

Alabama PACT

3/31/2024 Quarterly Valuation

April 2024

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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 March 31, 2024. Since this is a quarterly valuation, there is less detail provided than in the full valuation as of September 30, 2023. The Summary of Funding section on page 4 describes the current results and compares those results to the September 30, 2023 valuation.

Assumptions and Methods

1. Data and Assets

The valuation was performed using contract data supplied by the Plan Administrator as of March 31, 2024 and financial data reported to you as of March 31, 2024. SAS did not audit the data although they were reviewed for reasonableness and consistency with the audited September 30, 2023 information. The results of the analysis are dependent on the accuracy of the data.

The asset value as of March 31, 2024 was \$208,385,323.

2. Weighted Average Tuition (WAT)

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%	2020	7%
2016	6%	2021	10%
2017	8%	2022	24%
2018	7%	2023	23%
2019	7%		

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. The change required a change in methodology for estimating future payments to schools.

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



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.

3. Tuition Inflation

The March 31, 2024 valuation assumed a tuition inflation assumption of 0% per year.

4. Investment return

The investment return assumption was unchanged from the September 30, 2023 valuation as shown below.

Fiscal Year	September 30, 2023	March 31, 2024
<u>Ending</u>	<u>Valuation</u>	<u>Valuation</u>
2024	4.75%	4.75%
2025	4.00%	4.00%
2026	3.25%	3.25%
2027	2.75%	2.75%
2028	2.00%	2.00%

5. Payment of Tuition

The March 31, 2024 valuation assumed usage of 128 credit hours at a rate of 12 hours per semester, which is the same as was assumed for the September 30, 2023 valuation.

6. Education Trust Fund Payments

No future contributions from the Education Trust Fund into the PACT Trust Fund were assumed.

7. Cancellations

The assumed cancellation of PACT contracts based on the grade of the beneficiary was unchanged from that assumed as of September 30, 2023 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, 2023</u>	<u>March 31, 2024</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 March 31, 2024 valuation, the administrative expenses assumed will be \$262,500 for the remainder of FYE24, \$525,000 for future fiscal years through 2026, and \$400,000 for 2027. From 2028 to 2031, it is lowered to \$100,000 per year.

10. Discount Rate

For the March 31, 2024 valuation, a discount rate of 3.5% was assumed 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, 2023 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 nineteen years and is the current actuary for Texas. 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
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 March 31, 2024. Note that although the funded status is 291.3% the cash flow projections show that the fund will need to be monitored in order to maintain sufficient assets.

	September 30, 2023 Annual Valuation	March 31, 2024 Valuation
Assets		
a. Market Value of Assets	218,832,692	208,385,323
b. Present Value of future contract purchaser payments	382,112	293,413
c. Administrative Expenses	(2,864,857)	(2,668,663)
d. Present Value of Education Trust Fund payments	0	0
e. Subtotal (a + b + c + d)	216,349,947	206,010,073
Liabilities		
f. Present Value of tuition and cancellation payments	84,735,705	68,971,206
Funded Status		
g. Reserve (e – f)	131,614,242	137,038,867
h. Funded Ratio	250.2%	291.3%

Projected Cash Flow
March 31, 2024 Valuation
(millions)

Fiscal Year	Benefit Payments	Contract Holder Payments	Education Trust Fund Payments	Admin Expenses	Income	EOY Assets
3/31/2024						\$ 208,400
1/1/23 - 09/30/24	-\$ 4,900	\$100	\$ 0	-\$ 263	\$ 4,863	208,200
10/01/24 - 09/30/25	-25,000	100	0	-525	7,725	190,500
10/01/25 - 09/30/26	-17,500	0	0	-525	5,825	178,300
10/01/26 - 09/30/27	-13,000	0	0	-525	4,725	169,500
10/01/27 - 09/30/28	-8,600	0	0	-400	3,300	163,800
10/01/28 - 09/30/29	-3,100	0	0	-300	3,100	163,500
10/01/29 - 09/30/30	-1,600	0	0	-200	3,300	165,000
10/01/30 - 09/30/31	-600	0	0	-100	3,300	167,600
10/01/31 - 09/30/32	-200	0	0	-100	3,300	170,600
Total	-\$ 74,500	\$ 200	\$ 0	-\$ 2,938		

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

Assumptions

- Settlement
- WAT: 4-Year Alabama schools \$7,748 Out-of-State and Private \$6,544, Technical and Community Colleges \$2,144
- Tuition Inflation at 0%
- Normal Cancellation rates