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June 10, 2009

The Honorable Rick Perry, Governor
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus, Speaker, Texas House of Representatives

Gentlemen:

I am writing to update you about the financial stability of the Texas Guaranteed Tuition Plan (Plan). The Plan is administered by the Texas Prepaid Higher Education Tuition Board (Board), of which I am the statutory chair.

The Plan is backed by the full faith and credit of the state of Texas and we will need to honor the remaining 119,000 active contracts. To that end, I look forward to working with each of your offices on this important issue. I have spoken to Sen. Zaffirini, Chairman of the Senate Committee on Higher Education, and Rep. Dan Branch, Chairman of the House Committee on Higher Education, and have asked them to request an interim study on this topic to see what solutions may be presented to the 82nd Legislature convening in January 2011. They both expressed interest in this study.

Upon taking office in January 2007, I immediately asked a group of financial experts outside state government to review the Plan and to provide me with an independent analysis of the Plan's financial solvency. This group, known as the Comptroller's Advisory Board for the Texas Guaranteed Tuition Plan, was chaired by Mr. Mark Hurley of Dallas. The 2007 Advisory Board report to the Board provided a critical assessment of the Plan and projected a significant funding shortfall, depending on assumptions, by over a \$1 billion by 2029. The Chairman of the Advisory Board, Mark Hurley, also testified on the report before the House Select Committee on Higher and Public Education Finance on June 28, 2007. Further, the Advisory Board strongly recommended against re-opening the plan as it believed that the Plan's shortfall could be further increased.

The Legislature enacted legislation to create a new plan which we launched as the Texas Tuition Promise Fund which has been very well received and is functioning well.

Because of my continuing concern about the pending insolvency of the original Plan, at my request, Mr. Hurley reconvened the Advisory Board and worked closely with the Plan's actuary and investment consultant to update the report. On May 12, 2009, the Advisory Board provided the Board with an updated analysis of the Plan in the wake of the market down-turn.

The enclosed 2009 Advisory Report estimated that the projected shortfall is between \$1.7 billion and \$2.1 billion by 2030. Once again, the range is dependent on a set of variables and assumptions.

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The report however clearly points out that the Plan's fundamental flaw is in its design. The cost of participating in the Plan was under-priced relative to the value of the benefits provided and this mispricing created the Plan's deficit.

The most important finding of the report is that the Plan is likely to run out of money to pay contract benefits between 2015 and 2017 and the Legislature will have to then directly fund the tuition payments to the universities. In this event, the Plan could need \$65 million in 2015 and approximately \$434 million in the 2016-2017 biennium. These are conservative estimates.

The Board has taken several steps during 2009 to address some of the problems facing the Plan. The Board adopted a more conservative asset allocation in order to make as many tuition payments to the universities as possible before funds are depleted. The Board is also proposing a rule change that will save the Plan over \$60 million dollars by reducing the amount of money refunded when a contract is cancelled.

Thank you for your attention to this matter.

Sincerely,



Susan Combs

Enclosures

cc: The Honorable Judith Zaffirini, Ph.D.
The Honorable Daniel H. Branch

April 6, 2009

Ms. Susan Combs
Comptroller of Public Accounts
State of Texas
111 E. 17th St.
Austin, Texas 79117

Madame Comptroller:

On February 17, 2007, we provided you with a report analyzing the Texas Guaranteed Tuition Plan's financial condition and the potential merits of reopening the Plan to new participants. At that time we concluded that the Plan would likely have a deficit that would be substantially greater than previously forecast. We also strongly recommended that the Plan not be reopened to new participants.

You recently asked that we update our analysis and again provide you with an independent viewpoint on the solvency of the Plan. Similar to our earlier work, we evaluated the Plan's current obligations, its projected schedule for paying these benefits, its investment strategy and projected returns over time and the assumptions underlying all of the foregoing. As part of our updated review we also interviewed representatives of the Plan's outside consultants, Ennis Knupp (EK) and Buck Consultants (Buck).

Also similar to our previous work, at our request Buck prepared several scenario analyses to measure the effect of changes on the Plan's underlying assumptions on its solvency. It is important to note, however, Buck is not responsible for validating any of the assumptions provided to it by either us or the Plan's Board. Rather, its job is to model outcomes for the Plan that incorporate those assumptions that are provided.

For purposes of full disclosure, all members of the Board are citizens of the State of Texas and none currently conduct any business with any state agency or with the Comptroller's office, with the exception that one of our members is a principal with a national actuarial and employee benefits firm that has periodic engagements with the state and ongoing engagements with many state agencies and subdivisions. Additionally, two of our members currently serve as CEO's of wealth management companies that have a small number of clients who are Plan participants. The conclusions and recommendations in this updated analysis reflect the advisory board members' personal views and not necessarily that of their organizations.

