

AGENDA ITEM 9.

FISCAL YEAR 2002 *COLLEGE ILLINOIS!* ANNUAL REPORT

Submitted for: Information

Summary: The Commission has been provided with copies of the draft Fiscal Year 2002 *College Illinois!* Annual Report. This Annual Report has been prepared in accordance with state law set forth in the Prepaid Tuition Act of 1997. As required by state statute, the *College Illinois!* Investment Advisory Panel has reviewed the report. State law requires that each year the finalized Annual Report must be completed by March 1.

Unaudited financial statements for the period ending June 30, 2002 are provided in this report. The program's most recent Actuarial Soundness Report, prepared by professional actuaries at Milliman USA, also is included in its entirety within this Annual Report. As of June 30, 2002, the actuarial value of expected liabilities exceeds assets (including the value of future payments forthcoming from current contract purchasers) by \$81.6 million, resulting in a funded ratio of 81.2 percent. Even so, the Annual Report also indicates that program assets are projected to cover benefit payments through the year 2017, even assuming that no additional contracts are sold subsequent to June 30, 2002.

This funding ratio is partly the consequence of two factors that combined to adversely impact the program's funded status during the past year: lower returns on investment and higher-than-anticipated public university tuition and fees. The funding ratio also is attributable to changes in future expectations regarding college costs and investment returns. In accordance with the assumptions endorsed by the Commission when setting *College Illinois!* contract prices for the 2002-2003 enrollment, it is anticipated that annual increases in Illinois public universities' tuition and fees are likely to be 10 percent (rather than the historical 7 to 8 percent level) during the next two years, due to the impact of the state's current budget crisis. Similarly, the program's long-term expected rate of return on investments has been lowered by 25 basis points to 7.75 percent due to an expectation that recent uncertainty and volatility in the world financial markets will persist, making investment performance generally more problematic during the next decade.

In recognition of these facts and expectations, the Commission approved contract price increases for the 2002-2003 enrollment that included, once again, a premium for the purpose of reducing the program's actuarial deficit.

Action requested: None