

April 8, 2010

The Honorable David H. Lillard, Jr.
Chairman
Baccalaureate Education System Trust
State of Tennessee Treasury Department
Suite 1340, Andrew Jackson Building
Nashville, TN 37243-0253

Dear Mr. Lillard:

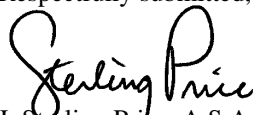
Submitted herewith are the results of the actuarial valuation of the Tennessee Baccalaureate Education System Trust prepared as of September 30, 2009 pursuant to T.C.A. § 49-7-818. This report details information concerning the Educational Services Plan (otherwise known as the "Prepaid Plan"). This report does not contain any information relating to the Educational Savings Plan.

We trust this report will be helpful in the formulation of policy with respect to the operation and financing of the program. We appreciate the opportunity to serve the State of Tennessee, and we will be pleased to supplement this report in any way, as you request.

This report has been prepared under the supervision of J. Sterling Price, A.S.A., a member of the American Academy of Actuaries, an Associate of the Society of Actuaries, and a consulting actuary with Bryan, Pendleton, Swats, and McAllister, LLC of Brentwood, Tennessee, who has met the Qualifications Standards of the American Academy of Actuaries to render the actuarial opinions herein. To the best of my knowledge this report has been prepared in accordance with generally accepted actuarial standards, including the overall appropriateness of the analysis, assumptions, and results and conforms to appropriate Standards of Practice as promulgated from time to time by the Actuarial Standards Board. I am not aware of any direct or material indirect financial interest or relationship, including investment management or other services that could create, or appear to create, a conflict of interest that would impair the objectivity of our work. This report has been reviewed as part of our firm's peer review process.

The information contained in this report was prepared for the State of Tennessee in connection with our actuarial valuation of the plan. It is not intended nor necessarily suitable for other purposes. Further distribution of use of all or part of this report to other parties is expressly prohibited without BPS&M's prior written consent.

Respectfully submitted,



J. Sterling Price, A.S.A.

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**TENNESSEE
BACCALAUREATE EDUCATION
SYSTEM TRUST**

**ACTUARIAL VALUATION
AND REPORT**

SEPTEMBER 30, 2009

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An actuarial valuation of the Tennessee Baccalaureate Education System Trust (“BEST”) program was conducted as of September 30, 2009. This valuation only relates to the Educational Services Plan. It does not contain any information relating to the Educational Savings Plan. The purpose of the valuation is to satisfy the requirements of T.C.A. § 49-7-818 which requires, among other things, that an actuary perform an actuarial valuation of the assets and liabilities of the fund at least once a year.

Summary of Funded Status

Generally, conclusions regarding the funded status of the program should be reached by examining the cost of the program’s future obligations. Program obligations include: (i) future tuition obligations and (ii) future operational expenses.

Tuition obligations are funded by amounts received from the purchase of tuition units and investment earnings thereon. The cost of tuition obligations is expected to escalate from current unit values as a result of future tuition inflation.

Operational expenses of the BEST program are funded by (i) the per unit adjustment to the unit purchase price for expenses and (ii) that portion of the market value of assets which is reserved for future expenses (such amounts are collectively referred to as the "Administrative Reserve"). As of September 30, 2009, the Administrative Reserve has been sufficient to cover the annual expenses of the program. The current policy and practice of the program is that future annual operational expenses will be funded by the Administrative Reserve. Accordingly, future program obligations attributable to expenses are not reflected in this valuation report.

The following exhibits show the funded status of the BEST program on a present value basis and on a termination basis as of September 30, 2009. There are important differences between the two approaches as discussed below.

Present Value Basis

Under the present value concept, the current value of the tuition obligations of the program is calculated by determining the fund amount that would be needed on the valuation date to satisfy those obligations. The calculation assumes that program assets earn 6.25% per annum during the period between the valuation date and the date each obligation is assumed to be satisfied. The present value amount is then compared to existing program assets. A surplus or deficit occurs when program assets either exceed or are less than the present value of benefits.

The funded status of the program on a present value basis shown below is based on a comparison of the market value of assets as of September 30, 2009 to the present value of future tuition payments. The market value of assets as of September 30, 2009 is adjusted to reflect reserves held for future operational expenses.

The present value of future payments was calculated and aggregated for each beneficiary as of September 30, 2009 using the investment return, tuition inflation and tuition unit usage assumptions provided in the Summary of Actuarial Assumptions.

Market Value of Assets	\$ 83,225,900
Present Value of Future Payments from the Trust Fund	(98,388,521)
Surplus/(Deficit)	<u>\$ (15,162,621)</u>
 Funded Percentage	 84.59%

Termination Basis

In addition to the Present Value Basis discussed above, the funded status of the program has also been determined on a termination basis. This approach is of limited value in evaluating the ongoing funding status of the program but is useful as a short-term evaluation measure. The funded status of the program on a termination basis is based on a comparison of the market value of assets as of September 30, 2009 to the payout value of all tuition units outstanding as of September 30, 2009. The program termination payout value is based on the weighted average tuition in effect on September 30, 2009 and does not incorporate the projection of tuition unit values into the future.

Although there is no statutory requirement for the satisfaction of program liabilities on a termination basis, a comparison of the market value of assets to the termination liability as of September 30, 2009 may be helpful in analyzing a scenario whereby existing assets are used to settle the liability for outstanding units.

Market Value of Assets	\$ 83,225,900
Present Value of Accrued Benefits	(93,785,272)
Surplus/(Deficit)	<u>\$ (10,559,372)</u>
Funded Percentage	88.74%

Development and Discussion of Actuarial Gain or Loss

Under the present value approach, the actuarial experience for the past year is such that an actuarial loss occurred during the period. A development of the actuarial experience is presented below.

Present Value Basis Surplus/(Deficit) from Prior Year	\$ (12,720,611)
Expected Interest since September 30, 2008 at 6.25%	<u>(795,038)</u>
Expected Surplus/(Deficit) for Current Year	(13,515,649)
Actuarial Surplus/(Deficit) for Current Year	<u>(15,162,621)</u>
Actuarial Gain/(Loss) during Period	\$ (1,646,972)

Actuarial gains and losses occur due to differences between anticipated and actual experience and may over significant periods of observation be important indicators of the accuracy of the actuarial assumptions used in determining surplus levels.

