

# Kentucky's Affordable Prepaid Tuition

Actuarial Valuation Report  
as of June 30, 2025





August 26, 2025

Board of Directors  
Kentucky's Affordable Prepaid Tuition  
100 Airport Road  
Frankfort, Kentucky 40601

Attention: Mr. David Lawhorn, 529 Program Manager

**Re: Kentucky's Affordable Prepaid Tuition Actuarial Valuation as of June 30, 2025**

Dear Directors:

Gabriel, Roeder, Smith & Company ("GRS") has performed an actuarial valuation of the Kentucky's Affordable Prepaid Tuition Program ("KAPT" or "the Program") as of June 30, 2025. The purpose of this actuarial valuation is to evaluate the financial status of the Program as of June 30, 2025.

This report presents the principal results of the actuarial valuation of KAPT including the following:

- a) A comparison of the actuarial present value of the obligations for prepaid tuition contracts purchased through December 13, 2004 (the most recent ending date for contract sales), with the value of the assets associated with the Program as of June 30, 2025 (including any present value of future contract payments – currently none);
- b) An analysis of the factors which caused the deficit to change since the prior actuarial valuation;
- c) An analysis of the Program's remaining solvency (including budgeted contributions from the Commonwealth of \$6.8 million for FY 2026);
- d) An analysis of estimated contributions additionally required by the Commonwealth to fully fund all of the Program's obligations over the remaining life of the Program; and
- e) A summary of the member data, financial data, Program provisions, and actuarial assumptions and methods utilized in the actuarial calculations.

We understand that the liabilities of the Program are backed by the full faith and credit of the Commonwealth of Kentucky (the Commonwealth), who will be responsible for satisfying the liabilities not covered by the current assets of the Program. **The primary conclusion of this valuation is that the Program's assets (including budgeted contributions from the Commonwealth for the 2025-2026 biennium) are expected to become depleted during the 2027 fiscal year.**

Our valuation results show estimates of the Program's projected depletion date and present value of the unfunded liabilities (the Program deficit). In addition, we show the sensitivity of the Program's depletion date and deficit to changes in certain economic and demographic assumptions about future activity affecting KAPT in Section G. Actual Program experience could result in additional contributions being required other than those estimated in this report. Amounts in excess of those shown in Section G should be strongly considered by the Commonwealth to avoid insolvency of the Program.

This report was prepared at the request of the Board of Directors (the "Board") and is intended for use by the Board and those designated or approved by the Board. This report may be provided to parties other than the Board only in its entirety. This report should not be relied on for any purpose other than the purpose described above. GRS is not responsible for unauthorized use of this report.

The valuation results set forth in this report are based upon data and information as of June 30, 2025, furnished by KAPT, concerning Program benefits, financial transactions, and beneficiaries of KAPT. We reviewed this information for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by KAPT.

There are currently no Actuarial Standards of Practice that specifically refer to prepaid tuition plans. We have followed the general guidance from the Actuarial Standards of Practice on pensions due to their similar nature.

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The major actuarial assumptions used in this analysis are based upon past Board adopted assumptions along with discussions with Program Staff regarding anticipated future investment returns and Program expenses. We have not performed an experience study, but have reviewed the assumptions. Based on our limited review, we believe these assumptions are reasonable and are generally following actuarial standards regarding pension calculations.

The assumed rates of future investment return used in this report were developed by GRS, with discussion and approval from Program Staff. The assumed rates of investment return were developed based upon the Yield Curve for Treasury Nominal Coupon Issues (TNC yield curve) published monthly by the U.S. Department of the Treasury as of June 2025, with additional conservatism included to reflect future uncertainty on cash and cash-equivalent investments. We believe this assumption to be reasonable for the purposes of measuring future Program obligations. We believe the assumed rates of future investment return do not significantly conflict with what, in our professional judgment, would be reasonable for purposes of the measurements contained herein.

This report was prepared using our proprietary valuation model and related software which, in our professional judgment, has the capability to provide results that are consistent with the purposes of the valuation and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

We have prepared this valuation with the understanding that the Program is closed to new participants.



Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: Program experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in Program provisions or applicable law. We have performed an analysis of the sensitivity of certain changes in future assumptions. See Section G of this report for additional details. In addition, because it is not possible or practical to consider every possible contingency, we may use estimates or simplifications of calculations to facilitate the modeling of future events. We may also exclude factors or data that are deemed to be immaterial.

GRS makes no representations or warranties to any person participating in or considering participation in the Program.

To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the Kentucky's Affordable Prepaid Tuition Program as of June 30, 2025.

James R. Sparks and Jeffrey T. Tebeau are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The signing actuaries are independent of the Program sponsor.

Respectfully submitted,  
Gabriel, Roeder, Smith & Company

  
James R. Sparks, ASA, FCA, MAAA



Jeffrey T. Tebeau, FSA, EA, FCA, MAAA

JRS/JTT:sc



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## **SECTION A**

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### **EXECUTIVE SUMMARY**

## Kentucky's Affordable Prepaid Tuition Summary of Results

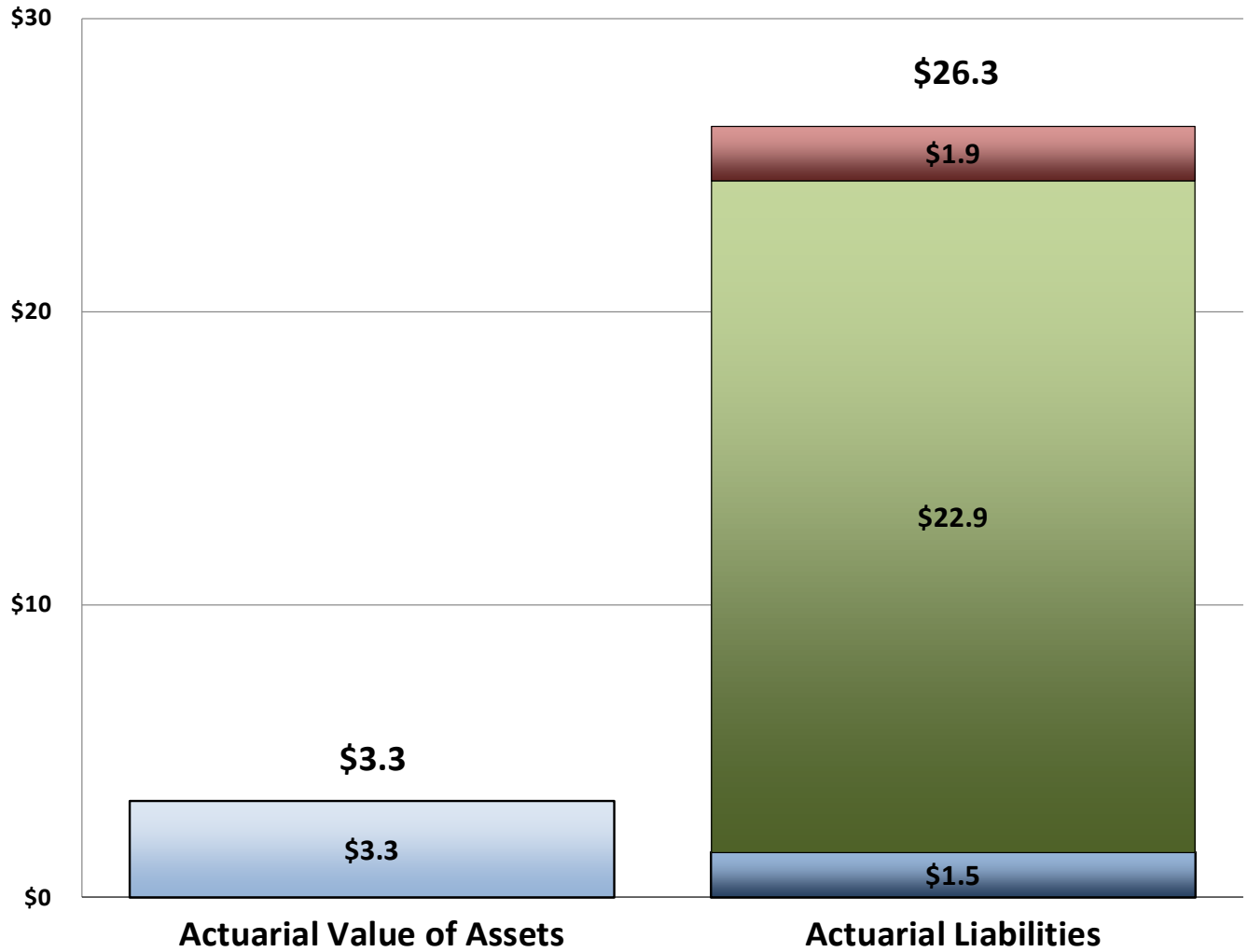
Valuation Date:	Actuarial Valuation Results	
	June 30, 2025	June 30, 2024
Membership Summary		
Accounts		
8 or More Years Beyond Projected College Entrance Year (PCEY)	674	694
1-7 Years Beyond PCEY	663	930
At or Before PCEY	-	2
Total	1,337	1,626
Average Years until PCEY (Negative if Past PCEY)	(8.4)	(7.5)
Assets		
Market Value of Assets <sup>1</sup>	\$ 3,281,448	\$ 2,659,371
Present Value of Future Contract Payments	\$ 0	\$ 0
Actuarial Value of Assets	\$ 3,281,448	\$ 2,659,371
Actuarial Liabilities (Present Value of Future Tuition Payments, Refunds, Fees, Administrative, Personnel & Professional Expenses)	\$ 26,300,983	\$ 32,166,663
Margin/(Deficit)	\$ (23,019,535)	\$ (29,507,292)
Funded Ratio (Actuarial Value of Assets ÷ Actuarial Liabilities)	12.5%	8.3%
Estimated Fiscal year Fund Depleted <sup>2</sup>	2027	2027






<sup>1</sup> The Market Value of Assets as of the valuation date is based upon remaining Program cash and cash-equivalents and does not include any budgeted contributions by the Commonwealth General Fund after the valuation date.

