

PACT
ALABAMA'S PREPAID
AFFORDABLE COLLEGE
TUITION PROGRAM

September, 2021
ACTUARIAL REPORT

October 20, 2021

Board of Trustees
Alabama's Prepaid Affordable College Tuition Trust Fund
State Treasurer's Office
Suite 660
100 North Union Street
Montgomery, Alabama 36130

To the Board:

The Wallace-Folsom College Savings Investment Plan Act provides that the Board of Trustees ("Board") shall obtain appropriate actuarial assistance to establish, maintain, and certify a fund sufficient to defray the obligation of the Alabama Prepaid Affordable College Tuition Trust Fund, and shall annually evaluate, or cause to be evaluated, the actuarial soundness of the PACT Trust Fund. The following pages summarize the actuarial valuation of the PACT Trust Fund performed by Sherman Actuarial Services as of September 30, 2021.

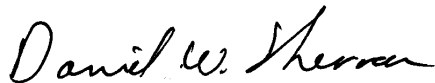
A comparison of the assets and liabilities of the PACT Trust Fund shows that as of September 30, 2021 there is a surplus of approximately \$46.2 million, which represents a funded ratio of 119.4%. This does include last May's one-time increase of 10% in tuition and fee payments to schools. Plans that have funded ratio greater than 100% are considered actuarially sound.

The actuarial valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the following pages have been appropriately determined according to the actuarial assumptions stated herein.

In our opinion, the methods and assumptions are reasonable for projecting the expected financial results of the PACT Trust Fund.

The methods, assumptions and data used in the actuarial evaluation of the PACT Trust Fund are described in the following pages. Daniel Sherman is an Associate of the Society of Actuaries. He is a Member of the American Academy of Actuaries and 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.

Respectfully submitted,



Daniel W. Sherman
Associate of the Society of Actuaries
Member, American Academy of Actuaries



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Executive Summary

EXECUTIVE SUMMARY

Funded Status

As of September 30, 2021 the trust has a surplus of \$46.2 million (the value of assets, including the value of future payments by contract purchasers of approximately \$1.4 million and present value of future Education Trust Fund payments by the State of approximately \$292.1 million, is more than the expected liabilities of the trust). This represents a decrease of \$5.6 million from the surplus of \$51.8 million as of September 30, 2020. The funded ratio, assets divided by liabilities, increased from 119.3% in 2020 to 119.4% in 2021.

The increase in trust funded ratio was primarily due to an actuarial asset gain partially offset by the 10% increase in tuition and fee payments.

The main factor that affects the funding status of PACT is Withdrawals and Matriculations. The affects of these factors are detailed as follows:

Investment Return

Total asset return, including monies not invested and available to meet daily cash flow needs, was 0.46%. The total asset return of 0.46% compared to the projected investment return of 0.15% resulted in a small actuarial gain.

Gain/Loss Summary

During the last year, the plan experienced a \$14.4 million actuarial gain. The 10% increase in tuition and fee payments decreased the surplus by \$20.0 million. The sources of the gain/(loss) are as follows:

Gain / (Loss)	<u>(millions)</u>
Asset Gain (0.47% return)	\$0.3
Withdrawal and Matriculation	6.9
Expense	0.2
Assumption Change	<u>7.0</u>
Total Gain / (Loss)	\$14.4

Tuition and Qualified Fees Increases

For the 2021 actuarial valuation, the expected tuition and qualified fees to be paid were based on the Fall 2010 tuition and fees, the provisions of the Settlement, with the following increases:

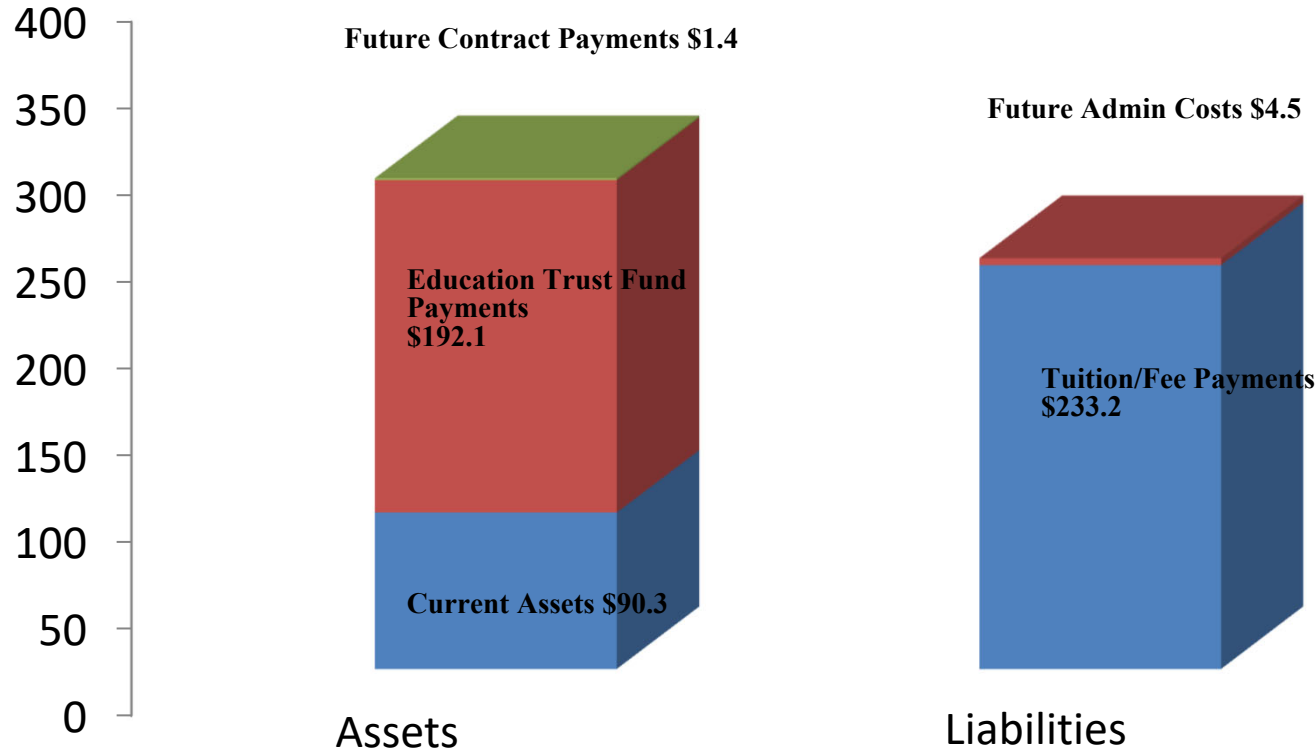
Past increases effective September 1			
2015	3%	2019	7%
2016	6%	2020	7%
2017	8%	2021	10%
2018	7%		

Funded Status

The value of assets of the trust fund as of September 30, 2021 (including the value of future payments by contract purchasers as well as the Education Trust Fund Payments) exceed the liabilities by \$46.2 million. The funded ratio, assets divided by liabilities, is equal to 119.4%.