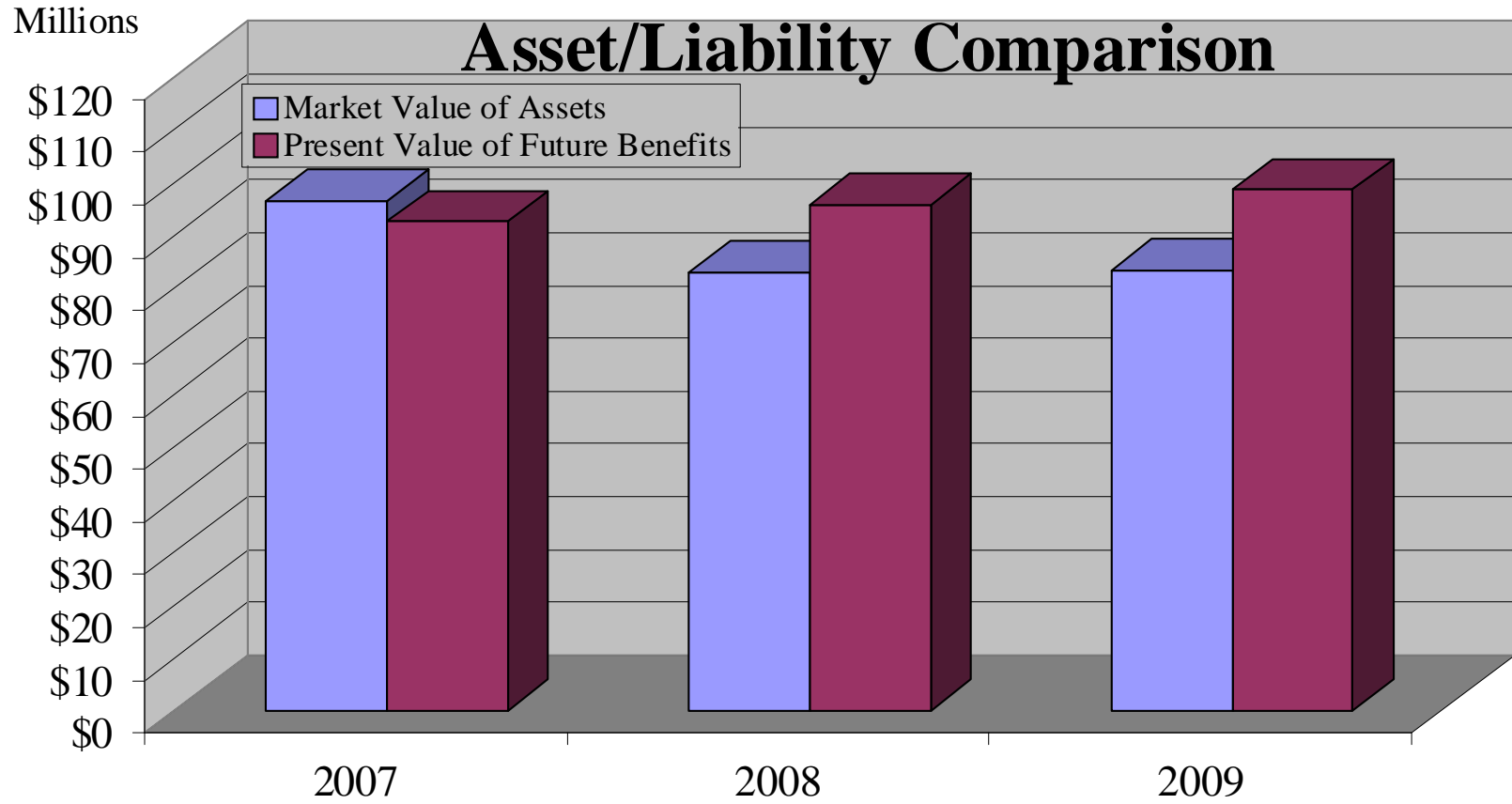
Among the identifiable sources of experience occurring during the year is an actuarial loss attributable to the investment return. The estimated market value dollar weighted investment return for the year of 4.92% was less than the actuarially assumed return rate of 6.25%. The difference in the rates of return is responsible for an actuarial loss of approximately \$1,511,000.

An actuarial gain is associated with the assumed rate of tuition inflation of 7.5%. During the year, actual tuition increases were 7.5% resulting in no change to the liabilities for contracts in effect as of September 30, 2008 and for other contracts purchased prior to the beginning of the current fiscal year. The purchase of new units during the plan year resulted in an actuarial loss of \$378,000. The loss results from the negative spread between the assumed rate of return on the assets and the future rate of tuition inflation.

In August 2004, the Board approved a surcharge on new unit purchases to reduce the likelihood of new units adding to the current deficit. This surcharge resulted in an actuarial gain of 286,000. Effective August 1, 2009, the Board approved an increase in the surcharge to \$5.22 per unit.

Other sources of actuarial experience gains and losses have not been identified but result from items such as the contract transfers, contract surrenders, operation of the expense reserve account, etc.

	<u>2008</u>	<u>2009</u>
Investments	(18,374,000)	(1,511,000)
Tuition Inflation	1,496,000	0
Purchase of New Units	(442,000)	(378,000)
Surcharge for Actuarial Soundness	398,000	286,000
Refunds/Other	<u>137,811</u>	<u>(43,972)</u>
Total	(16,784,189)	(1,646,972)



*The Market Value of Assets is adjusted to reflect reserves held for future operational expenses.

Yearly Comparison of Selected Plan Information

	Valuation Date				
	09/30/2005	09/30/2006	09/30/2007*	09/30/2008	09/30/2009
Total Contracts	8,590	9,178	9,413	9,701	9,916
Units Purchased ^	149,663	94,697	92,957	86,431	58,724
Outstanding Units	1,651,002	1,649,234	1,625,983	1,594,496	1,532,440
Present Value of Benefits	\$73,221,819	\$76,576,504	\$92,430,704	\$95,588,406	\$98,388,521
Market Value of Assets	\$58,671,177	\$62,588,068	\$96,255,248	\$82,867,795	\$83,225,900
Surplus/(Deficit)	(\$14,550,642)	(\$13,988,436)	\$3,824,544	(\$12,720,611)	(\$15,162,621)
Funded Percentage	80.13%	81.73%	104.14%	86.69%	84.59%

* Valuation assumptions changed and additional capital contributed to program

^ Represents activity for 12-month period preceding the valuation date

Funding and Other Issues

Tuition Inflation and Fees. The 7.5% tuition inflation assumption utilized for this valuation is based on recommendations from BEST personnel in light of information concerning anticipated tuition and fee increases. This assumption was increased from 6.0% per year in 2007 after the Board conducted a study which indicated that future tuition rates were expected to increase at a rate higher than previously assumed.

