ACTUARIAL RESOURCES
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August 30, 2007

The Honorable Converse A. Chellis, III
Treasurer, State of South Carolina
118 Wade Hampton Building
Columbia, SC 29201

Dear Treasurer Chellis:

We have completed our actuarial analysis of the Fund ("the Fund") for the South Carolina Tuition Prepayment Program ("SCTPP" or "the Program") as of June 30, 2007. This report presents our findings with respect to the Fund's expected cash flows and adequacy of the Fund. The analyses have been prepared in accordance with generally accepted actuarial principles and practices commonly applicable to similar types of arrangements.

Currently the expected value of liabilities is $203,551,019 and the value of assets is $165,624,871, for a difference of $37,926,148. The funded ratio is 81.4% of liabilities. These results are significantly better than last year's results. In 2006 the deficit was $63,818,099 and the funded ratio was 68.4%. This improvement is largely due to the additional appropriations granted to the Program in 2007.

In making our projections, we assumed that the budget proviso limiting tuition increases to Program participants to a maximum of seven percent would not be renewed. If this proviso were to be made permanent, the deficit for 2007 would drop to $14,861,342 and the funded ratio would improve to 91.8%.

The results above are based on assumptions approved by SCTPP personnel after consultation with us. We have included $20,000,000 in additional appropriations in the asset amount above. Based on discussions with SCTPP staff, we have projected this amount to be received in December 2007 and applied a corresponding time-value of money discount.

It should be noted that we have not assumed any further sales of prepaid tuition contracts.

* * * * * * *

We appreciate the opportunity to serve the State of South Carolina. Any questions about the report should be directed to me at (770) 752-5656.

Very truly yours,

Robert B. Crompton

Robert B. Crompton, FSA, MAAA
Vice President
Actuarial Resources Corporation

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I. EXECUTIVE SUMMARY

The following are the key findings of our analysis.

Adequacy of the Fund

The Fund's liabilities exceed its assets by $37,926,148. The key results are shown below.

Value as of June 30, 2007	Assets and Liabilities
Assets	
Investments	$129,682,555
Future Contract Payments	16,630,134
Additional Appropriations	19,312,182
Total Assets	$165,624,871
Liabilities and Surplus	
Future Contract Benefits	$203,551,019
Total Liabilities	$203,551,019
Surplus	($37,926,148)
Total Liabilities and Surplus	$165,624,871
Funded Ratio	81.4%

Adequacy Methodology

In making our projections of the surplus in the table immediately above, we assume that the Program will not sell any additional prepaid tuition contracts. This is a conservative limitation that provides a static "snapshot view" of the Program as of June 30, 2007.

Investment Strategy

Based on discussions with Program personnel, the investment strategy of SCTPP is anticipated to be 45% domestic equities and 15% International equity index fund (total 60% equities) and 40% domestic fixed income. The State Treasurer's Office has adopted this strategy based on their discussion with their investment advisors at Jamison, Eaton, & Wood, Inc.

The objective of the increase in overall equities and the investment in international equities is to provide diversification and higher portfolio returns than would be available from a portfolio consisting mainly of fixed income investments. The assumption for investment returns is based on the recommendation of South Carolina Treasury personnel and the advice of Jamison, Eaton, & Wood, Inc. We have not reviewed the strategy nor are we expressing an opinion on the strategy.

Key economic assumptions are listed below.

Key Assumptions	
Yield on Investments	
All future years	7.25%
Asset Allocation	
Cash & fixed income	40%
Equities	60%
Tuition Inflation	
All future years	9.0%
Bias Load	
All Years	3.0%

The assumption for investment returns is based on the recommendation of South Carolina Treasury investment personnel, who considered the likely returns of a 40% fixed income, 60% equity portfolio.

The tuition inflation assumptions are based on a combination of statistical models of tuition increases and on actuarial judgment. Our statistical models use information from the past 25 years. The rates shown in the table above represent our long-term average estimate of tuition inflation plus some conservatism.

III. RELIANCES & ACTUARIAL STANDARDS

In making the projections on which this report is based, we relied on the following information supplied to us as indicated below.

