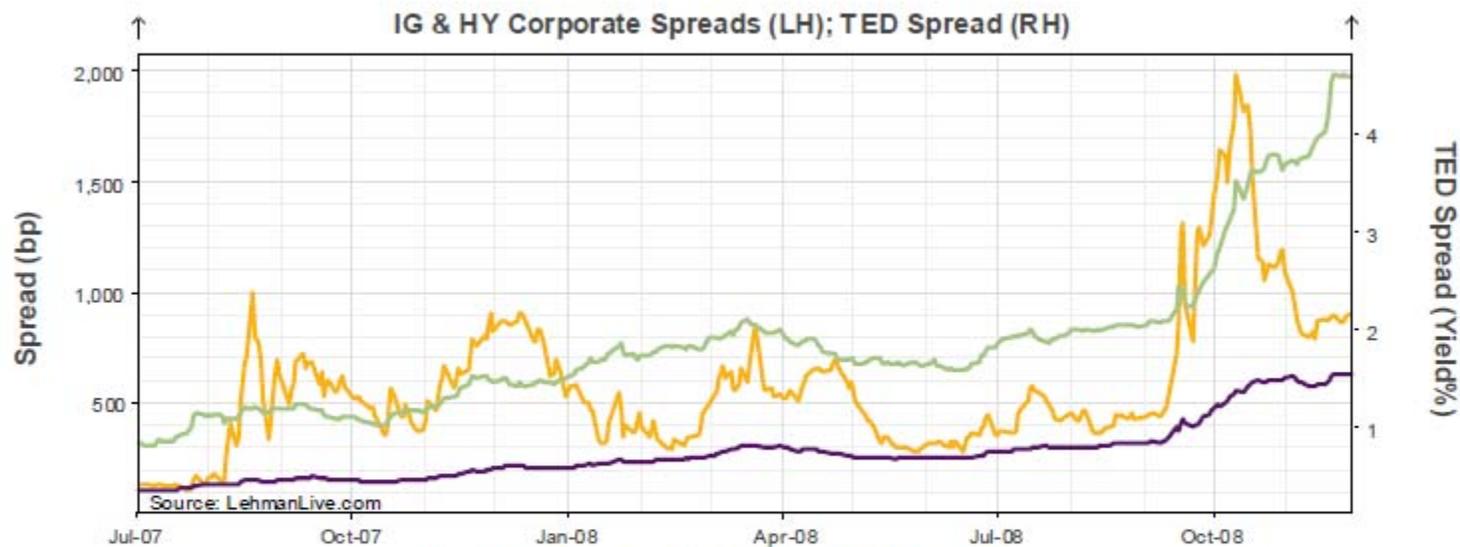
Jim Fullerton – Capital Group (Capital Research and Management Company)

November 7, 1974

Market Trends Since July 2007



Improving Liquidity – Narrowing Spreads



Data from July 1, 2007 to November 28, 2008

Key	Axis	Name	Last	Minimum	Maximum	Mean	SD	SD Change
Orange	Right	TED Spread	2.171	0.341 07/24/2007	4.611 10/10/2008	1.414	0.728	0.165
Purple	Left	U.S. Corporate Investment Grade - Spread	632.039	102.560 07/02/2007	632.039 11/28/2008	271.188	131.514	5.779
Green	Left	U.S. Corporate High Yield - Spread	1974.064	305.678 07/06/2007	1986.591 11/25/2008	760.099	347.529	19.106