Purchase of Additional Units. Under the current set of actuarial assumptions, each current unit creates an ongoing deficit on a present value basis. It is expected that future unit purchases will include an actuarial surcharge to eliminate the ongoing deficit associated with that particular unit over the expected time until payout. It is expected that future actuarial gains, actuarial surcharges (and investment earnings on those surcharges) will be sufficient to sustain the plan in the future.

For example, assume that a contract has a current value of \$61.20 and is expected to be used one year in the future. At the assumed rate of tuition inflation of 7.5%, the contract will be worth \$65.79 at the time of payout. In order to generate sufficient funds to satisfy the liability, the plan must have accumulated \$61.92 presently so that earnings of \$3.87 will be generated by an investment return of 6.25% during the year. Although there is no surplus or deficit generated by the contract on a plan termination basis, the single contract is responsible for an ongoing plan deficit of \$0.72 on the present value basis under the current valuation assumptions and the stated assumption of the unit being used one year in the future.

Surplus/deficit Status – The surplus position of the program had deteriorated prior to 2007. This deterioration was as result of multiple years of actuarial losses caused by higher than assumed rates of actual tuition inflation and lower than assumed rates of investment return.

In 2007, the Board adopted a more conservative set of valuation assumptions. The use of these assumptions would hopefully decrease the likelihood that the program would experience actuarial losses going forward. However, the plan experienced extreme asset losses during the 2007-2008 plan year which caused the plan to return to a deficit status as of the prior valuation date. The plan remains in a similar deficit status as of September 30, 2009.

Valuation Date - Prior to September 30, 2001, reports were prepared as of the end of the calendar year. The valuation date was changed to September 30 in order to provide up-to-date information for consideration by program officials and the legislature.

Adjustment for Actuarial Soundness - Effective August 1, 2004, a surcharge of \$3.71 was included in the purchase price of new units. This was done in attempt to reduce the potential effect of new units adding to the existing plan deficit. This surcharge is subject to annual review by the board. The current value of this surcharge is \$5.22 as of August 1, 2009.

Note that this surcharge on future unit purchases does not affect the current funded status of the plan since this valuation only considers the units and funds currently in the plan as of the valuation date.

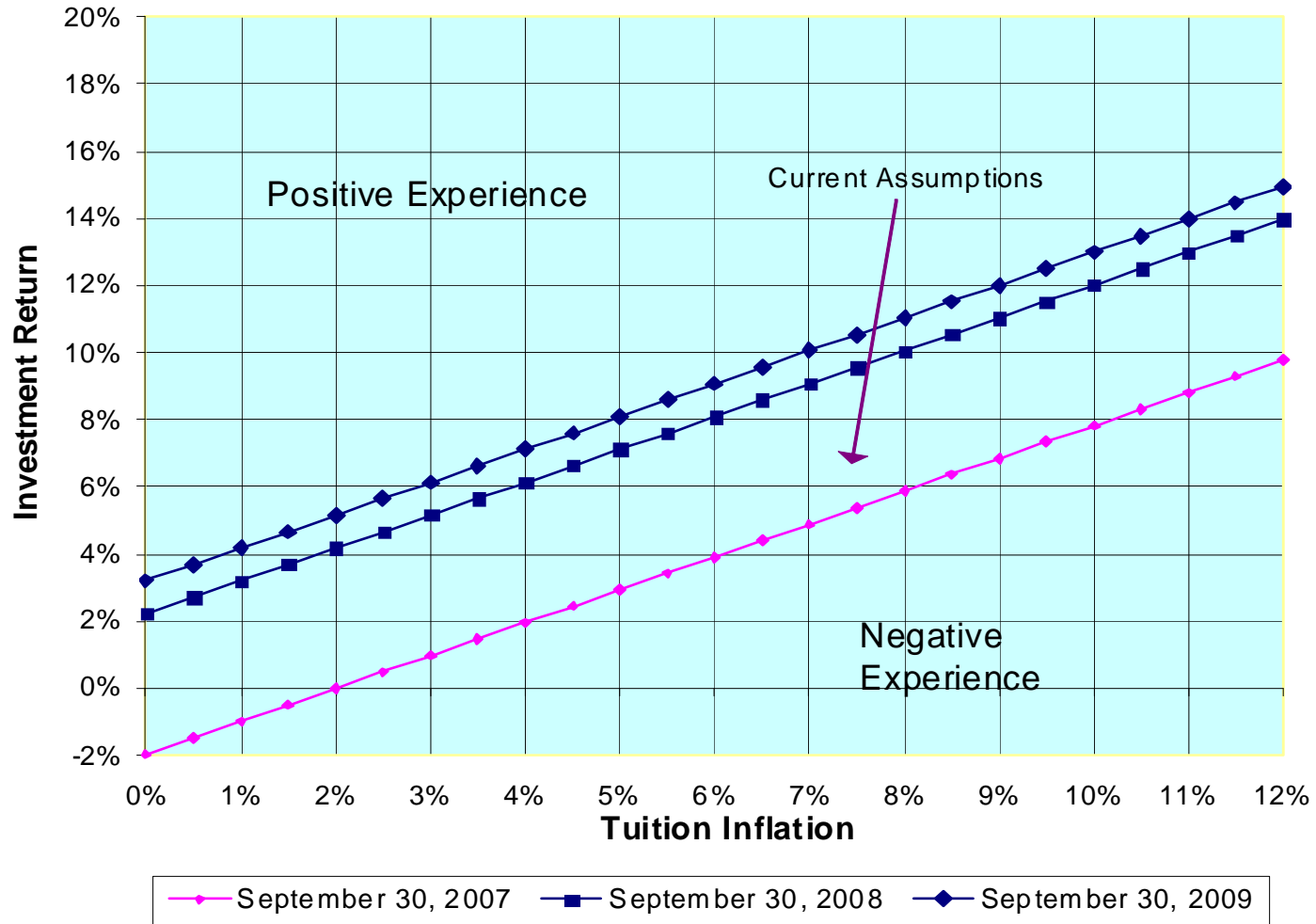
Surplus/Deficit Equilibrium

The graph on the following page may be helpful for planning purposes and for identifying potential risk for the BEST program.