- Tuition and fee amounts at South Carolina public institutions of post-secondary education, supplied by the Office of the State Treasurer,
- Headcount at South Carolina public institutions of post-secondary education, supplied by the Office of the State Treasurer,
- Market value of assets of the Program's trust fund, supplied by the Office of the State Treasurer,
- Inventory of Program contracts, supplied by InTuition Solutions, Inc., the Program's records administrator,
- Assumptions regarding future investment returns on the Program's trust fund, supplied by the Office of the State Treasurer, after consultation with me regarding reasonableness and comparability to assumptions at other programs with similar investment profiles.

There are no actuarial standards of practice that apply specifically to prepaid tuition plans. However, there are two general standards that we believe apply:

- Actuarial Standard of Practice #23 "Data Quality". This standard sets guidelines on review of data supplied by a third-party. We have performed reasonableness and consistency checks on the data supplied to us by personnel of the Program and by the records administrator, and are in compliance with this standard. Our review of the data was not an audit of the data.
- Actuarial Standard of Practice #41 "Actuarial Communications". This standard sets general guidelines for actuarial communications. This report is in compliance with this standard.

IV. DESCRIPTION OF THE PROGRAM

The Program was created in 1997 by the South Carolina Legislature to "…assist the citizens of South Carolina with the expense of college by providing an advanced payment program for tuition at a fixed and guaranteed level for public colleges and universities." The Office of the South Carolina State Treasurer administers the Program. The Program is summarized below. This summary is provided for explanation purposes only, and the Program will be governed by the provisions of the enabling legislation and Treasury procedures.

Types of Contracts Available

The Program provides for two types of contracts. Both types provide for tuition and mandatory fees imposed by public higher education institutions in the State of South Carolina.

The four-year college/university contract provides for up to eight semesters of tuition and fees at any accredited senior higher education institution. The benefits provided for under this contract may also be used to provide for junior college tuition and fees or a combination of junior and senior college tuition and fees.

The two-year college/university contract provides for up to four semesters of tuition and fees at any accredited senior higher education institution. The benefits provided for under this contract may also be used to provide for junior college tuition and fees or a combination of junior and senior college tuition and fees.

Both contracts require an enrollment fee at the time the enrollment form is submitted. Currently the enrollment fee is $85. Enrollment is currently suspended during the 2007/08 enrollment period.

Payment Options Available

There are currently three approved and published payment options for the Program:
- Lump-sum payments,
- 48 monthly installment payments and
- Extended payments, which are monthly installment payments which run until the year of anticipated matriculation of the beneficiary.

Additionally, the Program provides for additional forms of payment on an accommodation basis at the request of potential purchasers. These payment options typically provide for an initial lump sum coupled with installment payments.

Residency Requirements
There is no residency requirement for contract purchasers. However, there is a residency requirement for the contract beneficiary. The beneficiary is required to meet South Carolina residency requirements, be 21 years of age or younger and not have completed the tenth grade at the time the enrollment form is submitted to SCTPP.

Refunds
If the beneficiary dies or becomes disabled, then the purchaser will receive a refund equal to the lesser of the current Weighted Average Tuition or payments accumulated at interest. Applicable interest is determined by Treasury on a year-to-year basis.

If the beneficiary is awarded a scholarship, the contract owner may obtain a refund equal to the lesser of the current Weighted Average Tuition or payments accumulated at interest. This refund is available only after the beneficiary has reached his projected enrollment year.

Rollovers to the South Carolina Future Scholar 529 College Savings Plan receive a refund equal to contract payments accumulated at 2% interest per year.

Voluntary terminations receive a refund equal to contract payments accumulated at 2% interest per year, less a deduction of the lesser of $150 or 50% of the sum of all payments.

Involuntary terminations receive a refund equal to contract payments accumulated at 2% interest per year, less a deduction of the lesser of $150 or 50% of the sum of all payments.

Change of Beneficiary

Generally, a contract owner can change the beneficiary at any time provided that the new beneficiary is the same age or younger than the original beneficiary, and is a member of the current beneficiary’s immediate family.