Total: \$283.8 million

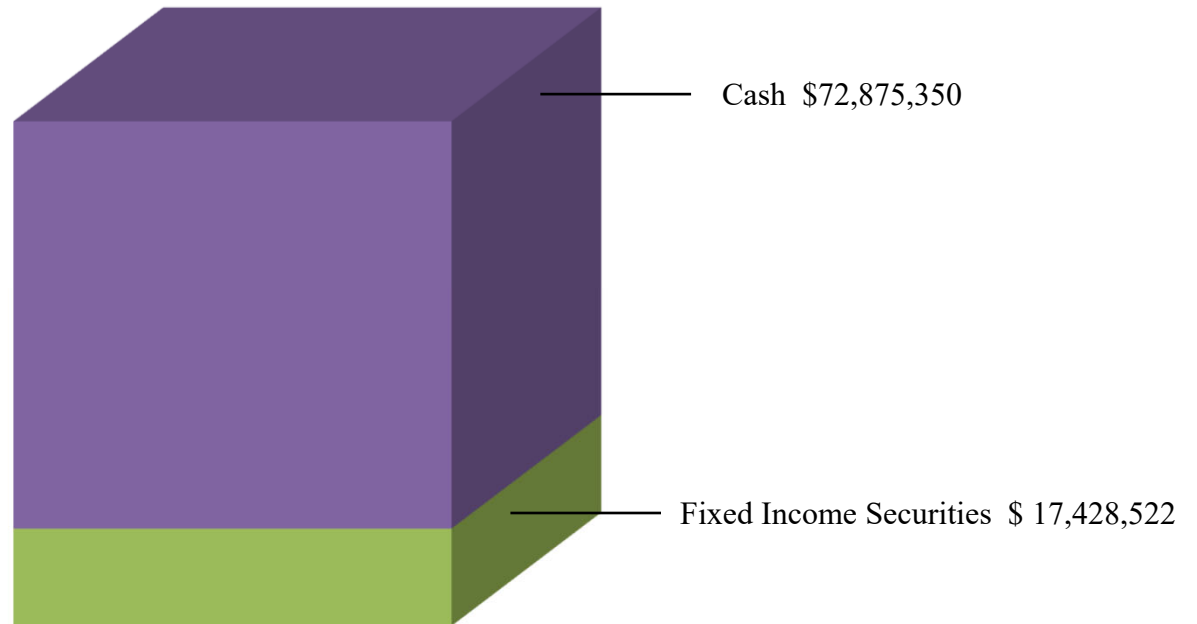
Total: \$237.6 million



Market Value of Trust Assets

The investment return for the fiscal year ended September 30, 2021 was 0.47%. Assets as of September 30, 2021 were allocated as follows:

Total: \$ 90,303,872



Active Contracts

The table below illustrates the total number of contracts sold less cancellations, expirations, graduations, and depletions, for each enrollment period.

Enrollment Year	Active Contracts	Enrollment Year	Active Contracts
1990	7	2000	1006
1991	3	2001	1356
1992	3	2002	1448
1993	1	2003	915
1994	143	2004	666
1995	378	2005	413
1996	451	2006	443
1997	507	2007	386
1998	592	2008	309
1999	667	Total	9,694

Contracts

Status	Number of Contracts
Active	9,694
Inactive	66,557
Total Sold	76,251

Valuation Assumptions And Methods

ACTUARIAL ASSUMPTIONS

The assumptions used in the actuarial valuation of the PACT Trust Fund are described below. In our opinion the actuarial assumptions are reasonable for projecting the expected financial results of the PACT Trust Fund.

Tuition and Fee Increases

Due to the Settlement Agreement, the Weighted Average Tuition (WAT) increases are shown in the table below.

9/30/2021 Valuation			
University of Alabama and Auburn University	Other Alabama 4-year Universities	Community Colleges	Private/Out-of-State Universities
0.00%	0.00%	0.00%	0.00%

Investment Return and Discount Rates

The actuarial valuation of the PACT Trust Fund was determined using the table of returns below. Note that these are expected rates of return based on analysis and discussions with Regions from 2021.

Fiscal Year Ending	Expected Rates of Return on Invested Assets	
	9/30/2020 Valuation	9/30/2021 Valuation
2022	0.15%	0.05%
2023	0.05%	0.20%
2024	0.00%	0.00%
2025	0.00%	0.00%
2026	0.00%	0.00%
2027	0.40%	0.20%
2028	1.00%	1.00%

Enrollment of PACT Beneficiaries

The assumed enrollment of PACT beneficiaries was unchanged for this valuation from that assumed as of September 30, 2020. A comparison of the rates that contract beneficiaries will matriculate is shown in the following table.

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

Contract Cancellations

The assumed cancellation of PACT contracts was unchanged from that assumed as of September 30, 2020. The actuarial valuation recognized cancellations in accordance with the following schedule:

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

Administrative Expenses

For the 2021 actuarial valuation, a load of \$600,000 was included for administrative fees for future fiscal years through 2027. From 2028 to 2031 it is lowered \$100,000 per year.

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.

Deaths and Disabilities

Mortality and disability decrements were not used. This is the same assumption as previous valuations.

Payment of Tuition and Qualified Fees

The expected tuition and qualified fees to be paid were based on the Published Fall 2010 tuition and fees increased as follows.