The graph indicates that, for each rate of expected future tuition inflation, there exists a future investment return rate that, if realized, would result in liabilities for existing commitments exactly equaling existing assets. Under each set of these assumptions, the BEST program would be in equilibrium or balanced condition such that neither a surplus nor a deficit would be expected with respect to existing contracts. The surplus/deficit equilibrium line was determined on a present value basis using the September 30, 2009 valuation assumptions.

The equilibrium status of the program would be altered if the actual investment return rate were to exceed the equilibrium rate with the result that an asset surplus would exist after satisfaction of existing commitments. Similarly, a deficiency would occur if actual investment returns were less than the equilibrium return rate. For example, an 8.00% annual tuition rate could be satisfied by an investment return of approximately 11.04%. Higher returns would produce a surplus while lower returns would result in a deficiency. The 6.25% investment return rate assumed in producing this report in combination with an expected tuition inflation rate of 7.5% would maintain the current deficit.

Surplus/Deficit Equilibrium



Balance Sheet

A summary balance sheet of the funds held on behalf of the BEST program is shown below.

	<u>September 30, 2008</u>	<u>September 30, 2009</u>
<u>Assets</u>		
Cash/Short Term Investments	\$ 1,454,106	\$ 1,705,828
Fixed Income	41,594,719	36,310,392
Equities	41,382,452	46,466,457
Investment Purchases Payable	(764,010)	(596,175)
Total	<u>\$83,667,267</u>	<u>\$ 83,886,502</u>
Reserve for Beneficiaries	82,867,795	83,225,900
Reserve for Future Expenses	799,472	660,602
Total	<u>\$83,667,267</u>	<u>\$ 83,886,502</u>

Summary of Operation

A summary of operation of the funds held on behalf of the BEST program during the preceding two plan years is presented below.

	<u>October 1, 2007- September 30, 2008</u>	<u>October 1, 2008- September 30, 2009</u>
Balance as of Beginning of Plan Year	\$96,852,108	\$ 83,667,267
Receipts		
Contributions	5,184,968	3,915,199
Administrative Fees	280,079	228,051
Transfer from General Fund	0	0
Transfer from Savings Plan	366,808	53,924
Total Receipts	<u>5,831,855</u>	<u>4,197,174</u>
Investment Earnings	(12,186,746)	3,428,668
Disbursements		
Tuition Payments	(5,549,857)	(6,512,279)
Refunds	(835,818)	(473,484)
Total Disbursements	<u>(6,385,675)</u>	<u>(6,985,763)</u>
Expenses		
Administrative Cost	(444,275)	(420,844)
Total Expenses	<u>(444,275)</u>	<u>(420,844)</u>
Balance as of Valuation Date	\$83,667,267	\$ 83,886,502

Comparative Rates of Investment Returns

The following plan and comparative market value rates of return for twelve-month periods ending on September 30 using standard industry indices may be of interest in evaluating past BEST program investment returns and future expectations.

	Total Rates of Return for		
	2007	2008	2009
BEST Program			
State Street S & P Index Fund	16.5%	(22.0)%	(6.85)%
State Street International Index Fund	24.9	(30.4)	3.15
State Street Passive Bond Index Fund	5.1	3.8	10.56
Domestic Fixed Income	5.1	3.8	10.56
Cash Equivalents	5.1	3.2	0.29
Total Return	12.8	(12.3)	4.92
Market Indices			
Standard & Poor's 500 Stocks	16.4%	(22.0)%	(6.91)%
Dow Jones Industrial Average	21.7	(19.9)	(7.38)
MSCI EAFE Index	24.9	(30.5)	3.23
Barclays Capital Aggregate Bond Index	5.1	2.4	10.56
90-Day U.S. Treasury Bills	5.0	2.6	0.39

Summary of Provisions of the Program

Statutory Basis- The BEST Prepaid Plan is a qualified tuition program under Section 529 of the Internal Revenue Code, and the plan is established pursuant to T.C.A. § 49-7-801 et seq. The requirements for participation and administration of the program are contained in Chapter 1700-5-1 of the Official Compilation of the Rules and Regulations of the State of Tennessee.

Purpose - BEST was created by the Tennessee General Assembly in order to assist students and their families in financing a portion of the cost of attending colleges and universities. In that regard, BEST allows parents and other interested persons to purchase tuition units on behalf of an eligible beneficiary. Those units entitle the beneficiary to pay for qualified post secondary education expenses.

Tuition Units - Tuition costs are purchased in increments known as tuition units. One tuition unit represents one percent of the average cost, including tuition and mandatory fees, of attending a four-year undergraduate Tennessee public university. Thus, tuition and fee expenses for one academic year would be covered by roughly 100 tuition units.

Weighted Average Tuition - Each year, the board determines the weighted average tuition (“WAT”). The WAT is based on the actual tuition and actual fees at each of Tennessee’s four-year public universities for the academic year beginning on or after August 1. It is weighted based on enrollment at those schools at the beginning of the prior academic year.

Purchase Price of Tuition Units - The purchase price of a tuition unit is equal to the WAT plus a charge to cover administration and an additional charge to ensure the actuarial soundness of the program. Tuition units may be purchased (i) by automatic cash withdrawal from a checking or savings account, (ii) by automatic payroll deduction, (iii) by check, or (iv) by cash. It is the current policy of the BEST program that the purchase price remains constant during an enrollment period from August 1 to December 31. After December 31, the purchase price is increased.

Payout Value of Tuition Units – The payout value of a tuition unit is based on the WAT in effect when the beneficiary uses the unit for tuition.

Usage of Tuition Units – Tuition units may be applied toward the cost of tuition, mandatory fees and room and board at any accredited two or four-year school or any accredited graduate or professional school. Units may be used at both public and private schools. Units may be used at out-of-state schools as well as at schools located in the State of Tennessee.