<sup>2</sup> The estimation of the Fund's depletion year in both the June 30, 2024 and June 30, 2025 actuarial valuations include the budgeted contributions by the Commonwealth General Fund for the 2025-2026 biennium (\$7,500,000 during the 2025 fiscal year and \$6,800,000 for the 2026 fiscal year).

# Kentucky's Affordable Prepaid Tuition Summary of Assets and Liabilities as of June 30, 2025

(\$ in Millions)



Actuarial Value of Assets		Actuarial Liabilities	
	PV of Future Contract Payments		PV Admin, Personnel & Professional Expenses
	Market Value of Assets		PV Reimbursements/Refunds
			PV School Payments

*PV – Present Value*

Numbers may not add due to rounding.

# Kentucky's Affordable Prepaid Tuition

## Margin/(Deficit)

	June 30, 2025	June 30, 2024
Actuarial Liabilities (Present Value of Future Tuition Payments, Refunds, Fees, Administrative, Personnel & Professional Expenses)	\$ 26,300,983	\$ 32,166,663
Actuarial Value of Assets	\$ 3,281,448	\$ 2,659,371
Margin/(Deficit)	\$ (23,019,535)	\$ (29,507,292)
Deficit as Percent of Liabilities	87.5%	91.7%

## Change in Margin/(Deficit)

	Margin/(Deficit)
1. Values as of June 30, 2024	\$ (29,507,292)
2. State General Fund Revenue Additions <sup>1</sup>	\$ 7,500,000
3. Interest on Margin/(Deficit) at prior assumed rate (4.50%)	\$ (995,974)
<b>4. Projected Margin/(Deficit) as of June 30, 2025 [(1) + (2) + (3)]</b>	<b>\$ (23,003,266)</b>
5. Change Due to:	
a. Investment experience above/(below) assumed	(8,845)
b. Tuition/Fee inflation for upcoming academic year	147,564
c. Change in program expense assumptions	24,515
d. Change in other program assumptions <sup>2</sup>	(222,676)
e. Other program experience during fiscal year 2025	43,173
Total	\$ (16,269)
<b>6. Actual Margin/(Deficit) as of June 30, 2025 [(4) + (5)]</b>	<b>\$ (23,019,535)</b>

<sup>1</sup> The Commonwealth of Kentucky contributed \$7,500,000 to the Program in July of 2024.

<sup>2</sup> Changes in other program assumptions may include changes to the assumed future annual increases in tuition, changes to the assumed rates of future investment return and/or changes in valuation methodologies.

# Kentucky's Affordable Prepaid Tuition Short-Term and Long-Term Present Values of Future Revenues and Expenditures

	As of June 30, 2025
1. Future Contract Payment Revenue	
Short Term <sup>a</sup>	\$ -
Long Term <sup>b</sup>	-
	\$ -
2. Future Tuition Payments & Refunds	
Short Term <sup>a</sup>	\$ 6,034,503
Long Term <sup>b</sup>	18,409,746
Total	\$ 24,444,249
3. Future Administrative, Personnel & Professional Expenses	
Short Term <sup>a</sup>	\$ 393,179
Long Term <sup>b</sup>	1,463,555
Total	\$ 1,856,734

<sup>a</sup> Present value of amounts in following year (includes accounts payable, if any).

<sup>b</sup> Present value of amounts after first year.

# Kentucky's Affordable Prepaid Tuition Discussion

## Financial Status of Program

### Program Status

As of June 30, 2025, the present value of all future tuition obligations (the Actuarial Liability) under contracts outstanding (and including estimated future administrative, personnel and professional expenses) is \$26.3 million. Actuarial Value of Assets as of June 30, 2025, which includes the Program's Market Value of Assets and the present value of installment contract payments (none remaining as of the June 30, 2025 valuation), is \$3.3 million.

The difference between the Actuarial Value of Assets of \$3.3 million and future obligations of \$26.3 million represents a Program deficit of \$23.0 million. This compares to a deficit of \$29.5 million as of the prior actuarial valuation (a \$6.5 million reduction in the deficit). This reduction in the deficit is primarily attributed to the \$7.5 million contribution made by the Commonwealth into the Program during the start of the 2025 fiscal year.

The Program is 12.5% funded as of June 30, 2025. The funded status is not appropriate for measuring the settlement cost of the Program. A funded status less than 100% is an indication that additional contributions (in other words, contributions from sources) will continue to be needed to satisfy the Program's liabilities.

We understand that the Program is backed by the full faith and credit of the Commonwealth of Kentucky. The deficit of \$23.0 million is one estimate of the present value of future contributions the Commonwealth would need to contribute as of June 30, 2025 in order to satisfy its expected obligation under the Program. This estimate requires assumptions regarding future events, which may or may not materialize.

### Future Contributions

It is our understanding that the Program is anticipating to receive annual contributions from the Commonwealth at the beginning of each fiscal year (i.e., in early July of each year). The Commonwealth budgeted \$6.8 million to be contributed to the Program for the 2026 fiscal year, which we understand the Program received during July of 2025 (after the valuation date). While no further contributions have been budgeted at this time, for the purposes of this valuation, it is assumed any estimated additional contributions will occur at the start of the fiscal year (i.e., July 1) and earn investment income during the fiscal year.

Section G of this report provides projection results based upon varying program experience and determines the estimated contributions that would be required for the Program to meet its future obligations. The estimated contributions additionally required as of June 30, 2025 ranges from \$23.8 to \$24.5 million (which is about \$17.0 to \$17.7 million additional contributions beyond the \$6.8 million budgeted during the 2026 fiscal year).

**The range of contribution amounts computed in Section G should not be construed as an upper or lower bound. Actual Program experience could result in additional contributions being required than those estimated in this report. Amounts in excess of those shown in Section G should be strongly considered by the Commonwealth to avoid insolvency of the Program.**

# Kentucky's Affordable Prepaid Tuition Discussion (Continued)

## Financial Status of Program (Continued)

### Management's Discussion and Analysis Language Describing Financial Status for Financial Statements

The following paragraph was specifically requested by Program Staff to be included in the actuarial valuation report:

*As of the end of FY2025, the program had a deficit of \$23.0 million. This represents a \$6.5 million decrease from the previous year's deficit. Based on actuarial estimates, the Program's assets will be exhausted in fiscal year 2027, at which time, per KRS 164.708, the General Assembly shall appropriate the necessary funds to meet the liability. Over the remaining estimated life of the Program, through fiscal 2030, actuarial estimates show the Commonwealth of Kentucky will need to transfer approximately \$17.3 million above the \$6.8 million budgeted contribution by the Commonwealth for the 2026 fiscal year, as shown in section G of this report, to support the Program.*

**It should be noted that actual Program experience could result in additional appropriations being required than those estimated in this report.**

# Kentucky's Affordable Prepaid Tuition Discussion (Continued)

## Program Experience during the Year

The net Program experience during the year was in line with expectations. The deficit decreased primarily due to the \$7.5 million contribution from the Commonwealth during the fiscal year. The projected solvency period of the Program remained the same as projected in the last actuarial valuation.

While the net Program experience was in line with expectations, we observed the following individual experience:

Experience increasing the deficit:

- 1) Investment income during 2025 fiscal year was slightly lower than assumed; and
- 2) Assumed rate of future investment returns were lowered, increasing the present value of future liabilities.

Experience decreasing the deficit:

- 1) Commonwealth contributions to the Program to payoff the deficit - \$7.5 million in July 2024;
- 2) Actual tuition increases for UK and KCTCS were both 3.0%, compared to an assumed increase of 4.0% for both;
- 3) Reduction in assumed future administrative, personnel and professional expenses; and
- 4) Actual school payments, reimbursements and refunds lower than assumed during the fiscal year.

The valuation methodology for projecting future reimbursements and refunds was modified for the June 30, 2024 valuation to reflect an increase in observed payouts. One potential source of this experience was a result of "maximized contracts" (i.e., contracts who have maxed out the value of the contract's refund) refunding or rolling over their unused benefits from the Program. Recent law changes as a result of SECURE Act 2.0 could be impacting the behavior of these contract holders. It is our understanding that beginning in January 2024, SECURE Act 2.0 allowed unused funds from 529 accounts (like KAPT) to be transferred tax-free to a Roth IRA for the beneficiary of the 529 account.

As of June 30, 2024, 694 contracts were maximized. Of those, 148 (about 21%) refunded during the 2025 fiscal year with a total estimated refund/rollover value of \$1.5 million.

School payments, reimbursements, refunds, administrative, personnel and professional expenses were approximately \$7.1 million for the fiscal year 2025 compared with \$7.8 million projected from the June 30, 2024 valuation. While this difference has a minimal impact on the deficit (the obligations still exist), it marginally extends the solvency of the Program by delaying payouts.

Even though the solvency was marginally extended, the year in which the Program is projected to go insolvent (2027 fiscal year) did not change from the prior actuarial valuation's projection.

# Kentucky's Affordable Prepaid Tuition Discussion (Continued)

## Benefit Provision Changes

No Legislation changes occurred during the year.

## Data Adjustments

No adjustments were made to the June 30, 2025 census data provided by the Program Staff.

## Changes in Valuation Assumptions

### Assumed Rate of Investment Return

At the June 2024 Board Meeting, the Board adopted an updated investment policy in lieu of the approaching investment fund depletion. Below is the target asset allocation:

Asset Classes	Target
Large Cap US Equity	0%
Small Cap US Equity	0%
Mid Cap US Equity	0%
Non-US Equity	0%
Domestic Fixed income	0%
TIPS	0%
Short Duration US Fixed Income	0%
Cash-Equivalents	100%
<b>Totals</b>	<b>100%</b>

The assumed rates of future investment return used in this report were developed by GRS, with discussion and approval from Program Staff. The assumed rates of investment return were developed based upon the Yield Curve for Treasury Nominal Coupon Issues (TNC yield curve) published monthly by the U.S. Department of the Treasury as of June 2025, with additional conservatism included to reflect future uncertainty on cash and cash-equivalent investments. We believe this assumption to be reasonable for the purposes of measuring future Program obligations. We believe the assumed rates of future investment return do not significantly conflict with what, in our professional judgment, would be reasonable for purposes of the measurements contained herein.

