

**Guaranteed Education Tuition (GET)  
Committee Meeting  
Tuesday, September 1, 2015**

**J.A. Cherberg Building, Capitol Campus  
Senate Hearing Room 1  
Olympia, WA 98504  
2:00 p.m. – 4:00 p.m.**

**AGENDA**

Call to Order & Welcome

- Approval of August 18, 2015 Minutes ACTION
- Chair's Report INFO/DISCUSSION
- Approval of 2015-16 Budget INFO/DISCUSSION/ACTION
- Preliminary Actuarial Valuation Report INFO
  - Matt Smith, State Actuary
- Review of Issues & Recommendations INFO
  - Review of Refund Process & Procedures
  - Refund Fees / 2 Year Holding Period
  - Refund of Contributions
- Public Comment INFO/DISCUSSION
- Committee Discussion of Issues & Recommendations INFO/DISCUSSION
- Committee Action ACTION
- Public Comment INFO/DISCUSSION
- Information Sharing / Discussion Regarding 529 Savings Plan Options INFO/DISCUSSION
- Public Comment INFO/DISCUSSION
- Adjournment

**Upcoming Meetings:**

Wednesday, October 7, 2015  
Cherberg Building, Capitol Campus, Olympia  
Senate Hearing Room 3  
2:00 p.m. to 4:00 p.m.

Thursday, December 3, 2015  
Cherberg Building, Capitol Campus, Olympia  
Senate Hearing Room 3  
1:00 p.m. to 3:00 p.m.

## **GUARANTEED EDUCATION TUITION PROGRAM**

### **Meeting Minutes**

Tuesday, August 18, 2015

1:00 p.m. – 4:00 p.m.

J.A. Cherberg Building, Capitol Campus

Senate Hearing Room 4

Olympia, WA 98502

#### **WSAC staff in attendance:**

Betty Lochner, GET Director

Ryan Betz, Associate Director of GET Marketing and Communications

Betsy Hagen, Associate Director of GET Operations

Luke Minor, GET Marketing & Communications Manager

Katie Gross, Special Assistant to the GET Director

Jackie Ferrado, GET Community Relations Manager

Mallorie Rich, GET Quality Assurance Coordinator

Marc Webster, Senior Fiscal Advisor

Hailey Badger, Intern for Policy, Planning and Research

#### **Visitors in attendance:**

Rick Brady, Office of the Attorney General

Matt Smith, State Actuary

Christi Steele, Office of the State Actuary

Theresa Whitmarsh, Washington State Investment Board

Katherine Long, Seattle Times

Scott Merriman, Office of the State Treasurer

Kim Cushing, Washington State Senate

Cherie Berthon, Office of Financial Management

James Hong, State Auditor's office

Terry Cays, Citizen

Carrie Petz, Citizen

Harold Hajicins, Citizen

Lynda Ridgeway, Citizen

Mike Mulligan, Citizen

Pat Mulligan, Citizen

Essez Porter, KIRO TV

Phil Rockefeller, Citizen

Bryan Yon, Legislative Assistant to Representative Van Werven

Bill Elliott, Citizen

Kim Thompson, Office of Financial Management

Margaret Knudson, Citizen

Anna Maria de la Fuente, Citizen

Representative Steve Bergquist, Washington House of Representatives

## **WELCOME**

The GET Committee meeting started at 1:04 p.m. Gene Sharratt, Executive Director of the Washington Student Achievement Council and Chair of the GET Committee, welcomed the participants and the Committee members. The GET Committee members in attendance were Treasurer Jim McIntire, David Schumacher, Director of the Office of Financial Management, Beth Berendt, citizen member, and Mooi Lien Wong, citizen member. Wong participated via phone. Sharratt reviewed the agenda and stated that the Committee is encouraging public comment on the GET website if there are thoughts that people want to share.

## **APPROVAL OF THE JULY 13, 2015 MINUTES**

Berendt motioned to approve the July 13, 2015 meeting minutes. Treasurer McIntire seconded the motion. The minutes were approved unanimously as presented.

## **CHAIR'S REPORT**

Sharratt noted that the second quarter investment report conducted by Allyson Tucker from the Washington State Investment Board (WSIB) was included in the meeting packet. However, a review of the report would not be conducted today. No questions were posed regarding the report.

Sharratt thanked the State Actuary, Matt Smith, Allyson Tucker (WSIB), GET's AAG, Rick Brady, the GET Committee members, and GET staff for all of the work that's been done since the passing of SB 5954.