Two-year Limitation on Usage of Tuition Units - Tuition units may not be used until two full years have passed following their purchase.

Limit on Number of Tuition Units Purchased - The total dollar value of tuition units which may be purchased by all persons on behalf of a single beneficiary under all contracts in the BEST Prepaid Plan may not exceed \$235,000.

Rollover – A BEST purchaser may transfer funds from a BEST Prepaid account to another 529 Plan once every 12 months without incurring federal income tax.

Time Period for Use - There is no absolute time period in which the tuition units in a beneficiary’s account must be used. However, BEST may terminate an account ten years after the beneficiary attains age 18 if there has been no contact or activity during that ten-year period.

Transfer of Tuition Units - Tuition units may be transferred to a new beneficiary provided that the new beneficiary is a member of the family of the original beneficiary as defined under Internal Revenue Section 529.

Termination of Contract - A tuition contract can be terminated upon one of the following events: (i) the beneficiary dies or becomes permanently disabled, (ii) the beneficiary is age 18 or older and decides not to attend college, (iii) the beneficiary obtains a higher education degree that is less than a bachelor's degree and decides not to pursue education further, (iv) the beneficiary obtains a bachelor's degree, and (v) the beneficiary's account contains 5 tuition units or less and no tuition units have been purchased for the beneficiary's account for a period of at least 3 consecutive years.

Refund Upon Termination - To request a refund, the refund recipient must send BEST written notice that the tuition units will not be used for college. A refund of tuition units for reasons other than death, disability, or scholarship will be subject to certain tax consequences. If the Refund Recipient is the child (Beneficiary) the refund will not be issued until the child reaches age 20.

Tax Treatment-Withdrawals for qualified higher educational expenses are exempt from municipal, state and federal taxation. Qualified withdrawals are withdrawals for tuition, books, supplies required for enrollment or attendance at a qualified higher educational institution, and some room and board expenses. Withdrawals for qualified scholarships or due to the beneficiary's attendance at a military academy are subject to federal income tax on the earnings only. Withdrawals for a scholarship refund or due to the beneficiary's attendance at a military academy are not subject to the 10% additional tax. The earnings on tuition units for non-qualified withdrawals are subject to federal income tax and a 10% additional tax.

Financial Aid Treatment- Funds saved in prepaid 529 plans may affect the amount of financial aid that the beneficiary will qualify for. For BEST accounts owned by parents, the refund value of the prepaid BEST account must be reported. This amount is added to any other investments, which include, but are not limited to, real estate (not the family home), trust funds, UGMA or UTMA accounts, money market funds, certificates of deposits, stocks, stock options, bonds, other securities, Coverdell Education Savings Accounts, and 529 Savings accounts. Only a percentage of the value of all investments is considered in the calculation of the expected family contribution for aid qualification.

Summary of Actuarial Assumptions

Investment Return

The valuation was conducted using a 6.25% investment rate of return.

Tuition Increases

Tuition and fees were assumed to increase at 7.50% per year.

Expenses

Operational expenses of the BEST program are assumed to be funded by (i) the per unit adjustment to the unit purchase price for expenses, (ii) the \$50 initiation fee charged for all new contracts purchased prior to March 29, 2000, and (iii) that portion of the market value of assets which is reserved for future expenses. Therefore, the impact of future expenses is not reflected in this valuation report.

Age at Enrollment

Age at enrollment is assumed to be (i) age 18, or (ii) for beneficiaries who are age 17 or older as of the beginning of the academic term with units purchased in the preceding year, two full years after the beginning of that academic term.

Rate of Usage

Tuition units are used during the two-year period following the assumed enrollment age. Participants with more than one year's worth of units are assumed to use those units over more than one academic year.

Mortality Rates

None

Summary of Experience Study

Pursuant to T.C.A. §49-7-820(b), we have conducted a review of the actuarial assumptions used in the valuation of the BEST program. It is important to realize that actuarial assumptions do not determine the ultimate cost of the program. The actual cost is determined by the number of units redeemed and the WAT price at the time of redemption. The assumptions simply provide a way to estimate the funded status of the plan on an ongoing basis at a particular point in time.

The following summarizes our study of each actuarial assumptions used in the valuation of the BEST program.

Investment Return

The Board has approved an investment strategy using low cost index funds with minimal tracking error. This is appropriate given the relatively small size of the BEST portfolio (approximately \$80 million). While a significant portion of the portfolio is invested in equities (both domestic and international), which are expected to produce higher investment returns over time, the Board has adopted an investment earnings assumption of 6.25%. While this assumption is conservative, it is appropriate for the following reasons:

- The relatively short investment horizon. Units are redeemed, on average, seven years after purchase.
- The declining number of unit purchases over the past few years.
- The ability for purchasers to purchase a large number of units immediately prior to unit price increases.

Tuition Inflation

The valuation assumes a future tuition inflation rate of 7.5%. In 2007, the State prepared a study which estimates that future increases in higher education revenues provided by students will fall in a range of 4.3% to 7.8% per annum. Recent experience shows that actual increases have fallen in the higher end, or even exceeded this range. Based on the historical experience of the plan and the future expectation of tuition increases, an assumption of 7.5% is reasonable. However, while this assumption is intended to be long-term in nature, it should be reviewed periodically to account for the volatile nature of higher education costs.

Expenses

The program charges a surcharge on new units to account for expenses payable from the program. This amount, currently \$3.90 per unit, has been sufficient to cover the ongoing expenses of the program. Note that the purchase of new units is the only vehicle which provides funds to cover the ongoing expenses of the plan. If the plan were to close to new entrants, as some states have done for prepaid tuition plans, monies from the assets of the fund would have to be used to pay program expenses.

Age at Enrollment

The program currently assumes that units are initially redeemed when the enrollee reaches age 18. A study of the average age of those enrollees redeeming units as well as the average age that students begin post-secondary education indicate that the current assumptions continues to be a reasonable assumption.

Mortality Rates

The program is not affected by the deaths of enrollees since refunds would be paid. As a result, no mortality is assumed in the valuation of the program.

2009 – 2010 Weighted Average Tuition

The purchase price and payout value of tuition units are based primarily on the weighted average tuition (“WAT”). The WAT for a given enrollment year is based on actual tuition and actual fees at Tennessee’s public four-year universities for the academic year. The sum of the tuition and fee amounts for each school is then weighted by the school’s enrollment at the beginning of the prior academic year.