Past increases effective September 1			
2015	3%	2019	7%
2016	6%	2020	7%
2017	8%	2021	10%
2018	7%		

The expected weighted average annual tuition and fee payments are expected to be as follows:

University of Alabama and Auburn University Systems	\$12,019
Other Alabama 4-Year Universities and Colleges	\$ 9,308
Out-of-State and Private 4-Year Universities and Colleges	\$ 9,909
Technical and Community Colleges	\$ 5,385

The tuition and fee payment assumption was unchanged for this valuation at 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.

ACTUARIAL METHODS

The actuarial valuation of the PACT Trust Fund is based on projections of the tuition and qualified fee amounts expected to be paid from the PACT Trust Fund to colleges and universities, and the expected amounts to be paid into the PACT Trust Fund by contract purchasers and the Education Trust Fund. The actuarial valuation is based on the data summarized below which was obtained by the PACT office through the following sources:

- | | |
|---|---|
| ▪ Tuition/Fee Amounts at Four-Year Universities | University registrar and admission offices |
| ▪ Headcount at Four-Year Universities | Alabama Commission on Higher Education |
| ▪ PACT Purchasers | PACT Records Administrator |
| ▪ Tuition/Fee Amounts at Community Colleges | Community College registrar and admission offices |
| ▪ Headcount at Community Colleges | Alabama Commission on Higher Education |

Active Contracts (Appendix D)

The future payments expected to be made to and from the PACT Trust Fund have been determined based on the number of contracts shown in Appendix D. This information reflects cancellations, expirations, graduations, and deletions that had occurred as of the valuation date.

Weighted Average Tuition: Four-Year Universities

The Weighted Average Tuition (WAT) for public four-year universities in Alabama is the average of the Fall 2010 tuition and qualified fees at each of the four-year universities, weighted by PACT semester hours paid to each university, college and technical school, increased as follows:

Past increases effective September 1					
2015	3%	2018	7%	2021	10%
2016	6%	2019	7%		
2017	8%	2020	7%		

Weighted Average Tuition: Community Colleges

The Weighted Average Tuition (WAT) for community colleges was determined using the same methodology used in the determination of WAT for four-year universities, increased 3% effective for the Fall of 2015 payments, 6% effective for the Fall of 2016 payments, 8% effective for the Fall of 2017 payments, 7% for the Fall of 2018, 2019, 2020 and 10% for the Fall of 2021, compounded.

Weighted Average Tuition: For Payment to Private and Out-of-State Four-Year Universities

The Weighted Average Tuition (WAT) for public four-year universities in Alabama is the average of the Fall 2010 tuition and qualified fees at each of the four-year universities, weighted by total enrollment at each in-state four-year university and college, increased 3% effective for the Fall of 2015 payments, 6% effective for the Fall of 2016 payments, 8% effective for the Fall of 2017 payments, 7% for the Fall of 2018, 2019, 2020 and 10% for the Fall of 2021, compounded.

Contract Provisions

SUMMARY OF PRINCIPAL PROVISIONS OF THE PACT CONTRACT

PACT Enrollment Periods

Select periods from 1990 through 2008. The plan has been closed to new contracts since 2008.

Purchaser

The purchaser of a PACT contract must be a person age 19 years or older, a corporation, trust, charitable organization, or any other entity if that entity is approved, in writing, by the State Treasurer.

Beneficiary

A PACT contract was purchased for any individual who:

- had not attained age 18 as of the beginning of the enrollment period, and
- had not completed the 9th grade as of the beginning of the enrollment period.

Beneficiary Substitutions

Contract benefits can be transferred to an eligible substitute beneficiary as long as there are 32 semester hours of tuition remaining. The substitute beneficiary must be a member of the immediate family of the original beneficiary. Substitutions are allowed just once per contract.

Payment Plans

Purchase of a PACT contract was made according to one of the following payment plans:

- Single Payment Plan: A single lump sum payment.
- 5-Year Installment Plan: Monthly payments for 60 months.
- Monthly Payment Plan: Continuous monthly payments until the June 1st preceding the beneficiary's projected college enrollment date.

Contract Benefits

The PACT contract provides for payment of the amounts shown below. In general, PACT contract benefits must be used within ten years following the beneficiary's projected college enrollment date.