The assumed rate of investment return (net of investment expenses) from the prior and current valuation are as follows:

Fiscal Year Ending:	Assumed Investment Return/Discount Rate					
	2025	2026	2027	2028	2029	2030
Prior Actuarial Valuation (6/30/2024)	4.50%	4.00%	3.50%	3.00%	2.50%	2.50%
Current Assumption (6/30/2025)	N/A	3.50%	3.00%	2.75%	2.50%	2.50%



# Kentucky's Affordable Prepaid Tuition Discussion (Continued)

## Changes in Valuation Assumptions (Continued)

### Refunds

With the value of contracts growing at full value for up to eight years beyond the Projected College Entrance Year (PCEY), it would seem likely that participants who have not utilized all of their contracts for schooling would hold their contracts until the date the contract reaches its maximum value.

To reflect increased experience in reimbursements and refunds, it is assumed these contractions will refund uniformly over the remaining life of the Program (2026-2030, 1/5 per year). As the Program nears the end of its life, this assumption will naturally increase (e.g., 1/4 per year, 1/3 per year, etc.), which is consistent with the recent trend of increased reimbursements and refunds.

The results shown in this report are based on the following assumptions:

- 1) Participants who reach eight years beyond their PCEY in the future, and have not fully utilized their contracts, are assumed to refund at that point in time (assumed to be 8% of participants); and
- 2) Participants who already have maximized their contract value and not yet refunded (more than eight years beyond their PCEY) are expected to refund over the remaining life of the Program (2026-2030, 1/5 per year). **As of June 30, 2025, 674 contracts have maximized their contract value and have not yet refunded. The estimated refund value of these 674 contracts is \$9.8 million.**

In Section G of this report we provided a sensitivity testing scenario based upon an alternative assumption where participants who already have maximized their contract and have not yet refunded would refund over an accelerated time period of 3 years (2026-2028, 1/3 per year). This would increase Program obligations in the near term.

# Kentucky's Affordable Prepaid Tuition Discussion (Concluded)

## Changes in Valuation Assumptions (Continued)

### Expenses

Our projections of Program expenses are based on the Program Staff's estimates received in connection with the June 30, 2025 actuarial valuation.

The following paragraph was provided by Program Staff regarding changes to future Program expenses:

*In FY 2023, KHEAA began charging the KAPT program \$150,000 a year for administration cost to run the program on behalf of the Commonwealth of Kentucky. The fee is designed to offset cost that has previously been covered by KHESLC/KHEAA and never allocated as an expense of the program.*

Below is the projection of future Program administrative, personnel and professional expenses through the closure of the Program provided by Program Staff:

Fiscal Year	Administrative, Personnel & Professional Expenses
2026	\$400,000
2027	\$400,000
2028	\$400,000
2029	\$400,000
2030	\$400,000

### Program Status

The Program has a closure date of June 30, 2030, at which point any remaining contract values will be refunded. The Board could elect to start selling contracts again and is charged with annually making that decision. However, if new contracts were to be sold, they would be part of a different plan and would not be backed by the full faith and credit of the Commonwealth. See Appendix B for a discussion regarding the sales of new contracts.

### Future Outlook

As the Program nears completion, it is uncertain how this may impact members' behavior, especially for those who have already maximized their account value and not refunded their remaining accounts. Acceleration of refunding accounts could result in expediting the depletion date.

For purposes of discounting future cash flows to develop the Actuarial Liability, the assumed rates of future investment return used in this report are intended to be conservative estimates of what the Program would earn on investments, if solvent. It is our understanding that the Program is anticipating to receive annual transfers in July of each fiscal year from the Commonwealth of Kentucky.

It is important to remember that the projections shown herein are based on future activity that cannot be precisely predicted.

## **SECTION B**

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### **PROGRAM DESCRIPTION**

# Kentucky's Affordable Prepaid Tuition

## Summary of Program Description Evaluated June 30, 2025

**Purchasing Contracts** – KAPT is currently closed to new participants. Current members purchased from three types of contracts with the following benefits:

- **Value Plan** – Provides in-state tuition and mandatory fees at Kentucky Community and Technical College System (KCTCS). KCTCS tuition price for full-time enrollment will be guaranteed. Depending on tuition rates, any money left over can cover qualified educational expenses.
- **Standard Plan** – Provides in-state undergraduate tuition and mandatory fees at Kentucky's eight public universities. Guarantees tuition price for full-time enrollment at the Commonwealth's most expensive public university (currently University of Kentucky). Depending on tuition rates, any money left over can cover qualified educational expenses such as books, room and board.
- **Premium Plan** – Provides tuition at Kentucky's private colleges and universities. While no particular school's tuition is guaranteed, the value of the plan grows at the same rate as the University of Kentucky's tuition. Depending on tuition rates, any money left over can cover qualified educational expenses such as books, room and board.

**Contract Payments** – Contract holders may agree to pay off their contracts in a variety of ways:

- Lump-Sum Payment (Full Contract paid-in-full at time of enrollment to the Program)
- 3-Year Monthly Payments (36 monthly payments after purchase of contract)
- 5-Year Monthly Payments (60 monthly payments after purchase of contract)
- 7-Year Monthly Payments (96 monthly payments after purchase of contract)
- Extended Monthly Payments (Monthly payments after purchase of contract for defined period up to and including the year of high school matriculation)
- Custom Monthly Payments (Monthly payments based upon a custom determined schedule)

# Kentucky's Affordable Prepaid Tuition

## Summary of Program Description Evaluated June 30, 2025

### **Refunds**

**If a contract holder elects to close account prior to July 1 of their Projected College Entrance Year (PCEY),** the amount refunded will include payments made towards the contract minus administrative and cancellation fees.

**If a contract holder elects to close account beyond July 1 of their PCEY and before the end of their contract's utilization period,** the contract holder receives the tuition payout value of the account at that time minus administrative and cancellation fees and any benefits already used.

**If a contract holder elects to close account beyond the end of their contract's utilization period, the contracts receive the following:**

*If refunds occurred prior to June 30, 2019:*

- Accounts with utilization period end dates prior to 2012 – The value of the remaining prepaid tuition account for the 2014-2015 academic year.
- Accounts with utilization period end dates on or after 2012 – The value of the remaining prepaid tuition account at the end of the utilization period plus any applicable tuition plan value increases in each of the next two years (capped at 3% per annum).

*If refunds occur on or after June 30, 2019:*

- The value of the remaining prepaid tuition account at the end of the utilization period plus any applicable tuition plan value increases through the first eight years beyond the contract holder's original Projected College Entrance Year (PCEY).

Accounts have until June 30, 2030 to utilize benefits. Any remaining contract value will be refunded.

### **Change in Beneficiary**

Contract holders can change the beneficiary as long as the new beneficiary is an eligible member of the family of the current beneficiary.

*For purposes of this valuation, it is assumed that no contracts will change beneficiaries.*

*This is a summary of the contract provisions as they pertain to this valuation and as the Actuary understands them. If our understanding is not correct or has omitted material items, please contact the Actuary and do not rely on the results of this report. This should not be construed as actual contract terms.*

## SECTION C

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### DETAILED CHANGE IN MARGIN/(DEFICIT)

## Kentucky's Affordable Prepaid Tuition Detailed Change in Margin/(Deficit)

	(A)	(B)	(B) - (A)
	Actuarial Liabilities	Actuarial Value of Assets	Margin/(Deficit)
1. Values as of June 30, 2024	\$ 32,166,663	\$ 2,659,371	\$ (29,507,292)
2. State General Fund Revenue Additions <sup>1</sup>	\$ -	\$ 7,500,000	\$ 7,500,000
3. Expected Contract Payments	\$ -	\$ -	\$ -
4. Expected Tuition Payments, Refunds, and Administrative Fees	\$ (7,762,066)	\$ (7,762,066)	\$ -
5. Interest on Margin/(Deficit) at prior assumed rate (4.50%)	\$ 1,252,245	\$ 256,271	\$ (995,974)
<b>6. Projected Margin/(Deficit) as of June 30, 2025 [(1) + (2) + (3) + (4) + (5)]</b>	<b>\$ 25,656,842</b>	<b>\$ 2,653,576</b>	<b>\$ (23,003,266)</b>
7. Change Due to:			
a. Investment experience above/(below) assumed	-	(8,845)	(8,845)
b. Tuition/Fee inflation for upcoming academic year	(147,564)	-	147,564
c. Change in program expense assumptions	(24,515)	-	24,515
d. Change in other program assumptions <sup>2</sup>	222,676	-	(222,676)
e. Other program experience during fiscal year 2025	593,544	636,717	43,173
Total	\$ 644,141	\$ 627,872	\$ (16,269)
<b>8. Actual values as of June 30, 2025 [(6) + (7)]</b>	<b>\$ 26,300,983</b>	<b>\$ 3,281,448</b>	<b>\$ (23,019,535)</b>

<sup>1</sup> The Commonwealth of Kentucky contributed \$7,500,000 to the Program in July of 2024.

<sup>2</sup> Changes in other program assumptions may include changes to the assumed future annual increases in tuition, changes to the assumed rates of future investment return and/or changes in valuation methodologies.

## SECTION D

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### PROGRAM ASSETS

## Kentucky's Affordable Prepaid Tuition Statement of Total Assets (at Market Value)

	Market Value of Cash and Investment Assets Held			
	as of June 30, 2025		as of June 30, 2024	
	Amount	% of Total	Amount	% of Total
Cash	\$ 3,281,448	100.00%	\$ 2,657,827	99.94%
U.S. Treasury and Government Agency Securities	\$ -	0.00%	\$ -	0.00%
Money Market	\$ -	0.00%	\$ 1,544	0.06%
<b>Total</b>	<b>\$ 3,281,448</b>	<b>100.00%</b>	<b>\$ 2,659,371</b>	<b>100.00%</b>

Total Market Value of Assets shown above excludes any present value for future contract payments (none remaining as of the June 30, 2023 actuarial valuation).

