



July 24, 2025

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 2025 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 changes in the rates of return shown below.

<u>Plan Year Ending</u>	<u>Current Assumptions</u>	<u>Proposed Assumptions</u>	<u>Regions Projected Rates</u>
2026	4.00%	3.50%	3.50%
2027	3.25%	3.50%	3.50%
2028	2.75%	3.50%	3.50%
2029	2.00%	3.50%	3.50%
2030+	2.00%	3.50%	3.50%

We are recommending no changes to the flat 3.50% 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 several times. When it does, we would assume that new tuition level for the 2025-26 school year, and all future years. This maintains the 0% assumption beyond any increases the Board approves.

Per the Class Action Settlement Agreement, PACT shall pay the lesser of (1) the actual tuition and mandatory fees invoiced by the Alabama public Eligible Educational Institution which the beneficiary attends or (2) the PACT Tuition Fee payment as increased annually by an Adjustment Rate.

Past increases effective September 1			
2015	3%	2021	10%
2016	6%	2022	24%
2017	8%	2023	23%
2018	7%	2024	4%
2019	7%	2025	4%
2020	7%		

Expenses

We are recommending no changes to this assumption.

<u>FYE</u>	<u>Current</u>
2026-2027	\$525,000
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.

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.

Early Voluntary Surrender of Contract

The assumed cancellation of PACT contracts as of September 30, 2024 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 2024 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

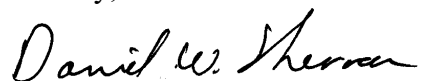
The Education Trust Fund Payments have ceased as the PACT program has already received all monies expected to be paid.

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