

AGENDA ITEM 9.

***COLLEGE ILLINOIS!*
CONTRACT PRICES AND FEES FOR 2004-2005 ENROLLMENT PERIOD**

Submitted for: Action

Summary: The proposed pricing schedule for the 2004-2005 *College Illinois!* enrollment period (October 27, 2004 through March 31, 2005) is set forth in Table A. This pricing schedule has been developed by staff in cooperation with the program's actuary, Richard M. Kaye & Associates, in conjunction with PricewaterhouseCoopers.

The pricing schedule set forth in Table A and proposed for Commission approval reflects an array of conservative assumptions designed to ensure that the financial commitments made by *College Illinois!* to program participants remain secure. Prices have been set at a level that will provide revenue from contract sales sufficient not only to fund future contract obligations and current administrative costs, but also to improve the actuarial soundness of the program. Consistent with the Commission action in recent years, it is our goal to create and maintain a stabilization reserve as a hedge against unanticipated large tuition and fee hikes, extended periods of investment under-performance, and future contract sales volatility.

The 2004-2005 proposed contract price increases recognize the first-year impact of the state's new truth-in-tuition law, which provides that, beginning with the 2004-2005 school year, Illinois public universities cannot increase the amount of tuition charged to those students who remain enrolled at that school during four consecutive years. For the 2004-2005 academic year, tuition and fees increased by 13.5 percent at Illinois public universities partially as a consequence of this new law.

College Illinois! prices proposed for 2004-2005 average 16.0 percent higher for public university contracts and 12.0 percent higher for community college contracts. The combination plan contract price increases also average approximately 16.0 percent. These price increases recognize the adverse actuarial impact of recent double-digit tuition hikes imposed at Illinois public universities for 2004-2005, as well as the uncertain impact of new truth-in-tuition legislation on public university tuition increases for 2005-2006 and thereafter. The state's still unresolved state budget crisis also creates upward pressure on Illinois public universities and community colleges during the immediate future. Also, a stabilization reserve factor of approximately 2.5 percent is included in prices proposed for 2004-2005 to further enhance the program's actuarial soundness. The 2.5 percent premium included in 2004-2005 contract prices is in line with the strategy adopted in recent years to eliminate the program's current actuarial deficit within ten years.

Table B presents the proposed fee schedule for the *College Illinois!* 2004-2005 enrollment period. No change is recommended in program fees and charges for 2004-2005 enrollments.

Action requested: Staff recommends that the Commission approve the schedule of *College Illinois!* contract prices specified for the 2004-2005 enrollment period in Table A, as well as the schedule of *College Illinois!* fees and charges for the program set forth in Table B.

ILLINOIS STUDENT ASSISTANCE COMMISSION

COLLEGE ILLINOIS!
CONTRACT PRICES AND FEES FOR 2004-2005 ENROLLMENT PERIOD

INTRODUCTION

College Illinois! is a self-sustaining program administered by the Illinois Student Assistance Commission (ISAC) and designed to operate independent of state appropriations and other external financial support. The program recently completed its sixth consecutive enrollment period that resulted in over 6,300 contracts being purchased. In total, more than 42,000 *College Illinois!* contracts have been purchased and those contracts currently in effect represent a financial commitment by program participants of more than \$700 million. The program's seventh annual enrollment period is scheduled to begin on October 27, 2004, and continue through March 31, 2005.

PRICING SCHEDULE FOR *COLLEGE ILLINOIS!* CONTRACTS

The proposed pricing schedule for the 2004-2005 *College Illinois!* enrollment period is set forth in Table A. As in prior years, this pricing schedule has been developed by staff in cooperation with the program's actuary.