- payment of instate tuition until the earlier of (i) the award of a baccalaureate degree or (ii) payments by the PACT Trust Fund have been made for 135 (128 for contracts sold after 2006) semester hours (or the academic equivalent units), and
- payment of qualified fees (those fees required as a condition of enrollment for all students) for not more than eight registrations on a semester system, twelve registrations on a quarter system, or the equivalent number of registrations on other academic bases.

Attendance at an Out-of-State or Private Institution

If the beneficiary attends an out-of-state or private institution, an amount will be forwarded each academic term to the institution in which the beneficiary is enrolled. The amount paid is the weighted average by resident headcount of basic instate tuition and fee at the Alabama Four-Year Universities as certified for the fall 2010 semester, adjusted per the Settlement Agreement.

Contract Cancellations

An amount will be paid to the purchaser equal to the total of all contract payments made to the PACT Trust Fund, not including administrative fees, minus a cancellation fee and any contract benefit amounts that have been paid to a college or university.

Appendices

Funded Status

Appendix A

a. Market Value of Assets	\$90,303,872
b. Actuarial present value of future payments expected to be made to the fund by contract purchasers	1,425,038
c. Actuarial present value of future expenses	(4,466,222)
d. Actuarial present value of future Education Trust Fund payments expected to be made to the fund by the State	<u>192,055,093</u>
e. Subtotal (a + b + c + d)	\$279,317,781
f. Actuarial present value of future payments expected to be made from the trust fund to universities for tuition and mandatory fees, and to purchasers upon contract cancellation	<u>233,164,606</u>
g. Reserve as of September 30, 2021 (e - f)	<u><u>\$46,153,175</u></u>

Trust Assets

Appendix B

<u>Invested Assets</u>	<u>Market Value</u>
Cash & Equivalents	\$72,875,350
Fixed Income Securities:	
Domestic	17,428,522
International	0
Equity Securities:	
Domestic	0
International	0
Total Assets	<u>\$90,303,872</u>

The above information was provided by the PACT office and Regions.

Cash Flow, Asset and Liability Projection

Appendix C

(amounts are shown in \$1,000s)

<u>Fiscal Year End</u>	<u>Contract Payments</u>	<u>Education Trust Fund</u>	<u>Payments Out of Trust Fund</u>	<u>Administrative Expenses</u>	<u>Assets</u>	<u>Liabilities End of Year</u>
9/30/2021					\$ 90,300	\$ 233,165
9/30/2022	\$ 800	\$ 32,200	\$ -67,700	\$ - 600	55,000	165,462
9/30/2023	400	33,500	-54,300	- 600	34,000	116,937
9/30/2024	200	33,700	-43,200	- 600	24,100	77,813
9/30/2025	100	38,400	-32,900	- 600	29,200	47,676
9/30/2026	0	39,200	-22,800	- 600	45,000	26,565
9/30/2027	0	32,500	-11,900	- 600	65,100	15,493
9/30/2028	0	0	- 7,800	- 500	57,400	8,302
9/30/2029	0	0	- 5,000	- 400	52,600	3,609
9/30/2030	0	0	- 2,600	- 300	50,100	1,121
9/30/2031	0	0	- 1,000	- 200	49,400	147
9/30/2032	0	0	- 100	- 100	49,700	0

Active Contracts

Appendix D

All Enrollment Periods

Projected Enrollment Year	Number of Contracts	Percentage of Total	Projected Enrollment Year	Number of Contracts	Percentage of Total
1994 - 1995	2	0.0%	2011 - 2012	548	5.7%
1995 - 1996	0	0.0%	2012 - 2013	602	6.2%
1996 - 1997	1	0.0%	2013 - 2014	663	6.8%
1997 - 1998	0	0.0%	2014 - 2015	739	7.6%
1998 - 1999	2	0.0%	2015 - 2016	825	8.5%
1999 - 2000	0	0.0%	2016 - 2017	1,054	10.9%
2000 - 2001	2	0.0%	2017 - 2018	1,307	13.5%
2001 - 2002	2	0.0%	2018 - 2019	1,181	12.2%
2002 - 2003	4	0.0%	2019 - 2020	883	9.1%
2003 - 2004	0	0.0%	2020 - 2021	702	7.2%
2004 - 2005	2	0.0%	2021 - 2022	393	4.1%
2005 - 2006	0	0.0%	2022 - 2023	274	2.8%
2006 - 2007	0	0.0%	2023 - 2024	230	2.4%
2007 - 2008	6	0.1%	2024 - 2025	152	1.6%
2008 - 2009	3	0.0%	2025 - 2026	87	0.9%
2009 - 2010	2	0.0%	2026 - 2027	14	0.1%
2010 - 2011	14	0.1%	2027 - 2028	0	0.0%
			Totals:	9,694	100.0%