Our review found that the Plan's projected actuarial deficit of \$764 million by 2030 in its preliminary 2008 actuarial Report is substantially understated. The actual shortfall will instead likely total between \$1.7B and \$2.1B by 2030. More importantly, the Plan will likely run out of money sometime between 2015 and 2017 and the Legislature will have to then directly fund the payment of tuition to the institutions on behalf of participants. In this event, the Plan could need as much as \$65 million in State funding in 2015 and approximately \$434 million during the 2016 – 2017 biennium. The State will also have to continue to make tuition payments until the expiration of the last contract in 2030.

Four factors have led us to our conclusion: (i) the asset allocation assumptions used in the Plan's calculations did not take into account that a portion of the Plan's assets would have to be invested in low-yielding cash investments for a period of time; (ii) the Plan's projections rely on a assumption that tuition will likely grow at an unrealistically low rate of 6.3% per annum; (iii) the recent market correction in the

financial markets has suddenly and significantly depleted the Plan's current capital position; and (iv) the likely near term returns from the financial markets. More specifically:

1. *Asset allocation assumptions.* A key issue we identified during our initial review of the Plan was that its forecasts assumed that all of its assets would remain almost entirely invested in equities over time. Such an assumption ignored that the Plan was obligated to pay out a significant portion of its assets over time. It would be unrealistic and imprudent to keep all of the Plan's investments in equities rather than shifting the allocation to include a portion of its assets in less volatile (albeit, lower-yielding) securities such as cash and short-term bonds to fund these obligations as they come due.

Subsequent to our 2007 report, the Plan's assumptions were modified to include shifting a portion of its assets into intermediate maturity bonds as benefit payments came due. After this change was made, the Plan replaced its asset management advisor (New England Pension Consultants or NEPC) with EK.

It is our view that the Plan's new advisor is far more realistic and candid than its predecessor as to what kinds of returns are achievable over time. For example, last year EK revaluated and lowered the blended asset return assumptions for the Plan to an average annual rate of return of 6.8%, down from the 8.25% the NEPC had projected.

However, in generating its projected returns for the Plan, EK had to rely on the pre-existing asset allocation study generated by NEPC. Our review of the Plan's projected asset allocation suggests that it is still somewhat unrealistic. Rather than gradually liquefying the Plan's assets – shifting a portion of the assets into cash and bonds – to meet funding obligations, the new asset allocation assumes that 100% of the Plan's short term liquidity needs are met through investments in intermediate term bonds and that the Plan never maintains a material cash position.

Such an assumption artificially inflates the Plan's projected returns and would be an imprudent approach to managing its liquidity needs. A more customary and appropriate asset allocation would include cash in amounts equal to the level of benefits its must pay over the following twelve months and intermediate bonds equal to the projected benefits payments in months 13 through 60.

2. *Tuition Inflation.* Subsequent to our earlier report – in which we argued that the Plan's then projected level of tuition inflation of 7.5% was likely too low and that an 8% assumption would be more realistic – the Plan adopted an even lower annual tuition inflation assumption of only 6.3%.

As we understand it, this tuition inflation assumption was largely based on two factors: (i) there is great political pressure on the State's universities and colleges to slow the rate of tuition increases so that education remains affordable to the average citizen of the State; and (ii) the rate of tuition and fee increases had abated somewhat over the last two years.

Although all of us hope that tuition inflation at our State's schools will slow over time, we are unsure such optimism is justified for several reasons. The preponderance of funding for higher education in Texas comes from one of three sources – appropriated funds paid directly to educational institutions, charitable gifts and distributions from individual school endowments; and tuition and fees paid by students.

The annual rate of tuition increases abated somewhat from 2005 to 2008, falling from 8.4% in the former to 6.3% in the latter. However, this slowing in the rate of increases was due in no small part to substantial increases in direct funding to the schools from the State. In the 2008 – 2009 biennium, funding to higher education increased 10.4% as compared the amounts appropriated for the 2006 – 2007 biennium.

While our Legislature clearly remains committed to supporting higher education, its ability to do so is tied directly to the health of the State's economy and the resulting tax revenues. And unless the economy grows at a very high rate indefinitely, the State will simply not be able to continue to increase its direct assistance to higher education by more than 10% annually.

For example, after the downturn in the economy following the 9/11 attacks and the bursting of the technology bubble in the financial markets, the State actually decreased funding to higher education in the 2004-2005 biennium by .4%. Consequently, average annual tuition costs rose 8.4% that year and despite a 9.6% increase in direct higher education funding in 2006, tuition costs rose that year by 8.7%.

Why? The operating costs of the State's colleges and universities continue to go up even if the State's direct funding to higher education does not and increasing tuition was the only alternative that these institutions had available to fill this revenue gap.

Further complicating matters, the recent financial market correction has likewise negatively affected higher education funding because it dramatically lowered the asset levels of most institution endowments. For example, as of November 30, 2008, UTIMCO has lost almost 28% of its assets from the market correction.

While these endowments will appreciate as financial markets recover over time, it will take many years before their total asset values return to their pre-correction levels. Further, the recent market correction has significantly reduced the wealth – and therefore the capacity to give – of potential donors to institutions of higher learning, making it harder to replenish these endowments.

