

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA



REPORT ON  
**ESCHEAT FUND  
FINANCIAL STATUS**

DECEMBER 31, 2017

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## **Statutory Reporting Requirement**

This report is being provided per N.C.G.S. §147-69.2A(d):

*The State Treasurer shall engage a third-party professional consultant to conduct an assessment and projection of the financial status of the Escheat Fund. The associated costs for the services may be directly charged to the Escheat Fund. The State Treasurer shall communicate the assessment of the consultant in an annual report to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the chairs of the respective appropriations and appropriate substantive committees of each chamber. The annual report shall evaluate claims by owners upon the Escheat Fund, current and projected investment returns, and projected contributions to the Escheat Fund, current and projected legislative appropriations, and authorized expenses. In the report, the State Treasurer shall assess the status of utilizing the Escheat Fund as an endowment fund and shall recommend an annual amount available for the funding of scholarships, loans, and grants from the Fund. The annual report shall be presented no later than December 31 of each year.*

In 2016, the Department of State Treasurer (DST) retained Aon Hewitt Investment Consulting (AHIC) to conduct financial modeling of the Escheat Fund. DST decided not to hire AHIC to repeat the analysis for this year's report as the department did not expect material changes to the output that would warrant the cost. This year's report and analysis was produced by internal staff at DST. Going forward, DST anticipates hiring a third party consulting firm to the extent the analysis cannot be completed by internal staff.

## Department of State Treasurer's Assessment and Recommendation

As the designated Escheat Officer, the Department of State Treasurer has the duty to preserve and maintain unclaimed property in perpetuity for the rightful owners. With that in mind, the Department of State Treasurer recommends the Escheat Fund be managed and treated like an endowment fund, whereby the current and future corpus (all unclaimed property) is preserved while also providing a perpetual and sustainable source of funding for the purposes authorized by the State Constitution through the earnings of the fund.

In its 2016 annual report, the department recommended a sustainable annual principal/corpus transfer amount between \$0 and \$55 million. This amount assumed the goal was to maintain the inflation adjusted value of the then current investments within the Escheat Fund. After a careful review of the duties of the Department of State Treasurer as it relates to the Unclaimed Property Division, it is the department's view that the goal is to preserve and maintain all unclaimed property in perpetuity for the rightful owners, not just the current investment balance of the Escheat Fund.

To date, the corpus has not been preserved, and therefore the objective to preserve and maintain the unclaimed property in perpetuity for the rightful owners has not been met. Over the last 14 years, roughly \$1.2 billion of principal/corpus has been appropriated from the Escheat Fund to support grants, loans and scholarships for North Carolina students attending public universities. Therefore, the Escheat Fund has \$1.2 billion less than what would be due if all rightful owners were to make a claim. Currently, there is no mechanism to systematically extinguish that \$1.2 billion potential shortfall, as earnings from the invested assets are, by State Constitution, required to fund administrative expenses, with the remainder sent to the State Education Assistance Authority (SEAA). Any additional appropriated principal transfers would further increase the \$1.2 billion potential shortfall. If ongoing principal transfers occur at the current rate of roughly \$50-\$60 million per year, ten years from now that shortfall will be \$1.7-\$1.8 billion.

**With the above in mind, DST does not recommend any further appropriations of principal from the Escheat Fund.** The Department of State Treasurer therefore recommends only the net earnings of the fund be withdrawn to support the purposes authorized by the State Constitution. The elimination of principal appropriations will help to increase future earnings of the Escheat Fund through a combination of a higher investment balance, along with higher expected investment returns by shifting into long horizon strategies, while also freezing the \$1.2 billion potential shortfall.

## **Overview of Escheat Fund**

The Department of State Treasurer is designated as the Escheat Officer for the State of North Carolina. By law, unclaimed property is escheated, or turned over, to DST for safekeeping. The Unclaimed Property Division is responsible for recovering and returning such property to all rightful owners. The administration of the UPD and the Escheat Fund is governed principally by Chapter 116B of the North Carolina General Statutes.

The unclaimed property that is turned over to DST was previously held by financial institutions, insurance companies, government agencies and other businesses, referred to as “holders”, in the form of wages, utility deposits, insurance policy proceeds, and other sources of funds. Property is considered unclaimed when the apparent owner fails to communicate interest in it for a period of time called the “dormancy” period. Once the property has met its dormancy limit and the holder has made a good faith effort to locate an apparent owner, any funds remaining with the holder must be escheated to UPD and maintained in the Escheat Fund pursuant to state law. UPD actively seeks to locate the owners and promote public awareness of the program.

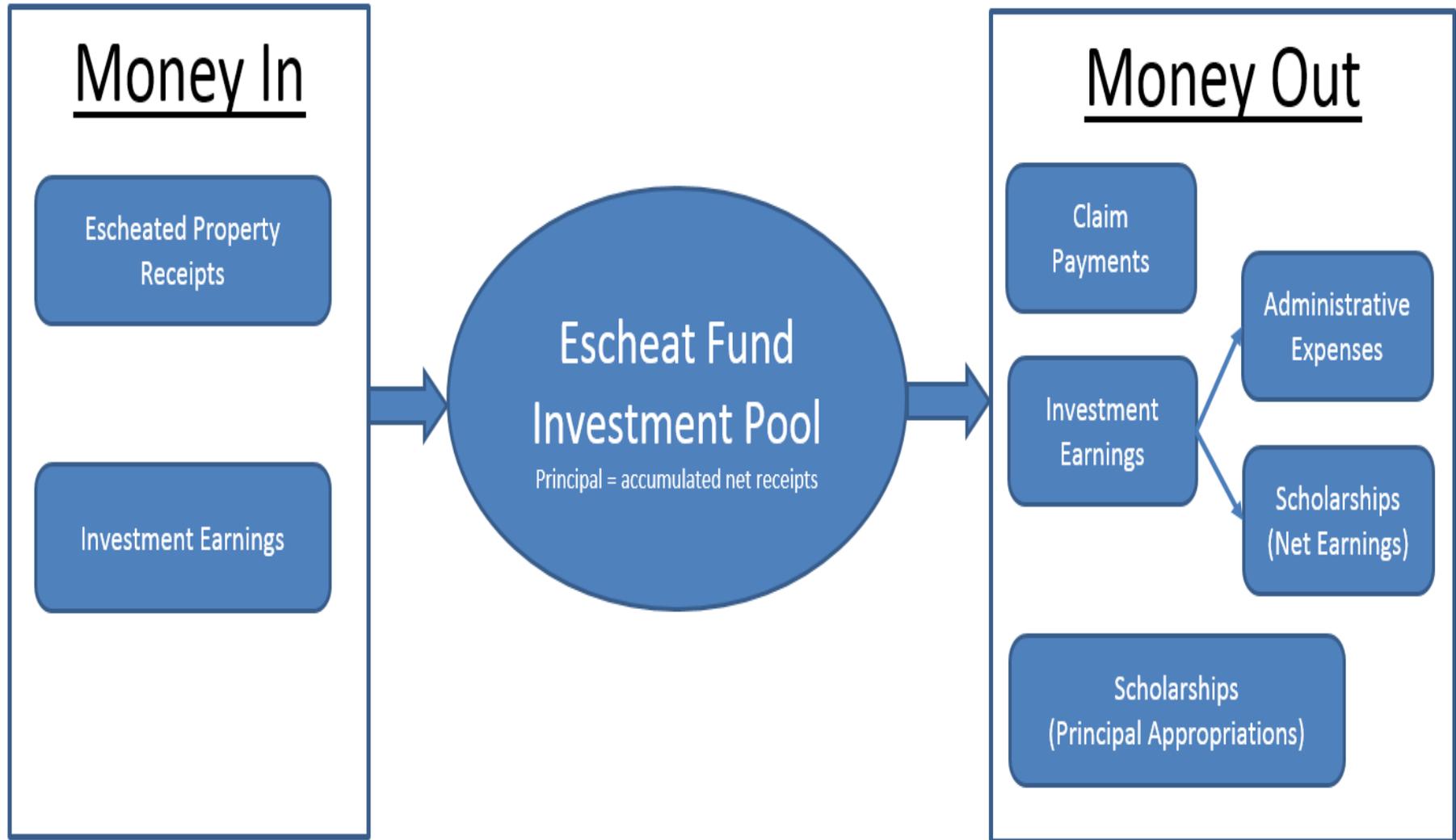
The investment earnings from the Escheat Fund pays for the administrative expenses of the Unclaimed Property Division, and all remaining investment earnings are sent to SEAA, to provide grants, loans and scholarships for North Carolina students who attend public universities. Also, an amount specified in the biennial Budget is transferred annually from the Escheat Fund’s principal to fund additional scholarships for those who are enrolled in North Carolina public institutions of higher education. See N.C.G.S. §§ 116B-6, 116B-7. Article IX, Section 10 of the State Constitution provides:

*All property that, after June 30, 1971, shall accrue to the State from escheats, unclaimed dividends, or distributive shares of the estates of deceased persons shall be used to aid worthy and needy students who are residents of this State and are enrolled in public institutions of higher education in this State. The method, amount, and type of distribution shall be prescribed by law.*

At the end of Fiscal Year 2016-17, a total of \$5 million from investment earnings and \$32.2 million from the principal of the Escheat Fund was sent to SEAA. The General Assembly mandated that additional principal from the Escheat Fund of \$16.3 million go to the State Board of Community Colleges, and \$6.5 million to the Department of Military and Veterans Affairs to provide educational assistance for needy and worthy students.

As of June 30, 2017, the market value of investments within the Escheat Fund was valued at approximately \$582 million. This value excludes \$96 million of escheated securities that have yet to be liquidated and pooled with the investments within the Escheat Fund. As the custodian of these funds, North Carolina remains liable to the rightful owners for the full amount of unclaimed property reported to DST.