## Kentucky's Affordable Prepaid Tuition Reconciliation of Total Assets (at Market Value)

	FY 2025	FY 2024
<b>Total Market Value of Assets at the beginning of the Fiscal Year</b>	<b>\$ 2,659,371</b>	<b>\$ 7,974,778</b>
<b>Additions:</b>		
Contract Payments	\$ -	\$ -
State General Fund revenue	7,500,000	3,700,000
<b>Total Additions</b>	<b>\$ 7,500,000</b>	<b>\$ 3,700,000</b>
<b>Investment Revenues:</b>		
a. Net increase (decrease) in fair value of investments	\$ -	\$ 779,799
b. Interest and investment income	247,426	(\$630,865)
<b>Total Investment Revenues</b>	<b>\$ 247,426</b>	<b>\$ 148,934</b>
<b>Deductions:</b>		
a. Administrative expenses <sup>1</sup>	\$ 43,695	\$ 53,445
b. Personnel and professional expenses	352,292	381,080
c. Refunds	1,325,851	1,665,685
d. Tuition benefits expense, net <sup>2</sup>	5,403,511	7,064,123
<b>Total Deductions</b>	<b>\$ 7,125,349</b>	<b>\$ 9,164,333</b>
<b>Change in Net Position</b>	<b>\$ 622,077</b>	<b>\$ (5,315,399)</b>
<b>Change in Net Receivables</b>	<b>\$ -</b>	<b>\$ (8)</b>
<b>Total Market Value of Assets at the End of the Fiscal Year</b>	<b>\$ 3,281,448</b>	<b>\$ 2,659,371</b>

<sup>1</sup> Includes Administrative Expenses and Trustee Fee Expense.

<sup>2</sup> Tuition benefits expense, net of \$5,403,511 for the 2025 fiscal year includes reimbursements of \$2,008,814 and school payments of \$3,394,697.

Total Market Value of Assets shown above excludes any present value for future contract payments (none remaining as of June 30, 2023).

## **SECTION E**

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### **CONTRACT DATA**

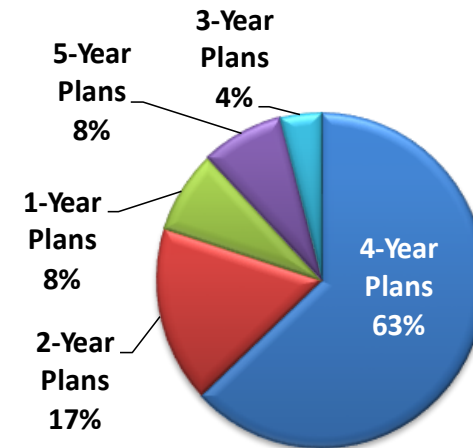
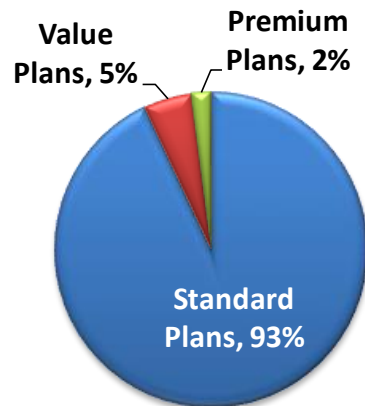
## Kentucky's Affordable Prepaid Tuition Member Matriculation Summary as of June 30, 2025

Projected Matriculation Year	Type of Contract												Total	
	Value Plan 1 Year	Value Plan 2 Years	Standard Plan 1 Year	Standard Plan 2 Years	Standard Plan 3 Years	Standard Plan 4 Years	Standard Plan 5 Years	Premium Plan 1 Year	Premium Plan 2 Years	Premium Plan 3 Years	Premium Plan 4 Years	Premium Plan 5 Years		
2004	-	1	1	-	-	5	-	-	-	-	-	-	7	0.5%
2005	-	-	-	2	1	4	-	-	-	-	1	-	8	0.6%
2006	-	1	-	3	2	9	1	-	-	-	1	-	17	1.3%
2007	1	1	3	4	2	12	1	-	-	-	-	-	24	1.8%
2008	-	1	3	2	-	19	2	-	-	-	2	1	30	2.2%
2009	-	1	1	6	4	14	1	-	-	-	-	-	27	2.0%
2010	-	-	3	4	4	14	3	1	-	-	1	-	30	2.2%
2011	-	1	2	7	2	26	3	-	-	-	1	-	42	3.1%
2012	1	2	3	7	4	13	1	-	-	-	2	-	33	2.5%
2013	1	-	5	6	1	31	6	-	-	-	-	1	51	3.8%
2014	-	6	3	21	4	55	2	-	1	-	1	1	94	7.0%
2015	2	1	6	7	3	55	7	-	-	-	2	-	83	6.2%
2016	1	4	7	9	6	63	9	-	-	-	1	-	100	7.5%
2017	4	4	6	14	3	80	14	-	1	-	1	1	128	9.6%
2018	2	10	10	19	6	96	12	-	-	-	1	-	156	11.7%
2019	1	6	9	17	1	69	9	-	1	1	-	1	115	8.6%
2020	2	1	12	18	4	86	10	-	1	-	1	-	135	10.1%
2021	1	3	14	19	3	93	12	1	1	-	2	-	149	11.1%
2022	1	2	2	4	2	59	9	-	-	1	1	-	81	6.1%
2023	-	-	3	5	-	13	2	-	-	-	1	-	24	1.8%
2024	-	-	-	-	-	1	-	-	-	-	-	-	1	0.1%
2025	-	-	-	1	-	1	-	-	-	-	-	-	2	0.1%
2026	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
2027	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
2028	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
2029	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
2004-2017	10	23	43	92	36	400	50	1	2	-	13	4	674	50.4%
2018+	7	22	50	83	16	418	54	1	3	2	6	1	663	49.6%
<b>Grand Total</b>	<b>17</b> 1.3%	<b>45</b> 3.4%	<b>93</b> 7.0%	<b>175</b> 13.1%	<b>52</b> 3.9%	<b>818</b> 61.2%	<b>104</b> 7.8%	<b>2</b> 0.1%	<b>5</b> 0.4%	<b>2</b> 0.1%	<b>19</b> 1.4%	<b>5</b> 0.4%	<b>1,337</b> 100.0%	<b>100.0%</b>



## Kentucky's Affordable Prepaid Tuition Member Payment Option Summary as of June 30, 2025

Contract Payment Type	Type of Contract												Total	
	Value Plan 1 Year	Value Plan 2 Years	Standard Plan 1 Year	Standard Plan 2 Years	Standard Plan 3 Years	Standard Plan 4 Years	Standard Plan 5 Years	Premium Plan 1 Year	Premium Plan 2 Years	Premium Plan 3 Years	Premium Plan 4 Years	Premium Plan 5 Years		
Lump Sum	6	14	48	64	17	322	42	-	2	2	10	4	<b>531</b>	39.7%
3-Year Monthly	-	2	14	10	2	44	8	-	-	-	2	-	<b>82</b>	6.1%
5-Year Monthly	1	4	9	12	5	71	13	1	2	-	3	1	<b>122</b>	9.1%
7-Year Monthly	3	7	7	44	11	158	19	-	-	-	2	-	<b>251</b>	18.8%
Monthly Extended	7	18	15	45	17	191	16	1	1	-	1	-	<b>312</b>	23.3%
Custom Monthly	-	-	-	-	-	32	6	-	-	-	1	-	<b>39</b>	2.9%
<b>Total</b>	<b>17</b> 1.3%	<b>45</b> 3.4%	<b>93</b> 7.0%	<b>175</b> 13.1%	<b>52</b> 3.9%	<b>818</b> 61.2%	<b>104</b> 7.8%	<b>2</b> 0.1%	<b>5</b> 0.4%	<b>2</b> 0.1%	<b>19</b> 1.4%	<b>5</b> 0.4%	<b>1,337</b> 100.0%	100.0%



## **SECTION F**

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### **METHODS AND ASSUMPTIONS**

# Kentucky's Affordable Prepaid Tuition Valuation Methods and Assumptions

The assumptions are based upon past Program experience and future expectations. We believe the assumptions are reasonable.

**Assumed Rate of Investment Return/Discount Rate** – The assumed rates of future investment return used in this report were developed by GRS, with discussion and approval from Program Staff.

	Assumed Investment return				
Fiscal Year Ending	2026	2027	2028	2029	2030
Assumed Rates of Return	3.50%	3.00%	2.75%	2.50%	2.50%

**Assumed Rate of Tuition Increases:** The assumed rate of tuition increases is prescribed by KAPT.

4-Year Universities – 4.00% for all future years.

2-Year Community Colleges – 4.00% for all future years.

**Assumed Utilization Hours<sup>#</sup>:** It is assumed 92% of contracts who reach Projected Contract Enrollment Year (PCEY) on or after the valuation date will utilize 32 KAPT hours per year until they have exhausted all value or reached the end of their utilization period. Contracts with remaining value beyond the utilization period are assumed to refund eight years after their PCEY (maximum refundable value).

*# Liabilities are modeled assuming two payments per year for School payouts (one at beginning of September and one at beginning of January).*

**Refunds:** It is assumed 8% of contracts with PCEY on or after the valuation date will not utilize any additional KAPT hours in the future and will continue holding their contract until eight years after PCEY, at which time they will be issued a refund.

**Past Due Refunds:** Those who are already eight years past their PCEY and have not already refunded are assumed to refund uniformly over the remaining life of the program (2026-2030, 1/5 per year).

**Election of Program Changes:** None.

**Election of Change of Beneficiary:** None.

**Liability Adjustments for Administrative, Personnel and Professional Expenses:** Below is the projection of future administrative, personnel and professional expenses through the closure of the Program provided by Program Staff:

Fiscal Year	Administrative, Personnel & Professional Expenses
2026	\$400,000
2027	\$400,000
2028	\$400,000
2029	\$400,000
2030	\$400,000

**Contract Terms:** No changes in contract terms are assumed once initiated.

# Kentucky's Affordable Prepaid Tuition Valuation Methods and Assumptions

**Annual Payout Values for the 2025/2026 Academic Year (based on usage of 32 KAPT hours):**

Value Plan: \$6,496.00  
 Standard Plan: \$13,906.88  
 Premium Plan: 2001-2002 KAPT Enrollment – \$44,027.52  
                   2002-2003 KAPT Enrollment – \$48,150.08  
                   2004-2005 KAPT Enrollment – \$40,627.84

**Cancellations:** It is assumed contracts which have not yet reached their PCEY will cancel and refund based upon the rates below. It is assumed the amount refunded equals the amount of money the contract holder has paid into the Program.