It is this combination of the State's lessened ability to directly fund higher education and the diminished capacity of individual endowments to make up any resulting shortfall that have led us to our concern about the Plan's current low tuition inflation assumptions.

To be sure, it is difficult at best to try to accurately predict how these factors will impact tuition inflation. However, two years ago the Plan had assumed that tuition costs would rise at the projected national average (amongst institutions of higher learning) of 7.5%. And as we noted at that time, even that rate was likely optimistic given the relatively low cost of getting an education at a Texas state-assisted institution when compared with other states. In our prior report, we had recommended that for planning purposes, the Plan should use an annual tuition inflation assumption of 8% and it is unclear to us why it would make sense to use one materially lower than even the projected national average on a going forward basis.

3. *Recent drop in Plan's Assets.* The Plan is in many ways similar to a university endowment and like most endowments in the State, the recent market correction has had a substantial negative impact of its asset levels. Using the current assumptions, the Plan had an immediate shortfall¹ of \$206 million as of August 31, 2008. Based on data provided by EK, as of December 31, 2008, the Plan's immediate shortfall had increased to more than \$497 million.

¹ An "immediate shortfall" is the projected amount of funding that would have to be invested immediately into the Plan to offset the projected shortfall between the value of its assets and its payment obligations. However, this number also assumes that the funding was provided as of 8/31/2008 or 12/31/2008 (as appropriate) and all of the Plan's other current assumptions (return on assets, tuition inflation, etc.) are proven over time to be correct.

Another way of looking at the impact of the recent market correction would be to compare the Plan's projected actuarial shortfall over its life. Prior to the correction, this amount totaled \$764 million by 2030. It is now projected to equal almost \$1.7 billion.

This substantial increase in the Plan's projected deficit is tied to its design. As we warned in our earlier report, "all of the Plan's investment projection assumptions are based on long-term trends in the capital markets. Relying on long-term trends, however, only works if one has the capacity to take a very long-term horizon to investing."

But the recent correction in the financial markets has largely stripped away much of the Plan's ability to take such a long view. Even if all of its current assumptions are correct (which, again, we believe are too optimistic), the Plan will still run out of money in early 2018.

4. *Near-term investment returns.* If all of these factors alone were not enough, the Plan's current projections also rely on an assumption of linear returns – that is, that the Plan's assets appreciate a certain percentage every year. However, such an assumption is only appropriate when one can take a long-term view to investing. And because the Plan has both a large shortfall and is facing substantial near-term funding obligations which have eviscerated its ability to do so, we are concerned that a linear return assumption might not be realistic.

To be sure, no one can precisely forecast the markets. But we believe that any prudent analysis should also consider the possibility that the markets drift sideways for a period of three to five years (similar to financial markets in the early 1970's) and only then generate more robust returns for investors. We also believe that it is also important to consider potential outcomes should the financial markets decline substantially further.

Updated Advisory Board Projections of Plan's Shortfall

As we have discussed earlier, the recent market correction has materially increased the Plan's projected budget deficit, even if its current asset return and tuition inflation assumptions proved to be correct. As shown below in the "Current" Scenario, the Plan's current projected shortfall (as of 2030) is now almost \$1.7B. The deficit has increased because the value of the Plan's assets has fallen nearly \$300 million over the last four months of 2008 resulting in an immediate shortfall of \$497mm.

More problematic, the Plan's ability to pay future benefits depends heavily on the compounding of returns that it generates on its assets over time. But because so much of the Plan's capital has been consumed by the recent market correction, it will be unable to capture these returns on returns, substantially increasing its projected deficit.

However (and as likewise discussed earlier), we believe that some of the Plan's assumptions are somewhat unrealistic. In particular, its projected allocation ignores the Plan's needs for liquidity; its tuition inflation assumption is too optimistic; and it assumes a linear pattern of returns over the next 21 years.

At our request, Buck conducted multiple scenario analyses which considered the impact of changes in the Plan's major assumptions. In each scenario analysis Buck assumed that the Plan will take a more prudent approach to managing its future liquidity needs and thus, over time it will maintain cash in amounts equal to the level of benefits it must pay over the following twelve months and intermediate bonds equal to the projected benefits payments in months 13 through 60.

As shown in the Chart of Updated Assumptions, we formulated three different sets of return assumptions – Sideways, Meltdown and Linear. They were then used by Buck in different scenario analyses that also measured the effects of changing other assumptions - such as tuition inflation and the rate at which participants consumed their benefits – on the Plan's outcomes.

Included in this report are copies of all of the scenarios which Buck prepared. However, a few of them are particularly instructive. In Scenario 1, the Plan's current annual tuition inflation assumption of 6.3% remains unchanged and it continues to assume a linear pattern of returns. But instead its asset returns have been changed to those provided in our Linear forecast, ones that better reflect the Plan's needs for liquidity over time. As you can see, under this scenario the Plan runs out of money by the end of 2016 and has a projected immediate shortfall of \$767 million or about \$280 million more than under the Plan's existing assumptions.