It is recommended that *College Illinois!* contract prices increase for the 2004-2005 enrollment period, in recognition of four major factors:

- Tuition and Fee Increases. Tuition and fees at Illinois public universities increased on average by 13.5 percent for the 2004-2005 academic year, including double-digit increases approved for new students at all of the state's 12 public university campuses. This increase significantly surpasses the program's long-term tuition assumption of an average 7.0 percent increase per year. Tuition and fees also increased on average at Illinois community colleges by 10.4 percent, significantly more than the long-term annual 6.5 percent assumed by the program for pricing purposes. This level of tuition increase at community colleges is highly unusual. Whereas the double-digit increase at public universities is, in great part, attributed to first-year implementation of the new truth-in-tuition law, community colleges are not affected by this law. The increase at community colleges is attributed, instead, to the impact of the state's budget crisis upon those institutions, as well as the increasing need for resources to provide services during the current economy.
- Truth-in-Tuition. The 2004-2005 *College Illinois!* proposed contract price increases are the first determined since the enactment of the state's new truth-in-tuition law. This law provides that, beginning with the 2004-2005 school year, Illinois public universities cannot increase the amount of tuition charged to those students who remain enrolled at that school during four consecutive years. It is difficult at this time to assess the continuing impact of this legislation. Due to these uncertainties, a conservative position was assumed based on the double-digit increases for incoming students that several public institutions implemented for the initial year.

- Investment Return and Tuition Inflation Assumptions. Each year, future investment return and tuition inflation assumptions are incorporated into contract pricing to ensure that the program's long-term fiscal viability remains based on conservative assumptions, rooted in a realistic view of what is achievable and likely to occur within the next ten years. This year, staff recommends that the long-term annual investment return assumption remain unchanged. Two years ago, the Commission lowered the investment return assumption by 25 basis points, from 8.0 percent to 7.75 percent, in recognition of the difficult economic challenges facing the United States and the world during the next decade. At this time, there is no compelling evidence to alter that decision.

In contrast, it is recommended that the program's long-term tuition inflation assumption be adjusted from 7.0 percent to 7.5 percent. This change is recommended to better reflect the long-term trend in Illinois public universities' tuition and fees, as documented in Table C. While this change will lessen the degree of actuarial deficit reduction derived from the program's strong FY2004 investment performance, actual tuition increase data indicates that an average 7.5 percent annual increase is a more conservative and also more realistic expectation of where Illinois public universities' tuition and fees are headed over the next decade.

In addition to adjusting the long-term annual tuition inflation assumption to 7.5 percent, 2004-2005 *College Illinois!* contract prices also presuppose that next year Illinois public university tuition and fees will once again, for the third straight year, rise more rapidly than usual, due to the continued adverse impact of the state's budget crisis upon Illinois' public universities and community colleges. The expectation is that in FY2005, public universities' tuition and fees will increase by an average of 9.0 percent, then return to the expected annual average of 7.5 percent each year thereafter.

- Stabilization Reserve Requirements. Continuation of the program's stabilization reserve requires additional revenue that will continue to reduce the program's actuarial deficit and improve the program's funded ratio. This strategy began in 2001 and has been successful in accomplishing this goal. *College Illinois!* will still show an actuarial deficit as of June 30, 2004, but annual Commission actions on contract pricing have reduced that deficit and can potentially eliminate the deficit entirely.

Over time, a stabilization reserve will also counteract the impact of periods of investment underperformance. While the program's investment performance for FY2004 exceeded actuarial assumptions (13.3 percent compared to an assumption of 7.75 percent), over the last several years the program's investment performance has been below that investment assumption.

The pricing schedule set forth in Table A and proposed for Commission approval once again reflects conservative assumptions designed, first and foremost, to ensure that the financial commitments made by *College Illinois!* to program participants remain secure. Prices have been set at a level that will provide revenue sufficient not only to fund future contract obligations and current administrative costs, but also to gradually reduce the program's current actuarial deficit and ultimately create a stabilization reserve. Revenue resulting from the stabilization reserve factor, like all *College Illinois!* revenue, is deposited in the Prepaid Tuition Trust Fund, and can be used at some future date only for payment of contract benefits or for program administrative purposes. By law, such reserve funds cannot be used for any purpose extraneous to the *College Illinois!* program.