VCSP Investments

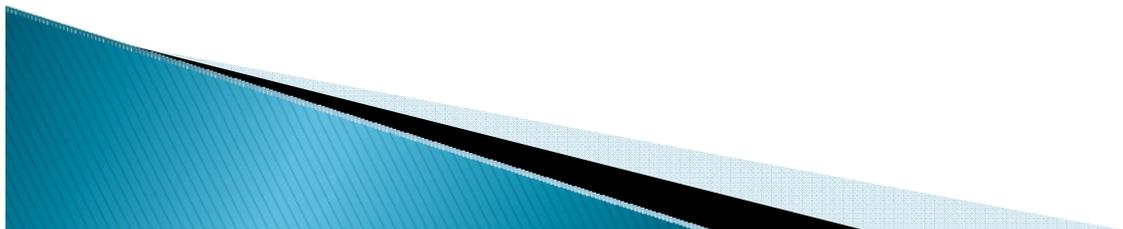
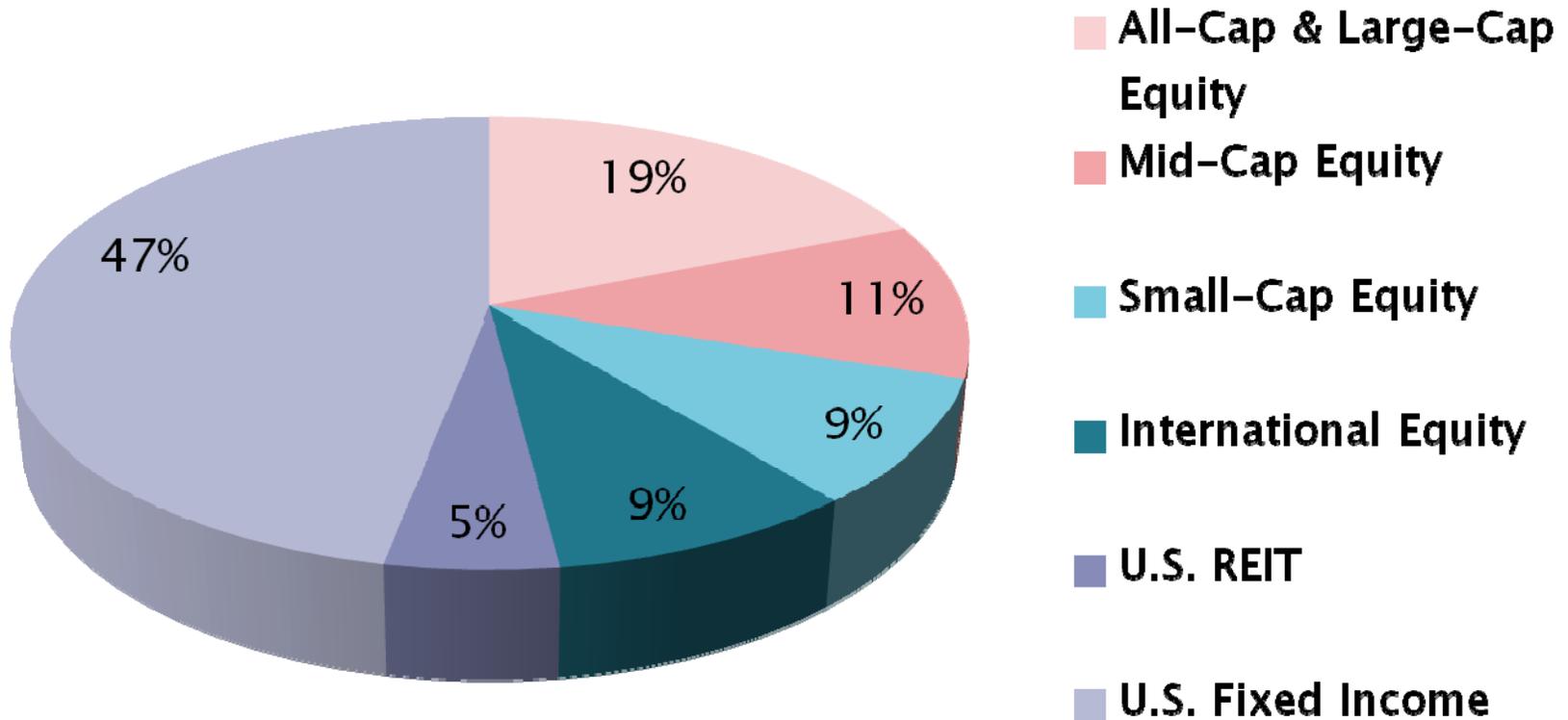
VCSP Investment Objectives

- ▶ **Primary Investment Objectives:**
 - Attain long-term return that exceeds actuarial return assumption;
 - Provide sufficient liquidity to meet obligations; and
 - Preserve capital on a long-term basis in accordance with Board and Statutory requirements.
- ▶ VCSP's VPEP obligations are long-term – average contract period of nine years
- ▶ VPEP actuarial return assumption is seven percent
- ▶ VPEP's investment portfolio is broadly diversified with a target of 60% equities and 40% fixed income/cash
- ▶ We expect to see volatile markets that result in mark-to-market gains and losses