Scenario 3 similarly keeps the annual tuition inflation assumption of 6.3% unchanged. But it also considers the possibility that the financial markets undergo a further correction and that the Plan's assets generate returns only equal to those of our Meltdown scenario. As shown below, the Plan's immediate shortfall jumps to more than \$1.2B and it runs out of money near the end of 2015. Longer term, the Plan has a projected deficit of \$1.94B.

With Scenario 5 we had Buck employ a more realistic tuition inflation assumption of 8% and also measure the Plan's outcomes should the Sideways scenario return assumptions come to pass. This is the scenario that the Board believes is the most likely to occur. If these assumptions prove to be true, the Plan's long term deficit would approach \$2B. More importantly, its immediate shortfall increases to more than \$900mm.

Finally, all of these scenarios also assume that Plan participants will consume their benefits in rapid fashion after reaching their eighteenth birthday. However (and as noted in our earlier report) it is unclear whether this assumption will prove to be correct. And if for any reason should participants prolong the period over which they use their benefits, the Plan's shortfall would increase even further.

In Scenarios 6 and 7, we have used the same assumptions as Scenarios 1 and 5, respectively, except that we have assumed that on average Plan participants take twelve months longer to consume their benefits than is currently projected. As you can see, this change increases the both the Plan's long-term deficit to as much as \$2.1B and its immediate shortfall increases to \$1.1B.

Alternatives available to the State

As we noted in our earlier report, the State has very limited options available to it to address the Plan's increasingly larger shortfall: (i) the Legislature can appropriate additional funds to fill the gap today; (ii) the Legislature can appropriate a much larger amount of funding in the future; or (iii) the Legislature can effectively cut a substantial amount of its future funding to State universities and colleges by requiring them to allow Plan participants to attend their institutions at a discounted rate.

Despite your numerous warnings to the Legislature, to date it has taken no action. However, it will not have this luxury indefinitely. As noted earlier, it is likely that the Plan will run out of money in five to seven years and then all benefits will have to be paid out of appropriated funds.

How did this happen?

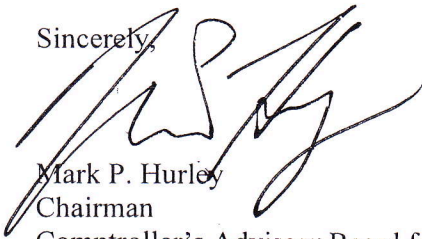
Finally, after our first report there was much debate and anxiety in the media and amongst elected officials over how the Plan could have wound up with such a large funding shortfall. We feel it is

important to note that our (limited) research to date has found that the Plan's staff, Board and its advisers have acted in a prudent manner and are not the source of its deficit.

To be sure, we have not agreed with all of the Plan's assumptions, in particular, those made by its previous asset management adviser. But those disagreements were largely confined to forecasts of long-term financial outcomes. Even if the Plan had relied on our assumptions, there was not much that its Board or the Plan's staff could have done to address these shortfalls.

Rather, the Plan's fundamental flaw is in its design. Simply put, the cost of participating in the Plan was under-priced relative to the value of the benefits provided. This mispricing has created the Plan's deficit. And because the full faith and credit of the State of Texas backs the Plan's obligations, it now falls upon the Legislature to appropriate the necessary funds to pay them.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark P. Hurley', written over the printed name.

Mark P. Hurley
Chairman

Comptroller's Advisory Board for the Texas Guaranteed Tuition Fund

Chart of Updated Assumptions

Projected Returns by Asset Class - Sideways			
Year	Equity	Bonds	Cash
2009	0.00%	4.50%	3.00%
2010	0.00%	4.50%	3.00%
2011	0.00%	4.50%	3.00%
2012	0.00%	4.50%	3.00%
2013	0.00%	4.50%	3.00%
2014	15.00%	4.50%	3.00%
2015	15.00%	4.50%	3.00%
2016	15.00%	4.50%	3.00%
2017	15.00%	4.50%	3.00%
2018	15.00%	4.50%	3.00%
2019	7.50%	4.50%	3.00%
2020	7.50%	4.50%	3.00%
2021	7.50%	4.50%	3.00%
2022	7.50%	4.50%	3.00%
2023	7.50%	4.50%	3.00%
2024	7.50%	4.50%	3.00%
2025	7.50%	4.50%	3.00%
2026	7.50%	4.50%	3.00%
2027	7.50%	4.50%	3.00%
2028	7.50%	4.50%	3.00%
2029	7.50%	4.50%	3.00%
2030	7.50%	4.50%	3.00%

