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PACT program could play campaign role

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MONTGOMERY | The state college tuition program may prove to be an issue in the gubernatorial campaign of State Treasurer Kay Ivey, who oversees the program, but also for her competitors.

Patti Lambert, a Decatur real estate businesswoman who has six Prepaid Affordable College Tuition plans, said she's worried the PACT will run out of money before it can pay on all her policies.

'I've given my word as Nana that my grandkids are going to have an education and that is their legacy,' Lambert said.

She's set up a PACT watch Web site, Save Alabama PACT, and is looking forward to the 2010 governor's race.

'It's wonderful we have an election coming up,' Lambert said. 'When you have 48,000 PACT [contracts] and each has a circle of 20 or 30 relatives, you do the math and we become a third political party.'

The Wallace-Folsom PACT was established 20 years ago for parents or grandparents to buy tomorrow's college tuition at today's prices. PACT was supposed to remain solvent through a combination of new contracts and earnings from investments, assuming tuition rates remained fairly stable.

Nearly 49,000 contracts have been purchased and until the mid-1990s tuition was guaranteed. But at some point, the tuition guarantee was dropped, shocking contract holders who consider the contracts implied promises.

PACT is overseen by a board of directors with the state treasurer as its chairman.

Due to declining enrollment, rising tuition costs, and lower investment earnings, PACT lost half its value since last year. Right now, the fund has enough money to pay tuition through 2014.

Auburn University political science professor Paul Johnson said PACT's financial problems are not Ivey's fault.

'Clearly, the general market has gone down and everybody has lost,' Johnson said. 'We could fault her for not having the magical foresight to put assets in U.S. Treasuries a year and a half ago.'

'But I guess she will be faulted because she's ultimately in charge, but people shouldn't fault her because she's been out front of the issue.'

Ivey, a Republican in her second term as treasurer, last week officially announced her gubernatorial campaign.

'My mission is to continue working through and finding solutions,' she said. 'My mission is to see the eligible students ... be able to use their tuition ... as promised.'

Ivey said the program has not been mismanaged and earned money during most of her two terms. She said the economy 'took General Motors down, it took Chrysler down, it took Warren Buffett down.'

'[The state retirement system] lost about the same we lost.'

The Retirement Systems of Alabama lost about 15 percent of its \$35 billion in total assets over the last year. Buffett's Berkshire Hathaway stock went from \$148,000 a share to about \$78,000.

At the end of March, the PACT fund had lost \$460 million. The next quarterly report is due in July and the board next meets Aug. 19, when it will probably have an actuarial study conducted by the Retirement Systems of Alabama as requested by the Legislature in May.

RSA spokesman Marc Reynolds said it may be the end of July before the study is finished.

'We thought we'd be able to take the program and tweak it and get costs down,' he said. 'It doesn't look like that's going to happen. It's going to take some money to fill the holes.'

Johnson said he expects politicians will prop up the fund but the state is in a 'terrible fiscal situation right now.'

'Longer term, it's probably less of a problem because the market will recover,' he said.

Johnson said the Legislature shares some culpability in the loss of money in the PACT fund, because legislators have not been adequately funding colleges. In turn, schools have had to raise tuition to cover costs, eating into PACT funds faster than anticipated.

'This whole business was a little bit of snake oil from the beginning because the nationwide trend for public colleges and universities is they're losing funding from legislators,' Johnson said. 'The same ones that made promises for prepaid tuitions are the same folks who have been cutting funding.'

Ivey plans to seek PACT funding from the Legislature next session.

Lambert said she plans to hold every candidate's feet to the fire. She also decries the lawsuits that have been filed against the PACT program as a potential drain on its assets.

'In my opinion, there may have to be some infusion of funds to get us over the hump and we'll just have to take a look and see on everything else,' she said.

Nonetheless, Ivey's candidacy may hinge on PACT's ultimate performance.

'She has challenges to start with that anyone would expect in a campaign, but the main way

she's been in the news is the disaster for the prepaid college program, which is no way to walk into a campaign,' Johnson said.
