



August 6, 2019

Alabama PACT Board  
RSA Union Building, Suite 600  
100 North Union Street  
Montgomery, Alabama 36130-2530

Re: PACT Actuarial Assumptions

Dear Board Members:

Sherman Actuarial Services has been asked to comment on the actuarial assumptions to be used for the 2019 actuarial valuations of the Alabama PACT Program.

### Investment Return and Discount Rate

Per the adopted investment policy, excess assets are invested in fixed income securities and a money market account. These are managed by Regions Investment Management. Other PACT monies are held to meet daily cash flow needs, up to \$10 million, and these monies receive no interest. Based on the expected portions of invested and non-invested assets, and capital market projections provided by Regions, we are recommending the following change in the rates of return.

<u>Plan Year Ending</u>	<u>Current Assumptions</u>	<u>Proposed</u>	<u>Regions Projected Rates</u>
2020	0.50%	1.00%	3.00%
2021	0.30%	1.00%	2.25%
2022-23	0.00%	0.00%	2.00%
2024	0.40%	0.00%	2.25%
2025	1.60%	0.40%	2.50%
2026	2.20%	1.10%	2.50%
2027	2.60%	1.70%	2.50%
2028+	3.20%	2.50%	2.50%

We are recommending no changes to the flat 3.5% discount rate for future cash flows.

### Tuition Inflation

The current assumption is 0.00% inflation. The Board has the ability to increase the tuition payments above the 2010 rates, and has four times. When it does, we would assume that new tuition

level for the 2018-19 school year, and all future years. This maintains the 0% assumption beyond any increases the Board approves.

**Expenses**

We are recommending no changes to this assumption.

<u>FYE</u>	<u>Current</u>
2020-2027	\$600,000
2028	\$400,000
2029	\$300,000
2030	\$200,000
2031+	\$100,000

**Enrollment of PACT Beneficiaries**

The assumed enrollment of PACT beneficiaries is shown in the following table. Based on a recent experience analysis, we are not recommending any changes to this assumption.

<b>College Type</b>	<b>Percent Enrolled</b>
Private/Out-of-State	17.00%
Community College	15.00%
University of Alabama and Auburn University	53.00%
Other Alabama Universities	15.00%
Total	100.00%

In addition, it was assumed that contract beneficiaries who enroll in a community college will transfer to a four-year university after two years.

**Early Voluntary Surrender of Contract**

The assumed cancellation of PACT contracts as of September 30, 2019 is shown in the table below.

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

**Mortality and Disability**

No provision has been made for death or disability. We recommend no changes to this assumption.

### **Utilization of Credits**

The tuition payment assumption for the 2017 valuation was 128 credit hours. The actuarial valuation assumes that beneficiaries who matriculate will utilize 128 hours out of the maximum of either 128 or 135 hours of contract benefits. It is assumed that each beneficiary will use 13 hours of contract benefits per semester for the first eight semesters and 11 hours of contract benefits in the ninth semester starting after completion of the 12th grade.

Payment of tuition and qualified fees from the PACT Trust Fund is assumed to occur three times annually: 45% on November 15th, 45% on March 15th, and 10% on August 15th. We do not believe any changes are warranted at this time.

### **Education Trust Fund Payments**

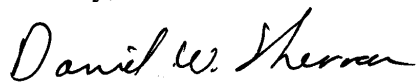
The Education Trust Fund Payments are assumed to be paid on October 1st, January 1st, April 1st and July 1st for the fiscal year.

### **Matriculation Percent**

The current assumption is that the beneficiary of a contract not voluntarily surrendered matriculates at the date specified in the contract. This assumption is still reasonable.

If you have any questions or would like additional information, please do not hesitate to contact me.

Sincerely,



Daniel W. Sherman, ASA, MAAA  
CEO