Projected Returns by Asset Class - Meltdown			
Year	Equity	Bonds	Cash
2009	-30.00%	4.50%	3.00%
2010	20.00%	4.50%	3.00%
2011	15.00%	4.50%	3.00%
2012	7.50%	4.50%	3.00%
2013	7.50%	4.50%	3.00%
2014	7.50%	4.50%	3.00%
2015	7.50%	4.50%	3.00%
2016	7.50%	4.50%	3.00%
2017	7.50%	4.50%	3.00%
2018	7.50%	4.50%	3.00%
2019	7.50%	4.50%	3.00%
2020	7.50%	4.50%	3.00%
2021	7.50%	4.50%	3.00%
2022	7.50%	4.50%	3.00%
2023	7.50%	4.50%	3.00%
2024	7.50%	4.50%	3.00%
2025	7.50%	4.50%	3.00%
2026	7.50%	4.50%	3.00%
2027	7.50%	4.50%	3.00%
2028	7.50%	4.50%	3.00%
2029	7.50%	4.50%	3.00%
2030	7.50%	4.50%	3.00%

Projected Returns by Asset Class - Linear			
Year	Equity	Bonds	Cash
2009	7.50%	4.50%	3.00%
2010	7.50%	4.50%	3.00%
2011	7.50%	4.50%	3.00%
2012	7.50%	4.50%	3.00%
2013	7.50%	4.50%	3.00%
2014	7.50%	4.50%	3.00%
2015	7.50%	4.50%	3.00%
2016	7.50%	4.50%	3.00%
2017	7.50%	4.50%	3.00%
2018	7.50%	4.50%	3.00%
2019	7.50%	4.50%	3.00%
2020	7.50%	4.50%	3.00%
2021	7.50%	4.50%	3.00%
2022	7.50%	4.50%	3.00%
2023	7.50%	4.50%	3.00%
2024	7.50%	4.50%	3.00%
2025	7.50%	4.50%	3.00%
2026	7.50%	4.50%	3.00%
2027	7.50%	4.50%	3.00%
2028	7.50%	4.50%	3.00%
2029	7.50%	4.50%	3.00%
2030	7.50%	4.50%	3.00%

Texas Prepaid Tuition

December 31, 2008 Assets: \$1,391 million

Current 2008 assumptions

Current

Year	PV of Future Benefit, Expense and Withdrawal	PV of Future Contract Collections + Assets	Surplus of Assets over Liabilities	Benefit Payments
2009	2,030,898,561	1,533,673,262	(497,225,299)	226,525,932
2010	1,915,876,495	1,384,839,876	(531,036,620)	240,460,205
2011	1,804,936,256	1,237,789,147	(567,147,110)	229,144,273
2012	1,689,007,275	1,083,294,161	(605,713,113)	226,700,061
2013	1,560,427,550	913,525,946	(646,901,605)	231,205,270
2014	1,418,198,520	727,307,606	(690,890,914)	235,841,633
2015	1,266,861,630	528,990,134	(737,871,496)	235,287,912
2016	1,109,218,119	320,670,037	(788,548,082)	231,657,988
2017	950,504,332	107,944,749	(842,559,583)	222,430,235
2018	792,980,414	(107,215,635)	(900,196,049)	211,895,225
2019	635,474,190	(321,809,946)	(957,284,136)	200,360,147
2020	479,628,466	(533,266,146)	(1,012,894,612)	186,154,148
2021	314,748,786	(752,114,604)	(1,066,863,390)	182,254,918
2022	184,896,542	(936,347,764)	(1,121,244,306)	137,753,965
2023	89,365,426	(1,088,211,386)	(1,177,576,811)	97,164,038
2024	28,868,899	(1,208,540,795)	(1,237,409,695)	59,051,896
2025	4,704,660	(1,297,647,399)	(1,302,352,059)	22,871,748
2026	463,151	(1,371,828,824)	(1,372,291,975)	3,940,835
2027	208,432	(1,446,161,993)	(1,446,370,425)	244,173
2028	73,142	(1,524,385,856)	(1,524,458,997)	125,909
2029	19,715	(1,606,753,251)	(1,606,772,966)	48,640
2030	-	(1,693,535,917)	(1,693,535,917)	17,399