VPEP Asset Allocation

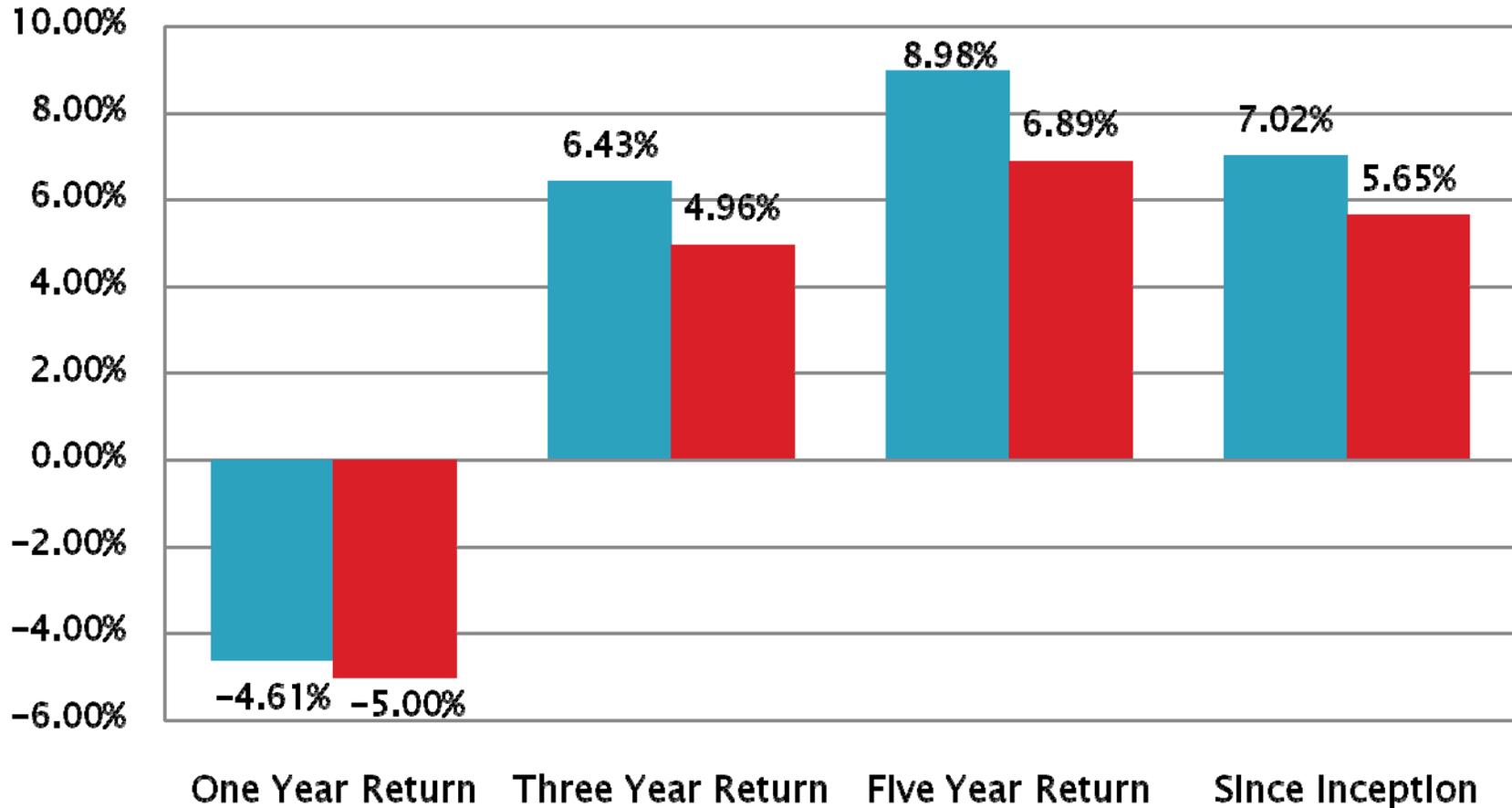
as of October 31, 2008

Percentage of Assets