Diagram of Monetary Flows for the Escheat Fund



Source: DST

## Historical Analysis of the Escheat Fund

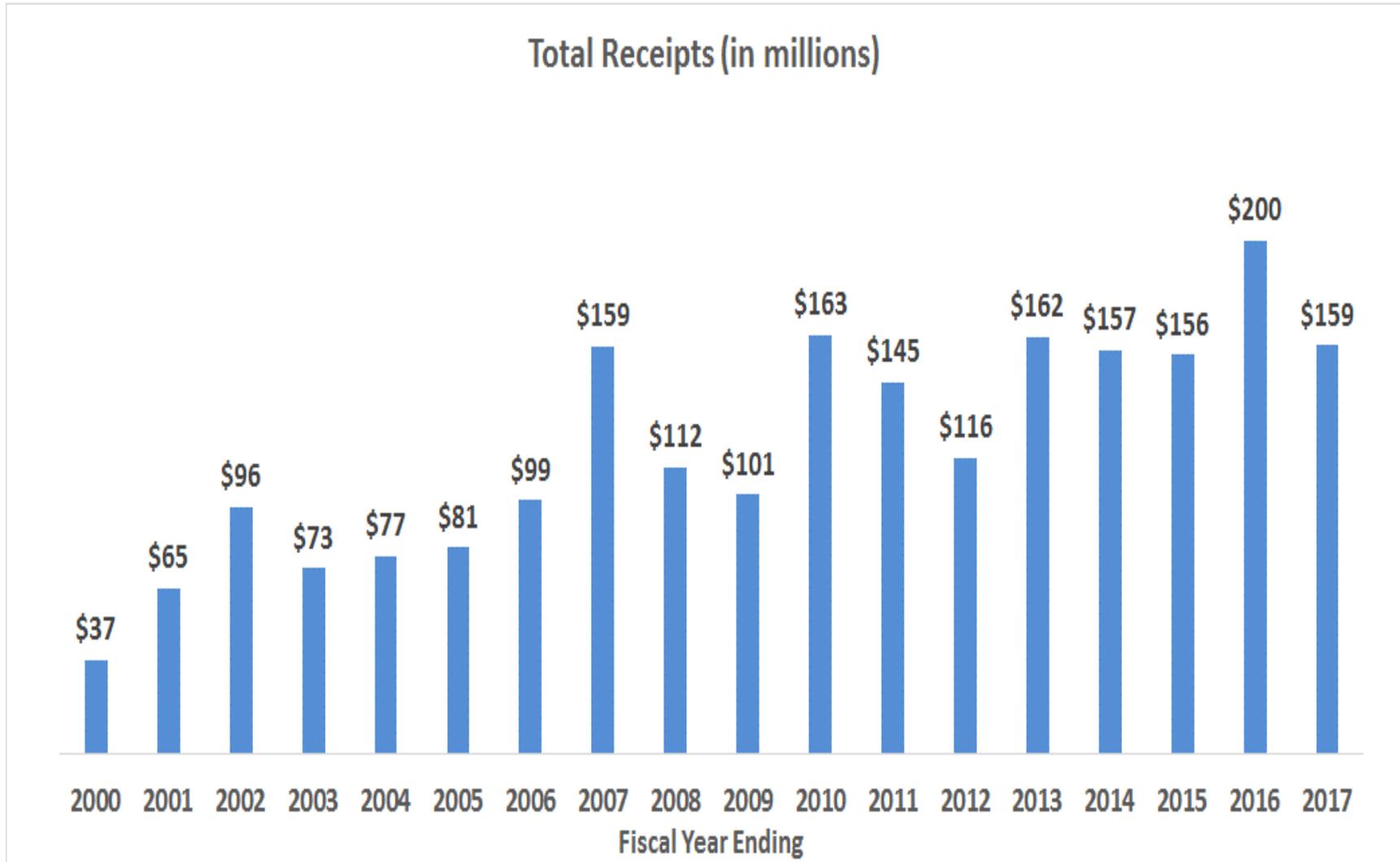
Exhibit 1: Historical Escheat Fund Monetary Flows and Investment Balance by Fiscal Year (rounded \$ millions)

	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>
<b>Money In</b>					
Receipts (Cash Basis)	\$162	\$157	\$156	\$200	\$159
Investment Earnings (Accrual Basis)	\$6	\$15	\$7	\$15	\$10
<b>Total Money In</b>	<b>\$169</b>	<b>\$172</b>	<b>\$163</b>	<b>\$215</b>	<b>\$170</b>
<b>Money Out</b>					
Claims (Cash Basis)	\$51	\$59	\$50	\$56	\$54
Administrative Expenses	\$7	\$3	\$6	\$6	\$5
Total Scholarships	\$60	\$87	\$79	\$60	\$60
<i>Net Earnings for Scholarships</i>	\$10	\$2	\$3	\$8	\$5
<i>Principal Appropriations for Scholarships</i>	\$50	\$85	\$76	\$53	\$55
<b>Total Money Out</b>	<b>\$118</b>	<b>\$150</b>	<b>\$135</b>	<b>\$122</b>	<b>\$119</b>
<b>Assets</b>					
Investment Balance	\$369	\$413	\$440	\$533	\$582

Source: DST

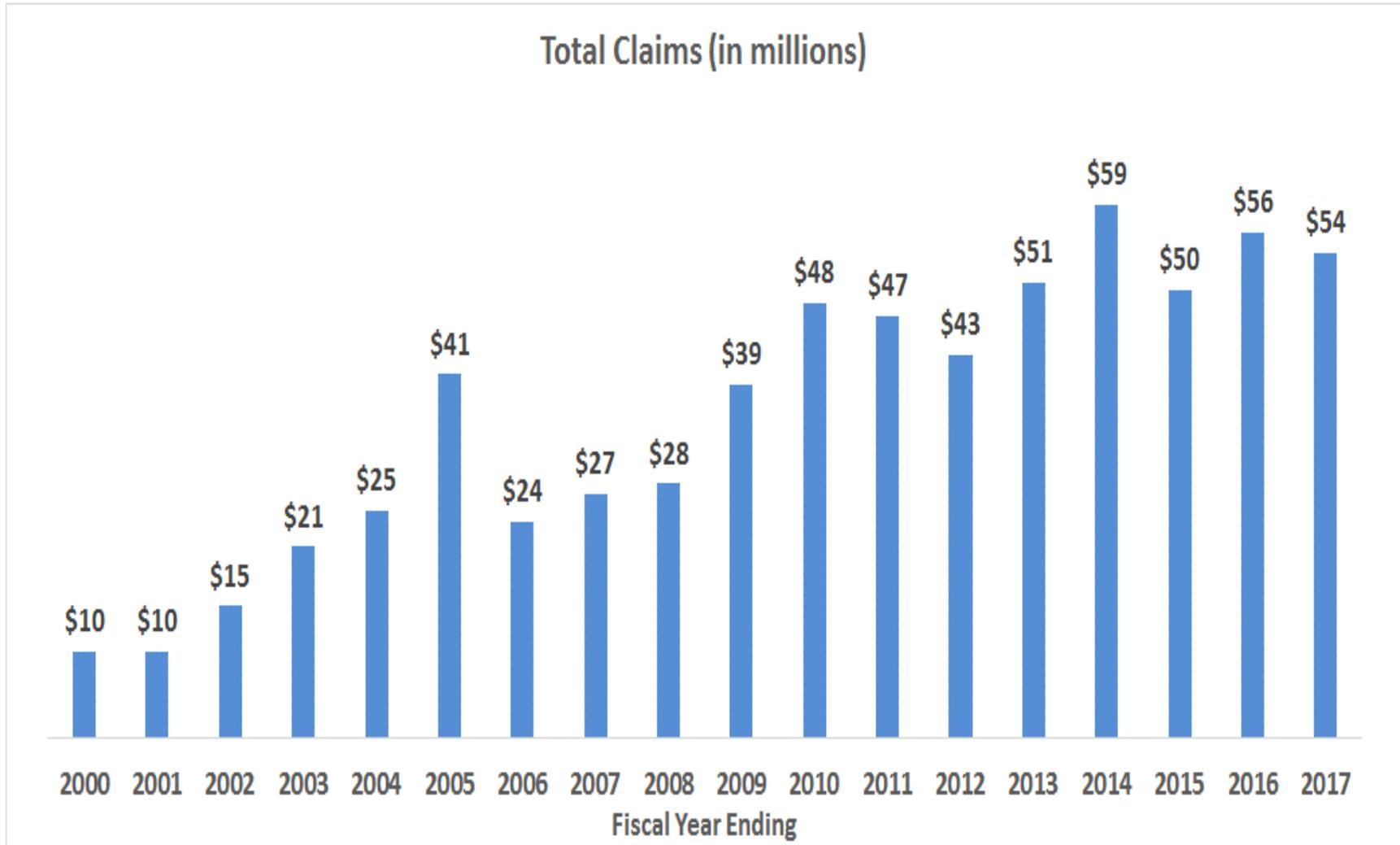
Note: The year over year change in Investment Balance will not reconcile with the net Money In due to timing and accrual issues.