Texas Prepaid Tuition

December 31, 2008 Assets: \$1,391 million

Linear - Stocks earn 7.5% each year

Bonds earn 4.5% each year

Cash earns 3.0% each year

Current 2008 assumptions

Scenario 1

<u>Year</u>	<u>PV of Future Benefit, Expense and Withdrawal</u>	<u>PV of Future Contract Collections + Assets</u>	<u>Surplus of Assets over Liabilities</u>	<u>Benefit Payments</u>
2009	2,289,325,661	1,522,018,897	(767,306,764)	226,525,932
2010	2,191,610,168	1,350,882,395	(840,727,773)	240,460,205
2011	2,095,675,870	1,178,621,989	(917,053,881)	229,144,273
2012	1,991,793,860	996,061,170	(995,732,690)	226,700,061
2013	1,870,215,401	799,247,146	(1,070,968,255)	231,205,270
2014	1,728,760,614	588,539,940	(1,140,220,674)	235,841,633
2015	1,571,579,333	368,875,101	(1,202,704,232)	235,287,912
2016	1,401,070,564	143,516,420	(1,257,554,144)	231,657,988
2017	1,223,308,381	(80,486,726)	(1,303,795,106)	222,430,235
2018	1,036,785,449	(300,628,222)	(1,337,413,671)	211,895,225
2019	842,843,552	(515,598,539)	(1,358,442,090)	200,360,147
2020	645,391,156	(722,350,449)	(1,367,741,605)	186,154,148
2021	430,633,370	(931,079,067)	(1,361,712,437)	182,254,918
2022	257,212,648	(1,100,029,538)	(1,357,242,186)	137,753,965
2023	126,452,244	(1,232,496,776)	(1,358,949,020)	97,164,038
2024	41,626,816	(1,329,922,782)	(1,371,549,598)	59,051,896
2025	6,937,871	(1,393,234,094)	(1,400,171,965)	22,871,748
2026	706,588	(1,439,065,247)	(1,439,771,835)	3,940,835
2027	324,134	(1,482,487,076)	(1,482,811,211)	244,173
2028	116,068	(1,527,090,496)	(1,527,206,564)	125,909
2029	31,883	(1,572,952,919)	(1,572,984,802)	48,640
2030	-	(1,620,159,235)	(1,620,159,235)	17,399

Texas Prepaid Tuition

Scenario 2

December 31, 2008 Assets: \$1,391 million

Sideways then Overperform - Stocks earn 0% through 2013,

then 15% through 2018, 7.5% thereafter

Bonds earn 4.5% each year

Cash earns 3.0% each year

Current 2008 assumptions

Year	PV of Future Benefit, Expense and Withdrawal	PV of Future Contract Collections + Assets	Surplus of Assets over Liabilities	Benefit Payments
2009	2,399,683,424	1,494,998,319	(904,685,105)	226,525,932
2010	2,306,837,071	1,300,856,875	(1,005,980,196)	240,460,205
2011	2,210,299,703	1,115,218,539	(1,095,081,164)	229,144,273
2012	2,101,657,173	927,740,622	(1,173,916,551)	226,700,061
2013	1,974,044,451	726,876,735	(1,247,167,715)	231,205,270
2014	1,825,495,389	512,243,354	(1,313,252,036)	235,841,633
2015	1,660,376,304	288,657,262	(1,371,719,042)	235,287,912
2016	1,481,328,968	59,616,880	(1,421,712,088)	231,657,988
2017	1,293,383,922	(167,387,360)	(1,460,771,282)	222,430,235
2018	1,096,176,280	(390,526,460)	(1,486,702,740)	211,895,225
2019	891,124,687	(608,488,682)	(1,499,613,370)	200,360,147
2020	682,361,502	(818,226,297)	(1,500,587,800)	186,154,148
2021	455,301,611	(1,029,941,323)	(1,485,242,934)	182,254,918
2022	271,946,721	(1,201,857,662)	(1,473,804,383)	137,753,965
2023	133,695,887	(1,337,379,743)	(1,471,075,631)	97,164,038
2024	44,011,351	(1,437,952,238)	(1,481,963,589)	59,051,896
2025	7,335,297	(1,504,504,434)	(1,511,839,732)	22,871,748
2026	747,064	(1,553,673,697)	(1,554,420,761)	3,940,835
2027	342,702	(1,600,533,780)	(1,600,876,482)	244,173
2028	122,717	(1,648,678,600)	(1,648,801,318)	125,909
2029	33,709	(1,698,188,667)	(1,698,222,376)	48,640
2030	-	(1,749,152,055)	(1,749,152,055)	17,399

Texas Prepaid Tuition

Scenario 3

December 31, 2008 Assets: \$1,391 million

Meltdown then Overperform - Stocks earn -30% in 2009, 20% in 2010,
15% in 2011, and 2012, 7.5% thereafter

Bonds earn 4.5% each year

Cash earns 3.0% each year

Current 2008 assumptions

Year	PV of Future Benefit, Expense and Withdrawal	PV of Future Contract Collections + Assets	Surplus of Assets over Liabilities	Benefit Payments
2009	2,588,779,989	1,376,086,394	(1,212,693,595)	226,525,932
2010	2,474,751,901	1,206,076,722	(1,268,675,178)	240,460,205
2011	2,369,533,927	1,020,063,866	(1,349,470,061)	229,144,273
2012	2,254,214,889	826,497,767	(1,427,717,123)	226,700,061
2013	2,118,635,502	619,779,043	(1,498,856,459)	231,205,270
2014	1,960,686,741	399,473,071	(1,561,213,670)	235,841,633
2015	1,785,078,750	170,318,448	(1,614,760,302)	235,287,912
2016	1,594,389,177	(63,318,387)	(1,657,707,564)	231,657,988
2017	1,392,099,507	(294,692,651)	(1,686,792,158)	222,430,235
2018	1,179,840,288	(522,201,126)	(1,702,041,414)	211,895,225
2019	959,138,441	(744,529,096)	(1,703,667,537)	200,360,147
2020	734,441,719	(958,628,256)	(1,693,069,975)	186,154,148
2021	490,051,823	(1,174,710,484)	(1,664,762,307)	182,254,918
2022	292,702,647	(1,350,969,898)	(1,643,672,544)	137,753,965
2023	143,900,025	(1,490,965,346)	(1,634,865,372)	97,164,038
2024	47,370,451	(1,596,145,409)	(1,643,515,861)	59,051,896
2025	7,895,153	(1,667,443,401)	(1,675,338,554)	22,871,748
2026	804,083	(1,721,500,832)	(1,722,304,915)	3,940,835
2027	368,858	(1,773,395,730)	(1,773,764,588)	244,173
2028	132,083	(1,826,726,408)	(1,826,858,492)	125,909
2029	36,282	(1,881,577,909)	(1,881,614,191)	48,640
2030	-	(1,938,042,975)	(1,938,042,975)	17,399

