AGENDA ITEM 9.

FISCAL YEAR 2004 *COLLEGE ILLINOIS!* ANNUAL REPORT

Submitted for: Information

Summary: The Commission has received copies of the draft Fiscal Year 2004 *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, 2004; 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 using unaudited figures, rather than final audited figures from 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, 2004, the actuarial value of expected liabilities exceeds assets (including the value of future payments forthcoming from current program participants) by $72.6 million, resulting in a funded ratio of approximately 90 percent. The Annual Report also indicates that program assets are projected to cover benefit payments through the year 2020, even assuming that no additional contracts are sold subsequent to June 30, 2004. The actuary notes that the Commission increased contract prices during the past four 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 FY2004 funded ratio of 90 percent is a significant improvement over the 87 percent funded ratio at the close of FY2003.

For a second consecutive year, the program's level of financial soundness has improved as evidenced by a reduction in the deficit amount and a higher funded ratio. The actuarial deficit has declined because the dollar impact of positive factors (i.e., investment performance and price premiums) was greater than the dollar impact of negative factors (i.e., revision of the tuition increase assumption, first-year implementation of the new Truth-in-Tuition law, and actual tuition and fee increases in 2003-2004).

While aware of the improvement in the actuarial deficit, in September 2004 the Commission approved contract price increases for the 2004-2005 enrollment period that included, once again, a premium for the purpose of further reducing the program's actuarial deficit.

Action requested: None