**Exhibit 2: Total Escheat Fund Receipts by Fiscal Year since 2000**



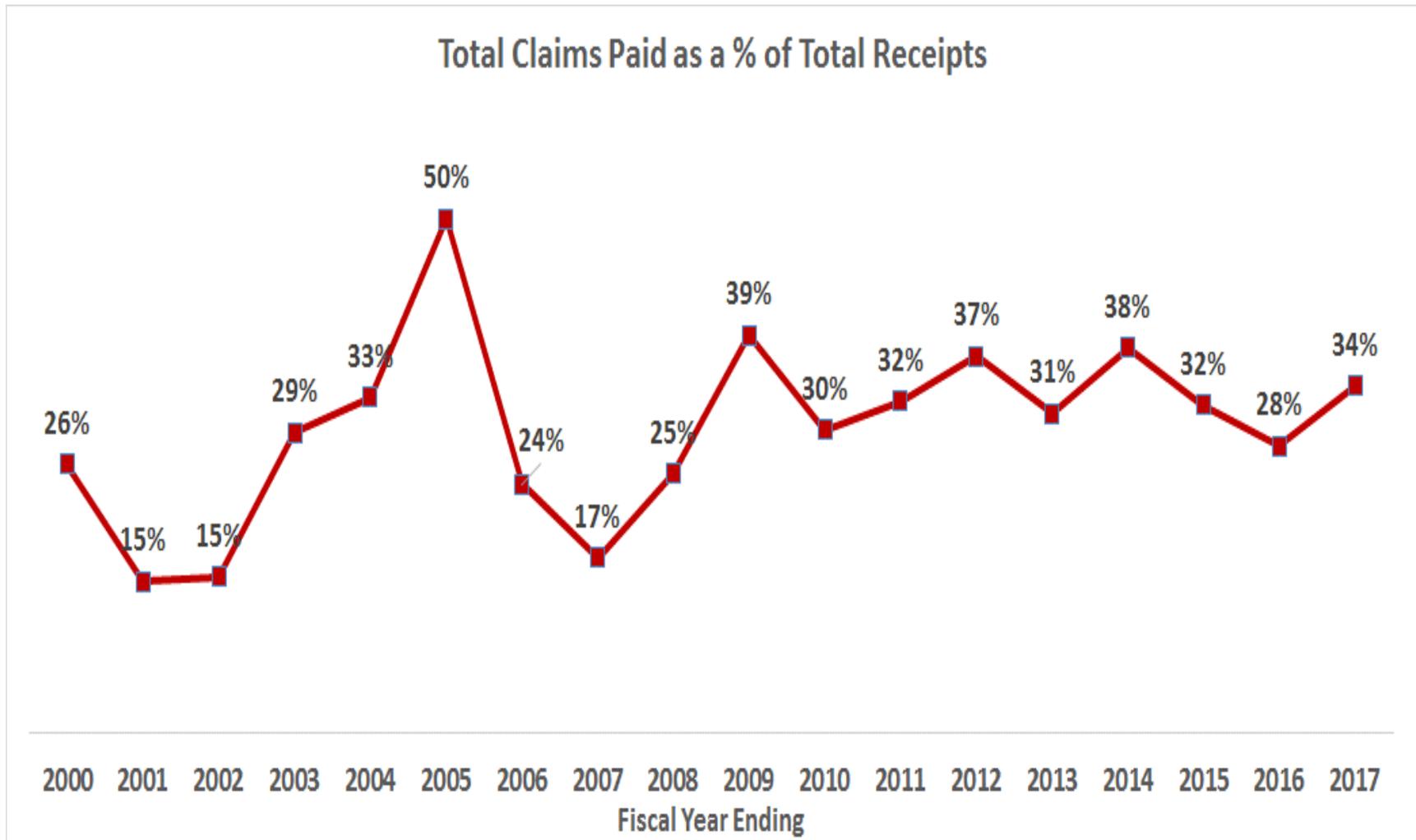
Source: DST

**Exhibit 3: Total Escheat Fund Claims Paid by Fiscal Year since 2000**



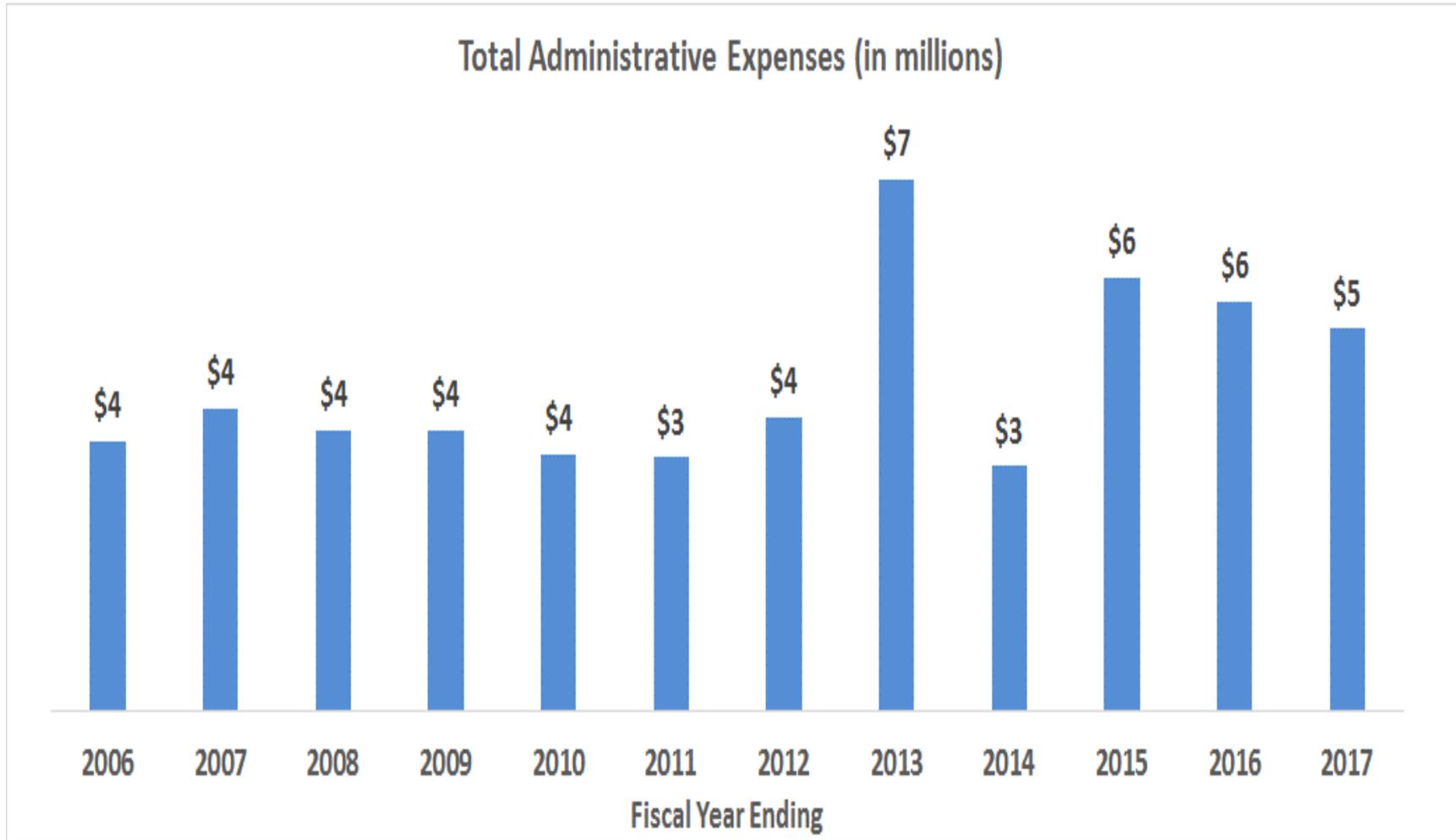
Source: DST

**Exhibit 4: Total Claims Paid as a Percent of Total Receipts by Fiscal Year since 2000**



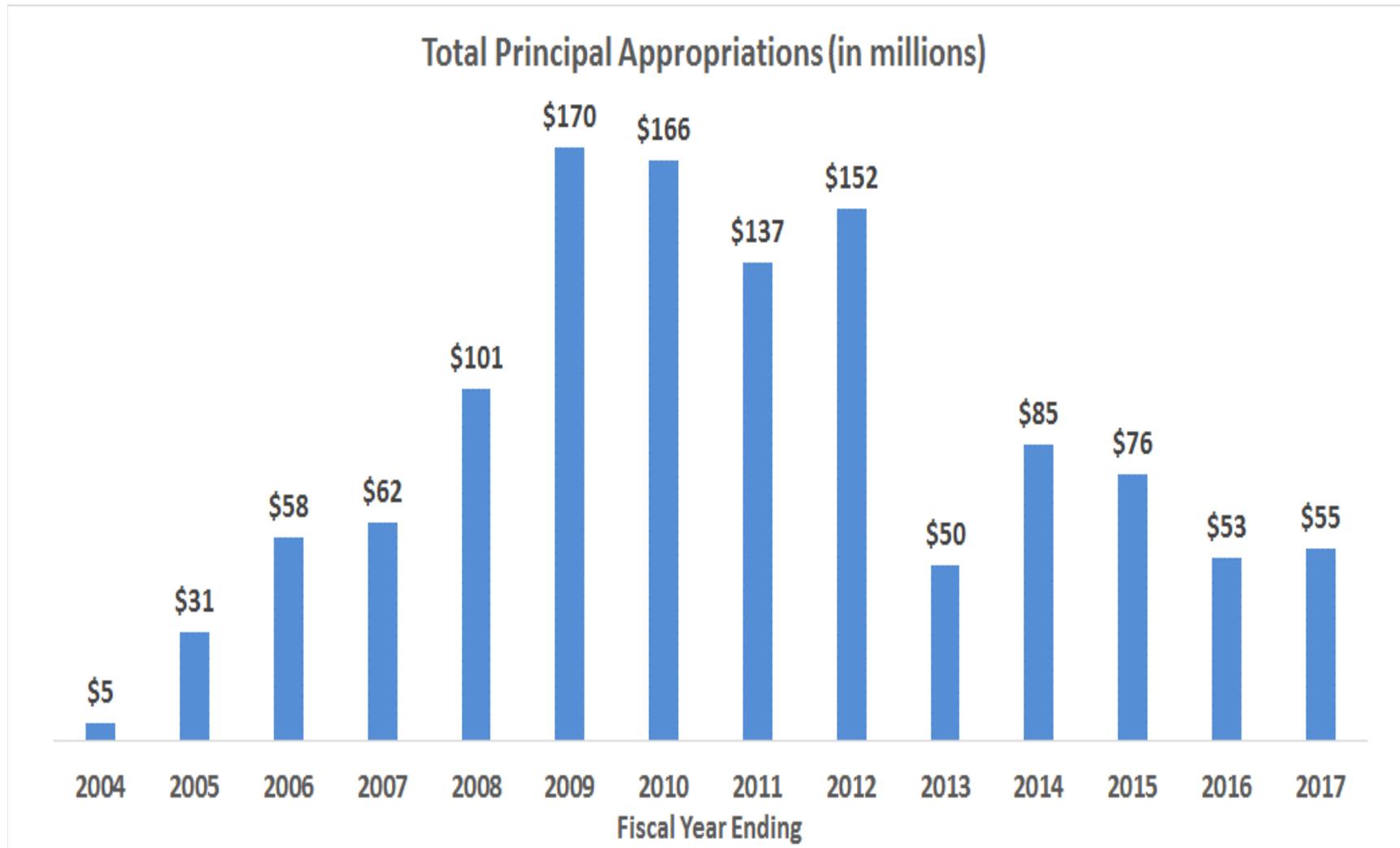
Source: DST

**Exhibit 5: Escheat Fund Administrative Expenses by Fiscal Year since 2006**



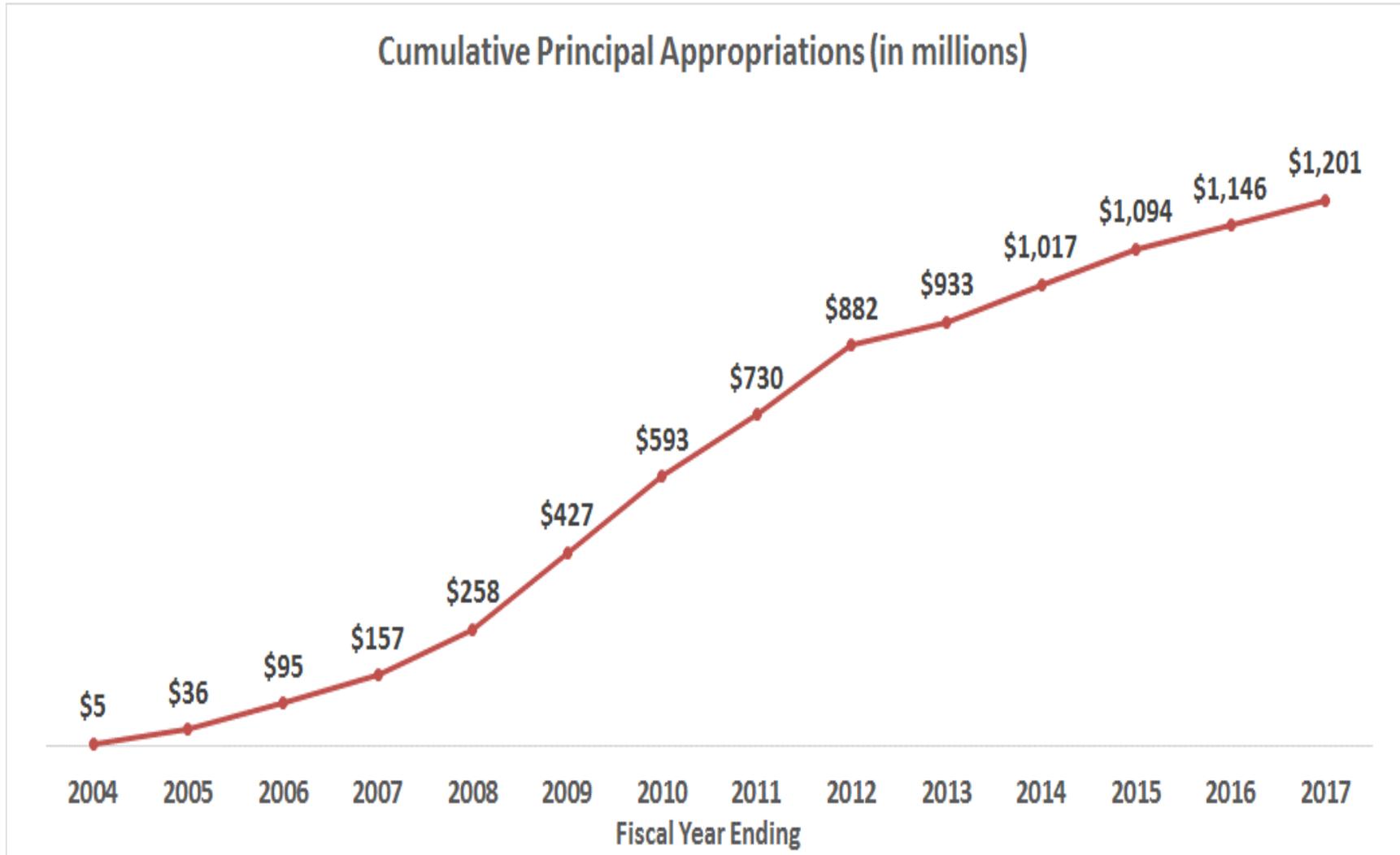
Source: DST

**Exhibit 6: Escheat Fund Principal Appropriations by Fiscal Year since 2004**



Source: DST

**Exhibit 7: Escheat Fund Cumulative Principal Appropriations (Unfunded Principal) since Fiscal Year 2004**



Source: DST

## Exhibit 8: Escheat Fund Investment Performance and Asset Allocation

The table below shows the historical performance and current asset allocation of the invested balance of the Escheat Fund over various periods ending June 30, 2017 (i.e., excluding the securities held in kind on behalf of claimants). Pursuant to N.C.G.S. § 147-69.2(b)(12)a and N.C.G.S. § 147-69.2(b)(12)c, up to 20 percent of the Escheat Fund's assets can be invested in the authorized Public Equity, Real Estate, Private Equity, Opportunistic Fixed Income, and Inflation Protection asset classes. The remainder must be invested in the authorized Investment-Grade Fixed Income asset class, which includes the Short Term and Long Term Fixed Income investments. At June 30, 2017, the Escheat Fund had a total portfolio market value of \$582 million, with \$540 million invested in Fixed Income, and \$42 million invested in Private Equity.