Assumptions

For 2004-2005, the *College Illinois!* program's approach toward pricing is very similar to last year, with the notable exception that the annual long-term tuition increase expectation for Illinois public universities has increased from 7.0 percent to 7.5 percent. Illinois public universities' tuition and fees are expected to increase by an average of 9.0 percent next year (in 2005-2006) and revert to an average of 7.5 percent each year thereafter. In all other respects, contract prices recommended in Table A have been developed using the same fundamental assumptions adopted by the Commission last year. The projections of future investment performance and anticipated annual contract sales have been reviewed once again this year (in collaboration with both our actuarial and investment advisors: Richard Kaye & Associates in association with PricewaterhouseCoopers, and Marquette Associates, respectively), but have not been altered.

Tuition and Fees. The Commission would assume that tuition and fees at Illinois public universities and community colleges will increase at an average annual long-term rate of 7.5 percent, consistent with past experience in Illinois (during the past two decades). Recommended prices for 2004-2005 assume that this long-term trend will continue, with one important modification. It is expected that tuition and fee increases at Illinois public universities will increase on average by 9.0 percent during 2005-2006. The State of Illinois' present budgetary problems that resulted in double-digit tuition increases at many Illinois public universities during the past three years will not likely be resolved fully within the next 12 months. Therefore, it appears reasonable to expect somewhat higher than usual tuition and fees increases will be authorized at Illinois public universities for at least one more year. This modification has not been applied toward Illinois community colleges, however. A number of factors, including community colleges' traditional mission to ensure access and affordability, combined with their lesser reliance on state appropriations (because of funding derived from local property tax revenue), makes it less likely that community colleges' tuition and fee rates will spike similar to the 10.4 percent average increase for 2004-2005.

Investment Performance. Currently, the program's assumption is that over the long-term (i.e., 10 years or more), investment returns would average 7.75 percent (a 5.25 percent real return on equities and fixed income investments; 2.5 percent annual inflation). No change is recommended in this long-term investment return assumption and the program's investment consultant, Marquette Associates, has confirmed this position. Despite continued volatility within the financial markets, 7.75 percent appears to be a reasonable long-term investment assumption for the program, given the equity markets strong rebound in late 2003 from a prolonged 3-year down cycle.

Stabilization Reserve. For 2004-2005, all recommended contract prices increased by approximately 2.5 percent to generate additional revenue that will create, over time, a stabilization reserve. These revenues are necessary to enhance the program's actuarial soundness. This is the fourth year in which this factor has been incorporated into pricing. In each of the past three years, this premium has generated significant revenues that have helped to reduce the program's actuarial deficit and improve the funding ratio during a period when the rate of return on most equity investments has been negative. Notably, many other state prepaid tuition programs are now emulating this approach and building premiums into their contract prices.

Other Factors. In addition to assumptions about the level of tuition and fees, investment returns and a stabilization reserve, there are certain other factors that must be considered each year when developing contract prices. After six years of operation, there is now a meaningful amount of experience and data from which to derive reasonable assumptions. Consequently, when developing 2004-2005 contract prices, it is assumed that:

- Approximately 6,000 contracts will be purchased in FY2005 and each year thereafter -- a conservative level of sales consistent with the program's experience during the past six enrollment periods;
- Contracts purchased will be allocated similarly by type (university or community college, number of semesters) in 2004-2005 and each year thereafter;
- Through annual pricing decisions, along with improved actual investment performance, the program's actuarial deficit will likely be diminished, then eventually eliminated, and an actuarial reserve may be created and maintained in future years; and
- The program's administrative costs approved for FY2005 are incorporated into contract pricing.

Recommended Contract Prices

Recommended prices for the 2004-2005 enrollment period were determined first by referencing estimated tuition and fee rates for the 2004-2005 academic year at all Illinois public universities and community colleges. As always, prior year trends and projected future trends in tuition and fee rates for Illinois higher education also were referenced when crafting this pricing recommendation.