The purchase price of one unit is equal to one percent of the WAT plus an amount to cover administrative expenses and the actuarial soundness of the program.

	Fall 2008 Enrollment	2009-10 Tuition & Fees *	Total Tuition
Austin Peay (APSU)	7,499	\$5,868	\$44,003,545
East Tennessee (ETSU)	11,117	5,593	62,179,153
Middle Tennessee (MTSU)	20,062	6,048	121,332,760
Tennessee State (TSU)	6,694	5,444	36,443,587
Tennessee Tech (TTU)	8,568	5,586	47,859,544
Univ of Memphis (UoM)	15,910	6,524	103,795,752
UT - Chattanooga (UTC)	8,446	5,656	47,770,576
UT - Knoxville (UTK)	24,697	6,850	169,174,450
UT - Martin (UTM)	6,305	5,769	36,373,545
	<u>109,298</u>		<u>\$668,932,912</u>
Weighted Average Tuition (total tuition divided by total enrollment)			\$6,120
Tuition Unit Payout Value (1% of WAT)			\$61.20
Adjustment for expenses			3.90
Adjustment for actuarial soundness			5.22
Tuition Unit Purchase Price**			<u><u>\$70.32</u></u>

* Tuition and fees are based on the actual amounts for the 2009-2010 academic year.

** The tuition unit purchase price increased to \$72.52 effective January 1, 2010.

The Board of Regents approved a tuition schedule for the five four-year institutions under their jurisdiction that removed the twelve semester hour cap. Previously, students were not charged for any hours beyond the first twelve. Effective with the 2009-10 academic year, a reduced hourly rate is charged for any hours taken after twelve. In accordance with the rules governing the Tennessee Baccalaureate Education System Trust, the 2009-10 weighted average tuition is calculated using 15 semester hours for each semester for the five Board of Regents institutions. The University of Tennessee system did not remove the twelve semester hour cap.

History of Payout Value and Purchase Price

The following table provides a historical account of the unit payout value and unit purchase price since the 1997-1998 plan year.

Enrollment Year	Unit Payout Value	Adjustment for Expenses	Adjustment for Actuarial Soundness	Unit Purchase Price	Adjustment for Purchases after December 31	Adjusted Unit Purchase Price
1997-1998	21.64	2.11	0.00	23.75	0	23.75
1998-1999	25.00	1.75	0.00	26.75	1.25	28.00
1999-2000	27.08	1.92	0.00	29.00	1.25	30.25
2000-2001	29.58	1.92	0.00	31.50	1.50	33.00
2001-2002	33.51	0.99	0.00	34.50	2.35	36.85
2002-2003	35.98	1.02	0.00	37.00	1.40	38.40
2003-2004	40.70	1.30	0.00	42.00	1.60	43.60
2004-2005	43.15	2.10	3.71	48.96	1.84	50.80
2005-2006	47.71	2.28	4.07	54.06	2.03	56.09
2006-2007	49.72	2.98	4.24	56.94	2.14	59.08
2007-2008	53.79	3.13	4.56	61.48	2.15	63.63
2008-2009	56.93	3.87	4.86	65.66	2.05	67.71
2009-2010	61.20	3.90	5.22	70.32	2.20	72.52

Projection of Payout Value and Purchase Price

The following table shows a projection of the tuition unit purchase price and payout value. The projected payout value is equal to the projected weighted average tuition using a tuition inflation rate of 7.5%. The projected adjustment for expenses and actuarial soundness is based on (i) initial values of \$3.90 for expenses and \$5.22 for actuarial soundness for the enrollment year beginning August 1, 2009 and (ii) an inflation rate for expenses of 3.75% and inflation rate for actuarial soundness of 7.5%. The actual values for the enrollment year beginning August 1, 2009 are shown.

Enrollment Year Beginning	Projected Unit Payout Value	Projected Adjustment for Expenses**	Projected Adjustment for Actuarial Soundness**	Projected Unit Price
August 1, 2009 *	61.20	3.90	5.22	70.32
August 1, 2010	65.79	4.05	5.61	75.45
August 1, 2011	70.72	4.20	6.03	80.95
August 1, 2012	76.02	4.36	6.48	86.86
August 1, 2013	81.72	4.52	6.97	93.21
August 1, 2014	87.85	4.69	7.49	100.03
August 1, 2015	94.44	4.87	8.05	107.36
August 1, 2016	101.52	5.05	8.65	115.22
August 1, 2017	109.13	5.24	9.30	123.67
August 1, 2018	117.31	5.44	10.00	132.75
August 1, 2019	126.11	5.64	10.75	142.50
August 1, 2020	135.57	5.85	11.56	152.98
August 1, 2021	145.74	6.07	12.43	164.24
August 1, 2022	156.67	6.30	13.36	176.33
August 1, 2023	168.42	6.54	14.36	189.32
August 1, 2024	181.05	6.79	15.44	203.28
August 1, 2025	194.63	7.04	16.60	218.27
August 1, 2026	209.23	7.30	17.85	234.38
August 1, 2027	224.92	7.57	19.19	251.68
August 1, 2028	241.79	7.85	20.63	270.27

*actual values

** subject to annual review

History of Increases – Tuition and Fees

The table below and the tables on the succeeding pages show the history of increases in (i) tuition and fees combined, (ii) tuition only and (iii) fees only, respectively. These tables may be helpful in analyzing trends in tuition and fee inflation.