The Escheat Fund's asset allocation has been heavily weighted toward Short-Term Fixed Income investments as a result of the continued large principal appropriations out of the Fund over the last decade. If principal appropriations remain elevated, a high allocation to Short-Term Fixed Income investments will persist to ensure enough liquidity is present to support these appropriations and future claims. As a result, the earnings generating capacity that can be used to create a sustainable source of funding for scholarships will be hampered.

### Escheat Fund Annualized Net of Fee Performance for Periods ended June 30, 2017

Asset Class	Market Value (millions)	Total Return			
		1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
Short Term Fixed Income (STIF)	\$ 420	0.99	0.75	0.64	1.49
Long Term Fixed Income	121	(0.02)	3.37	2.98	6.10
Private Equity	42	10.61	2.73	6.16	5.17
<b>Total</b>	<b>\$ 582</b>	<b>1.37</b>	<b>1.58</b>	<b>1.81</b>	<b>2.92</b>

Source: DST

# **Forecasted Analysis of the Escheat Fund**

## **Modeling Approach and Scenario Descriptions**

In an effort to forecast how key financial metrics of the Escheat Fund may evolve, DST developed a deterministic financial model that forecasts annual values for 10 years. The model forecasts unclaimed property receipts, claims, administrative expenses, net earnings available for scholarships, investment balance, principal appropriations for scholarships, and unfunded principal corpus (represents the accumulated principal appropriations).

DST modeled 12 total scenarios with 4 (1, 2, 3, 4) high level scenarios that change forecasted net receipts by altering claims, along with 3 (A, B, C) sub scenarios that alter annual principal appropriations. The results of these scenarios provide a wide spectrum of potential outcomes for each of the forecasted metrics. All scenarios assume a 2% investment return and \$7 million of annual administrative expenses. The modeling assumes principal appropriations and investment earnings go to \$0 when the investment balance goes negative. The following exhibits display the forecasted results.

### **Scenario Set:**

- 1.) **Annual Net Receipts of -\$50 million:** \$150m receipts with \$200m claims
  - A. \$0 million in annual principal appropriations
  - B. \$30 million in annual principal appropriations
  - C. \$60 million in annual principal appropriations
  
- 2.) **Annual Net Receipts of \$0 million:** \$150m receipts with \$150m claims
  - A. \$0 million in annual principal appropriations
  - B. \$30 million in annual principal appropriations
  - C. \$60 million in annual principal appropriations
  
- 3.) **Annual Net Receipts of \$50 million:** \$150m receipts with \$100m claims
  - A. \$0 million in annual principal appropriations
  - B. \$30 million in annual principal appropriations
  - C. \$60 million in annual principal appropriations
  
- 4.) **Annual Net Receipts of \$100 million:** \$150m receipts with \$50m claims
  - A. \$0 million in annual principal appropriations
  - B. \$30 million in annual principal appropriations
  - C. \$60 million in annual principal appropriations

### **Key Observations**

- 1.) Greater net receipts lead to a higher investment balance and higher investment earnings available to sustainably fund scholarships.
- 2.) Greater principal appropriations lead to a lower investment balance, lower earnings available to sustainably fund scholarships, and a higher unfunded principal corpus that represents a potential shortfall in the claims paying ability of the Escheat Fund.

## Summary Scenario Matrices

The matrices below show the values of the key financial metrics at the end of the 10-year horizon for each scenario. This allows for a quick comparison across scenarios. The exhibits on the following pages provide the year by year analysis for each scenario.

### Unfunded Principal Corpus - At Forecast Year 10

<i>(in \$ millions)</i>		Principal Appropriations		
		A: \$0m	B: \$30m	C: \$60m
Net Receipts	1: <b>-\$50m</b>	\$ 1,201	\$ 1,411	\$ 1,501
	2: \$0m	\$ 1,201	\$ 1,501	\$ 1,764
	3: \$50m	\$ 1,201	\$ 1,501	\$ 1,801
	4: \$100m	\$ 1,201	\$ 1,501	\$ 1,801

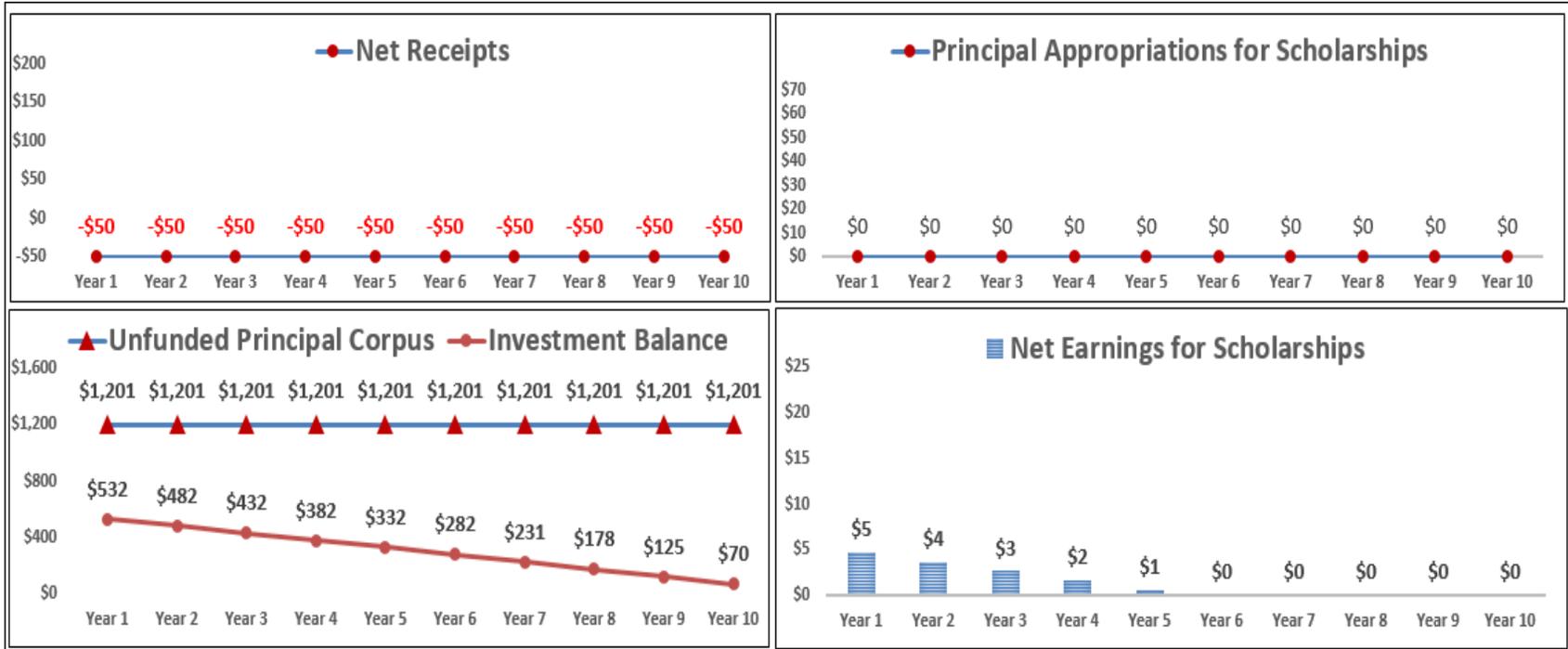
### Investment Balance - At Forecast Year 10

<i>(in \$ millions)</i>		Principal Appropriations		
		A: \$0m	B: \$30m	C: \$60m
Net Receipts	1: <b>-\$50m</b>	\$ 70	\$ (159)	\$ (258)
	2: \$0m	\$ 582	\$ 282	\$ -
	3: \$50m	\$ 1,082	\$ 782	\$ 482
	4: \$100m	\$ 1,582	\$ 1,282	\$ 982

### Net Earnings for Scholarships - At Forecast Year 10

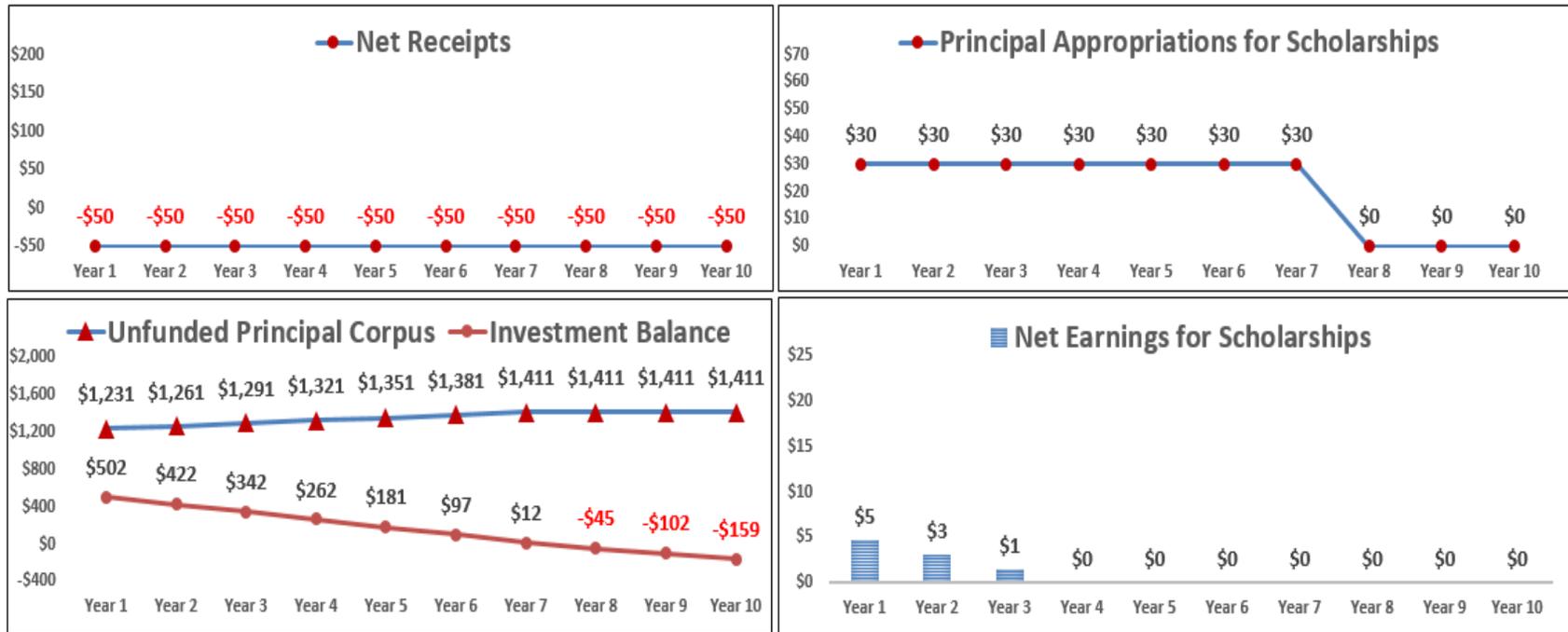
<i>(in \$ millions)</i>		Principal Appropriations		
		A: \$0m	B: \$30m	C: \$60m
Net Receipts	1: <b>-\$50m</b>	\$ -	\$ -	\$ -
	2: \$0m	\$ 5	\$ -	\$ -
	3: \$50m	\$ 14	\$ 8	\$ 3
	4: \$100m	\$ 23	\$ 17	\$ 12

