



Kentucky's Affordable Prepaid Tuition

Administered by:



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2003 KAPT Actuarial Valuation

The Fiscal Year 2003 actuarial valuation of Kentucky's Affordable Prepaid Tuition (KAPT) was conducted by Milliman USA, an independent, Pennsylvania-based firm providing actuarial services to eight other prepaid tuition programs.

The study concluded KAPT is financially stable in the short-and long-term. Following is a summary of the report. To request a copy of KAPT's FY2003 actuarial valuation, call (502) 696-7441 or email sray@kheaa.com.

Study Conclusions

- Combined KAPT Program Fund and Reserve are sufficient to cover estimated value of tuition obligations.
Availability of KAPT Reserve provides financial stability to KAPT in the short- and long-term.
Combined KAPT Program Fund and Reserve are projected to have net assets of at least \$45 million each fiscal year through 2026.

KAPT Reserve

- \$12.6 million at 6/30/03
Expected growth of \$3.5 million per year
KAPT Reserve exceeds Program Fund deficit by \$1.9 million

KAPT Program Fund

(Amounts in millions)

Table with 2 columns: Description and Amount. Rows include Present Value of Future Tuition Obligations (\$ 98.7), Value of Total Plan Assets (\$ 88.0), and Surplus/(Deficit) (\$ (10.7)).

Changes to the Surplus/(Deficit) from FY2002 to FY2003

Table with 2 columns: Description and Amount. Rows include Surplus/(deficit) as of June 30, 2002 (\$ (2.8)), Interest on deficit at 7.25% (0.2), Investment gain/(loss) (1.0), Tuition gain/(loss) (4.4), More contracts sold than expected (0.6), Change in economic risk assumptions (1.1), Change in tuition growth assumption (4.2), Miscellaneous (0.4), and Surplus/(deficit) as of June 30, 2003 (\$ (10.7)).

Valuation Assumptions

- 7.5% tuition inflation for next five years
6.5% tuition inflation for next 17 years
7.25% annual investment return

FY2003 selected financial information is provided on other side.



## **Kentucky's Affordable Prepaid Tuition (KAPT) Selected Financial Information**

As of June 30, 2003 and June 30, 2002

The following information presents comparative financial data between the current fiscal year and prior fiscal year. Fiscal Year (FY) 2003 was the second year of KAPT, and accordingly, KAPT experienced significant growth in assets and liabilities.

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Cash, cash equivalents and investments	\$47,651,844	\$19,811,251
Contributions receivable	35,261,070	26,881,750
Other assets	350,854	80,406
<b>Total assets</b>	<b>83,263,768</b>	<b>46,773,407</b>
Accounts payable, accrued expenses and note payable	1,007,364	1,006,405
Tuition benefits payable	91,869,771	52,200,000
<b>Total liabilities</b>	<b>92,877,135</b>	<b>53,206,405</b>
<b>Total net deficit</b>	<b><u>\$(9,613,367)</u></b>	<b><u>\$(6,432,998)</u></b>

The increases in cash, cash equivalents, and investments were due principally to payments received on new and existing contributions receivable accounts and net investment income and changes to the fair value of investments. FY2003 increases to contributions receivable were related to new contracts sold during FY2003.

The increase in liabilities during FY2003 was due principally to the increase in actuarially determined tuition benefits payable of \$39.7 million. New tuition contracts sold during the fiscal year accounted for \$31.1 million of the increase in tuition benefits payable and updated actuarial assumptions to reflect worse-than-expected tuition increases accounted for the remaining \$8.6 million increase.

A condensed summary of Changes in Plan Net Deficit is as follows:

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Contributions by individuals	\$35,025,146	\$48,072,660
Fee revenue	104,768	79,246
Investment revenue (loss)	3,111,189	(1,068,355)
<b>Total additions</b>	<b>38,241,103</b>	<b>47,083,551</b>
Administrative expenses, personnel, and professional services	1,399,983	1,265,128
Refunds	254,316	10,423
Trustee expense	97,402	40,998
Tuition benefits	39,669,771	52,200,000
<b>Total deductions</b>	<b>41,421,472</b>	<b>53,516,549</b>
<b>Change in net deficit</b>	<b><u>\$(3,180,369)</u></b>	<b><u>\$(6,432,998)</u></b>

KAPT recognized a negative change in the net deficit of \$3.2 million for FY2003. Contributions net of allowance for withdrawals decreased due to a significant decrease in the number of tuition contracts sold in FY2003 as compared to FY2002 related to an additional enrollment period in FY2002. Investment revenue increased approximately \$4.2 million due to improved market conditions.

The Commonwealth of Kentucky constitution and other state laws prohibit the Commonwealth from providing its full faith and credit to obligations of other entities, such as KAPT. As a result, payments from KAPT are not guaranteed in any way by the Commonwealth and are not considered to have created a debt or obligation of the Commonwealth. Such payments are limited obligations, payable from KAPT assets. However, under Kentucky Revised Statute 393.015, 75 percent of the balance of the Commonwealth of Kentucky Unclaimed Property Fund is available to meet any unfunded liability of KAPT. As of June 30, 2003, \$12.6 million of the Commonwealth of Kentucky Unclaimed Property Fund was specifically reserved to meet the obligations of KAPT. It is projected that an additional \$3.5 million will be credited to the KAPT reserve each year.

To request a copy of KAPT's FY2003 audited financial statements, call (502) 696-7441 or email [sray@kheaa.com](mailto:sray@kheaa.com).

*FY2003 actuarial information is provided on other side.*