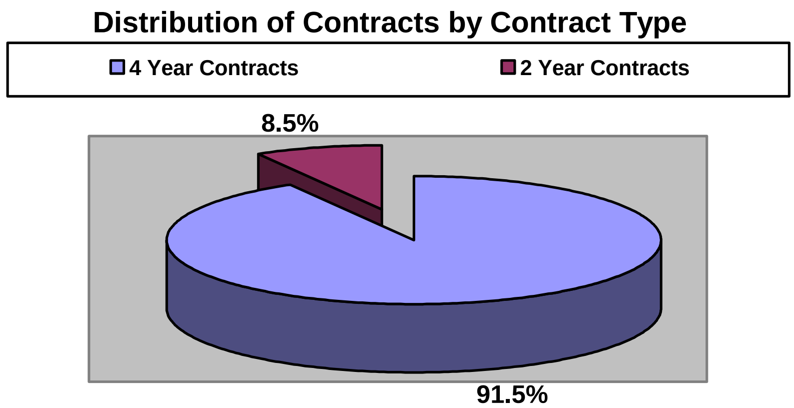
Age Limit on Benefits

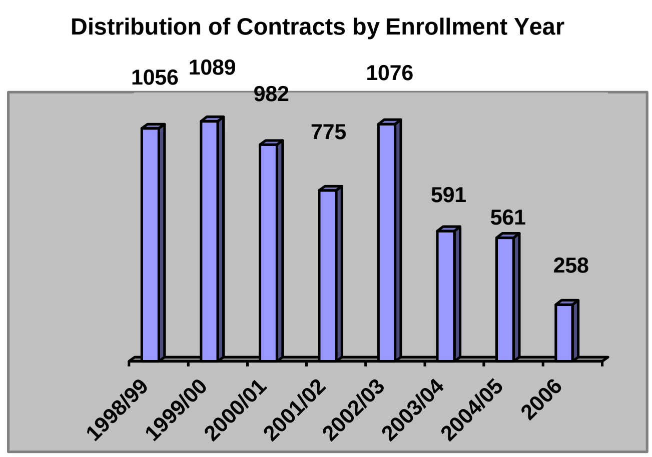
Benefits are available until the beneficiary is age 30. This limit may be extended to age 34 if the beneficiary has military service.

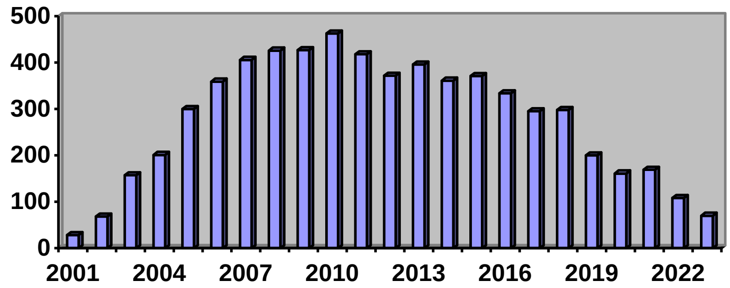
V. SUMMARY OF CONTRACT DATA AND CURRENT ASSETS

Contract Data

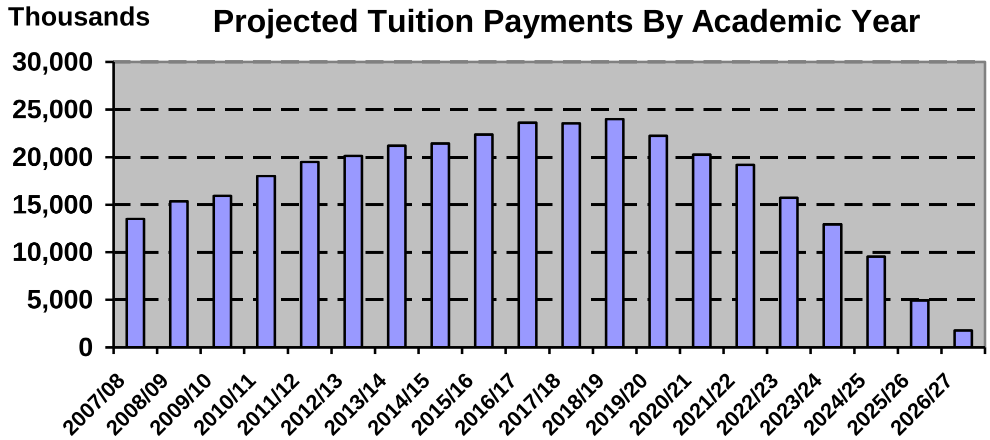
Data on the number of outstanding contracts, contributions, was provided by InTuition, Inc., the Program's records administrator. The graphs below summarize the data provided concerning these contracts.