Texas Prepaid Tuition

Scenario 4

December 31, 2008 Assets: \$1,391 million

Linear - Stocks earn 7.5% each year

Bonds earn 4.5% each year

Cash earns 3.0% each year

Tuition increases are 8% per year

<u>Year</u>	<u>PV of Future Benefit, Expense and Withdrawal</u>	<u>PV of Future Contract Collections + Assets</u>	<u>Surplus of Assets over Liabilities</u>	<u>Benefit Payments</u>
2009	2,359,553,801	1,521,910,360	(837,643,440)	226,525,932
2010	2,265,577,732	1,349,327,705	(916,250,027)	241,458,242
2011	2,172,602,371	1,174,429,719	(998,172,651)	231,056,461
2012	2,070,757,720	987,956,597	(1,082,801,122)	229,548,275
2013	1,949,735,117	786,661,031	(1,163,074,086)	235,119,572
2014	1,807,448,804	570,117,731	(1,237,331,073)	240,885,711
2015	1,647,976,569	343,296,997	(1,304,679,572)	241,390,530
2016	1,473,674,711	109,579,191	(1,364,095,521)	238,746,089
2017	1,290,316,777	(123,487,441)	(1,413,804,218)	230,262,585
2018	1,096,673,984	(353,599,077)	(1,450,273,061)	220,352,807
2019	894,089,230	(579,341,451)	(1,473,430,681)	209,314,195
2020	686,646,135	(797,447,128)	(1,484,093,263)	195,366,069
2021	459,725,967	(1,018,593,513)	(1,478,319,480)	192,178,398
2022	275,539,835	(1,198,550,256)	(1,474,090,091)	145,940,807
2023	135,914,314	(1,340,413,512)	(1,476,327,827)	103,455,356
2024	44,903,101	(1,445,286,119)	(1,490,189,220)	63,163,564
2025	7,516,464	(1,513,799,199)	(1,521,315,664)	24,572,318
2026	767,740	(1,563,568,266)	(1,564,336,006)	4,254,367
2027	351,545	(1,610,746,304)	(1,611,097,850)	264,802
2028	124,730	(1,659,208,585)	(1,659,333,315)	136,737
2029	33,520	(1,709,038,487)	(1,709,072,007)	52,485
2030	-	(1,760,328,220)	(1,760,328,220)	18,229

Texas Prepaid Tuition

Scenario 5

December 31, 2008 Assets: \$1,391 million

Sideways then Overperform - Stocks earn 0% through 2013,
then 15% through 2018, 7.5% thereafter

Bonds earn 4.5% each year

Cash earns 3.0% each year

Tuition increases are 8% per year

Year	PV of Future Benefit, Expense and Withdrawal	PV of Future Contract Collections + Assets	Surplus of Assets over Liabilities	Benefit Payments
2009	2,467,790,771	1,495,281,210	(972,509,561)	226,525,932
2010	2,378,494,484	1,300,675,977	(1,077,818,507)	241,458,242
2011	2,284,764,210	1,113,807,077	(1,170,957,133)	231,056,461
2012	2,178,316,304	923,329,628	(1,254,986,676)	229,548,275
2013	2,051,736,008	718,214,290	(1,333,521,718)	235,119,572
2014	1,902,835,941	497,970,306	(1,404,865,635)	240,885,711
2015	1,735,897,932	267,467,843	(1,468,430,089)	241,390,530
2016	1,553,561,617	30,386,032	(1,523,175,585)	238,746,089
2017	1,360,263,974	(205,516,008)	(1,565,779,982)	230,262,585
2018	1,156,123,936	(438,459,323)	(1,594,583,259)	220,352,807
2019	942,557,201	(667,027,538)	(1,609,584,739)	209,314,195
2020	723,868,756	(887,952,730)	(1,611,821,485)	195,366,069
2021	484,647,399	(1,111,918,842)	(1,596,566,242)	192,178,398
2022	290,476,663	(1,294,675,345)	(1,585,152,008)	145,940,807
2023	143,282,137	(1,439,422,355)	(1,582,704,491)	103,455,356
2024	47,337,267	(1,547,265,227)	(1,594,602,494)	63,163,564
2025	7,923,927	(1,618,837,680)	(1,626,761,607)	24,572,318
2026	809,359	(1,671,757,901)	(1,672,567,260)	4,254,367
2027	370,602	(1,722,181,628)	(1,722,552,231)	264,802
2028	131,491	(1,773,986,969)	(1,774,118,460)	136,737
2029	35,337	(1,827,260,223)	(1,827,295,559)	52,485
2030	-	(1,882,096,608)	(1,882,096,608)	18,229