PACT Beneficiaries

Appendix E

Matriculation Information: Four-Year Universities

Post Dates 10/1/2020 - 9/30/2021

	Number of Enrollments	Semester Hours	Percentage of Total Hours	Fees Paid	Tuition Paid	Total Tuition and Fees Paid	Average Paid Per Semester Hour
Alabama A&M	9	111	0.14%	5,768	\$ 32,066.40	\$ 37,834.82	\$ 340.85
Alabama State	13	150	0.19%	5,538	\$ 45,303.78	\$ 50,842.02	\$ 338.95
Athens State	44	390	0.50%	6,761	\$ 77,742.60	\$ 84,503.25	\$ 216.68
Auburn University	1,600	19,184	24.39%		\$ 7,931,303.25	\$ 7,931,303.25	\$ 413.43
Auburn University - Montgomery	227	2,349	2.99%	7,483	\$ 718,341.94	\$ 725,824.82	\$ 308.99
Jacksonville State	378	4,132	5.25%		\$ 1,334,477.70	\$ 1,334,477.70	\$ 322.96
Troy University	567	6,594	8.38%	194,972	\$ 2,045,619.34	\$ 2,240,591.24	\$ 339.80
University of Alabama	1,660	20,757	26.39%		\$ 8,065,569.85	\$ 8,065,569.85	\$ 388.58
University of Al-Birmingham	904	9,432	11.99%		\$ 3,407,640.21	\$ 3,407,640.21	\$ 361.29
University of AL - Huntsville	348	4,186	5.32%		\$ 1,547,539.33	\$ 1,547,539.33	\$ 369.72
University of Montevallo	131	1,556	1.98%	14,348	\$ 540,869.90	\$ 555,218.09	\$ 356.82
University of North Alabama	296	3,667	4.66%	88,470	\$ 975,764.57	\$ 1,064,234.45	\$ 290.22
University of South Alabama	467	5,570	7.08%	113,970	\$ 1,483,803.34	\$ 1,597,773.57	\$ 286.85
University of West Alabama	52	572	0.73%	21,484	\$ 168,414.76	\$ 189,898.31	\$ 331.99
GRAND TOTAL	6,696	78,649	100.00%	\$ 458,793.94	\$28,374,456.97	\$28,833,250.91	\$ 366.61