**Exhibit 9: Scenario 1A (Annual Net Receipts of -\$50m, \$0 of Principal Transfers) in \$ millions**



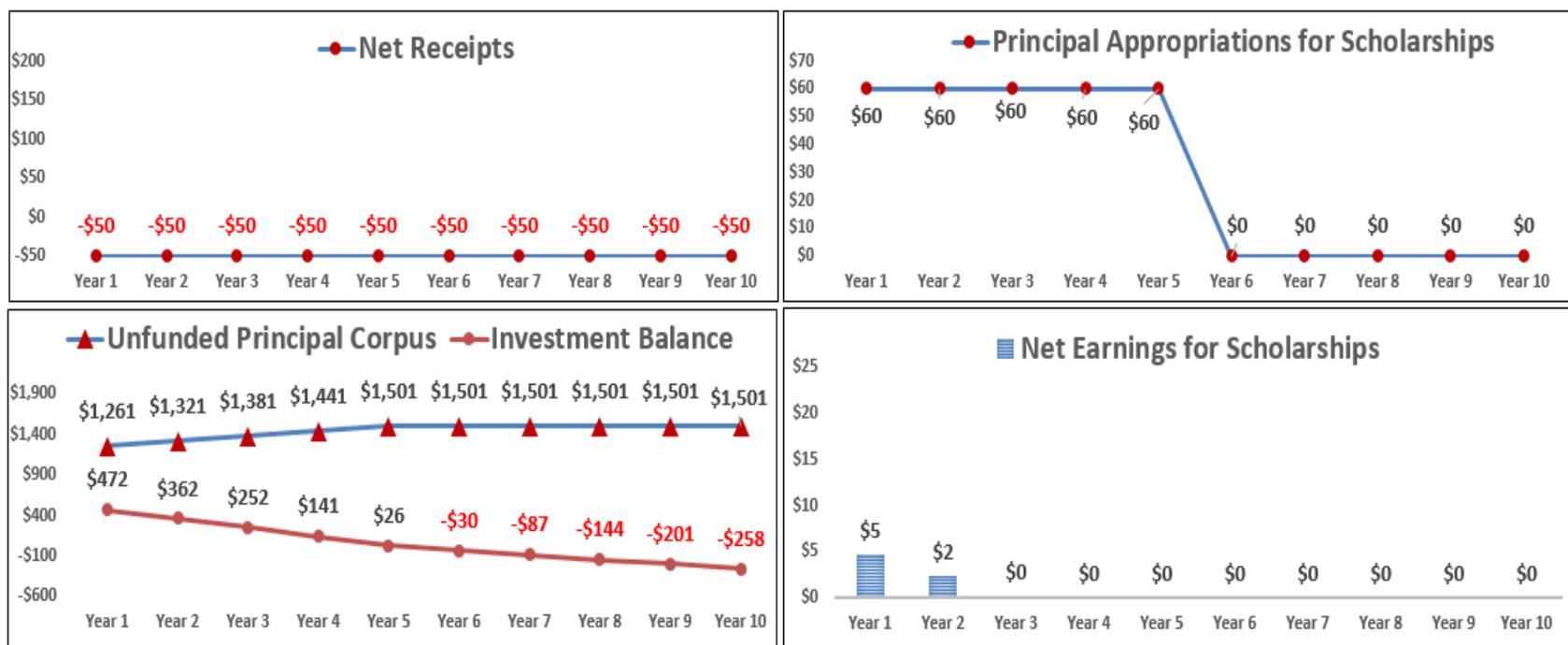
<i>(in millions)</i>			Forecasted Financials										
Scenario:	1A	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
		<b>Net Receipts</b>		<b>(50)</b>	<b>(50)</b>								
		Investment Earnings		12	11	10	9	8	7	6	5	4	2
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
		Principal Appropriations for Scholarships		-	-	-	-	-	-	-	-	-	-
		<b>Unfunded Principal Corpus</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>
		<b>Investment Balance</b>	<b>\$ 582</b>	<b>\$ 532</b>	<b>\$ 482</b>	<b>\$ 432</b>	<b>\$ 382</b>	<b>\$ 332</b>	<b>\$ 282</b>	<b>\$ 231</b>	<b>\$ 178</b>	<b>\$ 125</b>	<b>\$ 70</b>

Exhibit 10: Scenario 1B (Annual Net Receipts of -\$50m, \$30m of Principal Transfers) in \$ millions



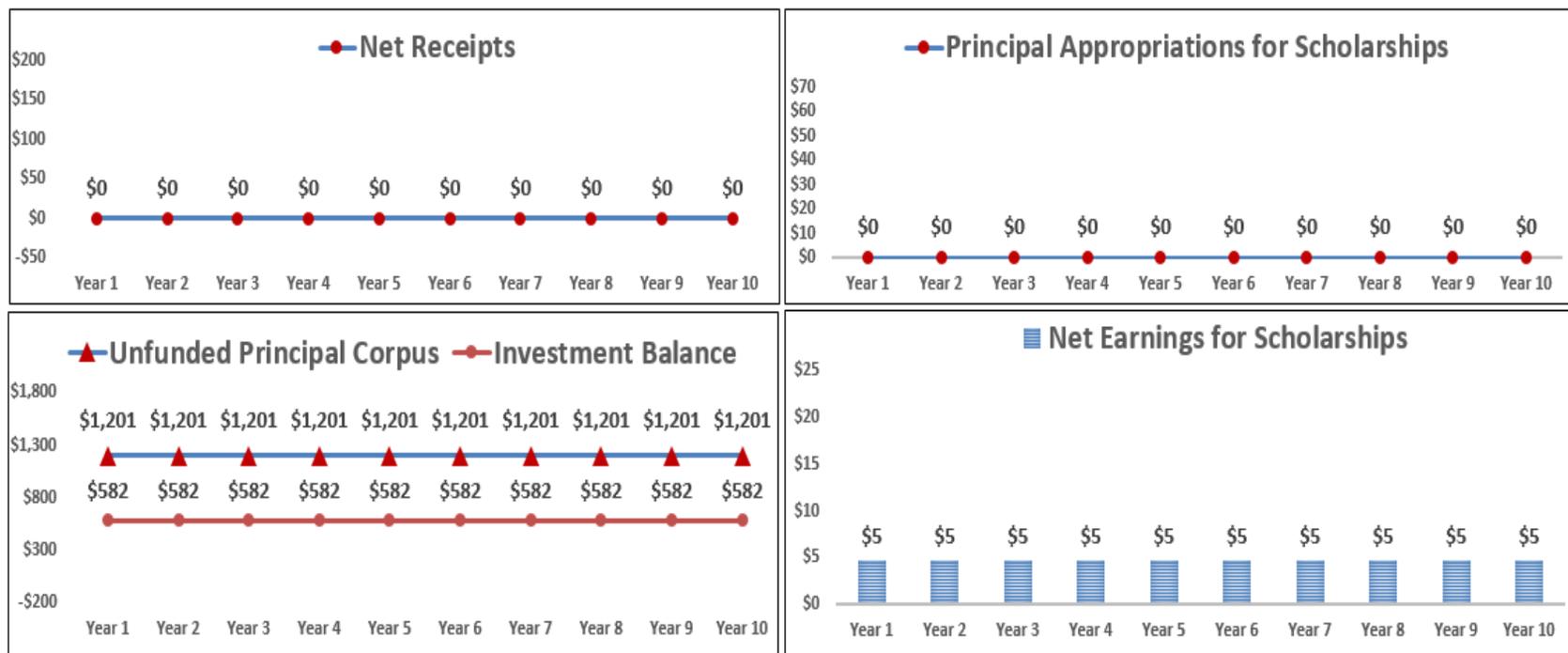
<i>(in millions)</i>			Forecasted Financials										
Scenario:	1B	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
		<b>Net Receipts</b>		<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>
		Investment Earnings		12	10	8	7	5	4	2	0	-	-
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		<b>5</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
		Principal Appropriations for Scholarships		30	30	30	30	30	30	30	-	-	-
		<b>Unfunded Principal Corpus</b>	<b>1,201</b>	<b>1,231</b>	<b>1,261</b>	<b>1,291</b>	<b>1,321</b>	<b>1,351</b>	<b>1,381</b>	<b>1,411</b>	<b>1,411</b>	<b>1,411</b>	<b>1,411</b>
		<b>Investment Balance</b>	<b>\$ 582</b>	<b>\$ 502</b>	<b>\$ 422</b>	<b>\$ 342</b>	<b>\$ 262</b>	<b>\$ 181</b>	<b>\$ 97</b>	<b>\$ 12</b>	<b>\$ (45)</b>	<b>\$ (102)</b>	<b>\$ (159)</b>

Exhibit 11: Scenario 1C (Annual Net Receipts of -\$50m, \$60m of Principal Transfers) in \$ millions