Years Since Purchase	Contract Payment Plan					
	Lump-Sum	36 Monthly Payments	60 Monthly Payments	84 Monthly Payments	Extended Payments	Custom Payments
0	1.50%	3.00%	5.00%	6.00%	8.00%	8.00%
1	1.00%	2.00%	4.00%	4.00%	7.00%	7.00%
2	0.75%	1.00%	3.00%	3.00%	5.00%	5.00%
3	0.75%	1.00%	2.00%	2.00%	4.00%	4.00%
4	0.50%	0.75%	1.00%	1.00%	3.00%	3.00%
5	0.50%	0.75%	0.75%	1.00%	2.00%	2.00%
6	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%
7+	0.50%	0.75%	0.75%	0.75%	0.75%	0.75%

## **SECTION G**

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### **PROJECTION RESULTS**

# Kentucky's Affordable Prepaid Tuition

## Sensitivity Testing Results

The actuarial assumptions regarding future increases in tuition costs and fees and the future rate of investment return were adopted by KAPT. In our opinion, the adopted assumptions are reasonable for the purpose of the measurement. However, no one knows with certainty what the future holds with respect to economic and other contingencies. For example, while it is assumed that the assets of the Program will earn 3.50% net of investment expenses during the fiscal year 2026, actual return is expected to vary from year to year. Therefore, we have projected the Program's results under alternative assumptions for future investment income and tuition increases.

For projection purposes, it is assumed budgeted and estimated additional annual contributions from the Commonwealth will be received by the Program at the beginning of each fiscal year. The valuation result's insolvency test only includes contributions budgeted from the 2025-2026 biennium.

Varying Program experience will impact the anticipated contributions required to meet future Program obligations. The range of contributions should not be construed as an upper or lower bound. Actual Program experience could result in additional appropriations being required than those estimated in this report.

### Page Description

- 21 Summary of valuation and sensitivity testing results.
- 22 **Valuation Results – Insolvency Test:** Valuation results including budgeted contributions by the Commonwealth from the 2025-2026 biennium.
- 23 **Valuation Results – Solvency Test:** Valuation Results including budgeted contributions by the Commonwealth from the 2025-2026 biennium, plus estimated contributions additionally required from the Commonwealth during the 2027-2030 fiscal years.
- 24 **Sensitivity Testing:** Investment returns are 100 basis points per year higher than assumed.
- 25 **Sensitivity Testing:** Investment returns are 100 basis points per year lower than assumed.
- 26 **Sensitivity Testing:** Tuition increases are 100 basis points per year higher than assumed.
- 27 **Sensitivity Testing:** Tuition increases are 100 basis points per year lower than assumed.
- 28 **Sensitivity Testing:** Contracts which, as of the valuation date, are more than eight years past their Projected College Entrance Year (PCEY) but have not refunded yet are assumed to refund uniformly over 3 years (2026-2028, 1/3 per year) – i.e., accelerated refunds from valuation results.

The summary of the impact of each of these scenarios on the principal valuation results is presented on the following page. See pages 22 through 28 for detailed projection results of each scenario.

# Kentucky's Affordable Prepaid Tuition Sensitivity Testing Results (\$ in Millions)

(\$ in Millions)	Sensitivity Testing Scenarios						
	Valuation Results (Insolvency Test) (Page 22)	Valuation Results (Solvency Test) (Page 23)	Assuming Investment Return +100 Basis Points Per Year (Page 24)	Assuming Investment Return -100 Basis Points Per Year (Page 25)	Assuming Tuition Increases +100 Basis Points Per Year (Page 26)	Assuming Tuition Increases -100 Basis Points Per Year (Page 27)	Assuming Accelerated Refunds of Maxed Value Contracts Over Next 3 Years (Page 28)
<u>Assumed Investment Return in Fiscal Year Ending June 30,</u>							
2026	3.50%	3.50%	4.50%	2.50%	3.50%	3.50%	3.50%
2027	3.00%	3.00%	4.00%	2.00%	3.00%	3.00%	3.00%
2028	2.75%	2.75%	3.75%	1.75%	2.75%	2.75%	2.75%
2029	2.50%	2.50%	3.50%	1.50%	2.50%	2.50%	2.50%
2030	2.50%	2.50%	3.50%	1.50%	2.50%	2.50%	2.50%
<u>Assumed Tuition Increase (University/Community College)</u>							
2026-2027 and Thereafter	4.00%/4.00%	4.00%/4.00%	4.00%/4.00%	4.00%/4.00%	5.00%/5.00%	3.00%/3.00%	4.00%/4.00%
Margin/(Deficit)	(\$23.02)	(\$23.02)	(\$22.44)	(\$23.62)	(\$23.28)	(\$22.77)	(\$23.27)
(Increase)/Decrease in Deficit from Valuation Results			\$0.58	(\$0.60)	(\$0.26)	\$0.25	(\$0.25)
<u>Budgeted Contributions from the Commonwealth after the Valuation Date:</u>							
2026 Fiscal Year	\$6.80	\$6.80	\$6.80	\$6.80	\$6.80	\$6.80	\$6.80
<u>Estimated Contributions Additionally Required for the Program's Assets to Remain Level during Fiscal Years' 2027-2030:</u>							
2027 Fiscal Year	N/A	\$5.07	\$5.01	\$5.13	\$5.10	\$5.04	\$6.40
2028 Fiscal Year	N/A	\$5.55	\$5.49	\$5.62	\$5.62	\$5.49	\$6.88
2029 Fiscal Year	N/A	\$6.37	\$6.30	\$6.44	\$6.49	\$6.25	\$4.19
2030 Fiscal Year	N/A	\$0.33	\$0.24	\$0.42	\$0.40	\$0.26	\$0.00
2027-2030 Fiscal Years Total	N/A	\$17.32	\$17.04	\$17.61	\$17.61	\$17.04	\$17.47
2026-2030 Fiscal Years Total	N/A	\$24.12	\$23.84	\$24.41	\$24.41	\$23.84	\$24.27
Fiscal Year Insolvent	2027	N/A	N/A	N/A	N/A	N/A	N/A



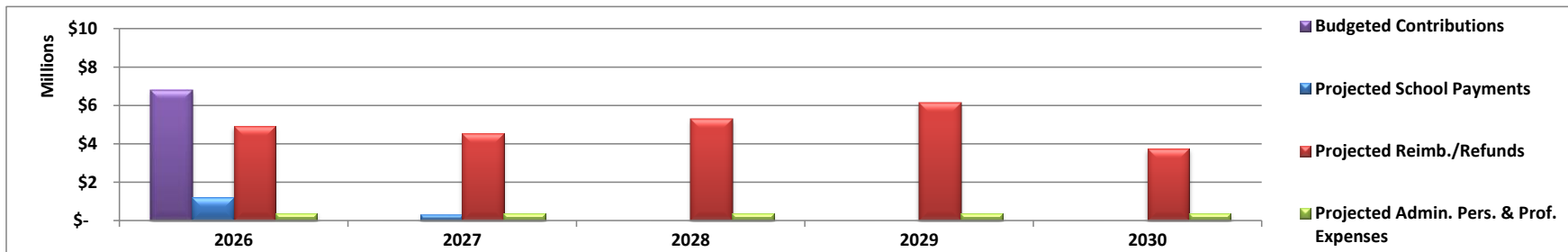
# Kentucky's Affordable Prepaid Tuition June 30, 2025 Projection Based on Valuation Results

**(Insolvency Test – Includes Budgeted Contributions from the Commonwealth)**

Administrative Assumptions	
Assumed Administrative, Personnel and Professional Expenses:	2026-2030: \$400,000
Closure of Program:	2030

Valuation Results	
Present Value of Future Tuition and Fees	\$ 26,300,983
Present Value of Future Contract Payments	\$ -
June 30, 2025 Actuarial Value of Assets	\$ 3,281,448
Margin/(Deficit)	\$ (23,019,535)
Funded Status	12.5%
Year Insolvent	2027

Fiscal Year Ending 6/30	Assumed Net Investment Return During Year	Assumed Tuition Increase for UK	Assumed Tuition Increase for KCTCS	Market Value of Assets Beginning of Fiscal Year	Budgeted Contributions <sup>1</sup> from the Commonwealth	Projected School Payments <sup>2</sup>	Projected Reimb./Refunds <sup>3</sup>	Projected Admin. Pers. & Prof. Expenses	Projected Contract Payments	Investment Income <sup>4</sup>	Market Value of Assets End of Fiscal Year
2025											\$ 3,281,448
2026	3.50%	N/A	N/A	\$ 3,281,448	\$ 6,800,000	\$ (1,211,862)	\$ (4,920,349)	\$ (400,000)	\$ -	\$ 232,411	3,781,648
2027	3.00%	4.00%	4.00%	3,781,648		(324,956)	(4,533,054)	(400,000)	-	54,697	(1,421,665)
2028	2.75%	4.00%	4.00%	(1,421,665)		(25,948)	(5,305,297)	(400,000)	-	-	(7,152,910)
2029	2.50%	4.00%	4.00%	(7,152,910)		-	(6,143,251)	(400,000)	-	-	(13,696,161)
2030	2.50%	4.00%	4.00%	(13,696,161)		-	(3,762,582)	(400,000)	-	-	(17,858,743)



<sup>1</sup> Contributions assumed to be received by the Program at the beginning of each fiscal year.

<sup>2</sup> Assuming half of the payments occur in the beginning of September and half in the beginning of January.

<sup>3</sup> Assumed all maximized refunds as of 6/30/2025 are paid uniformly over the remaining life of the Program (2026-2030, 1/5 per year). All other contracts are assumed to refund 8 years after Projected College Entrance Year (time at which contract value is maximized).

<sup>4</sup> Investment Income assumed to be zero if/when the market value of assets in the Program are projected to be depleted.