## **REVIEW OF LEGISLATIVE DIRECTION**

Sharratt reviewed the impacts pertaining to tuition and the GET program since the passing of E2SSB5954. Tuition setting authority for in-state, public institutions has been returned to the Legislature. Sharratt noted the items that this legislation directs the GET Committee to do:

- To set the payout value at \$117.82 per unit for the 2015-16 and 2016-17 academic years (current value).
- To “make program adjustments it deems necessary and appropriate to ensure that the total payout value of each account...is not decreased or diluted as a result of the initial application of any changes in tuition...”
- If the GET Committee provides additional units as a result of E2SSB5954, the maximum number of units that can be redeemed in any year must be increased as well.
- To conduct a feasibility study to explore the following:
  - Impact of tuition reductions on the funded status of the program;
  - Feasibility of creating a 529 savings program;
  - Changing payout value from tuition to cost of attendance; and
  - Alternatives/impacts of removing a state penalty for non-qualified withdrawals.

## **CUSTOMER SERVICE FEEDBACK**

Over 70,000 emails were sent to account owners with information about changes to the program. There was a survey included in this email that gave customers a chance to ask questions or voice concerns. The program has received around 1,100 responses thus far and Sharratt briefly went through a trend in the stated concerns.

## **GUIDING PRINCIPLES**

Sharratt reviewed the guiding principles to assist the Committee in making decisions:

- Maintain actuarial soundness, integrity and confidence in the program.
- Where possible, provide equitable treatment of all customers.
- Minimize risk to the state and to account holders.
- Where possible, provide customers with options and flexibility.
- Explore potential college savings vehicles so that customers continue to have a way to save for future higher education expenses.

Berendt noted that she agrees that it is important to set guiding principles to assist the Committee in making decisions. Berendt added that she wants to be sure the Committee maintains GET as a prepaid program. GET serves as a very special option for families, particularly families in or around the middle-class. These families don't often qualify for financial assistance and this program allows them to invest money and see a value to their investment without being subject to the volatility of the market. Berendt wanted to remind the Committee that one of the values of this prepaid program is that the risk is held by the state of Washington. Establishing a 529 savings plan transfers the risk back to the families.

Treasurer McIntire agreed that more time is needed. He wanted to be clear that taking more time to make important decisions doesn't mean that the Committee isn't interested in having the program continue. Berendt added that she wants to maintain the prepaid program. Wong added that to the extent possible, she wants to maintain the GET program's guarantee.

## **REVIEW OF ISSUES & RECOMMENDATIONS**

Betty Lochner, Director of the GET program, reviewed the four main benefits that the College Affordability Act provides for the GET program:

- It increases the funded status of the program by lowering tuition in comparison to previous projections.
- It protects customers who need to use their units in the next two years by freezing the payout value instead of reducing in value with tuition prices.
- It calls for the GET Committee to make the necessary program adjustments to ensure GET customer accounts are not decreased or diluted as a result of lower tuition after the two year freeze is lifted.
- It provides GET with the opportunity to open a traditional 529 savings plan in order to help more customers save in new ways.

Lochner noted the items she hopes the GET Committee will discuss and take action on today:

### 1. Refunding the Amortization Fee Charged to Customers since 2011

This amortization fee was included in the purchase price of all units purchased at \$163 or higher, starting in the 2011-2012 enrollment period. The amortization fee was put in place to help the program's funded status. This fee was not paid by any customers other than those who have purchased units in the last four years. The total cost of refunding the amortization fee would be just over \$60 million and would impact around 50,000 accounts. If implemented, it could possibly reduce the program's funded status by 1% to 2%. Our staff recommendation is that effective August 19, 2015, the program refund the amortization fee paid by the customers who have unredeemed units at a purchase price of \$163 or greater.

2. Refund Fee / 2 Year Holding Period

Tuition reductions were never a part of the program's pricing assumptions, payout considerations and marketing materials. Refund penalties make it hard for customers to move their funds to other savings vehicles. GET does not currently have a direct rollover option. Currently, customers pay a refund penalty of 10% of their earnings or \$100, whichever is greater, an account cancellation fee of \$10, and an account maintenance fee of \$1.70 per month while the account was open and active. It is also important to note that if a customer deposits their GET funds in another 529 plan within 60 days they will avoid any federal tax penalties. The staff recommendation is that effective August 19, 2015, through December 15, 2016, the GET program will waive refund fees and the two-year hold requirement for all account owners.

3. Refund of Contributions

This item would allow customers to obtain a refund of their contributions if their contributions are greater than the current payout value. Due to recent tuition-setting policies, it may take several years for these customers to regain their contributions. The staff recommendation is to permit account owners to receive a refund of their contributions for unredeemed units until December 15, 2016. Providing a 16-month window to take advantage of this option allows account owners to wait and see what new products or services may be offered by the program or state before having to make a decision regarding their GET account.