This past year, according to the most recent data submitted to ISAC, tuition and mandatory fees have increased in Illinois by an average of 13.5 percent at public universities, and by an average of 10.4 percent at public community colleges. For the 2004-2005 enrollment period, the recommended increase in *College Illinois!* contract prices for public university semesters and community college semesters exceed these increases due to the premium necessary to create a stabilization reserve for the program.

This *College Illinois!* recommendation for contract prices is not unique and is, in fact, more moderate than price increases being imposed in some other states that operate Section 529 prepaid tuition programs. Like *College Illinois!*, several other state-sponsored Section 529 prepaid tuition programs have incorporated premiums into their contract prices, due to recent investment performance and volatility, as well as the nationwide trend toward higher tuition and fees imposed at public universities and other higher education institutions nationwide.

College Illinois! contract options proposed for the upcoming enrollment period are generally consistent with those offered during prior enrollment periods. Purchasers can select from one to nine semesters at an Illinois public university, from one to four semesters at an Illinois community college, or the combination plan, which combines four semesters at a community college with four semesters at a public university.

Once again, as in prior years, a separate schedule is proposed for preschool students/beneficiaries (through kindergarten); for elementary and middle school students/beneficiaries (grades 1-8), and for high school students or beneficiaries who have graduated from high school (grades 9-12 and older). These three groupings were selected to simplify the number of plan offerings and for their intuitive appeal (i.e., preschool, grade school and middle school, and high school and older). Pricing distinctions for each age category do not constitute a discount. Instead, lower price contracts are offered for younger beneficiaries because payments received can be invested over a longer period of time, providing a greater opportunity to earn the necessary rate of return on contributions invested.

According to the proposed pricing schedule (Table A):

- One year (two semesters) at a public university for a child in kindergarten or younger can be purchased for \$8,090 or \$166 per month over five years;
- A four-year (eight-semester) university contract for the same child can be purchased for \$31,321. This same contract also can be purchased for \$634 per month over five years or \$380 per month over ten years.

- A combination contract (four community college semesters and four university semesters) can be purchased for a grade school/middle school student for \$21,174 or \$429 per month over five years or \$258 per month over ten years; and
- One year (two semesters) at a community college can be purchased for a child in grade school/middle school for \$2,414 or \$52 per month over five years.

Once again, purchasers can also choose to pay by annual installments or to make down payments of \$2,000, \$5,000 or \$10,000, when choosing a monthly installment plan in order to lower their monthly payment amounts over either 5 years or 10 years.

The proposed lump sum contract prices for 2004-2005 when compared with last year's lump sum contract prices represent an average increase of 16.0 percent for public university, 12.0 percent for community college contracts, and an average increase of approximately 16.0 percent for the combination plan contracts. Prices for all installment contracts increase by similar percentages as the program's lump sum contracts.

SCHEDULE OF FEES FOR *COLLEGE ILLINOIS!*

Table B presents the proposed fee schedule for the *College Illinois!* 2003-2004 enrollment period. *No change in fees is recommended for 2004-2005.*

As in past years, the fees in Table B are divided into several groupings: Administrative; Service and Cancellation fees. Administrative fee revenues are used to cover general administrative costs of the program, whereas service fee revenues pay the cost of providing a particular service or to reimburse the Illinois Prepaid Tuition Trust Fund for lost investment opportunity. Cancellation fees are assessed only when an account is cancelled.

The application fee is a one-time non-refundable fee paid by the purchaser at the time of application. This fee is used to defray the costs associated with setting up a new account, including loading information into the program database, generating program documentation and printing of coupon books for purchasers who choose to pay by installments. The discounted application fee is applicable to the second and all subsequent contracts purchased by the same individual. The administrative load that is built into contract pricing and the application fee (both listed in the administrative category) are assessed every contract purchaser.

Service fees are charged only when special handling of an account is required and records administration costs and/or administrative costs for the program are incurred. Service fees include charges for late payments, returned payments, and account changes requested by the purchaser.