PACT Beneficiaries

Appendix E

Matriculation Information: Community and Technical Colleges

Post Dates 10/1/2020 - 9/30/2021

	Number of Enrollments	Semester Hours	Percentage of Total Hours	Fees Paid	Tuition Paid	Total Tuition and Fees Paid	Average Paid Per Semester Hour
<i>Community Colleges</i>							
Coastal Alabama	136	1,433	9.65%	40,353	185,188	225,541	157.39
Bevil	60	576	3.88%	15,074	74,738	89,811	155.92
Bishop	10	115	0.77%	2,803	14,492	17,295	150.39
Calhoun	231	1,943	13.09%	53,919	251,988	305,908	157.44
Central Alabama	38	305	2.05%	6,451	39,653	46,104	151.16
Chattahoochee	11	94	0.63%	3,042	12,221	15,263	162.37
Enterprise	37	426	2.87%	13,937	55,384	69,322	162.73
Faulkner	28	310	2.09%	4,799	101,972	106,771	344.42
Gadsden	68	623	4.20%	14,922	80,945	95,867	153.88
Jefferson State	230	1,863	12.55%	70,134	241,727	311,860	167.40
Lawson	24	205	1.38%	7,485	26,652	34,137	166.52
L.B. Wallace	39	404	2.72%	8,647	52,524	61,171	151.41
Marian University			0.00%				0.00
Northeast	8	60	0.40%	1,859	7,750	9,608	160.14
NW Shoals	34	313	2.11%	9,461	40,693	50,154	160.24
Shelton	98	794	5.35%	19,931	103,075	123,006	154.92
Snead	51	328	2.21%	8,066	42,618	50,684	154.52
Southern Union	222	2,359	15.88%	59,671	306,668	366,339	155.33
Wallace-Dothan / Sparks	88	822	5.54%	17,385	106,783	124,168	151.06
Wallace-Hanceville	136	1,319	8.88%	40,806	171,270	212,077	160.79
Wallace-Selma	18	122	0.82%	3,065	15,635	18,700	153.28
Total Community Colleges	1,567	14,414	97.07%	401,810	1,931,975	2,333,785	161.92
<i>Technical Colleges</i>							
Ayers			0.00%				0.00
Drake	10	87	0.59%	2,059	11,311	13,370	153.67
J. F. Ingram State			0.00%				0.00
Reid	6	80	0.54%	1,843	10,401	12,244	84.00
Trenholm State Technical College	26	268	1.80%	6,149	34,843	40,991	152.95
Total Technical Colleges	42	435	2.93%	10,051	56,554	66,605	153.12
GRAND TOTAL	1,609	14,849	100.00%	411,861	1,988,529	2,400,390	161.66

PACT Beneficiaries

Appendix E

Matriculation Information: Executive Summary

Post Dates 10/1/2020 - 9/30/2021

	Number of Enrollments	Semester Hours	Percentage of Total Hours	Fees Paid	Tuition Paid	Total Tuition and Fees Paid	Portion	Average Paid Per Semester Hour
<i>Alabama Universities</i>								
Total Four-Year Alabama Universities	6,696	78,649	67.26%	\$ 458,793.94	\$28,374,456.97	\$28,833,250.91	73.55%	\$366.61
<i>Alabama Community Colleges</i>								
Total Community Colleges	1,567	14,414	12.33%	\$ 401,810.26	\$ 1,931,974.64	\$ 2,333,784.90	5.95%	\$161.92
Total Technical Colleges	42	435	0.37%	\$ 10,050.79	\$ 56,554.35	\$ 66,605.14	0.17%	\$153.12
Total Alabama Community Colleges	1,609	14,849	12.70%	\$ 411,861.05	\$ 1,988,528.99	\$ 2,400,390.04	6.12%	\$161.66
<i>Out-Of-State Institutions</i>								
Out-Of-State Community Colleges	68	668	0.57%	\$ 3,040.03	\$ 128,470.59	\$ 131,510.62	0.34%	\$196.87
Out-Of-State Technical Colleges	63	724	0.62%	\$ 4,743.77	\$ 233,963.63	\$ 238,707.40	0.61%	\$329.86
Out-Of-State Universities	1,088	14,023	11.99%	\$ 164,607.78	\$ 4,566,966.36	\$ 4,731,574.14	12.07%	\$337.42
Out-Of-State Private Universities	160	2,267	1.94%	\$ 29,395.48	\$ 779,600.47	\$ 808,995.95	2.06%	\$356.81
Total Out-Of-State Institutions	1,379	17,682	15.12%	\$ 201,787.06	\$ 5,709,001.05	\$ 5,910,788.11	15.08%	\$334.29
<i>Private Institutions</i>								
Private Community Colleges			0.00%	\$.00	\$.00	\$.00	0.00%	\$.00
Private Technical Colleges	4	40	0.03%	\$ 417.51	\$ 18,698.90	\$ 19,116.41	0.05%	\$477.91
Private Senior Colleges	438	5,668	4.85%	\$ 71,425.65	\$ 1,955,675.64	\$ 2,027,101.29	5.17%	\$357.66
Private Universities	8	42	0.04%	\$ 208.66	\$ 9,426.26	\$ 9,634.92	0.02%	\$229.40
Total Private Institutions	450	5,750	4.92%	\$ 72,051.82	\$ 1,983,800.80	\$ 2,055,852.62	5.24%	\$357.56
GRAND TOTAL	10,134	116,929	100.00%	\$1,144,493.87	\$38,055,787.81	\$39,200,281.68	100.00%	\$335.25

