

Alabama PACT

6/30/2016 Quarterly Valuation

August 2016

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Alabama PACT Board

Sherman Actuarial Services, LLC (SAS) was retained to report on the funding status and projected cash flows of PACT as of June 30, 2016. Since this is a quarterly valuation, there is less detail provided than in the full valuation as of September 30, 2015. The Summary of Funding section on page 4 describes the current results and compares those results to the September 30, 2015 valuation.

Assumptions and Methods

1. Data and Assets

The valuation was performed using contract data supplied by the Plan Administrator as of June 30, 2016 and financial data reported to you as of June 30, 2016. SAS did not audit the data although they were reviewed for reasonableness and consistency with the audited September 30, 2015 information. The results of the analysis are dependent on the accuracy of the data.

The asset value as of June 30, 2016 was \$94,575,259. Last April and June, \$8,488,000 was transferred from the Education Trust Fund to the PACT.

2. Weighted Average Tuition (WAT)

The assumed WAT values are shown in the following table. The assumed credit hours were unchanged from the September 30, 2015 valuation at 13 hours per semester. The June 30th results are based on the weighting of PACT beneficiaries from recent experience, the 2010 tuition rates, and increases of 3% as of September 1, 2015, and 6% as of September 1, 2016.

	September 30, 2015	June 30, 2016
	Valuation	Valuation
Auburn/Alabama	\$7,791	\$8,258
Regional	6,033	6,394
Junior & CC	3,491	3,700
OOS & Private	6,423	6,808

3. Tuition Inflation

For the June 30, 2016 valuation, we assumed a future tuition inflation assumption of 0% per year.

4. Investment return

The investment return assumption was unchanged from the September 30, 2015 valuation as shown below.

Fiscal Year	September 30, 2015	June 30, 2016
<u>Ending</u>	<u>Valuation</u>	<u>Valuation</u>
2016	1.50%	1.50%
2017	1.00%	1.00%
2018	1.50%	1.50%
2019	2.00%	2.00%
2019+	2.50%	2.50%

5. Payment of Tuition

The June 30, 2016 valuation assumed usage of 128 credit hours at a rate of 13 hours per semester, which is the same as was assumed for the September 30, 2015 valuation.

6. Education Trust Fund Payments

As in the September 30, 2015 valuation, we assumed total future contributions of \$498,607,100 from the Education Trust Fund into the PACT Trust Fund. These payments have a present value of \$455,495,109.

7. Cancellations

The assumed cancellation of PACT contracts based on the grade of the beneficiary was unchanged from that assumed as of September 30, 2015 and are shown below.

Age 0 through 9th grade	0% per year
10th grade	1%
11th grade	1%
12th grade	1%

8. School Choice

Contract beneficiaries are assumed to attend school according to the probabilities shown in the following table:

<u>College Type</u>	<u>September 30, 2015</u>	<u>June 30, 2016</u>
Private/Out-of-State	17%	17%
Community College	15%	15%
University of Alabama and Auburn University	53%	53%
Other Alabama Universities	15%	15%

9. Administration Expenses

For the June 30, 2016 valuation, we assumed the administrative expenses will be \$300,000 for the remainder of FYE16, \$150,000 for future fiscal years through 2027. From 2028 to 2031 it is lowered \$100,000 per year.

10. Other

All other assumptions and methods are identical to those used in the September 30, 2015 actuarial valuation.

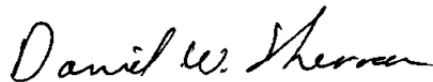
Purpose of This Report

This report is prepared for the PACT Board. It is expected that this report will be used to monitor the funding status and projected cash flows of the PACT. Use of this report for any other purpose may not be appropriate and may result in mistaken conclusions due to failure to understand applicable assumptions, methodologies, or inapplicability of the report for that purpose. No one may make any representations or warranties based on any statements or conclusions contained in this report without the written consent of SAS.

Qualifications

Daniel Sherman is an Associate of the Society of Actuaries, and a Member of the American Academy of Actuaries. He served as the actuary to the Alabama PACT plan for eleven years, and is the current actuary for the Texas, and West Virginia prepaid tuition programs. He meets the Qualification Standards of the Academy to render the actuarial opinions contained herein. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions concerning it.

SHERMAN ACTUARIAL SERVICES, LLC



Daniel Sherman, ASA, MAAA, EA
CEO and Consulting Actuary

Summary of Funding

The table below is a summary of the results showing the total costs to maintain the program as of June 30, 2016. Note that although the funded status is 118.8%, the cash flow projections show that the fund will need to be monitored in order to maintain sufficient assets.

	September 30, 2015 Annual Valuation	June 30, 2016 Valuation
Assets		
a. Market Value of Assets	121,034,200	94,575,259
b. Present Value of future contract purchaser payments	9,258,001	7,563,737
c. Administrative Expenses	(7,614,998)	(7,177,737)
d. Present Value of Education Trust Fund payments	475,753,759	455,495,109
e. Subtotal (a + b + c + d)	598,430,962	550,456,368
Liabilities		
f. Present Value of tuition and cancellation payments	515,580,416	484,968,636
Funded Status		
g. Reserve (e – f)	82,850,546	65,487,732
h. Funded Ratio	115.8%	113.3%

Projected Cash Flow
June 30, 2016 Valuation
(thousands)

Fiscal Year	Benefit Payments	Contract Holder Payments	Education Trust Fund Payments	Admin Expenses	Income	EOY Assets
6/30/2016						\$ 94,600
6/30/16 - 09/30/16	-\$ 10,900	\$ 1,500	\$ 8,500	-\$ 150	\$ 250	93,800
10/01/16 - 09/30/17	-90,600	2,300	63,600	-600	700	69,200
10/01/17 - 09/30/18	-81,700	1,300	62,800	-600	600	51,600
10/01/18 - 09/30/19	-74,300	1,000	61,500	-600	700	39,900
10/01/19 - 09/30/20	-64,700	700	60,700	-600	600	36,600
10/01/20 - 09/30/21	-51,200	500	31,900	-600	400	17,600
10/01/21 - 09/30/22	-40,300	300	32,200	-600	100	9,300
10/01/22 - 09/30/23	-32,600	200	33,500	-600	100	9,900
10/01/23 - 09/30/24	-24,600	100	33,700	-600	200	18,700
10/01/24 - 09/30/25	-17,800	0	38,400	-600	600	39,300
10/01/25 - 09/30/26	-12,400	0	39,200	-600	1,300	66,800
10/01/26 - 09/30/27	-8,100	0	32,500	-600	1,800	92,400
10/01/27 - 09/30/28	-5,400	0	0	-500	2,300	88,800
10/01/28 - 09/30/29	-3,400	0	0	-400	2,100	87,100
10/01/29 - 09/30/30	-1,800	0	0	-300	2,100	87,100
10/01/30 - 09/30/31	-700	0	0	-200	2,200	88,400
10/01/31 - 09/30/32	-100	0	0	-100	2,200	90,400
Total	-\$ 520,600	\$ 7,900	\$ 498,500	-\$ 8,250		

The sum of the values may not match the total shown due to rounding.

Assumptions

- Settlement
- Fall 2010 Tuition rates, increased 3% as of September 1, 2015, 6% as of September 1, 2016
- Tuition Inflation at 0%
- Normal Cancellation rates