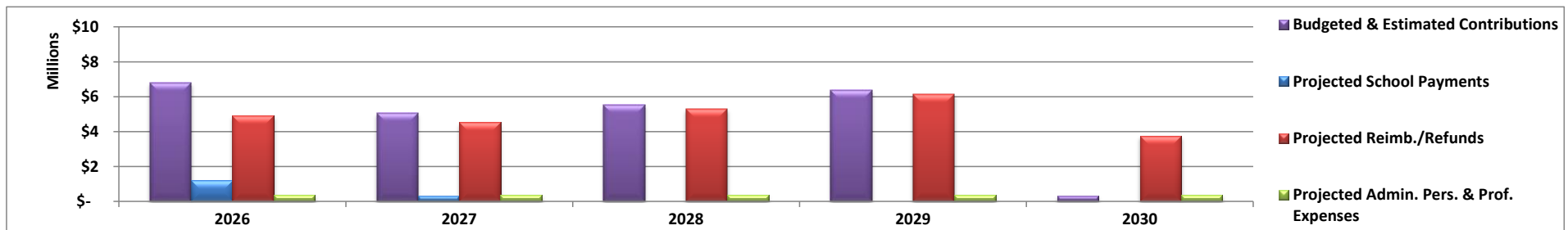
# Kentucky's Affordable Prepaid Tuition June 30, 2025 Projection Based on Valuation Results

**(Solvency Test – Includes Budgeted & Estimated Additional Contributions from the Commonwealth)**

Administrative Assumptions	
Assumed Administrative, Personnel and Professional Expenses:	2026-2030: \$400,000
Closure of Program:	2030

Valuation Results	
Present Value of Future Tuition and Fees	\$ 26,300,983
Present Value of Future Contract Payments	\$ -
June 30, 2025 Actuarial Value of Assets	\$ 3,281,448
Margin/(Deficit)	\$ (23,019,535)
Funded Status	12.5%
Year Insolvent	N/A

Fiscal Year Ending 6/30	Assumed Net Investment Return During Year	Assumed Tuition Increase for UK	Assumed Tuition Increase for KCTCS	Market Value of Assets Beginning of Fiscal Year	Budgeted Contributions <sup>1</sup> from the Commonwealth	Estimated Contributions <sup>1</sup> Additionally Required	Projected School Payments <sup>2</sup>	Projected Reimb./Refunds <sup>3</sup>	Projected Admin. Pers. & Prof. Expenses	Projected Contract Payments	Investment Income <sup>4</sup>	Market Value of Assets End of Fiscal Year
2025												\$ 3,281,448
2026	3.50%	N/A	N/A	\$ 3,281,448	\$ 6,800,000		\$ (1,211,862)	\$ (4,920,349)	\$ (400,000)	\$ -	\$ 232,411	3,781,648
2027	3.00%	4.00%	4.00%	3,781,648		<b>\$ 5,072,311</b>	(324,956)	(4,533,054)	(400,000)	-	185,699	3,781,648
2028	2.75%	4.00%	4.00%	3,781,648		<b>5,552,933</b>	(25,948)	(5,305,297)	(400,000)	-	178,311	3,781,648
2029	2.50%	4.00%	4.00%	3,781,648		<b>6,370,728</b>	-	(6,143,251)	(400,000)	-	172,524	3,781,648
2030	2.50%	4.00%	4.00%	3,781,648		<b>329,858</b>	-	(3,762,582)	(400,000)	-	51,077	0



<sup>1</sup> Contributions assumed to be received by the Program at the beginning of each fiscal year.

<sup>2</sup> Assuming half of the payments occur in the beginning of September and half in the beginning of January.

<sup>3</sup> Assumed all maximized refunds as of 6/30/2025 are paid uniformly over the remaining life of the Program (2026-2030, 1/5 per year). All other contracts are assumed to refund 8 years after Projected College Entrance Year (time at which contract value is maximized).

<sup>4</sup> Investment Income assumed to be zero if/when the market value of assets in the Program are projected to be depleted.

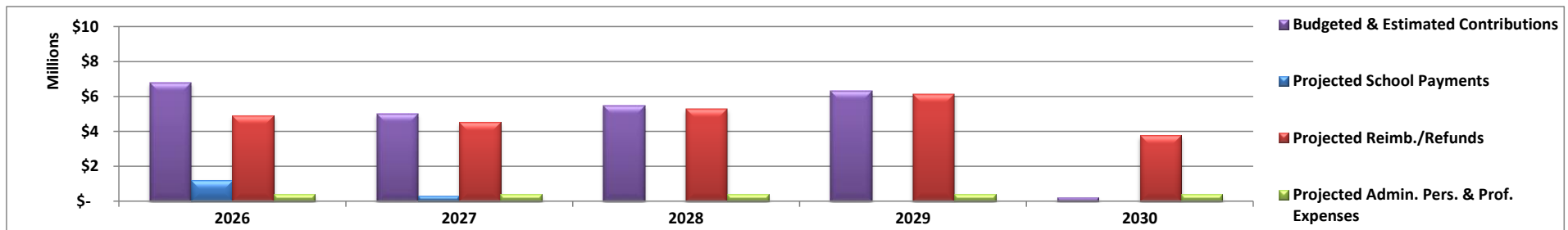


# Kentucky's Affordable Prepaid Tuition June 30, 2025 Projection Based on Investment Return +100 Basis Points

Administrative Assumptions	
Assumed Administrative, Personnel and Professional Expenses:	2026-2030: \$400,000
Closure of Program:	2030

Valuation Results	
Present Value of Future Tuition and Fees	\$ 25,722,232
Present Value of Future Contract Payments	\$ -
June 30, 2025 Actuarial Value of Assets	\$ 3,281,448
Margin/(Deficit)	\$ (22,440,784)
Funded Status	12.8%
Year Insolvent	N/A

Fiscal Year Ending 6/30	Assumed Net Investment Return During Year	Assumed Tuition Increase for UK	Assumed Tuition Increase for KCTCS	Market Value of Assets Beginning of Fiscal Year	Budgeted Contributions <sup>1</sup> from the Commonwealth	Estimated Contributions <sup>1</sup> Additionally Required	Projected School Payments <sup>2</sup>	Projected Reimb./Refunds <sup>3</sup>	Projected Admin. Pers. & Prof. Expenses	Projected Contract Payments	Investment Income <sup>4</sup>	Market Value of Assets End of Fiscal Year
2025												\$ 3,281,448
2026	4.50%	N/A	N/A	\$ 3,281,448	\$ 6,800,000		\$ (1,211,862)	\$ (4,920,349)	\$ (400,000)	\$ -	\$ 299,152	3,848,390
2027	4.00%	4.00%	4.00%	3,848,390		\$ 5,009,984	(324,956)	(4,533,054)	(400,000)	-	248,025	3,848,390
2028	3.75%	4.00%	4.00%	3,848,390		5,487,773	(25,948)	(5,305,297)	(400,000)	-	243,471	3,848,390
2029	3.50%	4.00%	4.00%	3,848,390		6,301,526	-	(6,143,251)	(400,000)	-	241,725	3,848,390
2030	3.50%	4.00%	4.00%	3,848,390		243,205	-	(3,762,582)	(400,000)	-	70,987	0



<sup>1</sup> Contributions assumed to be received by the Program at the beginning of each fiscal year.

<sup>2</sup> Assuming half of the payments occur in the beginning of September and half in the beginning of January.

<sup>3</sup> Assumed all maximized refunds as of 6/30/2025 are paid uniformly over the remaining life of the Program (2026-2030, 1/5 per year). All other contracts are assumed to refund 8 years after Projected College Entrance Year (time at which contract value is maximized).

<sup>4</sup> Investment Income assumed to be zero if/when the market value of assets in the Program are projected to be depleted.

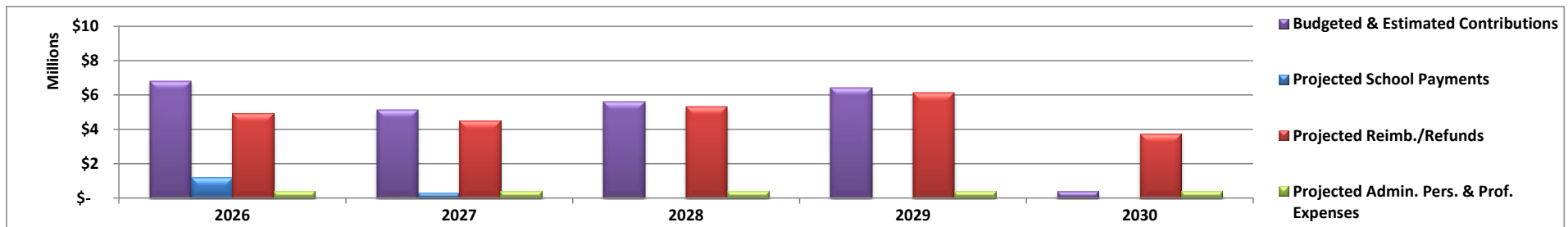


# Kentucky's Affordable Prepaid Tuition June 30, 2025 Projection Based on Investment Return -100 Basis Points

Administrative Assumptions	
Assumed Administrative, Personnel and Professional Expenses:	2026-2030: \$400,000
Closure of Program:	2030

Valuation Results	
Present Value of Future Tuition and Fees	\$ 26,903,579
Present Value of Future Contract Payments	\$ -
June 30, 2025 Actuarial Value of Assets	\$ 3,281,448
Margin/(Deficit)	\$ (23,622,131)
Funded Status	12.2%
Year Insolvent	N/A

Fiscal Year Ending 6/30	Assumed Net Investment Return During Year	Assumed Tuition Increase for UK	Assumed Tuition Increase for KCTCS	Market Value of Assets Beginning of Fiscal Year	Budgeted Contributions <sup>1</sup> from the Commonwealth	Estimated Contributions <sup>1</sup> Additionally Required	Projected School Payments <sup>2</sup>	Projected Reimb./Refunds <sup>3</sup>	Projected Admin. Pers. & Prof. Expenses	Projected Contract Payments	Investment Income <sup>4</sup>	Market Value of Assets End of Fiscal Year
2025												\$ 3,281,448
2026	2.50%	N/A	N/A	\$ 3,281,448	\$ 6,800,000		\$ (1,211,862)	\$ (4,920,349)	\$ (400,000)	\$ -	\$ 165,817	3,715,055
2027	2.00%	4.00%	4.00%	3,715,055		\$ 5,134,427	(324,956)	(4,533,054)	(400,000)	-	123,583	3,715,055
2028	1.75%	4.00%	4.00%	3,715,055		5,617,924	(25,948)	(5,305,297)	(400,000)	-	113,320	3,715,055
2029	1.50%	4.00%	4.00%	3,715,055		6,439,820	-	(6,143,251)	(400,000)	-	103,431	3,715,055
2030	1.50%	4.00%	4.00%	3,715,055		416,655	-	(3,762,582)	(400,000)	-	30,872	0



<sup>1</sup> Contributions assumed to be received by the Program at the beginning of each fiscal year.