The benefit payments for tuition generated by these contracts are shown in the chart immediately below.



Current Assets

As of June 30, 2007 the Program's assets were deployed in a mix of fixed income investments and equity investments. The allocation of assets to each class is shown in the following table.

Fund Investments

The market value of Program assets is shown in the table below.

Market value of assets held as of June 30, 2007		
	Amount	% Of Total
Cash & Fixed Income	59,907,093	46.2%
Domestic Equity	66,769,684	51.5%
International Equity	3,005,778	2.3%
TOTAL	$129,682,555	100.0%

VI. ACTUARIAL METHODS AND ASSUMPTIONS

Methods

The actuarial method for the determination of the adequacy of the Fund consists of projecting future tuition rates, future expenses based on the average anticipated number of contracts and future utilization of contracts. Future benefits and expenses are discounted using the assumed investment yield as the interest discount rate. The assumed discount rate is based on the current and anticipated mix of assets of the Fund.

For the projection of future benefits, the analysis proceeds as follows:

- Project future tuition rates for all years under consideration. Future tuition is based on the assumptions for tuition inflation.
- Determine the nominal cost of future benefit payments.
- Determine the nominal value of expenses.
- Determine the nominal value of future contract payments and revenue from Columbia Management.
- Determine the present value of future contract benefits, future expenses and future revenue based on the investment yield assumptions.
- Perform projections for all of the Program's beneficiaries to determine if the Fund is adequate in the aggregate.
- In making our projections of the surplus, we assume that the Program will not sell any more contracts. This is a conservative limitation that provides a static “snapshot view” of the Program as of June 30, 2007.

Assumptions

Actuarial assumptions used to determine financial soundness of programs are of two general types: economic and demographic. Demographic assumptions determine the expected exposure to financial claims and generally answer the question "How and when will people use their contractual benefits?" Economic assumptions are concerned with the expected level of benefit usage and answer the question "What is the expected value of benefit usage?" The assumptions that we used were those that were approved by the South Carolina Treasurer's Office, after consultation with us.

Economic Assumptions

Economic assumptions are used to estimate the annual tuition rates at two and four year colleges, increases in Fund expenses, and Fund earnings on assets invested. Because inflation is a major component of the rate of increase in tuition rates and of investment returns, we considered these rates together. We believe that the difference in these rates is more important than the absolute level of the rates. The following paragraphs describe the economic assumptions used in this study.

Federal Income Tax

We assumed that Fund earnings are exempt from Federal Income Tax.

Annual Tuition Rates and Bias Load

Our assumptions were guided by our observations of historic tuition increases, trends in postsecondary enrollment in South Carolina and the level of legislative appropriations for postsecondary schools in South Carolina.

The Bias Load assumption accounts for Program enrollment at institutions that are more expensive than the Weighted Average Tuition. The choice of this assumption was based on a review of Program experience and what we have seen in other prepaid tuition programs.

The assumptions for tuition inflation and bias load are shown in the table immediately below.

Tuition Inflation	
All Years	9.0%
Bias Load	
All Years	3.0%

We believe that the tuition inflation assumption is reasonable to conservative. This rate is reflective of the average increase in the last 5 – 10 years, but is somewhat higher than the average increase over the last 20 – 25 years.

Fund Earnings Rate

In setting our assumptions for the yield on assets, we relied on input from Treasurer's Office personnel and their investment advisor, Jamison, Eaton & Wood, Inc.

Our investment yield assumption is:

7.25% for all future.

This assumption is based upon the recommendation of the Program's in-house investment advisor.

Although we do not expect the Fund to realize this exact rate in any year, we believe it represents a reasonable earnings rate over the time horizon of this report. In some years the Fund will have yields in excess of the assumed rate, while in other years the Fund will earn less than this rate.