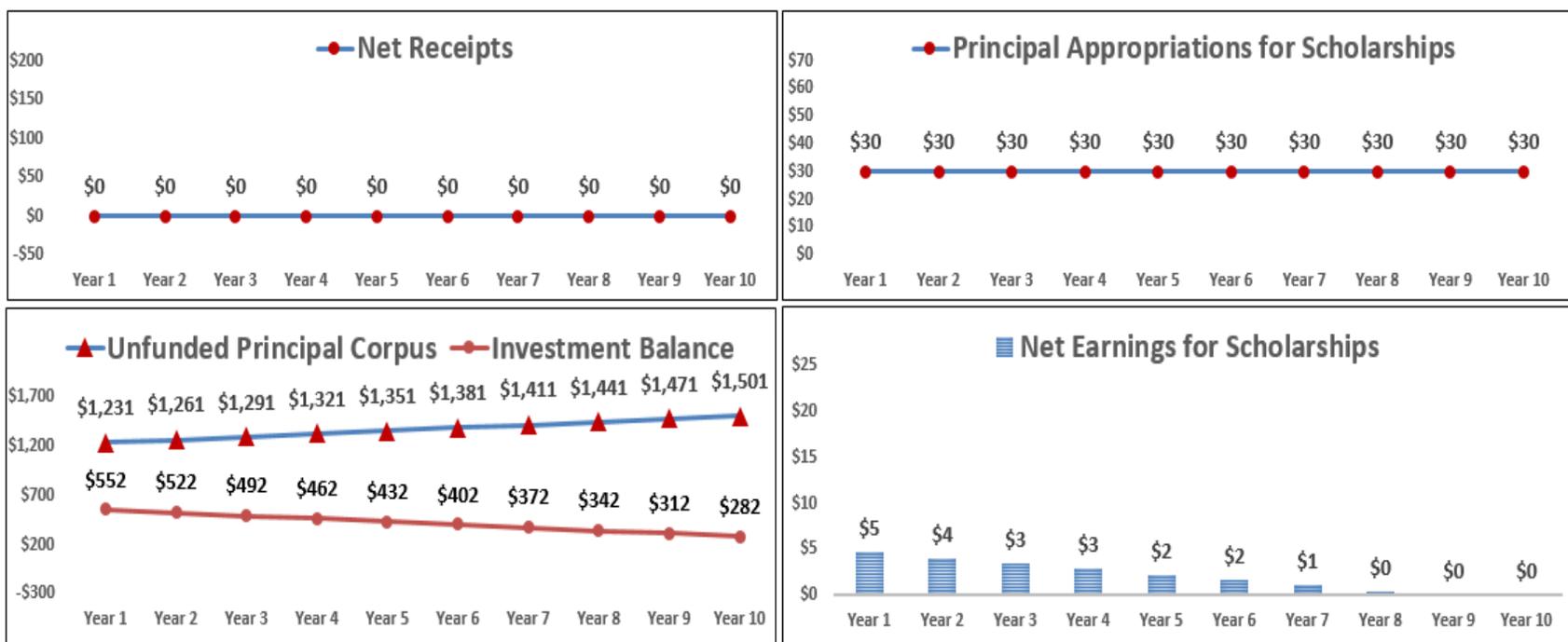
<i>(in millions)</i>			Forecasted Financials										
Scenario:	1C	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
		<b>Net Receipts</b>		<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>
		Investment Earnings		12	9	7	5	3	1	-	-	-	-
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		<b>5</b>	<b>2</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
		Principal Appropriations for Scholarships		60	60	60	60	60	-	-	-	-	-
		<b>Unfunded Principal Corpus</b>	<b>1,201</b>	<b>1,261</b>	<b>1,321</b>	<b>1,381</b>	<b>1,441</b>	<b>1,501</b>	<b>1,501</b>	<b>1,501</b>	<b>1,501</b>	<b>1,501</b>	<b>1,501</b>
		<b>Investment Balance</b>	<b>\$ 582</b>	<b>\$ 472</b>	<b>\$ 362</b>	<b>\$ 252</b>	<b>\$ 141</b>	<b>\$ 26</b>	<b>\$ (30)</b>	<b>\$ (87)</b>	<b>\$ (144)</b>	<b>\$ (201)</b>	<b>\$ (258)</b>

Exhibit 12: Scenario 2A (Annual Net Receipts of \$0m, \$0m of Principal Transfers) in \$ millions



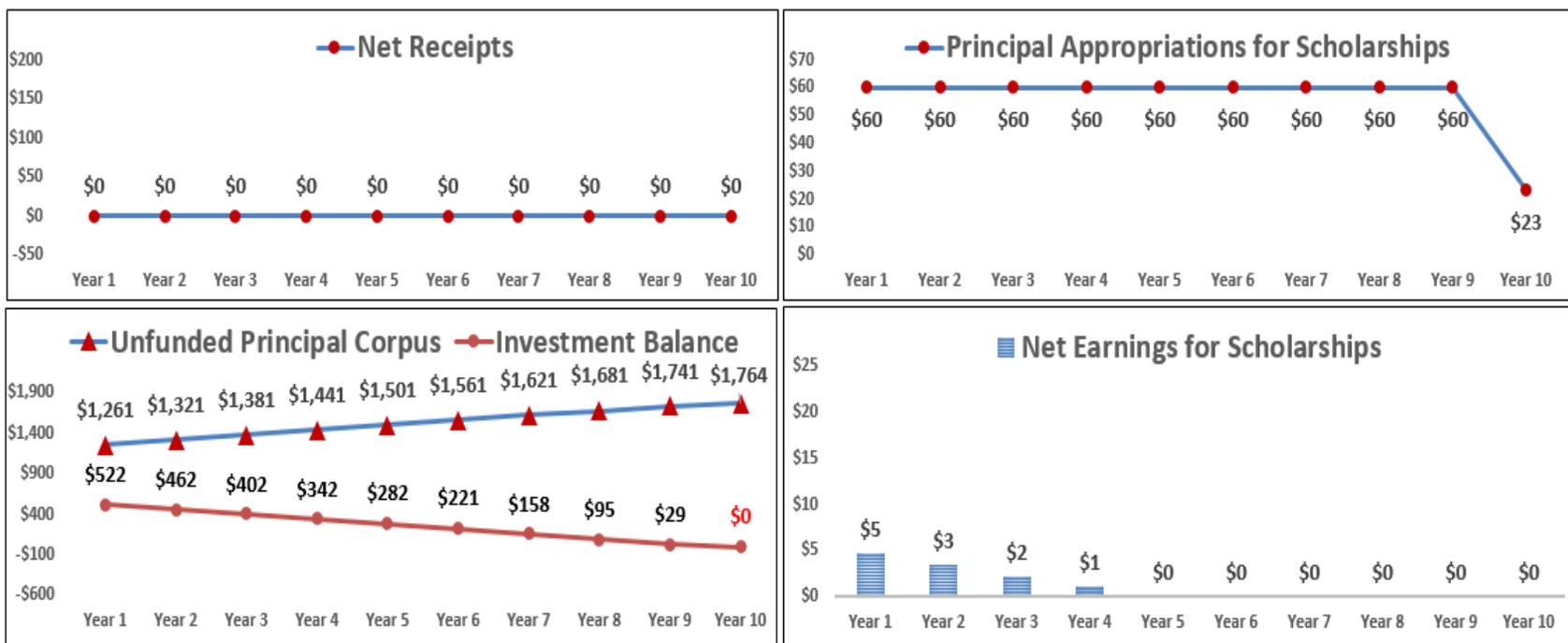
<i>(in millions)</i>		Forecasted Financials											
Scenario:	2A	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
		<b>Net Receipts</b>		-	-	-	-	-	-	-	-	-	-
		Investment Earnings		12	12	12	12	12	12	12	12	12	12
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		5	5	5	5	5	5	5	5	5	5
		Principal Appropriations for Scholarships		-	-	-	-	-	-	-	-	-	-
		<b>Unfunded Principal Corpus</b>	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201
		<b>Investment Balance</b>	\$ 582	\$ 582	\$ 582	\$ 582	\$ 582	\$ 582	\$ 582	\$ 582	\$ 582	\$ 582	\$ 582

Exhibit 13: Scenario 2B (Annual Net Receipts of \$0m, \$30m of Principal Transfers) in \$ millions



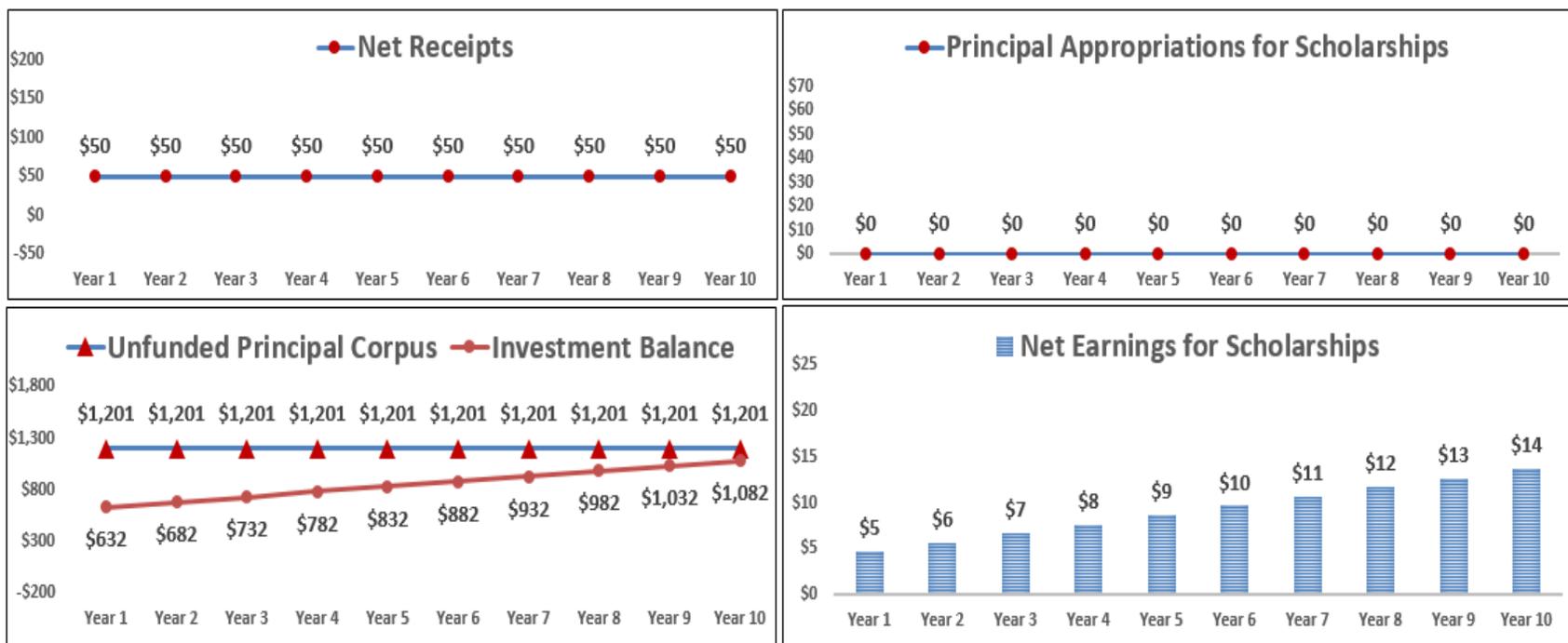
<i>(in millions)</i>			Forecasted Financials										
Scenario:	2B	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
		<b>Net Receipts</b>		-	-	-	-	-	-	-	-	-	-
		Investment Earnings		12	11	10	10	9	9	8	7	7	6
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		5	4	3	3	2	2	1	0	-	-
		Principal Appropriations for Scholarships		30	30	30	30	30	30	30	30	30	30
		<b>Unfunded Principal Corpus</b>	1,201	1,231	1,261	1,291	1,321	1,351	1,381	1,411	1,441	1,471	1,501
		<b>Investment Balance</b>	\$ 582	\$ 552	\$ 522	\$ 492	\$ 462	\$ 432	\$ 402	\$ 372	\$ 342	\$ 312	\$ 282

Exhibit 14: Scenario 2C (Annual Net Receipts of \$0m, \$60m of Principal Transfers) in \$ millions