Cancellation fees are charged only for purchasers who decide to cancel their *College Illinois!* contract. Cancellation fees represent an early withdrawal penalty upon the purchaser, consistent with the intent of the federal law (Internal Revenue Code, Section 529) that authorizes state qualified prepaid tuition programs such as *College Illinois!*.

CONCLUSION

The 2004-2005 *College Illinois!* enrollment period during which these prices are in effect will be from October 27, 2004, through March 31, 2005. The 2004-2005 *College Illinois!* proposed prices represent increases from the previous year that average 16.0 percent for public university contracts and 12.0 percent for community college contracts. The combination plan contract price increases average approximately 16.0 percent. No change in *College Illinois!* fees is recommended for 2004-2005.

Table A
College Illinois!
Pricing Schedule for 2004 - 2005 Enrollment Period

Type of Plan	Infant - Kindergarten					First - Eighth Grade					Ninth Grade and Older				
	Lump Sum	5 year monthly	5 year annual	10 year monthly	10 year annual	Lump Sum	5 year monthly	5 year annual	10 year monthly	10 year annual	Lump Sum	5 year monthly	5 year annual	10 year monthly	10 year annual
Public Univ - 9 semesters	\$35,147	\$711	\$8,154	\$427	\$4,853	\$37,092	\$750	\$8,605	\$450	\$5,121	\$38,741	*	*	*	*
Public Univ - 8 semesters	\$31,321	\$634	\$7,266	\$380	\$4,325	\$33,041	\$669	\$7,665	\$401	\$4,562	\$34,499	*	*	*	*
Public Univ - 7 semesters	\$27,448	\$556	\$6,368	\$334	\$3,791	\$28,985	\$587	\$6,725	\$352	\$4,003	\$30,256	*	*	*	*
Public Univ - 6 semesters	\$23,630	\$479	\$5,483	\$288	\$3,264	\$24,906	\$505	\$5,779	\$303	\$3,440	\$25,983	*	*	*	*
Public Univ - 5 semesters	\$19,768	\$401	\$4,587	\$241	\$2,731	\$20,821	\$422	\$4,831	\$254	\$2,876	\$21,711	*	*	*	*
Public Univ - 4 semesters	\$15,887	\$323	\$3,687	\$194	\$2,195	\$16,713	\$340	\$3,879	\$204	\$2,309	\$17,407	*	*	*	*
Public Univ - 3 semesters	\$11,997	\$245	\$2,785	\$148	\$1,659	\$12,601	\$257	\$2,925	\$155	\$1,742	\$13,105	*	*	*	*
Public Univ - 2 semesters	\$8,090	\$166	\$1,879	\$100	\$1,119	\$8,462	\$173	\$1,965	\$105	\$1,171	\$8,770	*	*	*	*
Public Univ - 1 semester	\$4,108	\$86	\$956	\$53	\$570	\$4,321	\$90	\$1,005	\$55	\$599	\$4,438	*	*	*	*
Comm Coll - 4 semesters	\$4,439	\$92	\$1,032	*	*	\$4,659	\$97	\$1,084	*	*	\$4,823	*	*	*	*
Comm Coll - 3 semesters	\$3,399	\$71	\$791	*	*	\$3,549	\$74	\$826	*	*	\$3,656	*	*	*	*
Comm Coll - 2 semesters	\$2,341	\$50	\$546	*	*	\$2,414	\$52	\$563	*	*	\$2,459	*	*	*	*
Comm Coll - 1 semester	\$1,228	\$28	\$288	*	*	\$1,292	\$29	\$303	*	*	\$1,339	*	*	*	*
Combination - 8 semesters (4 CC and 4 Public Univ)	\$20,069	\$407	\$4,657	\$245	\$2,772	\$21,174	\$429	\$4,913	\$258	\$2,925	\$22,089	*	*	*	*

