

Alabama PACT

12/31/2025 Quarterly Valuation

January 2026

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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 December 31, 2025. Since this is a quarterly valuation, there is less detail provided than in the full valuation as of September 30, 2025. The Summary of Funding section on page 4 describes the current results and compares those results to the September 30, 2025 valuation.

Assumptions and Methods

1. Data and Assets

The valuation was performed using contract data supplied by the Plan Administrator as of December 31, 2025 and financial data reported to you as of December 31, 2025. SAS did not audit the data although they were reviewed for reasonableness and consistency with the audited September 30, 2025 information. The results of the analysis are dependent on the accuracy of the data.

The asset value as of December 31, 2025 was \$185,500,607.

2. Weighted Average Tuition (WAT)

From 2011 through 2025, 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%	2025	4%
2016	6%	2021	10%		
2017	8%	2022	24%		
2018	7%	2023	23%		
2019	7%	2024	4%		

In recent years, the adjusted 2010 rates have exceeded the stated tuition and fees charged by most of the schools. The Board voted a 4% increase for 2025 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 intended payments to schools.

Based on the 2024-25 PACT enrollment at in-state 4 year and 2 year schools, the 2025-26 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	\$ 6,633
Other Alabama 4-Year Universities and Colleges	\$ 6,633
Out-of-State and Private 4-Year Universities and Colleges	\$ 6,478
Technical and Community Colleges	\$ 2,345

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 December 31, 2025 valuation assumed a tuition inflation assumption of 0% per year.

4. Investment return

The investment return assumption was unchanged from the September 30, 2025 valuation as shown below.

Fiscal Year	September 30, 2025	December 31, 2025
<u>Ending</u>	<u>Valuation</u>	<u>Valuation</u>
2026	3.50%	3.50%
2027	3.50%	3.50%
2028	3.50%	3.50%
2029+	3.50%	3.50%

5. Payment of Tuition

The December 31, 2025 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, 2025 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, 2025 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, 2025</u>	<u>December 31, 2025</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 December 31, 2025 valuation, the administrative expenses assumed will be \$393,750 for the remainder of FYE26, \$525,000 for future fiscal years through 2027. For 2028 the assumption is \$400,000. From 2029 to 2031 it is lowered \$100,000 per year.

10. Discount Rate

For the December 31, 2025 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, 2025 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 December 31, 2025. Note that although the funded status is 373.4% the cash flow projections show that the fund will need to be monitored in order to maintain sufficient assets.

	September 30, 2025 Annual Valuation	December 31, 2025 Valuation
Assets		
a. Market Value of Assets	190,918,218	185,500,607
b. Present Value of future contract purchaser payments	55,314	42,786
c. Administrative Expenses	(1,981,688)	(1,868,679)
d. Present Value of Education Trust Fund payments	0	0
e. Subtotal (a + b + c + d)	188,991,844	183,674,714
Liabilities		
f. Present Value of tuition and cancellation payments	54,434,678	47,825,130
Funded Status		
g. Reserve (e – f)	134,557,166	135,849,584
h. Funded Ratio	338.5%	373.4%

**Projected Cash Flow
December 31, 2025 Valuation
(millions)**

Fiscal Year	Benefit Payments	Contract Holder Payments	Education Trust Fund Payments	Admin Expenses	Income	EOY Assets
12/31/2025						\$ 185,500
10/01/25 - 09/30/26	-\$ 10,800	\$ 0	\$ 0	-\$ 394	\$ 4,694	179,000
10/01/26 - 09/30/27	-17,200	0	0	-525	5,925	167,200
10/01/27 - 09/30/28	-11,000	0	0	-400	5,600	161,400
10/01/28 - 09/30/29	-7,100	0	0	-300	5,400	159,400
10/01/29 - 09/30/30	-3,800	0	0	-200	5,600	161,000
10/01/30 - 09/30/31	-700	0	0	-100	5,500	165,700
10/01/31 - 09/30/32	-100	0	0	-100	5,900	171,400
Total	-\$ 50,700	\$ 0	\$ 0	-\$ 2,544		

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

Assumptions

- Settlement
- WAT: 4-Year Alabama schools \$6,633 Out-of-State and Private \$6,478, Technical and Community Colleges \$2,345
- Tuition Inflation at 0%
- Normal Cancellation rates