4. Delay of New Unit Sales

The program is required to conduct a legislatively mandated feasibility study on the future viability and direction of the program based on the impacts of the College Affordability Act. Some of the questions that will be asked as part of this study:

- How do we protect customer account values after two-year payout value is unfrozen?
- What is the impact of decreasing tuition rates on the funded status and future unit price?
- What are some alternatives and impacts for changing the program's distribution policy from tuition and fees to a cost of attendance metric?
- What is the feasibility and impact of establishing a 529 college savings plan?
- What are some potential alternatives and impacts for whether the state penalty for withdrawal should be changed?

The program will have more answers as to the health of the program once this study is completed. For that reason, staff is recommending that effective July 1, 2015, the program delay new GET unit sales for a period not to exceed two years, except continued payment on Custom Monthly plans established prior to July 1, 2015 shall be allowed.

Lochner made it clear that these are just the first steps of many to come. These steps are to provide customers some options. Moving forward, the GET Committee and program staff will look at longer-term solutions to benefit customers.

Matt Smith, State Actuary, noted that he expects the funded status to be higher than 115% because the fund will have a larger reserve to work with. However, there could possibly be a 5% reduction

in the funded status if the action items are passed and customers respond by refunding their accounts.

### **PUBLIC COMMENT**

Carrie Petz, GET Account Owner, spoke to the GET Committee noting that she purchased 450 Lump Sum units at \$163. She noted that although many customers purchase units when their children are young, she bought when her child was too old and bought at the time that there was a large premium. She sees herself as an extreme case and pleaded that the Committee allow refunds for cases like hers.

Anna Maria de la Fuente, GET Account Owner, stated that she has been contributing to a Custom Monthly account for her nephew for six years. Her nephew will go to college next year and she will see a decrease in her investment. Ms. de la Fuente stated that she believes that customers are being punished if they have to save through a Custom Monthly plan because of the interest rate (7.5%). Learning that the Committee is looking at the most recent four-year cohort as their priority caused concern as her contributions, too, are also worth significantly less. Ms. de la Fuente asked the Committee to reconsider the four-year window of customers and look more at specific accounts. She would ask that her \$89/month on the Custom Monthly plan be refunded so that no funds are lost. She also asked that they reconsider the interest rate being charged on Custom Monthly plans.

State Representative Steve Bergquist, GET Account Owner, stated that the Senate came up with a plan to reduce tuition with the thought that it wouldn't have much of an impact on GET. He sees this program as an opportunity for the middle class to save for their children. He also feels the need to have the opportunity for that fund to at least grow with inflation. Rep. Bergquist advised that no decisions be made quickly as the best interest of the citizens of Washington be kept at the forefront.

### **COMMITTEE DISCUSSION OF ISSUES & RECOMMENDATIONS**

McIntire asked GET staff if the refund option includes a full refund for people purchasing for the last four years. Lochner stated that this option allows people that paid more for units than the current payout value to get their contributions back. Per discussions with the AAG, Rick Brady, Lochner reminded the Committee that nothing that's decided today would preclude anyone from making a refund request and having it looked at on a case-by-case basis.

Schumacher wanted to note that the policy regarding the amortization is separate from that of the recent tuition reduction. Schumacher noted that it's important to realize that the amortization decision is looking at the fairness of charging customers a fee that others didn't have. In an approach to fairness, the Committee is looking at the accounts that were rightfully surprised at the reduction of tuition and the impact it may have had on them. These are separate decisions.

Berendt agreed that it's important to separate these items. A lot of changes have been made over time in regards to tuition, tuition policy, and the funded status of the GET program. Berendt thanked the GET Account Owners for coming and for reminding the Committee to consider the impact their decisions have on customers and the program. Berendt stated that the Committee felt they were doing the right thing when the amortization piece was put in place. Activity of the legislature at that time played a part in this and the reaction to the funded status prompted this

decision/change. She stated she was ready to vote on this piece today. Berendt voiced her concern moving ahead with the options of refunds. Berendt stated she would like to explore more scenarios case-by-case and wants to be sure a waiver form is put in place before customers opt to get a refund. GET customers should be fully informed of the ramifications of their decisions. The program should be protected from future litigation.

Wong stated that she is ready to vote on action item #1, but wants to look deeper into action item #2 before taking action. Wong suggested moving this item to the September meeting.

Lochner responded by saying that looking at each case would take a considerable amount of time as there are thousands of unique accounts. Lochner asked the Committee what changes need to take place between today and September 1 to help aid them in their decision making. Berendt stated that a waiver form needs to be in place before a decision is made regarding refunds.