Annual Expenses

Because expenses are offset by fees from Columbia Management, we have not included any explicit assumptions for expenses or offsetting fees.

<u>Demographic Assumptions</u>

The demographic assumptions used in this report are based on our experience with similar types of liabilities. Our choice of assumptions is based on recent experience and our best estimates as to future events. These assumptions are as follows:

Mortality and Disability

We assumed that there would be no terminations due to death or disability.

At-Will Termination of Contract

Our projections include assumptions regarding voluntary termination of contracts prior to matriculation. These assumptions vary by payment type and by number of years from contract purchase. These assumptions are shown in the following table.

	Lump Sum	48 Months Payments	Extended Payments
Year of purchase	2.0%	5.0%	8.0%
Year of purchase+1	2.0%	4.0%	7.0%
Year of purchase+2	2.0%	3.0%	6.0%
Year of purchase+3	1.5%	2.0%	5.0%
Year of purchase+4	1.5%	1.0%	4.0%
Year of purchase+5	1.5%	1.0%	3.0%
Year of purchase+6	1.5%	1.0%	2.0%
Year of purchase+7	1.0%	1.0%	2.0%
Year of purchase+8	1.0%	1.0%	2.0%
Thereafter	1.0%	1.0%	1.0%

Matriculation Percent

All beneficiaries are assumed to matriculate at the matriculation date specified in the application, except for those who are projected to terminate.

Utilization of Benefits

Four-year contract beneficiaries are assumed to use their benefits ratably over four years, while two-year contract beneficiaries are assumed to use their benefits ratably over two years. However, for contracts which are past their anticipated matriculation date, but have not used any benefits, all benefits are projected to be used completely over the next two years.

We believe that this is a conservative assumption since experience at other prepaid tuition programs, and universities in general, indicates that the average student takes somewhat longer than four years to complete a four-year degree.

Dropout Rate

All beneficiaries are assumed to use 100% of their contractual benefits once they have enrolled in college.

Frequency of Beneficiary Replacement

Since all surviving beneficiaries are expected to matriculate and are expected to use their benefits until completion, the assumption is made that no replacement of beneficiaries will occur.

VII. ADEQUACY OF THE FUND AS OF JUNE 30, 2007

In determining the adequacy of the Fund, we estimated the future disbursements for higher education expenses of beneficiaries, expenses and refunds for terminated contracts. We also projected the future assets based on current assets and expected earnings on assets. We believe these estimates are reasonable based on the information available and our past experience and judgment.

The estimates of the prospective assets and liabilities of the Fund are summarized in the table on the following page and demonstrate the financial position of the Fund. The value of all assets is $165,624,871 while the expected value of all liabilities is $203,551,019. The expected present value of the excess of liabilities over assets is $37,926,148. This compares to the prior year’s deficit of $63,818,099. This improvement is largely attributable to the additional appropriations granted to the Program in 2007.

The Program’s surplus is the amount of funds over and above that amount which is necessary to meet benefit usage and expenses on our baseline assumptions. Surplus provides protection for events that are more adverse than our baseline assumptions.

The surplus will change from year to year due to positive and negative cash flows and due to the change in the present value of future benefit usage and expense payments because of the passage of time. The surplus will also change due to the variance of experience from the assumptions. These variances include tuition increases, investment income and expenses.

The surplus will also change due to the growth of the program and due to the updating of the assumptions to reflect the Program's emerging experience. The changes for the year ending June 30, 2007 are summarized in the table below.

Progression of Surplus	
Surplus at June 30, 2006	($ 63,818,099)
Projected Change to June 30, 2007[1]	(4,626,812)
Gain from Favorable Tuition Inflation	5,840,549
Gain due to Favorable Investment Experience	6,864,002
Change due to Additional Contract Sales	N/A
All Other Experience Items[2]	(1,497,970)
Additional Appropriations[3]	19,312,182
Surplus at June 30, 2007	($ 37,926,148)

[1] The actuarial items in this valuation incorporate the time value of money. This time value adjustment changes each year. As long as assets and liabilities are not exactly equal, the surplus or deficit will change each year as the time value of money adjustment changes. If our assumptions are exactly realized for the year 2007/08, then the deficit will change from ($37,926,148) to ($40,675,794) due to the change in the time value of money adjustment.

