

PACT
ALABAMA'S PREPAID
AFFORDABLE COLLEGE
TUITION PROGRAM

September, 2023
ACTUARIAL REPORT

October 20, 2023

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, 2023.

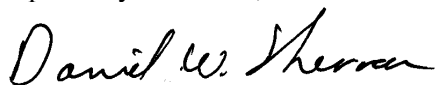
A comparison of the assets and liabilities of the PACT Trust Fund shows that as of September 30, 2023 there is a surplus of approximately \$131.6 million, which represents a funded ratio of 250.2%. Plans that have funded ratio greater than 100% are considered actuarially sound.

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, 2023 the PACT Trust Fund has a surplus of \$131.6 million (the value of assets, including the value of future payments by contract purchasers of approximately \$0.3 million, is more than the expected liabilities of the trust). This represents an increase of \$25.3 million from the surplus of \$106.3 million as of September 30, 2022. The funded ratio, assets divided by liabilities, increased from 179.8% in 2022 to 250.2% in 2023.

The increase in the PACT Trust funded ratio was primarily due to asset gains exceeding expectations and withdrawals exceeding expectations. Contract beneficiaries are not using the assumed credit hours.

The main factor that affects the funding status of PACT is withdrawals and matriculations. The assumptions do not include any increases in tuition rates. The affects of these factors are detailed as follows:

Investment Return

Total asset return for the fiscal year, including monies not invested and available to meet daily cash flow needs, was 7.99%. The total asset return compared to the projected investment return of 2.90% resulted in an actuarial gain.

Gain/Loss Summary

During the last year, the plan experienced a \$25.2 million actuarial gain prior to changes in actuarial assumptions and methods. The sources of the gain/(loss) are as follows:

Gain / (Loss)	<u>(millions)</u>
Asset Gain 7.99% return)	\$11.2
Withdrawal and Matriculation	13.0
Expense	0.0
Assumption Change	<u>1.0</u>
Total Gain / (Loss)	\$25.2

Tuition and Qualified Fees Increases

For the valuations performed from 2011 through 2021, 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. Since 2022 the basis of the valuation is the Weighted Average Tuition without future increases.

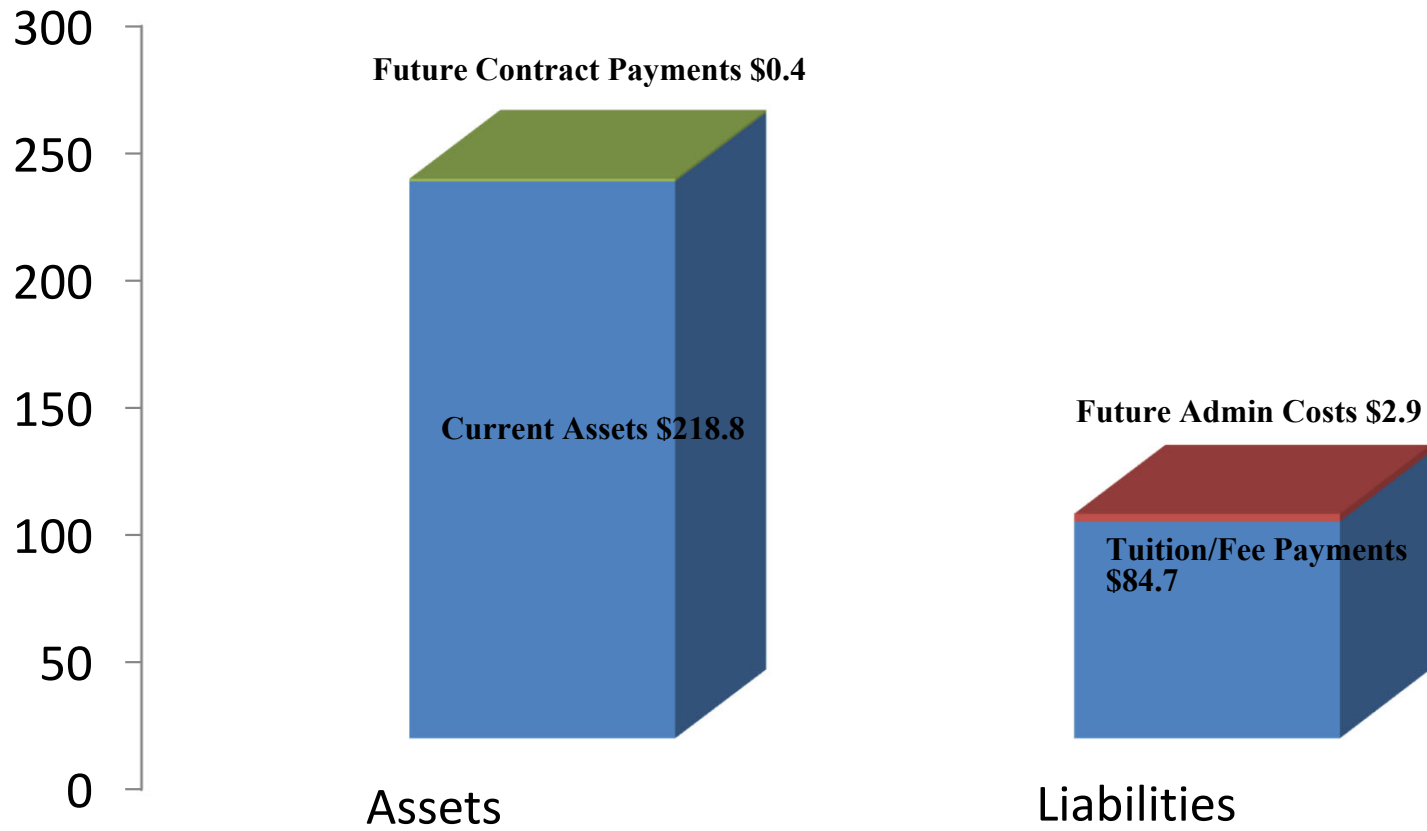
Past increases effective September 1					
2015	3%	2019	7%	2023	23%
2016	6%	2020	7%		
2017	8%	2021	10%		
2018	7%	2022	24%		