Betsy Hagen, Associate Director for GET Operations, stated that GET staff have been doing proactive work on possible outcomes around refunds for a number of months. Staff have developed a letter and a few other forms that fully disclose the implications. The AAG has reviewed these waiver forms as well. Berendt asked to see these forms and Hagen responded that staff would work with her on this.

Treasurer McIntire stated that he's heard from a number of people that want to get a refund and want to start earning interest on the funds elsewhere. The Treasurer said that he's okay waiting until September to take action regarding refunds if there can be consensus on the Board. McIntire was hopeful that the Committee can come to a consensus on the rest of the proposals today, especially the amortization fee refund.

### **COMMITTEE ACTION**

#### **Action Item #1 – Amortization Fee Refund**

Schumacher moved that effective August 19, 2015, the GET program refund the amortization fee paid by Account Owners who have unredeemed units at a purchase price of \$163 or greater.

McIntire seconded this motion. This item was approved unanimously.

#### **Action Item #2 – Refund Fees / 2-Year Holding Period**

Schumacher stated that he doesn't feel that the Committee is in agreement on this item. More work needs to be done. All Committee members agreed to delay this item until the GET Committee meeting on September 1.

McIntire asked for clarification regarding the amortization refund. He asked if there were any fees associated with this. Lochner noted there were no fees related to this. This will only be for those that have purchased at the \$163/unit and \$172/unit prices. Customers will be made aware that other decisions are still pending and that these refunds will not start going out until after the September meeting. Refunds will not go out right away as there will be months of work in order to get these refunds back to customers. GET staff will share more information around this at the next meeting.

### Action Item #3 – Refund of Contributions

Berendt stated that she felt this item should be deferred to the September 1 meeting. McIntire agreed. All agreed that this be deferred.

### Action Item #4 – Delay of New Unit Sales

Berendt motioned that effective July 1, 2015, the GET program delay new unit sales for a period not to exceed two years, except continued payments on Custom Monthly plans established prior to July 1, 2015 shall be allowed. Berendt wanted to be sure the AAG was okay with this motion as well, which he was. McIntire seconded this motion.

Lochner noted that payments have been coming in since July 1 and new enrollments have been established since then as well. That money will be returned to customers.

Committee members voted unanimously to pass this item. Motion passed.

Lochner asked what the Committee needs from GET staff between now and the September 1 meeting. GET staff will provide the Committee with copies of the waiver/disclosure forms that have been created and reviewed by the AAG.

Berendt stated that she would like more information as to the group of cohorts. She would like to see this broken down by account type and benefit use year. Berendt asked if there is a penalty if a customer with a Custom Monthly plan stops paying. Lochner stated that a Custom Monthly account would be converted to a Lump Sum account if payments weren't made. Berendt asked if the Committee wants to explore establishing a period of time where a customer could opt to hold their Custom Monthly payments without penalty. Hagen responded that the program's database and workflows may not allow for this but staff can explore this option.

### **INFORMING SHARING/DISCUSSION REGARDING 529 SAVINGS PLAN OPTIONS**

Sharratt noted that Jamie Canup, Tax Practice Chairman with Hirschler Fleischer, may be attending the September 1 GET Committee meeting to discuss 529 savings plan options for Washington state. The savings plan report drafted by Canup was sent to the Committee in previous weeks. The point of Canup's work and direction will hopefully help the GET Committee make decisions as to where and how to go out with an RFP. No action is necessary currently but preliminary information is as follows:

1. State run in house program
  - a. Greater control of the program:
    - i. Marketing;
    - ii. Operations; and
    - iii. Customer Service.
  - b. Investment decisions and options managed by the state.
    - i. As assets under management increase, lower fees result for account owners.
  - c. GET already has existing staffing structure in place to operate this program.
  - d. Direct-sold program.
    - i. Advisor sold program not an option.
2. Contracting with a third-party program manager



- a. State outsourced 529 plan / State gets a professionally-managed program.
  - b. Advantages:
    - i. No creation of infrastructure to run program, no need to hire staff to run the program.
      - 1. State cannot outsource its fiduciary obligations.
    - ii. Program manager provides professional management and investment advice and possible access to underlying funds at a cost-effective alternative.
      - 1. Program manager provides record-keeping, reporting obligations, a call center with extended hours to serve account owners, and national marketing and communications.
    - iii. Account owner can take advantage of services provided by a professional financial planner and broker-dealers to help make investment decisions.
      - 1. Advisor sold program.
  - c. Disadvantages:
    - i. State loses control over the ability to tailor program to meet its particular needs.
    - ii. Must accept that the program will “fit the mold” created by third-party manager.
    - iii. Does not provide much flexibility in how the program is structured.
    - iv. State fee charged to cover program expenses must remain small in order to remain competitive, so once you start this model you are almost locked in to it.
    - v. Focused on reaching a national audience by selling to more affluent investors in order to build more scale and raise more revenue for the program manager.
3. Partnering with another state-run 529 savings program
- a. Limited attempts by states to partner with other states.
  - b. Outsource to a state that already runs its own program.
  - c. Lots of questions if this can be done under the various securities laws.