VPEP Performance Ending 6/30/08

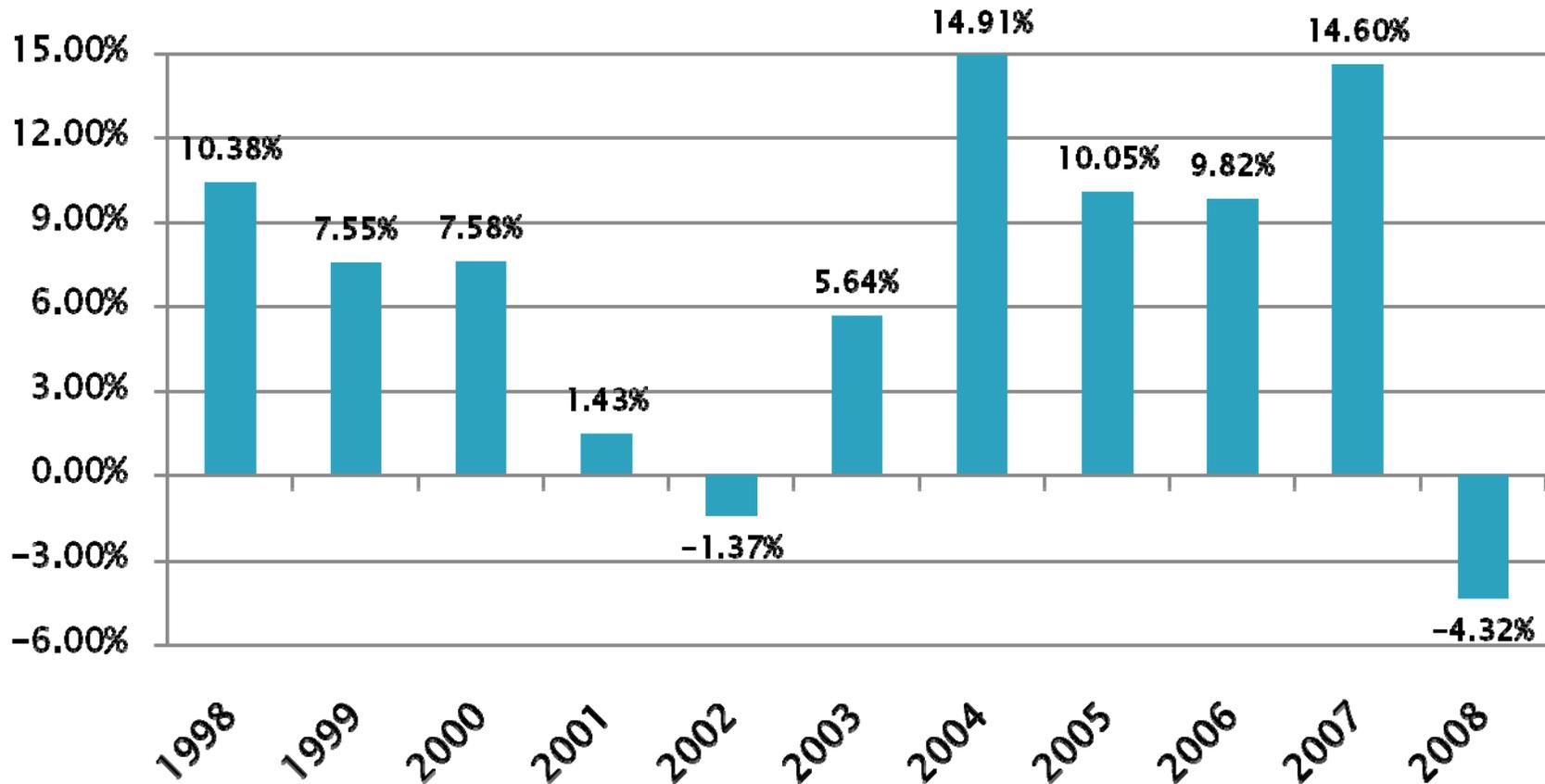
** Not Including Cash with the Treasurer of Virginia.*