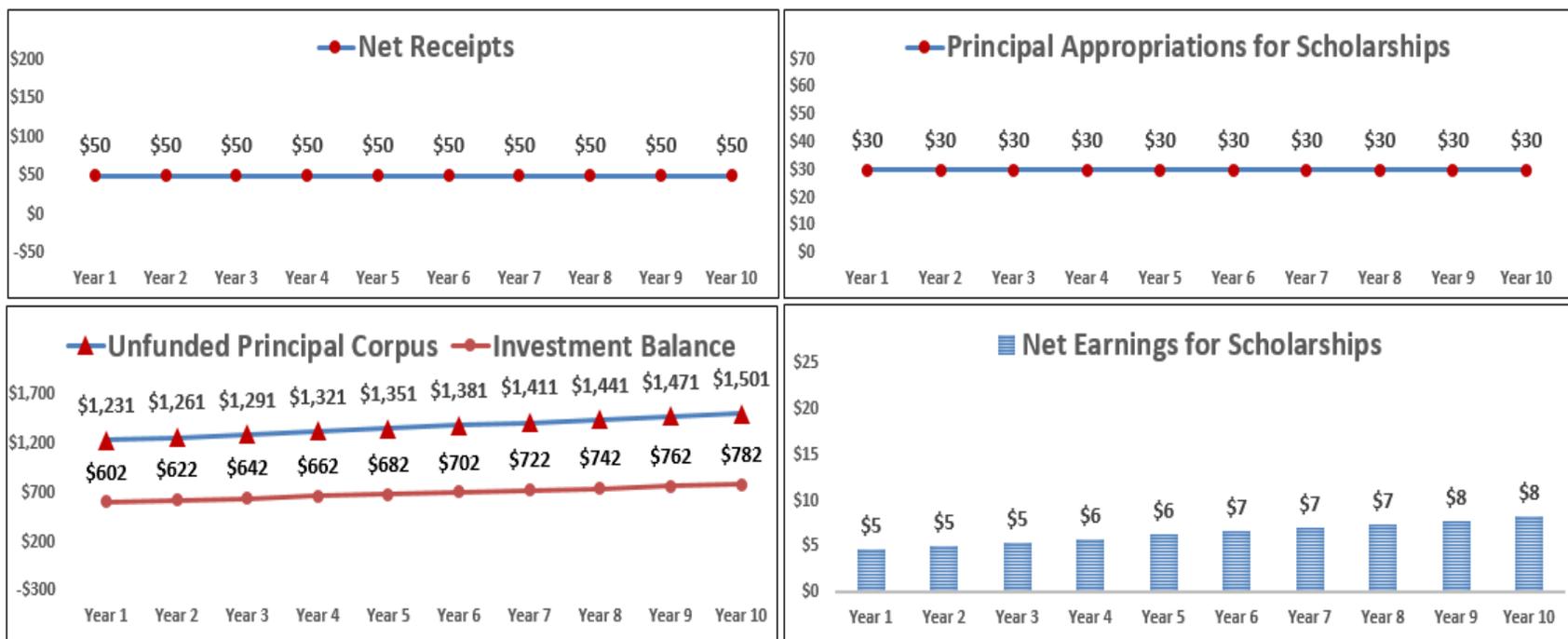
<i>(in millions)</i>		Forecasted Financials											
Scenario:	2C	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
		<b>Net Receipts</b>		-	-	-	-	-	-	-	-	-	-
		Investment Earnings		12	10	9	8	7	6	4	3	2	1
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		5	3	2	1	-	-	-	-	-	-
		Principal Appropriations for Scholarships		60	60	60	60	60	60	60	60	60	23
		<b>Unfunded Principal Corpus</b>	1,201	1,261	1,321	1,381	1,441	1,501	1,561	1,621	1,681	1,741	1,764
		<b>Investment Balance</b>	\$ 582	\$ 522	\$ 462	\$ 402	\$ 342	\$ 282	\$ 221	\$ 158	\$ 95	\$ 29	\$ -

Exhibit 15: Scenario 3A (Annual Net Receipts of \$50m, \$0m of Principal Transfers) in \$ millions



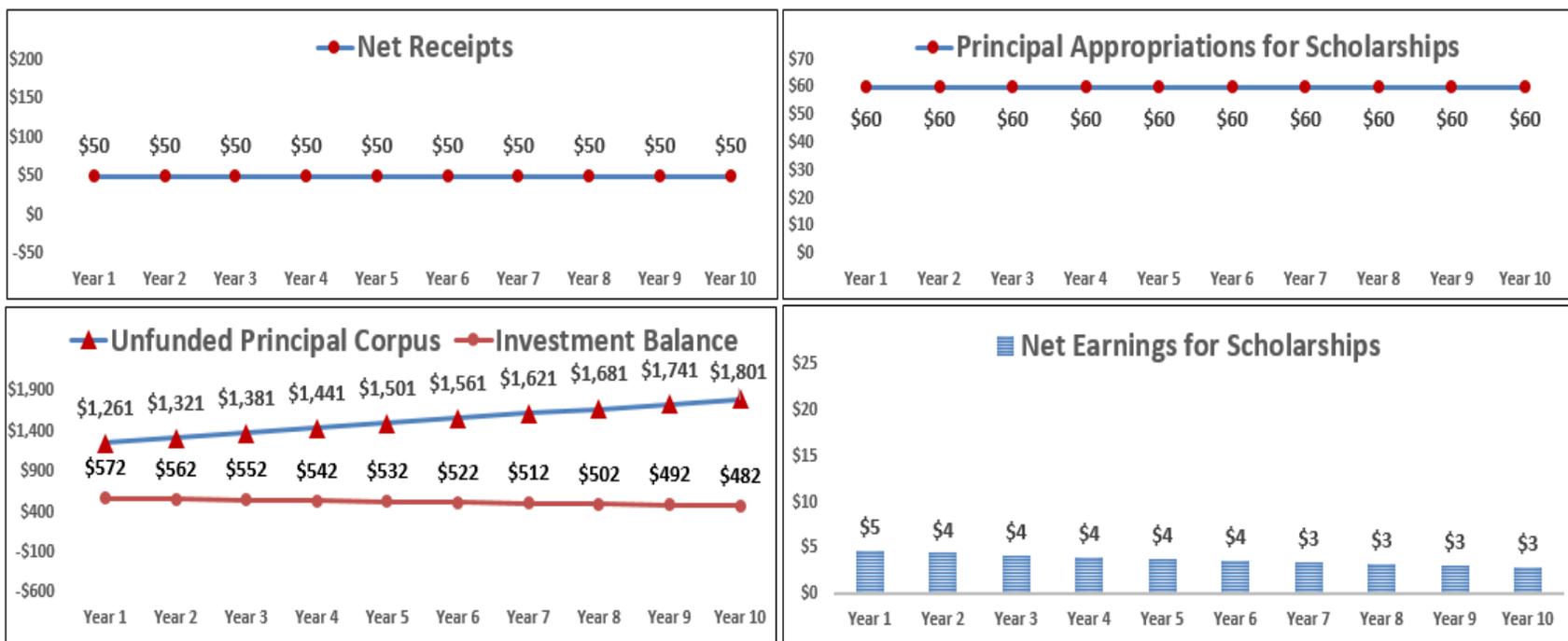
<i>(in millions)</i>			Forecasted Financials										
Scenario:	3A	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
		<b>Net Receipts</b>		<b>50</b>	<b>50</b>								
		Investment Earnings		12	13	14	15	16	17	18	19	20	21
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>
		Principal Appropriations for Scholarships		-	-	-	-	-	-	-	-	-	-
		<b>Unfunded Principal Corpus</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>
		<b>Investment Balance</b>	<b>\$ 582</b>	<b>\$ 632</b>	<b>\$ 682</b>	<b>\$ 732</b>	<b>\$ 782</b>	<b>\$ 832</b>	<b>\$ 882</b>	<b>\$ 932</b>	<b>\$ 982</b>	<b>\$ 1,032</b>	<b>\$ 1,082</b>

Exhibit 16: Scenario 3B (Annual Net Receipts of \$50m, \$30m of Principal Transfers) in \$ millions



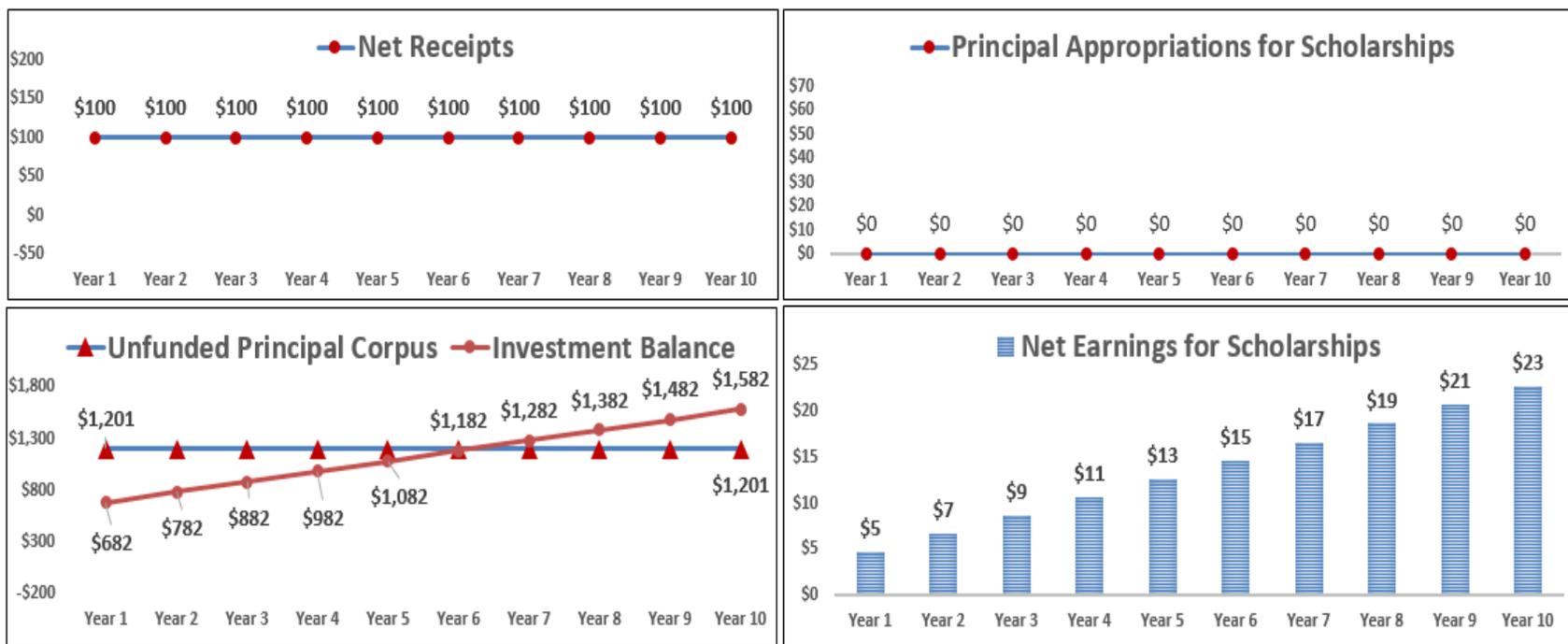
<i>(in millions)</i>			Forecasted Financials										
Scenario:	3B	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
		<b>Net Receipts</b>		<b>50</b>									
		Investment Earnings		12	12	12	13	13	14	14	14	15	15
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		<b>5</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>8</b>
		Principal Appropriations for Scholarships		30	30	30	30	30	30	30	30	30	30
		<b>Unfunded Principal Corpus</b>	<b>1,201</b>	<b>1,231</b>	<b>1,261</b>	<b>1,291</b>	<b>1,321</b>	<b>1,351</b>	<b>1,381</b>	<b>1,411</b>	<b>1,441</b>	<b>1,471</b>	<b>1,501</b>
		<b>Investment Balance</b>	<b>\$ 582</b>	<b>\$ 602</b>	<b>\$ 622</b>	<b>\$ 642</b>	<b>\$ 662</b>	<b>\$ 682</b>	<b>\$ 702</b>	<b>\$ 722</b>	<b>\$ 742</b>	<b>\$ 762</b>	<b>\$ 782</b>