* payment plan is not available

Table B
College Illinois!
Fee Schedule for 2004 - 2005 Enrollment Period

Type of Fee	Description	Amount
ADMINISTRATIVE FEES		
Application	application processing for new account	\$85
Application - additional contracts *	processing of second and subsequent applications (same purchaser)	\$50
Payment processing **	charge assessed for monthly and annual payment plans	\$3 per payment (included in contract prices)
Administrative load	ensure adequacy of annual program administration	included in contract prices
SERVICE FEES		
Late payment - monthly payment plan	payment received after payment grace period	\$20
Late payment - lump sum, annual or down payment	payment received after payment grace period	1% of outstanding balance
Non-sufficient funds/returned payment	payments returned by financial institution	\$20
Change payment schedule	change in payment schedule	\$15
Change of purchaser	change of purchaser of plan	\$15
Change of beneficiary	change of beneficiary of plan	\$15
Change type of plan	changing from one plan type to another	\$15
Document replacement	new coupon book, welcome package, etc.	\$15
Benefits transfer to private or out-of-state school	processing private or out-of-state school invoice	\$15 per institution attended
CANCELLATION FEES		
Cancellation - voluntary ***	purchaser elects to cancel account	The lesser of \$100 or 50% of amount paid
Cancellation - involuntary	plan is canceled due to delinquency, incorrect information, etc.	The lesser of \$100 or 50% of amount paid
Cancellation - fraud	plan is canceled due to deliberate misrepresentation	The lesser of \$500 or 100% of amount paid
Account maintenance - lump sum payment	charge assessed for cancellation of lump sum plans	35 cents per month

* Application fee is \$85 for first contract purchased and \$50 for each contract thereafter purchased by the same individual.

** Payment processing fees are not refunded when a prepaid tuition contract is canceled.

*** For reasons other than death, disability or scholarship.

Table C
College Illinois!
Historic Increases in Tuition and Fees (Mean-Weighted Average)

Illinois Public Universities			Illinois Community Colleges		
Academic Year	Average Tuition and Fees	Annual Increase	Academic Year	Average Tuition and Fees	Annual Increase
2004-2005	\$6,565	13.48%	2004-2005	\$2,138	10.49%
2003-2004	\$5,785	9.19%	2003-2004	\$1,935	5.74%
2002-2003	\$5,298	10.70%	2002-2003	\$1,830	5.72%
2001-2002	\$4,786	8.62%	2001-2002	\$1,731	4.72%
2000-2001	\$4,406	5.91%	2000-2001	\$1,653	4.89%
1999-2000	\$4,160	5.53%	1999-2000	\$1,576	4.65%
1998-1999	\$3,942	3.27%	1998-1999	\$1,506	3.72%
1997-1998	\$3,817	5.18%	1997-1998	\$1,452	5.99%
1996-1997	\$3,629	5.68%	1996-1997	\$1,370	3.55%
1995-1996	\$3,434	3.97%	1995-1996	\$1,323	5.08%
1994-1995	\$3,303	5.39%	1994-1995	\$1,259	4.83%
1993-1994	\$3,134	8.03%	1993-1994	\$1,201	8.39%
1992-1993	\$2,901	14.30%	1992-1993	\$1,108	6.74%
1991-1992	\$2,538	5.31%	1991-1992	\$1,038	8.81%
1990-1991	\$2,410	3.43%	1990-1991	\$954	3.14%
1989-1990	\$2,330	12.78%	1989-1990	\$925	3.24%
1988-1989	\$2,066	15.61%	1988-1989	\$896	5.04%
1987-1988	\$1,787	4.50%	1987-1988	\$853	7.84%
1986-1987	\$1,710	5.88%	1986-1987	\$791	3.26%
1985-1986	\$1,615	7.45%	1985-1986	\$766	4.64%
Average Annual Increase -			Average Annual Increase -		
	Past 10 years:	7.15%		Past 10 years:	5.45%
	Past 20 years:	7.71%		Past 20 years:	5.52%