■ VPEP Total Fund ■ Benchmark

VPEP Annual Returns Since Inception

One Year Total Fund Returns by Fiscal Year



Investment Return Assumptions

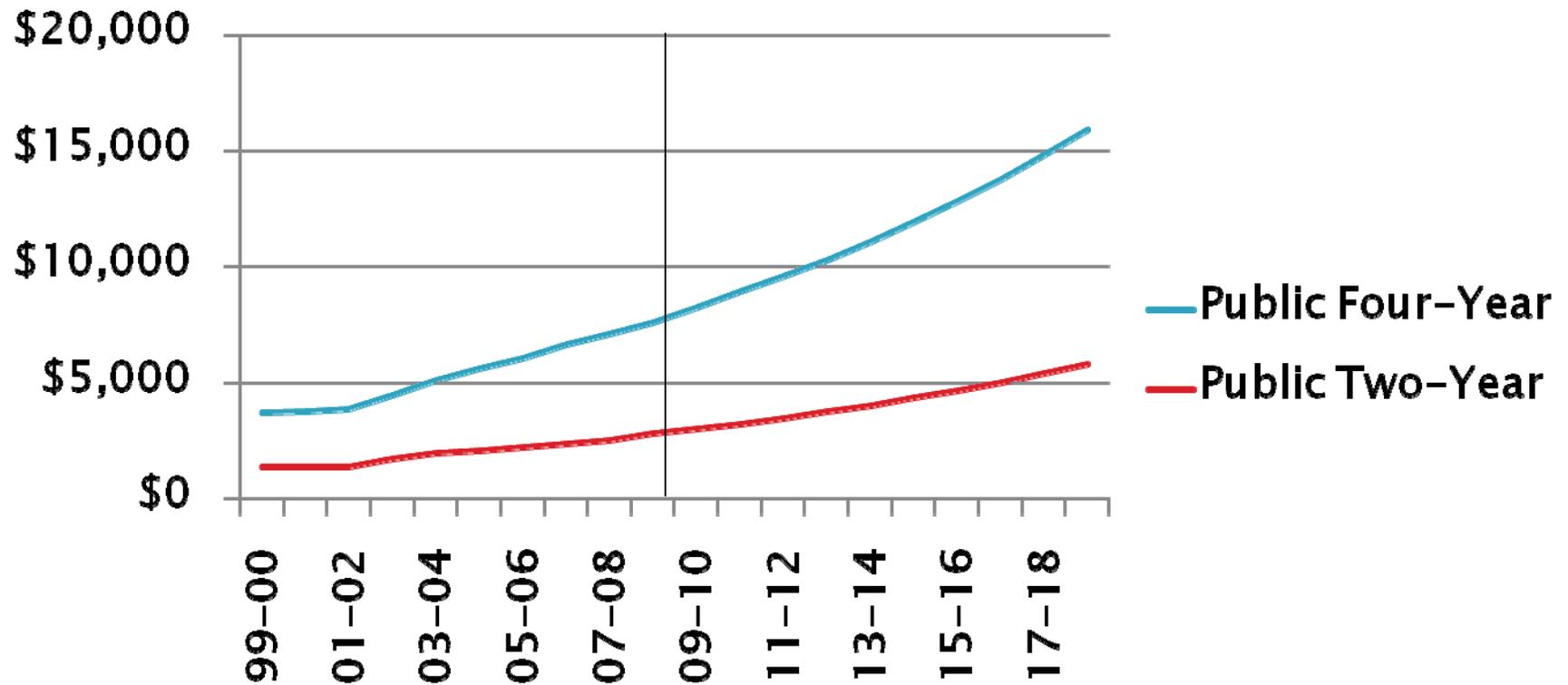
Year	Return
1996-2000	8.0%
2001	7.5%
2002	7.0%
2003	6.75%
2004-2008	7.0%

2008-2009 VPEP Tuition Increase Assumptions*

Academic Year	Universities		Community Colleges	
	Current assumption	Prior assumption	Current assumption	Prior assumption
Fall 2009	8.50%	8.00%	7.50%	7.00%
Fall 2010	8.50%	7.50%	7.50%	7.00%
Fall 2011 forward	7.50%	7.50%	7.50%	7.50%

*Assumption includes tuition and all mandatory fees (both education and general fees and non-education and general fees)

Virginia Average Tuition Growth



Source: Historical data provided by the State Council of Higher Education for Virginia (SCHEV) and the Virginia Community College System (VCCS). Future tuition projections (years 2009 and thereafter) are based upon historical data and tuition growth assumptions approved by the Board of the Virginia College Savings Plan.

VPEP Funded Stats

Preliminary VPEP Actuarial Valuation

(Amounts in Millions)

Actuarial reserve (deficit) at June 30, 2007	\$ 122.2
Interest on the reserve at 7.00%	8.6
Investment gain (loss)	(178.2)
Tuition gain (loss)	(4.8)
Sales of new contracts	10.0
Administrative Fee Revenue from VCSP	21.9
Change in Assumptions	(44.6)
Other	<u>13.1</u>
Actuarial reserve (deficit) at June 30, 2008	<u>\$ (51.8)</u>

Actuarial Valuation Results Since Inception (amounts in millions)