Exhibit 17: Scenario 3C (Annual Net Receipts of \$50m, \$60m of Principal Transfers) in \$ millions



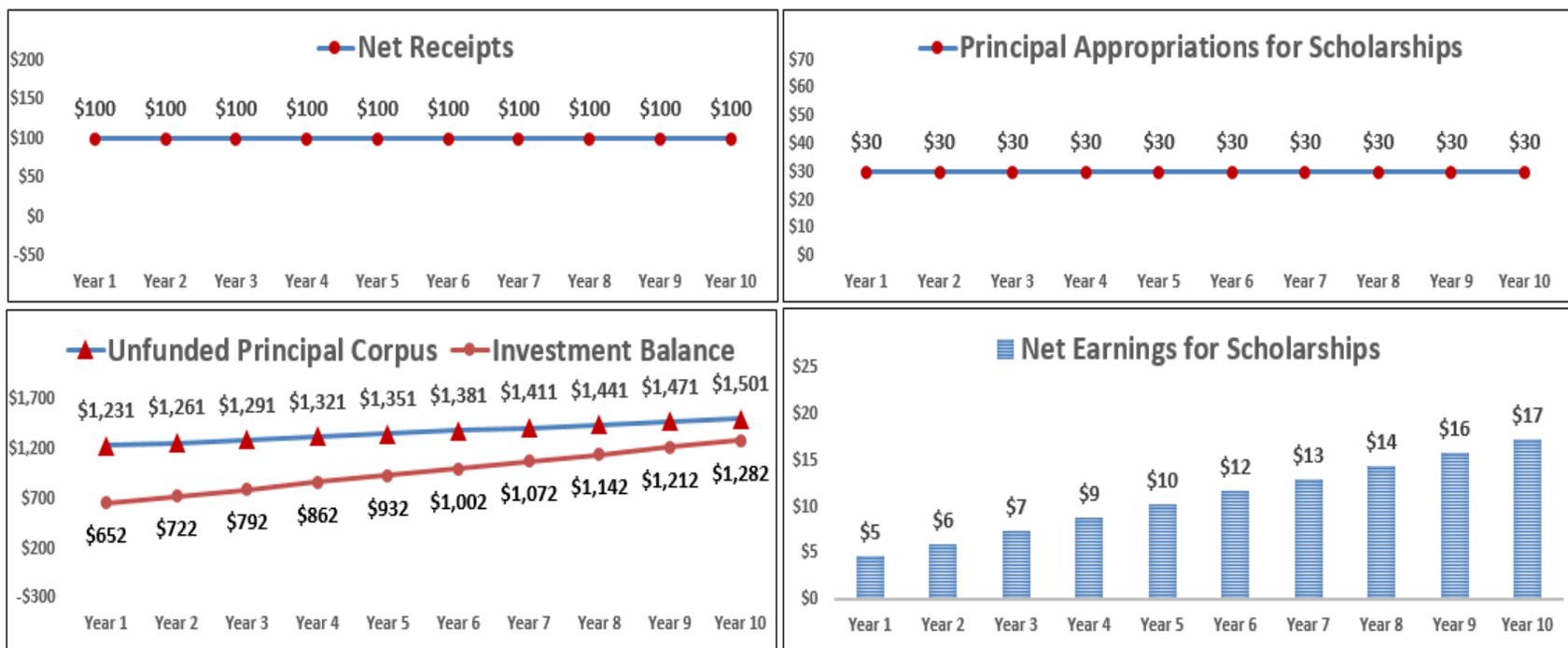
<i>(in millions)</i>		Forecasted Financials											
Scenario:	3C	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
		<b>Net Receipts</b>		<b>50</b>									
		Investment Earnings		12	11	11	11	11	11	10	10	10	10
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
		Principal Appropriations for Scholarships		60	60	60	60	60	60	60	60	60	60
		<b>Unfunded Principal Corpus</b>	<b>1,201</b>	<b>1,261</b>	<b>1,321</b>	<b>1,381</b>	<b>1,441</b>	<b>1,501</b>	<b>1,561</b>	<b>1,621</b>	<b>1,681</b>	<b>1,741</b>	<b>1,801</b>
		<b>Investment Balance</b>	<b>\$ 582</b>	<b>\$ 572</b>	<b>\$ 562</b>	<b>\$ 552</b>	<b>\$ 542</b>	<b>\$ 532</b>	<b>\$ 522</b>	<b>\$ 512</b>	<b>\$ 502</b>	<b>\$ 492</b>	<b>\$ 482</b>

Exhibit 18: Scenario 4A (Annual Net Receipts of \$100m, \$0m of Principal Transfers) in \$ millions



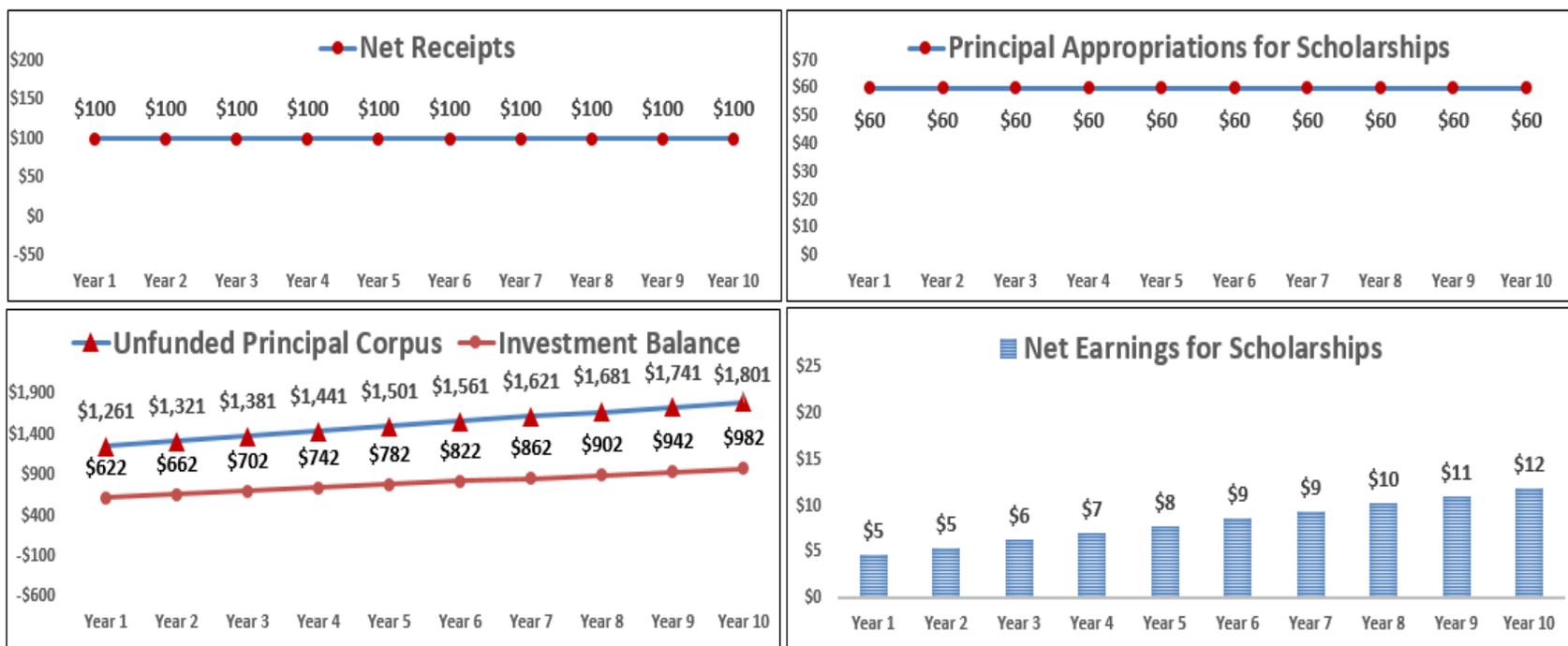
<i>(in millions)</i>		Forecasted Financials											
Scenario:	4A	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
		<b>Net Receipts</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
		Investment Earnings		12	14	16	18	20	22	24	26	28	30
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		<b>5</b>	<b>7</b>	<b>9</b>	<b>11</b>	<b>13</b>	<b>15</b>	<b>17</b>	<b>19</b>	<b>21</b>	<b>23</b>
		Principal Appropriations for Scholarships		-	-	-	-	-	-	-	-	-	-
		<b>Unfunded Principal Corpus</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>	<b>1,201</b>
		<b>Investment Balance</b>	<b>\$ 582</b>	<b>\$ 682</b>	<b>\$ 782</b>	<b>\$ 882</b>	<b>\$ 982</b>	<b>\$ 1,082</b>	<b>\$ 1,182</b>	<b>\$ 1,282</b>	<b>\$ 1,382</b>	<b>\$ 1,482</b>	<b>\$ 1,582</b>

Exhibit 19: Scenario 4B (Annual Net Receipts of \$100m, \$30m of Principal Transfers) in \$ millions



<i>(in millions)</i>			Forecasted Financials										
Scenario:	4B	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
		<b>Net Receipts</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
		Investment Earnings		12	13	14	16	17	19	20	21	23	24
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		<b>5</b>	<b>6</b>	<b>7</b>	<b>9</b>	<b>10</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>16</b>	<b>17</b>
		Principal Appropriations for Scholarships		30	30	30	30	30	30	30	30	30	30
		<b>Unfunded Principal Corpus</b>	<b>1,201</b>	<b>1,231</b>	<b>1,261</b>	<b>1,291</b>	<b>1,321</b>	<b>1,351</b>	<b>1,381</b>	<b>1,411</b>	<b>1,441</b>	<b>1,471</b>	<b>1,501</b>
		<b>Investment Balance</b>	<b>\$ 582</b>	<b>\$ 652</b>	<b>\$ 722</b>	<b>\$ 792</b>	<b>\$ 862</b>	<b>\$ 932</b>	<b>\$ 1,002</b>	<b>\$ 1,072</b>	<b>\$ 1,142</b>	<b>\$ 1,212</b>	<b>\$ 1,282</b>

Exhibit 20: Scenario 4C (Annual Net Receipts of \$100m, \$60m of Principal Transfers) in \$ millions



(in millions)		Forecasted Financials											
Scenario:	4C	Metric	Starting	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Receipts		\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
		Claims		(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
		<b>Net Receipts</b>		<b>100</b>									
		Investment Earnings		12	12	13	14	15	16	16	17	18	19
		Administrative Expense		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
		<b>Net Earnings for Scholarships</b>		<b>5</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
		Principal Appropriations for Scholarships		60	60	60	60	60	60	60	60	60	60
		<b>Unfunded Principal Corpus</b>	<b>1,201</b>	<b>1,261</b>	<b>1,321</b>	<b>1,381</b>	<b>1,441</b>	<b>1,501</b>	<b>1,561</b>	<b>1,621</b>	<b>1,681</b>	<b>1,741</b>	<b>1,801</b>
		<b>Investment Balance</b>	<b>\$ 582</b>	<b>\$ 622</b>	<b>\$ 662</b>	<b>\$ 702</b>	<b>\$ 742</b>	<b>\$ 782</b>	<b>\$ 822</b>	<b>\$ 862</b>	<b>\$ 902</b>	<b>\$ 942</b>	<b>\$ 982</b>