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
APSU	3,454	4,004	4,224	4,635	4,837	5,238	5,526	5,868
Increase	8.28%	15.92%	5.49%	9.73%	4.36%	8.29%	5.50%	6.19%
ETSU	3,311	3,839	4,059	4,487	4,637	4,887	5,201	5,593
Increase	6.16%	15.95%	5.73%	10.54%	3.34%	5.39%	6.43%	7.54%
MTSU	3,426	3,990	4,210	4,576	4,766	5,278	5,700	6,048
Increase	7.80%	16.46%	5.51%	8.69%	4.15%	10.74%	8.00%	6.11%
TSU	3,252	3,788	4,008	4,384	4,534	4,856	5,102	5,444
Increase	8.87%	16.48%	5.81%	9.38%	3.42%	7.10%	5.07%	6.70%
TTU	3,266	3,750	3,970	4,396	4,562	4,980	5,244	5,586
Increase	6.52%	14.82%	5.87%	10.73%	3.78%	9.16%	5.30%	6.52%
UoM	3,704	4,234	4,480	5,084	5,256	5,802	6,128	6,524
Increase	6.68%	14.31%	5.81%	13.48%	3.38%	10.39%	5.62%	6.46%
UTC	3,550	3,852	4,093	4,500	4,688	5,062	5,310	5,656
Increase	9.70%	8.51%	6.26%	9.94%	4.18%	7.98%	4.90%	6.52%
UTK	4,056	4,450	4,749	5,290	5,576	5,932	6,250	6,850
Increase	7.19%	9.71%	6.72%	11.39%	5.41%	6.38%	5.36%	9.60%
UTM	3,515	3,847	4,134	4,493	4,665	5,005	5,255	5,769
Increase	7.16%	9.45%	7.46%	8.68%	3.83%	7.29%	5.00%	9.78%
<u>Averages</u>								
Weighted Avg¹	3,598	4,070	4,315	4,771	4,972	5,379	5,693	6,120
Increase	7.37%	13.12%	6.02%	10.57%	4.21%	8.19%	5.84%	7.50%

¹ Weighted Averages shown are derived using Fall enrollment figures from the preceding year.

History of Increases – Tuition only

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
APSU	2,748	3,132	3,352	3,678	3,828	4,058	4,302	4,644
Increase	7.51%	13.97%	7.02%	9.73%	4.08%	6.01%	6.01%	7.95%
ETSU	2,748	3,132	3,352	3,678	3,828	4,058	4,302	4,644
Increase	7.51%	13.97%	7.02%	9.73%	4.08%	6.01%	6.01%	7.95%
MTSU	2,748	3,132	3,352	3,678	3,828	4,058	4,302	4,644
Increase	7.51%	13.97%	7.02%	9.73%	4.08%	6.01%	6.01%	7.95%
TSU	2,748	3,132	3,352	3,678	3,828	4,058	4,302	4,644
Increase	7.51%	13.97%	7.02%	9.73%	4.08%	6.01%	6.01%	7.95%
TTU	2,748	3,132	3,352	3,678	3,828	4,058	4,302	4,644
Increase	7.51%	13.97%	7.02%	9.73%	4.08%	6.01%	6.01%	7.95%
UoM	3,072	3,502	3,748	4,216	4,388	4,652	4,978	5,370
Increase	7.49%	14.00%	7.02%	12.49%	4.08%	6.02%	7.01%	7.87%
UTC	2,800	3,052	3,293	3,600	3,748	3,972	4,210	4,506
Increase	3.78%	9.00%	7.90%	9.32%	4.11%	5.98%	5.99%	7.03%
UTK	3,476	3,788	4,087	4,618	4,830	5,120	5,428	5,918
Increase	7.48%	8.98%	7.89%	12.99%	4.59%	6.00%	6.02%	9.03%
UTM	2,900	3,162	3,412	3,744	3,916	4,150	4,400	4,708
Increase	7.49%	9.03%	7.91%	9.73%	4.59%	5.98%	6.02%	7.00%

Averages

Weighted Average	2,983	3,337	3,578	3,968	4,137	4,383	4,653	5,031
Increase	7.19%	11.87%	7.22%	10.90%	4.26%	5.95%	6.16%	8.12%

* The Weighted Averages shown are derived using Fall enrollment figures from the preceding year.

History of Increases – Fees only

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
APSU	706	872	872	957	1,009	1,180	1,224	1,224
Increase	11.36%	23.51%	0.00%	9.75%	5.43%	16.95%	3.73%	0.00%
ETSU	563	707	707	809	809	829	899	949
Increase	0.00%	25.58%	0.00%	14.43%	0.00%	2.47%	8.44%	5.56%
MTSU	678	858	858	898	938	1,220	1,398	1,404
Increase	9.00%	26.55%	0.00%	4.66%	4.45%	30.06%	14.59%	0.43%
TSU	504	656	656	706	706	798	800	800
Increase	16.94%	30.16%	0.00%	7.62%	0.00%	13.03%	0.25%	0.00%
TTU	518	618	618	718	734	922	942	942
Increase	1.57%	19.31%	0.00%	16.18%	2.23%	25.61%	2.17%	0.00%
UoM	632	732	732	868	868	1,150	1,150	1,154
Increase	2.93%	15.82%	0.00%	18.58%	0.00%	32.49%	0.00%	0.35%
UTC	750	800	800	900	940	1,090	1,100	1,150
Increase	39.41%	6.67%	0.00%	12.50%	4.44%	15.96%	0.92%	4.55%
UTK	580	662	662	672	746	812	822	932
Increase	5.45%	14.14%	0.00%	1.51%	11.01%	8.85%	1.23%	13.38%
UTM	615	685	722	749	749	855	855	1,061
Increase	5.67%	11.38%	5.40%	3.74%	0.00%	14.15%	0.00%	24.09%

Averages

Weighted Average	607	733	736	803	835	995	1,040	1,090
Increase	6.87%	20.76%	0.41%	9.10%	3.99%	19.16%	4.52%	4.81%

* Weighted Averages shown are derived using Fall enrollment figures from the preceding year.

Cash Flow Analysis

The following exhibit was generated from a cash flow model which considers only those tuition units outstanding as of September 30, 2009.

The model utilizes the valuation assumptions in determining future tuition payments. Based on the valuation assumptions, all tuition units outstanding as of September 30, 2009 are assumed to be paid out on or before September 30, 2029.