Funded Status

The value of assets of the trust fund as of September 30, 2023 (including the value of future payments by contract purchasers) exceed the liabilities by \$131.6 million. The funded ratio, assets divided by liabilities, is equal to 250.2%.

Total: \$219.2 million

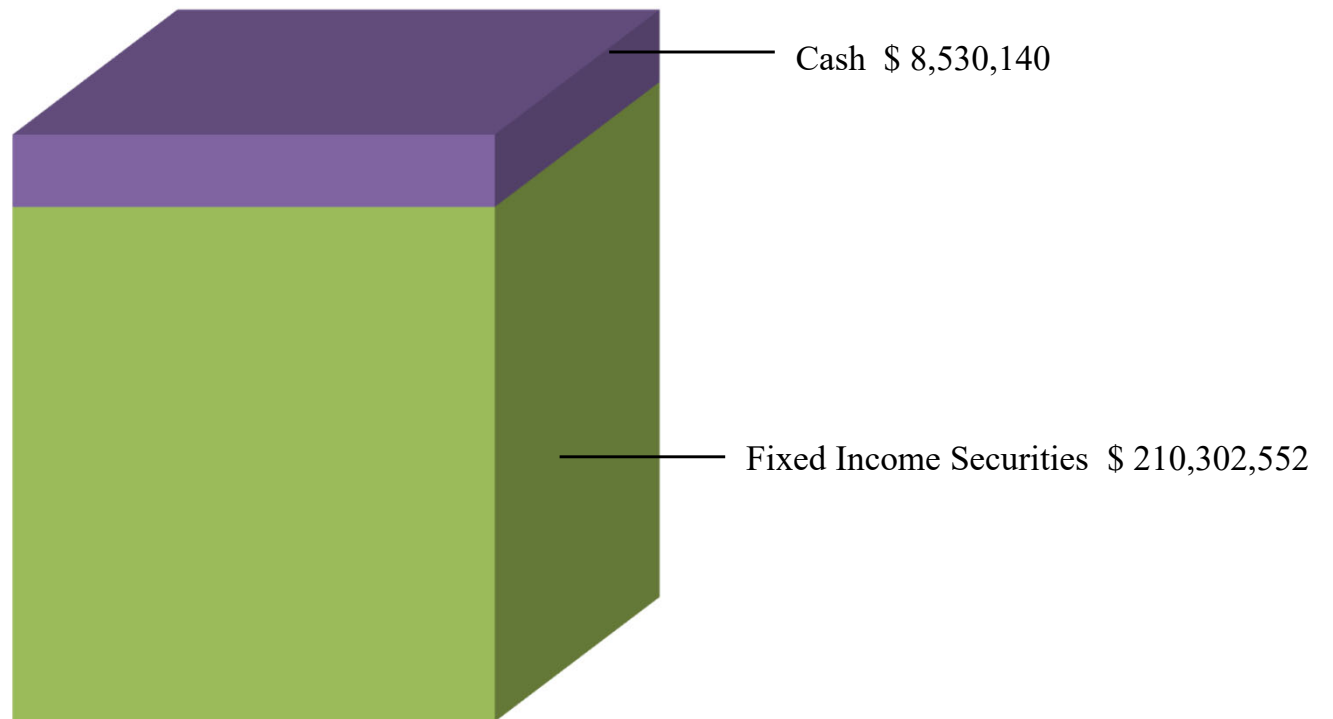
Total: \$87.6 million



Market Value of Trust Assets

The investment return for the fiscal year ended September 30, 2023 was 7.99%. Assets as of September 30, 2023 were allocated as follows:

Total: \$ 218,832,692



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	2	2000	530
1991	3	2001	791
1992	2	2002	1,035
1993	0	2003	741
1994	0	2004	524
1995	3	2005	342
1996	206	2006	384
1997	276	2007	309
1998	330	2008	262
1999	314	Total	6,054

Contracts

Status	Number of Contracts
Active	6,054
Inactive	70,197
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.

9/30/2023 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 2023.

Fiscal Year Ending	Expected Rates of Return on Invested Assets	
	9/30/2022 Valuation	9/30/2023 Valuation
2024	3.10%	4.75%
2025	2.85%	4.00%
2026	2.30%	3.25%
2027	1.80%	2.75%
2028+	1.75%	2.00%

Enrollment of PACT Beneficiaries

The assumed enrollment of PACT beneficiaries was unchanged for this valuation from that assumed as of September 30, 2022. 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	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.

Contract Cancellations

The assumed cancellation of PACT contracts was unchanged from that assumed as of September 30, 2022. 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 2023 actuarial valuation, a load of \$525,000 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 have been completed. No additional funds are expected to be transferred to the Trust.

Deaths and Disabilities

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

Payment of Tuition and Qualified Fees

From 2011 through 2023, 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%	2023	23%
2016	6%	2020	7%		
2017	8%	2021	10%		
2018	7%	2022	24%		