[2] Other experience items consist principally of differences between actual and projected contract cancellations.

[3] The actual dollar amount of appropriations is $20,000,000. The value in the table above is $20,000,000 with a time value of money adjustment from December 2007, the expected date of receipt, back to June 30, 2007.

In the following chart we show the value of expected future benefit usage, expected future payments, current assets and expected surplus as of the end of each future year for contracts in place as of June 30, 2007. Note that existing assets are projected to be sufficient to meet future liabilities through 2019.

PRESENT VALUE OF ASSETS AND LIABILITIES

Fiscal Year Ending	Value of Assets	Present Value of Future Benefits And Expenses	Surplus/ (Deficit)
2007	165,624,871	203,551,019	(37,926,148)
2008	161,240,714	201,916,508	(40,675,794)
2009	155,029,972	198,654,761	(43,624,789)
2010	148,103,992	194,891,577	(46,787,586)
2011	138,803,186	188,982,872	(50,179,686)
2012	127,510,364	181,328,077	(53,817,713)
2013	114,895,016	172,614,513	(57,719,497)
2014	100,370,018	162,274,179	(61,904,161)
2015	84,651,061	151,043,274	(66,392,212)
2016	66,930,318	138,135,966	(71,205,648)
2017	46,709,033	123,077,090	(76,368,057)
2018	25,139,767	107,044,509	(81,904,741)
2019	1,630,408	89,473,243	(87,842,835)
2020	(21,703,148)	72,508,293	(94,211,441)
2021	(44,587,780)	56,453,990	(101,041,770)
2022	(67,949,305)	40,417,994	(108,367,298)
2023	(89,345,007)	26,878,921	(116,223,928)
2024	(109,339,563)	15,310,599	(124,650,162)
2025	(127,236,401)	6,450,898	(133,687,299)
2026	(141,634,568)	1,745,061	(143,379,628)
2027	(153,774,651)	922,144	(154,696,796)
2028	(164,923,314)	989,000	(165,912,313)
2029	(172,801,266)	- 0 -	(172,801,266)

