

Alabama PACT

Actuarial Assumption Report

May 2011

May 2, 2011

Alabama PACT Board

Buck Consultants has been asked to comment on the actuarial assumptions to be used for the March 31, 2011 actuarial valuation of the Alabama PACT Program. For purposes of the March 31, 2011 actuarial valuation and to be consistent with the settlement of the class action lawsuit, a new set of actuarial assumptions will need to be adopted by the Board. Below are our recommendations.

Actuarial Assumptions

1. Tuition and Tuition Inflation

Tuition costs are based on Fall 2010 rates as certified by the schools according to the settlement agreement.

We recommend a tuition inflation assumption of 0% per year. For the December 31, 2010 actuarial valuation, the tuition inflation assumptions were as follows:

Fiscal Year Ending	Tuition Inflation			
	Univeristy of Alabama and Auburn University	Other Alabama 4-year Universities	Community Colleges	Private/Out-of-State Univrscities
2011	13.00%	2.50%	2.50%	8.80%
2012	12.00%	2.50%	2.50%	8.42%
2013	11.00%	2.50%	2.50%	7.97%
2014	10.00%	2.50%	2.50%	7.46%
2015	9.00%	2.50%	2.50%	6.90%
2016	8.00%	2.50%	2.50%	6.30%
2017	7.50%	2.50%	2.50%	6.01%
2018	7.50%	2.50%	2.50%	6.06%
2019	7.50%	2.50%	2.50%	6.11%
2020	7.50%	2.50%	2.50%	6.15%
2021	7.50%	2.50%	2.50%	6.20%
2022	7.50%	2.50%	2.50%	6.24%
2023	7.50%	2.50%	2.50%	6.29%
2024	7.50%	2.50%	2.50%	6.33%
2025	7.50%	2.50%	2.50%	6.37%
2026	7.50%	2.50%	2.50%	6.41%
2027	7.50%	2.50%	2.50%	6.45%
2028	7.50%	2.50%	2.50%	6.49%
2029	7.50%	2.50%	2.50%	6.53%
2030	7.50%	2.50%	2.50%	6.57%

2. Investment return

For the December 31, 2010 quarterly valuation, the investment return assumption is as shown in the first column below. For purposes of the settlement, a more conservative assumption was deemed to be more appropriate, as shown in the second column below.

Fiscal Year Ending	December 31, 2010 Valuation	Recommendation
2011	2.38%	2.00%
2012	3.00%	2.00%
2013	3.07%	2.00%
2014	2.45%	2.00%
2015+	3.00%	2.00%

3. Payment of Tuition

For the December 31, 2010 quarterly valuation it was assumed that 122 credit hours would be used at a rate of 15 hours per semester.

We recommend increasing the total credit hours used to 128 until we know how the utilization trends will be impacted by the settlement. This is still below the 135 credit hours that the majority of contract holders have purchased.

In addition, we examined recent experience and noted that there has been a trend toward fewer credit hours being taken each semester. Fewer credit hours taken per semester increases the expected future costs of the program. We are recommending a change in the assumption of the number of credit hours taken each semester to 13.

4. Education Trust Fund Payments

As in the December 31, 2010 valuation, we assumed total contributions of \$547,629,100 from the Education Trust Fund into the PACT Trust Fund. Under the 2% investment return assumption, these payments have a present value of \$452,263,801. We are recommending no changes to this assumption.

5. Cancellations

For the December 31, 2010 valuation, 1% of the contracts were assumed to cancel at grades 10 through 12. Our recommendation, based on the Settlement Agreement, is to make the following change. It should be assumed that contract holders will cancel their policies if the value of the expected benefits they would receive under the proposed changes is less than the value of a refund. Assuming an 8% investment return on the cancellation refund, it was found that contract holders with a year of matriculation greater than or equal to 2020 are highly likely to cancel.

The threshold year where contract holders are more likely to cancel their contracts than matriculate cannot be calculated with certainty. It depends on the rate of return contract holders think they can earn on their investments. The 2020 threshold was based on the assumption that contract holders will be able to earn 8% by investing the money themselves. If a 7% assumption were used, the cut-off year would increase to 2021.

6. School Choice

Based on the matriculation data for school year ending 2010, we recommend assuming that contract beneficiaries attend school according to the probabilities shown in the following table:

<u>College Type</u>	<u>December 31, 2010</u>	<u>Recommendation</u>
Private/Out-of-State	9.00%	17%
Community College	16.00%	15%
University of Alabama and Auburn University	57.36%	53%
Other Alabama Universities	17.63%	15%
Total	100.00%	100%

7. Administration Expenses

No administrative expenses were assumed for previous valuations. We are recommending that we assume the administrative expenses will be \$600,000 in FY2011, \$1,200,000 for FY 2012-2025, thereafter decreasing by \$100,000 per year until the year after the plan no longer has any obligations. We believe that the administrative expenses should be included in the value of the obligations.

8. Legal fees

We are recommending that we assume plaintiff's attorney's fees and expenses of \$4,979,500 are payable in 2011 according to the settlement agreement. No legal fees were assumed for the December 31, 2010 quarterly valuation. Under the proposed terms for settling the suit, it is more reasonable to include these costs as part of the program's obligations.

9. Other

All other assumptions and methods are identical to those used in the December 31, 2010 actuarial valuation.

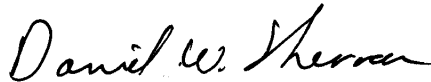
Purpose of This Report

This report is prepared for The State of Alabama PACT Board. It is expected that this report will be used to modify the actuarial assumptions. 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 Buck.

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 ten years, and is the current actuary for the Texas prepaid tuition programs. 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.

BUCK CONSULTANTS, LLC



Daniel Sherman, ASA, MAAA, EA
Director and Consulting Actuary

P:\Actrl\AlabamaPACT\2011\Lisa Green Law Suit\Report #2 - Final_v2.doc