In recent years, the adjusted 2010 rates have significantly exceeded the stated tuition and fees charged by most of the schools. The Board voted a 23% increase for 2023 with the purpose of having all schools receive full tuition and mandatory fees. The PACT pays the lesser of the 2010 adjusted rates and the actual tuition and mandatory fees.

Based on the 2022-23 PACT enrollment at in-state 4 year and 2 year schools, the 2023-24 tuition and fee rates, and a 5% load for potential bias to more expensive schools, the expected weighted average annual tuition (WAT) and fee payments was determined. The expected WAT per semester are as follows:

University of Alabama and Auburn University Systems	\$ 7,748
Other Alabama 4-Year Universities and Colleges	\$ 7,748
Out-of-State and Private 4-Year Universities and Colleges	\$ 6,544
Technical and Community Colleges	\$ 2,144

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 12 hours of contract benefits per semester for the first 10 semesters and 8 hours of contract benefits in the eleventh 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 2023 tuition and qualified fees at each of the four-year universities, weighted by PACT enrollment and semester hours paid to each university, college and technical school.

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.

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 2023 tuition and qualified fees at each of the four-year universities, weighted by total enrollment at each in-state four-year university and college.

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	\$218,832,692
b. Actuarial present value of future payments expected to be made to the fund by contract purchasers	382,112
c. Actuarial present value of future expenses	(2,864,857)
d. Actuarial present value of future Education Trust Fund payments expected to be made to the fund by the State	<u>0</u>
e. Subtotal (a + b + c + d)	\$216,349,947
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>84,735,705</u>
g. Reserve as of September 30, 2023 (e - f)	<u><u>\$131,614,242</u></u>

Trust Assets

Appendix B

<u>Invested Assets</u>	<u>Market Value</u>
Cash & Equivalents	\$8,530,140
Fixed Income Securities:	
Domestic	210,302,552
International	0
Equity Securities:	
Domestic	0
International	0
Total Assets	<u>\$218,832,692</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)

