

# Alabama PACT

**6/30/2022 Quarterly Valuation**

*July 2022*

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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, 2022. Since this is a quarterly valuation, there is less detail provided than in the full valuation as of September 30, 2021. The Summary of Funding section on page 4 describes the current results and compares those results to the September 30, 2021 valuation.

## Assumptions and Methods

### 1. Data and Assets

The valuation was performed using contract data supplied by the Plan Administrator as of June 30, 2022 and financial data reported to you as of June 30, 2022. SAS did not audit the data although they were reviewed for reasonableness and consistency with the audited September 30, 2021 information. The results of the analysis are dependent on the accuracy of the data.

The asset value as of June 30, 2022, including a receivable of \$8,045,400 from the ETF, was \$265,025,657.

### 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, 2021 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 an increase of 3% as of September 1, 2015, an increase of 6% as of September 1, 2016, an increase of 8% as of September 1, 2017, an increase of 7% as of September 1, 2018, an increase of 7% as of September 1, 2019, an increase of 7% as of September 1, 2020, an increase of 10% as of September 1, 2021, and an increase of 24% as of September 1, 2022.

The PACT program pays the lessor of the school's tuition and mandatory fees, and the 2010 tuition rates adjusted by annual Board votes. Most four-year schools are currently receiving the full cost of tuition and mandatory fees today due to the increases granted by the Board over the past several years. There are notable exceptions. All two-year schools receive full tuition and mandatory fees from the PACT program. The largest shortfall is at 20.1%. Therefore, last May the Board voted to increase the 2010 rates by 24%, in anticipation of the schools with a shortfall would increase their rates by 4% for the 2022-23 school year. The net result is an expected 6.23% increase in total payments by PACT. For the purposes of this valuation we increased the 4-year schools assumed payments by 6.25%, and the 2-year schools assumed payments by 4%.

	September 30, 2021	June 30, 2022
	Valuation	Valuation
Auburn/Alabama	\$12,019	\$12,770
Regional	9,308	9,890
Junior & CC	5,385	5,600
OOS & Private	9,909	10,528

### 3. Tuition Inflation

For the June 30, 2022 valuation, we assumed a tuition inflation assumption of 0% per year.

### 4. Investment return

The investment return assumption was unchanged from the September 30, 2021 valuation as shown below.

Fiscal Year <u>Ending</u>	September 30, 2021 <u>Valuation</u>	June 30, 2022 <u>Valuation</u>
2022	0.05%	0.05%
2023	0.20%	0.20%
2024	0.00%	0.00%
2025	0.00%	0.00%
2026	0.00%	0.00%
2027	0.20%	0.20%
2028	1.00%	1.00%

### 5. Payment of Tuition

The June 30, 2022 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, 2021 valuation.

### 6. Education Trust Fund Payments

A transfer of \$8,045,400 was received July 11<sup>th</sup> and treated as a receivable as of June 30<sup>th</sup>. We assumed no additional contributions from the Education Trust Fund into the PACT Trust Fund.

### 7. Cancellations

The assumed cancellation of PACT contracts based on the grade of the beneficiary was unchanged from that assumed as of September 30, 2021 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, 2021</u>	<u>June 30, 2022</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, 2022 valuation, we assumed the administrative expenses will be \$150,000 for the remainder of FYE22, \$600,000 for future fiscal years through 2027. From 2028 to 2031 it is lowered \$100,000 per year.

## 10. Discount Rate

For the June 30, 2022 valuation, we assumed a discount rate of 3.5% to determine the present value of payments to be received and benefits to be paid.

## 11. Other

All other assumptions and methods are identical to those used in the September 30, 2021 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 seventeen 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



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Daniel Sherman, ASA, MAAA  
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, 2022. Note that although the funded status is 133.4%, the cash flow projections show that the fund will need to be monitored in order to maintain sufficient assets.

	<b>September 30, 2021 Annual Valuation</b>	<b>June 30, 2022 Valuation</b>
<b>Assets</b>		
a. Market Value of Assets	90,303,872	265,025,657
b. Present Value of future contract purchaser payments	1,425,038	923,542
c. Administrative Expenses	(4,466,222)	(4,018,177)
d. Present Value of Education Trust Fund payments	192,055,093	0
e. Subtotal (a + b + c + d)	279,317,781	261,931,022
<b>Liabilities</b>		
f. Present Value of tuition and cancellation payments	233,164,606	195,407,284
<b>Funded Status</b>		
g. Reserve (e – f)	46,153,175	66,523,737
h. Funded Ratio	119.8%	133.4%

**Projected Cash Flow  
June 30, 2022 Valuation  
(millions)**

Fiscal Year	Benefit Payments	Contract Holder Payments	Education Trust Fund Payments	Admin Expenses	Income	EOY Assets
6/30/2022						\$ 265,000
7/1/22 - 09/30/22	-\$ 9,100	\$ 200	\$ 0	-\$ 150	\$ 50	256,000
10/01/22 - 09/30/23	-61,400	400	0	-600	500	194,900
10/01/23 - 09/30/24	-46,600	200	0	-600	0	147,800
10/01/24 - 09/30/25	-36,700	100	0	-600	100	110,700
10/01/25 - 09/30/26	-26,700	0	0	-600	0	83,400
10/01/26 - 09/30/27	-15,500	0	0	-600	200	67,500
10/01/27 - 09/30/28	-8,200	0	0	-500	600	59,400
10/01/28 - 09/30/29	-5,300	0	0	-400	600	54,300
10/01/29 - 09/30/30	-2,700	0	0	-300	500	51,800
10/01/30 - 09/30/31	-1,100	0	0	-200	500	51,000
10/01/31 - 09/30/32	-200	0	0	-100	600	51,300
Total	-\$ 213,500	\$ 900	\$ 0	-\$ 4,650		

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, 8% as of September 1, 2017, 7% as of September 1, 2018, 7% as of September 1, 2019, 7% as of September 1, 2020, 10% as of September 1, 2021, 24% as of September 1, 2021.
- See paragraph 2 above on Weighted Average Tuition for further information.
- Tuition Inflation at 0%
- Normal Cancellation rates