Plan Year Ending	Market Value BOY	Tuition Payments	Investment Income	Market Value EOY
2010	83,225,900	19,437,181	3,986,795	67,775,514
2011	67,775,514	11,606,672	3,510,553	59,679,395
2012	59,679,395	8,544,815	3,195,911	54,330,491
2013	54,330,491	9,795,861	2,783,414	47,318,044
2014	47,318,044	9,743,557	2,348,405	39,922,892
2015	39,922,892	10,126,909	1,862,249	31,658,232
2016	31,658,232	10,104,702	1,347,096	22,900,626
2017	22,900,626	9,178,728	857,619	14,579,517
2018	14,579,517	10,279,173	268,771	4,569,115
2019	4,569,115	6,515,984	(121,679)	(2,068,548)
2020	(2,068,548)	8,227,795	(643,521)	(10,939,864)
2021	(10,939,864)	4,498,348	(964,888)	(16,403,100)
2022	(16,403,100)	4,833,176	(1,327,267)	(22,563,543)
2023	(22,563,543)	3,693,652	(1,641,075)	(27,898,270)
2024	(27,898,270)	2,838,214	(1,921,030)	(32,657,514)
2025	(32,657,514)	2,241,761	(2,181,205)	(37,080,480)
2026	(37,080,480)	2,322,131	(2,462,663)	(41,865,274)
2027	(41,865,274)	1,471,933	(2,708,575)	(46,045,782)
2028	(46,045,782)	730,990	(2,923,548)	(49,700,320)
2029	(49,700,320)	113,641	(3,113,373)	(52,927,334)

Unit Purchases by Year

The following exhibit summarizes unit purchase activity by enrollment year. The cumulative units at the end of the enrollment year equal cumulative units at the beginning of the year plus purchases and transfers less withdrawals.

Enrollment Year*	Cumulative Units at Beginning of Enrollment year	Purchases	Withdrawals	Cumulative Units at End of Enrollment year
1996-1997	0	36,494	0	36,494
1997-1998	36,494	344,850	102	381,242
1998-1999	381,242	266,774	368	647,648
1999-2000	647,648	196,726	7,376	836,998
2000-2001	836,998	221,167	13,893	1,044,272
2001-2002	1,044,272	240,045	31,356	1,252,961
2002-2003	1,252,961	245,004	38,092	1,459,873
2003-2004	1,459,873	184,210	63,301	1,580,782
2004-2005	1,580,782	160,632	94,773	1,646,641
2005-2006	1,646,641	94,491	82,115	1,659,017
2006-2007	1,659,017	97,791	114,499	1,642,309
2007-2008	1,642,309	82,005	123,631	1,600,683
2008-2009	1,600,683	64,083	121,806	1,542,960
2009-2010 **	1,542,960	5,247	15,767	1,532,440

*Enrollment year is defined as August 1 through July 31.

**Represents activity for the 2009-2010 enrollment year through September 30, 2009.

New Contracts by Year

The following exhibit summarizes contract purchase activity by enrollment year.

Enrollment Year*	Cumulative Contracts at Beginning of Enrollment year	Net Change in Number of Contracts	Cumulative Contracts at End of Enrollment year
1996-1997	0	675	675
1997-1998	675	2,685	3,360
1998-1999	3,360	1,581	4,941
1999-2000	4,941	1,119	6,060
2000-2001	6,060	849	6,909
2001-2002	6,909	808	7,717
2002-2003	7,717	566	8,283
2003-2004	8,283	398	8,681
2004-2005	8,681	298	8,979
2005-2006	8,979	199	9,178
2006-2007	9,178	224	9,402
2007-2008	9,402	265	9,667
2008-2009	9,667	212	9,879
2009-2010 **	9,879	37	9,916

*Enrollment year is defined as August 1 through July 31.

**Represents activity for the 2009-2010 enrollment year through September 30, 2009.

Unit Purchases by Age

The following exhibit may be helpful in analyzing the demographic composition of BEST beneficiaries. A breakdown of unit purchases for last four enrollment years is shown, along with a breakdown of units outstanding as of September 30, 2009.

Age Last Birthday at End of Enrollment Year	2005-06		2006-07		2007-08		2008-09		Total at 9/30/2009	
	Units Purchases	Percent of Total	Units Purchases	Percent of Total	Units Purchases	Percent of Total	Units Purchases	Percent of Total	Units Outstanding	Percent of Total
0	1,238	1.31%	702	0.72%	287	0.35%	301	0.47%	470	0.03%
1	3,861	4.09%	4,519	4.62%	1,693	2.06%	2,180	3.40%	3,250	0.21%
2	1,654	1.75%	2,671	2.73%	2,254	2.75%	1,705	2.66%	7,035	0.46%
3	2,318	2.45%	1,734	1.77%	2,106	2.57%	1,801	2.81%	11,931	0.78%
4	2,750	2.91%	2,250	2.30%	2,936	3.58%	2,292	3.58%	12,382	0.81%
5	4,546	4.81%	3,201	3.27%	2,012	2.45%	1,738	2.71%	16,852	1.10%
6	4,660	4.93%	3,184	3.26%	2,077	2.53%	2,591	4.04%	23,576	1.54%
7	4,208	4.45%	4,477	4.58%	3,545	4.32%	2,352	3.67%	33,163	2.16%
8	6,382	6.75%	5,967	6.10%	5,612	6.84%	1,971	3.08%	33,181	2.17%
9	4,748	5.02%	4,461	4.56%	4,949	6.04%	3,415	5.33%	65,243	4.26%
10	7,142	7.56%	5,846	5.98%	4,953	6.04%	2,242	3.50%	55,545	3.62%
11	5,556	5.88%	6,818	6.97%	5,007	6.11%	4,989	7.78%	94,192	6.15%
12	4,620	4.89%	4,600	4.70%	7,215	8.80%	4,933	7.70%	90,413	5.90%
13	4,901	5.19%	6,536	6.68%	4,299	5.24%	4,257	6.64%	106,996	6.98%
14	5,496	5.82%	5,305	5.43%	4,302	5.25%	3,916	6.11%	115,275	7.52%
15	6,734	7.13%	5,280	5.40%	5,584	6.81%	4,019	6.27%	119,231	7.78%
16	5,493	5.81%	5,950	6.08%	6,275	7.65%	4,886	7.62%	128,859	8.41%
17	5,701	6.03%	6,290	6.43%	4,020	4.90%	3,191	4.98%	120,826	7.88%
18	5,233	5.54%	4,735	4.84%	4,433	5.41%	4,154	6.48%	119,080	7.77%
19	2,185	2.31%	4,544	4.65%	3,043	3.71%	3,037	4.74%	114,680	7.48%
over 20	5,067	5.36%	8,718	8.92%	5,404	6.59%	4,112	6.42%	260,261	16.98%
Total	94,491	100.00%	97,791	100.00%	82,005	100.00%	64,083	100.00%	1,532,440	100.00%