Fiscal Year End	Contract Payments	Education Trust Fund	Payments Out of Trust Fund	Administrative Expenses	Assets	Liabilities End of Year
9/30/2023					\$ 218,800	\$ 84,736
9/30/2024	\$ 300	\$ 0	\$ -29,600	\$ - 525	198,400	55,590
9/30/2025	100	0	-22,000	- 525	183,400	34,905
9/30/2026	0	0	-16,000	- 525	172,500	20,348
9/30/2027	0	0	-11,600	- 525	165,000	10,167
9/30/2028	0	0	- 6,400	- 400	161,400	4,637
9/30/2029	0	0	- 3,100	- 300	161,100	2,002
9/30/2030	0	0	- 1,600	- 200	162,600	711
9/30/2031	0	0	- 700	- 100	165,000	141
9/30/2032	0	0	- 200	- 100	168,000	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	1	0.0%	2011 - 2012	1	0.0%
1995 - 1996	0	0.0%	2012 - 2013	25	0.4%
1996 - 1997	0	0.0%	2013 - 2014	466	7.7%
1997 - 1998	0	0.0%	2014 - 2015	487	8.0%
1998 - 1999	1	0.0%	2015 - 2016	442	7.3%
1999 - 2000	0	0.0%	2016 - 2017	522	8.6%
2000 - 2001	2	0.0%	2017 - 2018	611	10.1%
2001 - 2002	1	0.0%	2018 - 2019	835	13.8%
2002 - 2003	1	0.0%	2019 - 2020	833	13.8%
2003 - 2004	0	0.0%	2020 - 2021	682	11.3%
2004 - 2005	1	0.0%	2021 - 2022	381	6.3%
2005 - 2006	0	0.0%	2022 - 2023	273	4.5%
2006 - 2007	0	0.0%	2023 - 2024	230	3.8%
2007 - 2008	2	0.0%	2024 - 2025	150	2.5%
2008 - 2009	3	0.0%	2025 - 2026	87	1.4%
2009 - 2010	1	0.0%	2026 - 2027	14	0.2%
2010 - 2011	2	0.0%			
			Totals:	6,054	100.0%

PACT Beneficiaries

Appendix E

Matriculation Information: Four-Year Universities

Post Dates 10/1/2022 - 9/30/2023

	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	11	145	0.23%	\$ 6,078.48	\$ 44,970.00	\$ 51,048.48	\$ 352.06
Alabama State	14	162	0.26%	\$ 6,068.57	\$ 44,012.36	\$ 50,080.93	\$ 309.14
Athens State	58	520	0.83%	\$ 14,092.42	\$ 125,320.00	\$ 139,412.42	\$ 268.10
Auburn University	2,054	25,869	41.34%	\$.00	\$11,451,463.05	\$11,451,463.05	\$ 442.67
Auburn University - Montgomery	114	1,218	1.95%	\$ 5,103.78	\$ 417,774.00	\$ 422,877.78	\$ 347.19
Jacksonville State	209	2,335	3.73%	\$.00	\$ 788,544.00	\$ 788,544.00	\$ 337.71
Troy University	340	3,826	6.11%	\$ 127,100.07	\$ 1,476,899.95	\$ 1,604,000.02	\$ 419.24
University of Alabama	1,087	13,470	21.53%	\$.00	\$ 5,498,016.42	\$ 5,498,016.42	\$ 408.18
University of Al-Birmingham	542	5,270	8.42%	\$.00	\$ 2,494,164.26	\$ 2,494,164.26	\$ 473.28
University of AL - Huntsville	254	2,994	4.78%	\$.00	\$ 1,107,071.93	\$ 1,107,071.93	\$ 369.76
University of Montevallo	64	756	1.21%	\$ 8,972.03	\$ 302,599.34	\$ 311,571.37	\$ 412.13
University of North Alabama	184	2,258	3.61%	\$ 80,026.52	\$ 761,103.28	\$ 841,129.80	\$ 372.51
University of South Alabama	281	3,387	5.41%	\$ 91,335.73	\$ 1,216,677.82	\$ 1,308,013.55	\$ 386.19
University of West Alabama	30	365	0.58%	\$ 16,708.32	\$ 115,700.00	\$ 132,408.32	\$ 362.76
GRAND TOTAL	5,242	62,574	100.00%	\$ 355,485.92	\$25,844,316.41	\$26,199,802.33	\$ 418.70