<sup>2</sup> Assuming half of the payments occur in the beginning of September and half in the beginning of January.

<sup>3</sup> Assumed all maximized refunds as of 6/30/2025 are paid uniformly over the remaining life of the Program (2026-2030, 1/5 per year). All other contracts are assumed to refund 8 years after Projected College Entrance Year (time at which contract value is maximized).

<sup>4</sup> Investment Income assumed to be zero if/when the market value of assets in the Program are projected to be depleted.

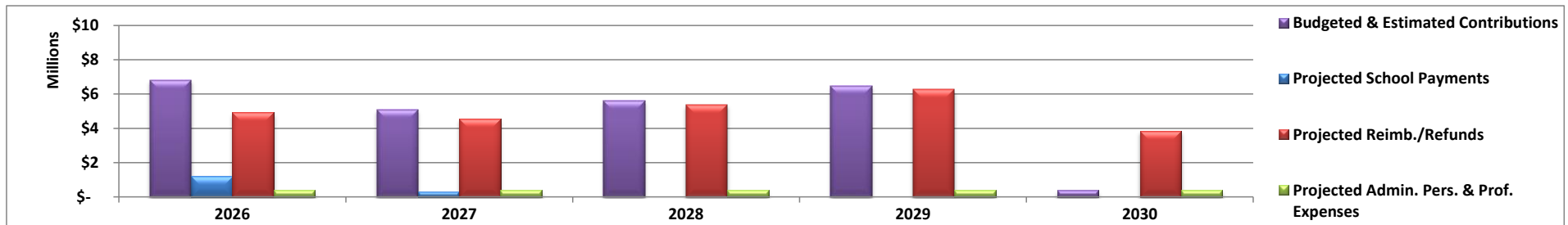


# Kentucky's Affordable Prepaid Tuition June 30, 2025 Projection Based on Tuition Increases +100 Basis Points

Administrative Assumptions	
Assumed Administrative, Personnel and Professional Expenses:	2026-2030: \$400,000
Closure of Program:	2030

Valuation Results	
Present Value of Future Tuition and Fees	\$ 26,559,181
Present Value of Future Contract Payments	\$ -
June 30, 2025 Actuarial Value of Assets	\$ 3,281,448
Margin/(Deficit)	\$ (23,277,733)
Funded Status	12.4%
Year Insolvent	N/A

Fiscal Year Ending 6/30	Assumed Net Investment Return During Year	Assumed Tuition Increase for UK	Assumed Tuition Increase for KCTCS	Market Value of Assets Beginning of Fiscal Year	Budgeted Contributions <sup>1</sup> from the Commonwealth	Estimated Contributions <sup>1</sup> Additionally Required	Projected School Payments <sup>2</sup>	Projected Reimb./Refunds <sup>3</sup>	Projected Admin. Pers. & Prof. Expenses	Projected Contract Payments	Investment Income <sup>4</sup>	Market Value of Assets End of Fiscal Year
2025												\$ 3,281,448
2026	3.50%	N/A	N/A	\$ 3,281,448	\$ 6,800,000		\$ (1,211,862)	\$ (4,920,349)	\$ (400,000)	\$ -	\$ 232,411	3,781,648
2027	3.00%	5.00%	5.00%	3,781,648		\$ 5,099,743	(328,081)	(4,557,754)	(400,000)	-	186,092	3,781,648
2028	2.75%	5.00%	5.00%	3,781,648		5,617,120	(26,449)	(5,369,857)	(400,000)	-	179,186	3,781,648
2029	2.50%	5.00%	5.00%	3,781,648		6,490,946	-	(6,264,963)	(400,000)	-	174,017	3,781,648
2030	2.50%	5.00%	5.00%	3,781,648		399,168	-	(3,832,753)	(400,000)	-	51,938	0



<sup>1</sup> Contributions assumed to be received by the Program at the beginning of each fiscal year.

<sup>2</sup> Assuming half of the payments occur in the beginning of September and half in the beginning of January.

<sup>3</sup> Assumed all maximized refunds as of 6/30/2025 are paid uniformly over the remaining life of the Program (2026-2030, 1/5 per year). All other contracts are assumed to refund 8 years after Projected College Entrance Year (time at which contract value is maximized).

<sup>4</sup> Investment Income assumed to be zero if/when the market value of assets in the Program are projected to be depleted.

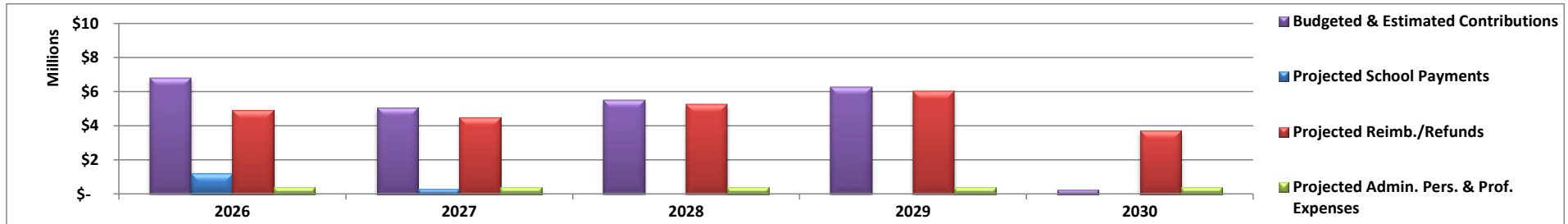


# Kentucky's Affordable Prepaid Tuition June 30, 2025 Projection Based on Tuition Increases -100 Basis Points

Administrative Assumptions	
Assumed Administrative, Personnel and Professional Expenses:	2026-2030: \$400,000
Closure of Program:	2030

Valuation Results	
Present Value of Future Tuition and Fees	\$ 26,047,205
Present Value of Future Contract Payments	\$ -
June 30, 2025 Actuarial Value of Assets	\$ 3,281,448
Margin/(Deficit)	\$ (22,765,757)
Funded Status	12.6%
Year Insolvent	N/A

Fiscal Year Ending 6/30	Assumed Net Investment Return During Year	Assumed Tuition Increase for UK	Assumed Tuition Increase for KCTCS	Market Value of Assets Beginning of Fiscal Year	Budgeted Contributions <sup>1</sup> from the Commonwealth	Estimated Contributions <sup>1</sup> Additionally Required	Projected School Payments <sup>2</sup>	Projected Reimb./Refunds <sup>3</sup>	Projected Admin. Pers. & Prof. Expenses	Projected Contract Payments	Investment Income <sup>4</sup>	Market Value of Assets End of Fiscal Year
2025												\$ 3,281,448
2026	3.50%	N/A	N/A	\$ 3,281,448	\$ 6,800,000		\$ (1,211,862)	\$ (4,920,349)	\$ (400,000)	\$ -	\$ 232,411	3,781,648
2027	3.00%	3.00%	3.00%	3,781,648		\$ 5,044,879	(321,831)	(4,508,353)	(400,000)	-	185,306	3,781,648
2028	2.75%	3.00%	3.00%	3,781,648		5,489,360	(25,451)	(5,241,354)	(400,000)	-	177,445	3,781,648
2029	2.50%	3.00%	3.00%	3,781,648		6,252,799	-	(6,023,858)	(400,000)	-	171,059	3,781,648
2030	2.50%	3.00%	3.00%	3,781,648		262,518	-	(3,694,406)	(400,000)	-	50,240	0



<sup>1</sup> Contributions assumed to be received by the Program at the beginning of each fiscal year.  
<sup>2</sup> Assuming half of the payments occur in the beginning of September and half in the beginning of January.  
<sup>3</sup> Assumed all maximized refunds as of 6/30/2025 are paid uniformly over the remaining life of the Program (2026-2030, 1/5 per year). All other contracts are assumed to refund 8 years after Projected College Entrance Year (time at which contract value is maximized).  
<sup>4</sup> Investment Income assumed to be zero if/when the market value of assets in the Program are projected to be depleted.

