AGENDA ITEM 9.

FISCAL YEAR 2003 *COLLEGE ILLINOIS!* ANNUAL REPORT

Submitted for: Information

Summary: The Commission has received copies of the draft Fiscal Year 2003 *College Illinois!* Annual Report that by law must be finalized each year by March 1st. This Annual Report has been prepared in accordance with state law set forth in the Prepaid Tuition Act of 1997 (110 ILCS 979). As required by state law, the *College Illinois!* Investment Advisory Panel has reviewed and approved the contents of the report.

As in past years, the Annual Report will be comprised of two components: audited financial statements for the period ending June 30, 2003; and the Actuary's Report on Soundness, prepared by Richard Kaye and Associates in conjunction with PricewaterhouseCoopers LLP. As of the date of the preparation of the Agenda Book, the independent auditor had not yet released audited financial statements for the program. Therefore, it was necessary to prepare the draft report lacking the final report of the independent auditor. The audited version of the financial statements, including the report of the auditor, will be available prior to the preparation of the final Annual Report in late February.

As of June 30, 2003, the actuarial value of expected liabilities exceeds assets (including the value of future payments forthcoming from current program participants) by $76.2 million, resulting in a funded ratio of approximately 87.0 percent. The Annual Report also indicates that program assets are projected to cover benefit payments through the year 2018, even assuming that no additional contracts are sold subsequent to June 30, 2003. The actuary notes that the Commission increased contract prices during the past three years to partially amortize the actuarial deficit and that these actions have had a positive impact on program soundness. The actuary also indicates that the program's year-end FY2003 funded ratio of 87.0 percent is a significant improvement over the 81.2 percent funded ratio at the close of FY2002.

The program's financial soundness improved during FY2003 for several reasons: 1) tuition and fee increases averaged slightly less than the 10 percent assumed for FY2003; 2) contracts sold during the 2002-2003 enrollment were priced at a level high enough to partially amortize the deficit; 3) contract sales were more than projected; and 4) more appropriate assumptions regarding contract cancellations and annual marketing expenses were used. The gains attributable to these aforementioned factors were offset somewhat by investment income less than the program's annual target return of 7.75 percent. (The program's investments returned approximately 4.0 percent during FY2003.)

In recognition of these facts and expectations, the Commission in September 2003 approved contract price increases for the 2003-2004 enrollment that included, once again, a premium for the purpose of further reducing the program's actuarial deficit.

Action requested: None