Texas Prepaid Tuition

Scenario 6

December 31, 2008 Assets: \$1,391 million

Linear - Stocks earn 7.5% each year

Bonds earn 4.5% each year

Cash earns 3.0% each year

Beneficiaries Matriculate one year later than expected

<u>Year</u>	<u>PV of Future Benefit, Expense and Withdrawal</u>	<u>PV of Fututre Contract Collections + Assets</u>	<u>Surplus of Assets over Liabilities</u>	<u>Benefit Payments</u>
2009	2,485,924,193	1,565,455,334	(920,468,859)	186,988,261
2010	2,437,398,835	1,434,043,809	(1,003,355,025)	206,626,562
2011	2,387,277,964	1,295,338,887	(1,091,939,078)	202,460,071
2012	2,305,723,300	1,120,706,073	(1,185,017,227)	225,358,242
2013	2,189,595,997	912,943,726	(1,276,652,271)	247,080,342
2014	2,058,505,293	695,258,912	(1,363,246,381)	247,393,002
2015	1,903,461,019	460,419,994	(1,443,041,025)	254,348,775
2016	1,731,338,640	216,156,784	(1,515,181,856)	253,555,569
2017	1,545,697,338	(32,790,752)	(1,578,488,090)	248,989,877
2018	1,349,200,473	(279,355,766)	(1,628,556,239)	239,166,548
2019	1,143,030,271	(521,760,096)	(1,664,790,367)	227,829,117
2020	928,610,878	(758,666,110)	(1,687,276,988)	215,461,120
2021	710,139,130	(986,937,000)	(1,697,076,129)	200,297,976
2022	472,015,133	(1,217,661,503)	(1,689,676,636)	196,461,130
2023	277,972,686	(1,407,334,085)	(1,685,306,771)	149,597,946
2024	134,348,303	(1,555,701,724)	(1,690,050,027)	103,690,646
2025	41,796,450	(1,666,422,859)	(1,708,219,309)	62,567,567
2026	1,342,150	(1,742,716,427)	(1,744,058,577)	25,692,167
2027	718,675	(1,795,416,649)	(1,796,135,323)	409,121
2028	301,837	(1,849,542,274)	(1,849,844,111)	257,118
2029	92,787	(1,905,153,637)	(1,905,246,424)	122,281
2030	-	(1,962,360,323)	(1,962,360,323)	50,952

Texas Prepaid Tuition

Scenario 7

December 31, 2008 Assets: \$1,391 million

Sideways then Overperform - Stocks earn 0% through 2013,
then 15% through 2018, 7.5% thereafter

Bonds earn 4.5% each year

Cash earns 3.0% each year

Beneficiaries Matriculate one year later than expected

Year	PV of Future Benefit, Expense and Withdrawal	PV of Future Contract Collections + Assets	Surplus of Assets over Liabilities	Benefit Payments
2009	2,635,577,044	1,532,940,465	(1,102,636,579)	186,988,261
2010	2,594,606,479	1,372,701,657	(1,221,904,822)	206,626,562
2011	2,546,515,626	1,215,937,010	(1,330,578,616)	202,460,071
2012	2,460,994,647	1,034,207,327	(1,426,787,320)	225,358,242
2013	2,337,905,822	821,369,610	(1,516,536,211)	247,080,342
2014	2,198,877,046	598,744,132	(1,600,132,914)	247,393,002
2015	2,034,337,301	358,948,043	(1,675,389,258)	254,348,775
2016	1,851,688,014	109,913,174	(1,741,774,841)	253,555,569
2017	1,653,644,222	(142,793,531)	(1,796,437,753)	248,989,877
2018	1,443,424,603	(393,130,396)	(1,836,554,999)	239,166,548
2019	1,222,856,090	(639,304,232)	(1,862,160,321)	227,829,117
2020	993,462,288	(879,976,933)	(1,873,439,221)	215,461,120
2021	759,733,125	(1,112,020,171)	(1,871,753,296)	200,297,976
2022	504,979,259	(1,346,497,169)	(1,851,476,429)	196,461,130
2023	297,385,467	(1,540,034,822)	(1,837,420,289)	149,597,946
2024	143,730,788	(1,692,383,483)	(1,836,114,270)	103,690,646
2025	44,715,390	(1,807,205,070)	(1,851,920,460)	62,567,567
2026	1,435,882	(1,887,722,105)	(1,889,157,987)	25,692,167
2027	768,865	(1,944,772,497)	(1,945,541,362)	409,121
2028	322,917	(2,003,378,797)	(2,003,701,714)	257,118
2029	99,267	(2,063,605,256)	(2,063,704,523)	122,281
2030	-	(2,125,565,490)	(2,125,565,490)	50,952