PACT Beneficiaries

Appendix E

Matriculation Information: Community and Technical Colleges

Post Dates 10/1/2022 - 9/30/2023

	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	62	648	8.29%	23,185	80,468	103,653	159.96
Bevill	28	232	2.97%	9,131	29,000	38,131	164.36
Bishop	13	143	1.83%	4,593	18,085	22,679	158.59
Calhoun	106	840	10.75%	34,943	105,715	140,658	167.45
Central Alabama	18	137	1.75%	3,820	17,125	20,945	152.88
Chattahoochee	3	32	0.41%	1,330	4,000	5,330	166.56
Enterprise	8	64	0.82%	2,223	8,000	10,223	159.73
Faulkner	9	129	1.65%	1,708	58,139	59,847	463.93
Gadsden	40	386	4.94%	11,572	48,375	59,947	155.30
Jefferson State	121	992	12.69%	52,070	123,938	176,008	177.43
Lawson	4	36	0.46%	1,986	4,500	6,486	180.18
L.B. Wallace	9	73	0.93%	2,734	8,500	11,234	153.89
Marion University			0.00%				0.00
Northeast	12	113	1.45%	4,776	14,125	18,901	167.27
NW Shoals	21	173	2.21%	5,319	21,619	26,938	155.71
Shelton	82	792	10.13%	28,013	99,419	127,431	160.90
Snead	61	408	5.22%	16,775	51,097	67,872	166.35
Southern Union	142	1,519	19.43%	53,624	189,791	243,415	160.25
Wallace-Dothan / Sparks	25	180	2.30%	4,457	22,500	26,957	149.76
Wallace-Hanceville	62	600	7.68%	25,826	74,980	100,806	168.01
Wallace-Selma	15	138	1.77%	5,168	17,250	22,418	162.45
Total Community Colleges	841	7,635	97.68%	293,253	996,626	1,289,879	168.94
<i>Technical Colleges</i>							
Ayers			0.00%				0.00
Drake	4	26	0.33%	300	3,250	3,550	136.52
J. F. Ingram State			0.00%				0.00
Reid	2	16	0.20%		2,000	2,000	84.00
Trenholm State Technical College	13	139	1.78%	4,943	17,375	22,318	160.56
Total Technical Colleges	19	181	2.32%	5,243	22,625	27,868	153.97
GRAND TOTAL	860	7,816	100.00%	298,496	1,019,251	1,317,747	168.60

PACT Beneficiaries

Appendix E

Matriculation Information: Executive Summary

Post Dates 10/1/2022 - 9/30/2023

	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	5,242	62,574	73.46%	\$ 355,485.92	\$25,844,316.41	\$26,199,802.33	76.76%	\$418.70
<i>Alabama Community Colleges</i>								
Total Community Colleges	841	7,635	8.96%	\$ 293,253.16	\$ 996,625.73	\$ 1,289,878.89	3.78%	\$168.94
Total Technical Colleges	19	181	0.21%	\$ 5,243.00	\$ 22,625.00	\$ 27,868.00	0.08%	\$153.97
Total Alabama Community Colleges	860	7,816	9.18%	\$ 298,496.16	\$ 1,019,250.73	\$ 1,317,746.89	3.86%	\$168.60
<i>Out-Of-State Institutions</i>								
Out-Of-State Community Colleges	46	419	0.49%	\$ 11,121.57	\$ 70,488.58	\$ 81,610.15	0.24%	\$194.62
Out-Of-State Technical Colleges	24	246	0.29%	\$ 4,656.01	\$ 72,216.06	\$ 76,872.07	0.23%	\$312.07
Out-Of-State Universities	686	8,513	9.99%	\$ 163,356.74	\$ 3,545,738.85	\$ 3,709,095.59	10.87%	\$435.69
Out-Of-State Private Universities	132	1,759	2.06%	\$ 30,678.06	\$ 797,136.64	\$ 827,814.70	2.43%	\$470.71
Total Out-Of-State Institutions	888	10,937	12.84%	\$ 209,812.38	\$ 4,485,580.13	\$ 4,695,392.51	13.76%	\$429.29
<i>Private Institutions</i>								
Private Community Colleges			0.00%	\$.00	\$.00	\$.00	0.00%	\$.00
Private Technical Colleges	3	32	0.04%	\$ 496.01	\$ 14,142.00	\$ 14,638.01	0.04%	\$457.44
Private Senior Colleges	272	3,809	4.47%	\$ 67,322.97	\$ 1,830,216.25	\$ 1,897,539.22	5.56%	\$498.17
Private Universities	2	16	0.02%	\$ 284.62	\$ 5,829.90	\$ 6,114.52	0.02%	\$382.16
Total Private Institutions	277	3,857	4.53%	\$ 68,103.60	\$ 1,850,188.15	\$ 1,918,291.75	5.62%	\$497.35
GRAND TOTAL	7,267	85,185	100.00%	\$931,898.06	\$33,199,335.42	\$34,131,233.48	100.00%	\$400.67