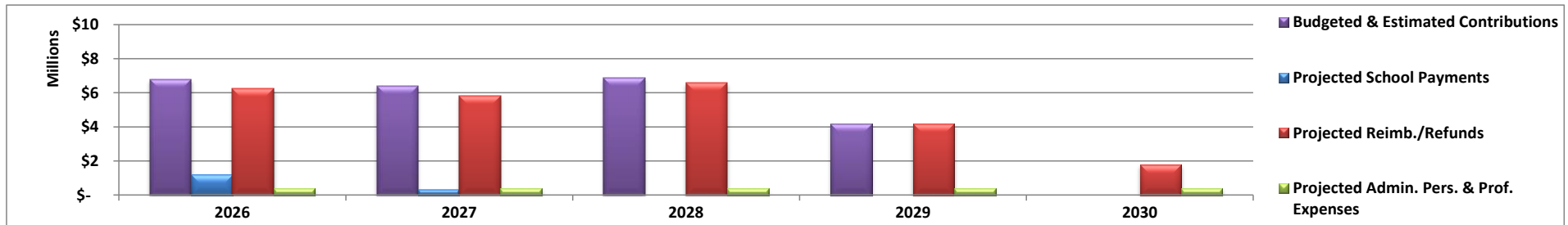


# Kentucky's Affordable Prepaid Tuition June 30, 2025 Projection Based on Maximized Refunds Paid Uniformly Over Next 3 Years (Accelerated)

Administrative Assumptions	
Assumed Administrative, Personnel and Professional Expenses:	2026-2030: \$400,000
Closure of Program:	2030

Valuation Results	
Present Value of Future Tuition and Fees	\$ 26,547,358
Present Value of Future Contract Payments	\$ -
June 30, 2025 Actuarial Value of Assets	\$ 3,281,448
Margin/(Deficit)	\$ (23,265,910)
Funded Status	12.4%
Year Insolvent	N/A

Fiscal Year Ending 6/30	Assumed Net Investment Return During Year	Assumed Tuition Increase for UK	Assumed Tuition Increase for KCTCS	Market Value of Assets Beginning of Fiscal Year	Budgeted Contributions <sup>1</sup> from the Commonwealth	Estimated Contributions <sup>1</sup> Additionally Required	Projected School Payments <sup>2</sup>	Projected Reimb./Refunds <sup>3</sup>	Projected Admin. Pers. & Prof. Expenses	Projected Contract Payments	Investment Income <sup>4</sup>	Market Value of Assets End of Fiscal Year
2025				\$ 3,281,448	\$ 6,800,000		\$ (1,211,862)	\$ (6,229,835)	\$ (400,000)	\$ -	\$ 209,692	\$ 3,281,448
2026	3.50%	N/A	N/A	2,449,442		\$ 6,401,389	(324,956)	(5,842,540)	(400,000)	-	166,108	2,449,442
2027	3.00%	4.00%	4.00%	2,449,442		6,880,432	(25,948)	(6,614,783)	(400,000)	-	160,299	2,449,442
2028	2.75%	4.00%	4.00%	2,449,442		4,191,810	-	(4,179,022)	(400,000)	-	109,147	2,171,378
2029	2.50%	4.00%	4.00%	2,171,378		-	-	(1,798,352)	(400,000)	-	26,975	0



<sup>1</sup> Contributions assumed to be received by the Program at the beginning of each fiscal year.  
<sup>2</sup> Assuming half of the payments occur in the beginning of September and half in the beginning of January.  
<sup>3</sup> Assumed all maximized refunds as of 6/30/2025 are paid uniformly over the next 3 years (2026-2028, 1/3 per year). All other contracts are assumed to refund 8 years after Projected College Entrance Year (time at which contract value is maximized).  
<sup>4</sup> Investment Income assumed to be zero if/when the market value of assets in the Program are projected to be depleted.



## **APPENDIX A**

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### **INVESTMENT POLICY'S INVESTMENT OBJECTIVE**

# Kentucky's Affordable Prepaid Tuition Plan Investment Policy's Investment Objective

Below provides the investment objective of the KAPT Board's current investment policy for the Program as of June 30, 2025. Please refer to the full investment policy of Kentucky's Affordable Prepaid Tuition Plan for more information.

## II. INVESTMENT OBJECTIVE

The objectives of the Fund have been established based upon current and projected financial requirements. The objectives are:

1. Minimizing return volatility while generating a rate of return that closely matches the rate of tuition inflation.
2. To remain sufficiently liquid to meet KAPT benefit payments in a timely manner.

A diversified portfolio strategy will be used in an effort to achieve the objectives identified above. The strategic target asset allocation, based on an analysis performed by the Fund's investment consultant, shall be as follows:

<u>Asset Class</u>	<u>Target %</u>	<u>Range %</u>	<u>Benchmark</u>
Large Cap US Equities	0	0	
Mid Cap US Equities	0	0	
Small Cap US Equities	0	0	
Non-U.S. Equities	0	0	
Total Equity	0	0	
Domestic Fixed-Income	0	0	
Short Duration US Fixed Income	0	0	Bloomberg Barclays U.S. 1-3 Year Government/Credit Bond Index
Cash Equivalents	100	100	J.P. Morgan One-Month U.S. Dollar Libor Index
Total Fixed Income/Cash	100	100	

Adherence to the asset allocation is monitored quarterly by the Board, but more frequently by the investment manager. Rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the stated ranges. Rebalancing the Fund to comply with the stated ranges is the responsibility of the investment manager. The Fund's investment consultant will reevaluate the strategic asset allocation on an annual basis and report their findings to the Board.

Any investment of funds made will consider asset allocation, rate of return, and fee structure. For the purpose of evaluating success/failure in meeting the Fund's rate of return objectives, inflation will be measured by a rate of inflation which reflects tuition costs. Investment return means total compound return, calculated to recognize all cash income plus realized and unrealized capital gains and losses, net of transaction costs and disbursements.

In order to measure performance of the investment program, the return for the Total Fund will be compared to a blend of benchmark returns in proportion to the target asset allocation.

At the May 2022 KAPT Board meeting, when the Investment Policy was revised, the program manager will liquidate all equity holdings within 90-days of Board approval. Once the liquidation has been completed and remaining assets have been moved to fixed income/cash equivalents, section III. *Eligible Investments* will no longer be applicable as it relates to Fund equity references.

Upon revision of the Investment Policy at the June 2024 KAPT Board meeting, the program manager will liquidate all fixed income holdings within 10-days of Board approval. Once the liquidation has been completed and remaining assets have been moved to cash/cash equivalents, section III. *Eligible Investments* will no longer be applicable as it relates to fixed income references.



## **APPENDIX B**

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### **DISCUSSION OF SELLING NEW CONTRACTS**

# Kentucky's Affordable Prepaid Tuition

## Discussion of Selling New Contracts

### Background

The Board must annually consider the selling of new contracts. Contracts were last sold in 2004.

### Long-Term Growth of Contracts

Under the original Program, participants could leave their contracts in the Program (unused) for as long as they desired and the contract value would continue to grow at the rate of the increase in tuition growth (primarily at the University of Kentucky). Since pricing is based on a present value of expected payments, appropriate pricing under a Program design, such as this, cannot be determined when the value of the contract can grow forever and the rate of increase in value (assumed tuition increases) exceeds the discount rate (assumed rate of investment return).

However, the legislated Program changes in 2014 limited the growth of unused contracts to six years beyond the expected utilization period. Legislated changes in 2019 modified that limit to eight years past the Projected College Entrance Year (PCEY). Under either the 2014 limit or the 2019 limit, an appropriate pricing can be determined. If the limit is changed in the future, we would need to assess whether appropriate prices could still be determined.

### Separation of Programs

We understand that if the Board were to re-open sales of new contracts, a separate Program would be created (such as a KAPT II). We further understand that contracts under the new Program would not be backed by the full faith and credit of the Commonwealth and the assets of the new Program would not be used to pay the benefits of the old Program. We further understand that there would be a time limit on the growth of the contract value (similar or the same as under the current KAPT Program).

### Development of Pricing

Under these parameters, we believe that appropriate pricing can be developed. The pricing would be dependent on the following:

- The age of the participant at contract purchase;
- Expected matriculation date;
- Assumptions regarding:
  - Rates of utilization
  - Rates of future tuition increases (or growth of contract value)
  - Rates of assumed investment return
  - Timing of expected tuition payments (or refunds)
  - Rates of cancellation
  - Rates of administrative expenses paid by the contract holder
- Risk margin; and
- Board's funding and pricing policy/guidelines.

# Kentucky's Affordable Prepaid Tuition

## Discussion of Selling New Contracts (Continued)

### Important Considerations

#### Risk Margins

Risk margins are an important aspect of contract pricing. Essentially the contracts are an insurance policy with one-time pricing. Pricing is traditionally built using assumptions developed on average expectations. Meaning that absent risk margins built into the pricing, half of the time the contracts are underpriced and that half the time the contracts are overpriced. This type of pricing can work when only a short period of time is covered and assumptions can be continually reviewed and contracts can be repriced (such as automobile insurance). In the case of a prepaid tuition plan the time frame between purchase and benefit payment can be as long as 25 years. In addition, short-term risks (for participants who are older at contract purchase) may place significant pressure on cash flow for Programs that are new or smaller. By recognizing these risks, Programs can build a margin into the pricing to manage these risks.

There are two types of Risk Margins that we have seen utilized in contract pricing: implicit risk margin and explicit risk margin. Implicit risk margins are created when pricing assumptions are more conservative than average expectations. For example, a Program may believe that the long term average increase in tuition will be 4%, but include pricing based on increases of 6% for the next six years, 5% for the following six years and 4% for the remaining six years (assuming 18 years for complete payment of benefits).

Another example of an implicit risk premium would be if the long term investment return expectation is 5%, but pricing assumed 3% for the next six years, 4% for the six years after that and 5% for the remaining six years (assuming 18 years for complete payment of benefits).

Explicit risk margins are created when pricing is increased by a specific factor, such as 15% across the board for all prices.

We have assisted other pre-paid Programs in developing funding policies that connect the risk margin in the pricing to the funded status of the Program (and the relativity to the Board's funding target). For example, an initial risk premium could be established of 10% explicit and 5% implicit (totalling to 15%). In addition, a funded status target might be established of 115%. Then, in years when the funded target is exceeded, the risk margin is reduced. Conversely, if the funded target missed, the risk margin would be increased.

#### **Program Size**

There is a common misconception that a prepaid tuition Program must have a certain level of participation to be viable. While we do not agree with this sentiment, we do believe that the Program size has implications for the Board to consider. One consideration is the funding target (or risk reserve). Because the Program is basically insurance, the size of the Program is the risk pool. The larger the pool, the more the Program is spreading risk and, therefore, the smaller the risk reserve will need to be (as a percent of liabilities). Conversely, the smaller the risk pool, the larger the risk reserve needs to be in order to keep the Program healthy.

## **Kentucky's Affordable Prepaid Tuition Discussion of Selling New Contracts (Concluded)**

Program size is also a consideration when determining if the Program is an appropriate use of resources. This is a policy decision, not an actuarial decision. However, the issue is essentially, the expected size of the Program (once it matures) sufficient to justify allocating Commonwealth resources to the maintenance of the Program. A side concern is whether or not the Program is being utilized by the intended population.

### **Final Thoughts**

Should the Board wish to explore opening a new Program and selling new contracts, we would be happy to work with the Board to develop a funding policy, initial pricing assumptions and contract pricing.