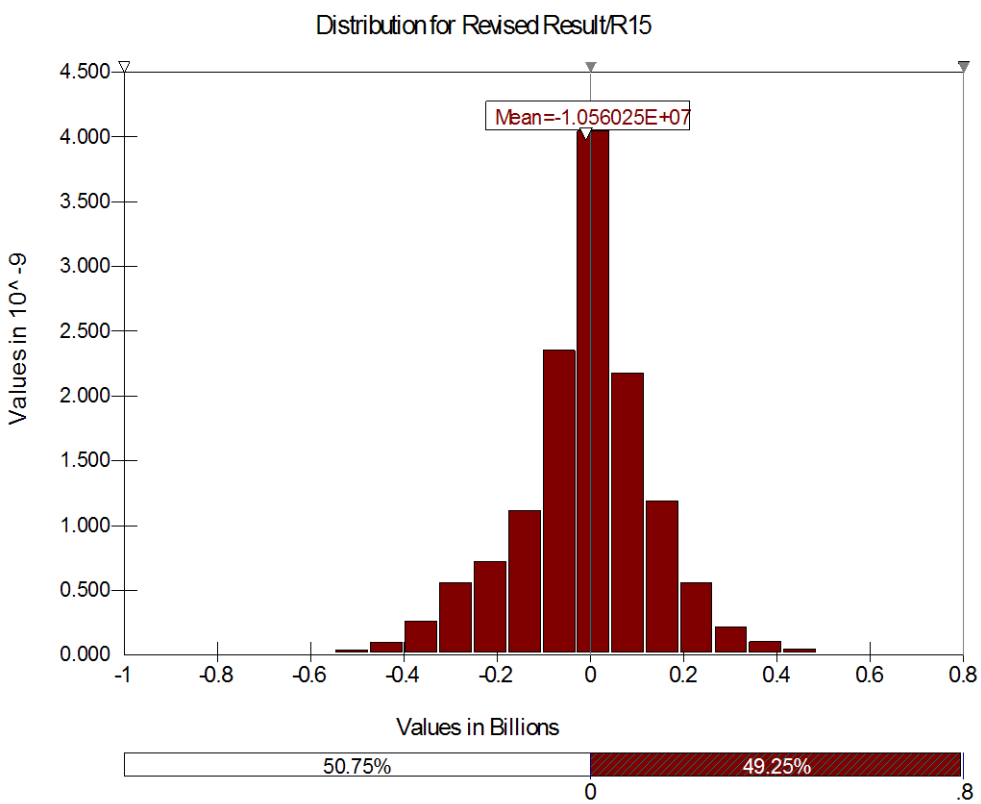
VIII. STOCHASTIC ANALYSIS

Our model for stochastic analysis for 2007 is last year's model with updated starting points. We have retained the form and parameters from last year. A more detailed description of the model can be found in last year's report.

Results

Based on 10,000 scenarios, the results of our projections are shown below.

Proportion with positive Actuarial Reserve	49.25%
25% of results are better than:	71,275,568
50% of results are better than:	(1,657,191)
75% of results are better than:	(80,966,752)
Largest Actuarial Reserve	783,167,552
Smallest Actuarial Reserve	(840,640,000)
Mean Actuarial Reserve	(10,560,246)



The most important measures from the table immediately above are the Proportion with positive Actuarial Reserve and the 50% Results. The Proportion with positive

Actuarial Reserve probability of 49.25% indicates that there is almost a fifty-fifty likelihood that the Program will have a surplus.

The 50% Results measure is a "best-estimate" measure of results. If our assumptions are neither conservative (that is they understate results) nor aggressive (that is they overstate results) then the 50% Results measure should be close to our projected deficit of $37,926,148. The table above indicates that our assumptions are significantly conservative. We believe that most of the conservative is derived from the tuition inflation assumption, which is above historical averages.

The Smallest Actuarial Reserve indicates what happens if economic events continue adversely for the lifetime of the current Program contracts –high tuition increases, coupled with negative returns in the equity market until the end of the projection horizon. On the other hand, the Largest Actuarial Reserve indicates what happens if economic conditions are favorable for the remaining lifetime of the current contracts.

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IX. BREAK-EVEN RATES & SENSITIVITY TESTING

We calculated both the levelized investment return necessary to provide a break-even result on the Program's surplus and the levelized tuition increase necessary to provide break-even results. These break-even rates are shown in the table below.

Break-even investment return	10.71% per year
Break-even tuition inflation	5.51% per year

If either of these break-even rates were achieved, the deficit would be cured. Otherwise, the only sure method of curing the deficit is through additional funding or through limitation of benefits. We are currently projecting that an additional appropriation of $42,124,493 payable in December 2008 would cure the deficit.

We also investigated the effect of variances in both university inflation and investment yield assumptions from those anticipated by the adequacy test assumptions. These scenarios are described below and are based on level adjustments to the baseline adequacy assumptions discussed earlier in this report.

1) Tuition inflation lower than adequacy test assumptions by 0.25% every year.
2) Tuition inflation higher than adequacy test assumptions by 0.25% every year.
3) Investment yields higher than adequacy test assumptions by 0.25% every year.
4) Investment yields lower than adequacy test assumptions by 0.25% every year.
5) Tuition inflation higher and investment yields lower than adequacy test assumptions by 0.25% every year.

The Surplus for each of these scenarios is shown below.

Sensitivity Testing Results

Scenario	Surplus	Variance From Baseline
1	(34,827,941)	3,098,207
2	(41,090,149)	(3,164,001)
3	(34,701,992)	3,224,156
4	(41,238,121)	(3,311,973)
5	(44,481,169)	(6,555,021)

X. CHANGES IN ACTUARIAL ASSUMPTIONS

Since the last Actuarial Report, there have been no changes in actuarial assumptions.

XI. EXPECTED USE OF FUNDS

The Fund is expected to pay benefits and expenses in the following proportions:

- Tuition payments - 95.6%
- Payments of refunds to contract owners – 4.4%

These results are shown graphically below. Note that there is no item for expenses. We no longer project expenses since they are offset by fees from Columbia Management.