Department of Planning and Budget
2019 Fiscal Impact Statement

1. **Bill Number:** HB1611-S1

House of Origin	☐	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☒	Substitute	☐	Enrolled

2. **Patron:** Landes

3. **Committee:** Finance

4. **Title:** Virginia College Savings Plan; prepaid tuition contracts, pricing reserves.

5. **Summary:** Provides that in the event that the ratio of the assets of the Virginia College Savings Plan (the Plan) to the actuarially estimated value of tuition obligations of the Plan exceeds 105 percent, the pricing reserve, which the substitute defines as the percentage by which the actuarially determined prepaid tuition contract price exceeds the amount estimated to meet the actuarially determined tuition obligation for such prepaid tuition contract, shall not exceed five percent. The substitute provides that in the event that the ratio of the assets of the Plan to the actuarially estimated value of tuition obligations of the Plan, expressed as a percentage, does not meet or exceed 105 percent, the pricing reserve may exceed five percent but shall not exceed 10 percent. The bill also requires the governing board of the Plan to provide to the House Committee on Appropriations, the Senate Committee on Finance, and the Joint Legislative Audit and Review Commission written notification and a detailed explanation of any change to the pricing reserve within 30 days of such change.

6. **Budget Amendment Necessary**: No.

7. **Fiscal Impact Estimates:** Preliminary – see Item 8.

8. **Fiscal Implications:** The proposed legislation establishes a limit in the pricing of prepaid tuition contracts, taking into account all variables, including an appropriate pricing reserve to pay future obligations. Currently, a pricing reserve of 10 percent is added to the cost of prepaid tuition contracts. The proposed legislation would require the Virginia College Savings Plan's Board to set the pricing reserve for prepaid tuition contracts at no more than five percent, if the funded status meets or exceeds 105 percent. The proposed legislation would also require the Virginia College Savings Plan's Board to set the pricing reserve for prepaid tuition contracts at no more than 10 percent should the funded status not meet or exceed 105 percent. As of June 30, 2018, the overall funded status of the PrePaid529 program is 136.7 percent.

   The pricing reserve component is designed to mitigate an adverse fiscal impact in the event actual tuition increases exceed assumptions, actual investment returns are less than assumptions, or other unforeseen events occur that result in a significant reduction or elimination of the actuarial reserve. According to the Virginia College Savings Plan, this has occurred only twice since the program opened in 1996.

Adjusting the pricing reserve to less than 10 percent for future prepaid tuition contracts may impact the amount of revenue generated from the PrePaid529 program; however, the reduction in revenue is expected to be minimal. The 2018 Virginia529 Oversight Report, published by the Joint Legislative Audit and Review Commission, shows that for each one percent reduction of the pricing reserve, using fiscal year 2018 prices and estimated contract sales, the total Prepaid529 fund revenue would be reduced by $830,000. In fiscal year 2018, the 10 percent pricing reserve added to the price of prepaid tuition contracts generated $8.3 million of the total estimated $107.4 million in Prepaid529 revenue collected from contract sales and net operating revenue.

9. **Specific Agency or Political Subdivisions Affected:** Virginia College Savings Plan

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** The proposed legislation is similar to Senate Bill 1368-H1 (Norment). The House substitute for Senate Bill 1368 provides that in the event that the ratio of the assets of the Virginia College Savings Plan (the Plan) to the obligations of the Plan exceeds 105 percent, the pricing reserve, which the bill defines as the percentage by which the sum of advanced payments to be made pursuant to each prepaid tuition contract of the Plan exceeds the amount estimated to be required to provide tuition at the fixed, guaranteed level that is specified in such prepaid tuition contract, shall not exceed five percent. Senate Bill 1368-H1 provides that in the event that the ratio of the assets of the Plan to the obligations of the Plan does not meet or exceed 105 percent, the pricing reserve may exceed five percent but shall not exceed 10 percent.