Lochner stated that the question the Committee needs to answer is ‘what does the State of Washington wish to offer and achieve for its citizen when considering what the parameters of its 529 college savings plan should look like?’

## **PUBLIC COMMENT**

Margaret Knudson, GET Account Owner, addressed the Committee and wanted confirmation that she won’t be able to contribute to her accounts for two more years. Lochner responded that this was correct. Knudson asked if the refunded amount for the units that she’s purchased in the last four years will purchase more units. Lochner responded that there will be no new units purchased but that she will receive a cash refund for the amortization fee of the units purchased in the last four years.

McIntire stated that the Committee’s challenge is repricing the units. Rather than try and reprice them based on the tuition reduction only, the Committee needs to figure out what that reduction really means. Legislative decisions about tuition have been around flat or increased tuition. Now

that tuition has decreased, the Committee will need to figure out how to price the program. It's a problem for the Committee to decide to charge the customer a price for GET units at this time as we're in this transitional period.

Mike Mulligan, GET account gifter, stated that one of his concerns is freezing the investment for two years. This freezes the tax benefit for two years as well. Mulligan suggested the Committee offer a savings alternative that guarantees the same benefits and protection as GET while this freeze is in place. In regards to 529 savings plans, Mulligan stated that these are often awkward to make withdrawals from. Mulligan referenced the opening of a state-run 529 savings program but questioned if these funds would be invested by qualified experts.

Berendt asked for clarification as to the investment entity/experts Mulligan was referring to. She asked if he was referring to the expertise of the Washington State Investment Board (WSIB) or the expertise that customers are getting from their financial advisors, etc.

Mulligan stated that their family locked in to the word 'guarantee.' His family trusts the State of Washington and that is why they put money into the GET program. He is questioning the guarantee as this point and would love to see the state step up and fully support their citizens.

Berendt noted how important it is for customers to understand the ramifications of refunds. She doesn't want participants' monies jeopardized by litigation in the future. Whatever decisions the Committee makes aren't made in haste and the wording of the motion was 'up to 2 years' so that ample time is provided to make thoughtful decisions. Berendt believes that the Committee needs to protect the program. The guarantee is extremely important.

McIntire responded to Mr. Mulligan's concern about the tax benefit and stated that funds could be rolled to another 529 plan and one could continue seeing those tax benefits. One could then roll the funds back in to GET. McIntire stated that since withdrawals from other 529 savings plan can be awkward, this is why the Committee is looking at the option for a state-run program. The investment expertise lies within the WSIB. McIntire's concern is that customers appreciate that the Committee is making these decisions as fiduciaries. Looking at unit pricing moving forward, in addition to protecting current customers, McIntire stated that he doesn't feel comfortable selling units that would be undervalued in the future. The Committee doesn't want to the underlying sustainability of the program to be questioned and wants to make sure the program is priced so that there's a reasonable return.

Ms. de la Fuente asked for clarification on the two items being discussed in September. She asked if the refund option will only pertain to those in the four-year cohort and will others be eligible for refund without penalty and receive total contributions back. Lochner responded that the proposal today, which could change, would offer that anyone, at any time up to a certain date, could refund their account without penalty. This refund would include the finance charges for Custom Monthly plans but wouldn't consider late or NSF fees.

Ms. de la Fuente asked the Committee to consider the customers who are lower income and have less access to the system. She asked that the Committee look at case-by-case accounts if needed and perhaps look at the 7.5% finance charge for customers paying month to month.

Betz provided clarification that customers with Custom Monthly plans, if opting to refund their accounts, will get a refund of all of their contributions, which includes the finance fees.

McIntire and Betz responded that for those customers who purchased Lump Sum units, they'd be getting the payout value if that value is more than what was paid in. If contributions were higher than the payout value, the refund would be the value of the contributions.

Schumacher stated that it is questions like this that have made the Committee a little nervous about making a number of decisions today. The Committee wants to solve these problems but wants to do this thoughtfully.

Petz asked what new information the Committee feels they need between now and September 1 to make the decisions regarding the refunds.

Berendt stated her appreciation for the comments provided by the citizens. The Committee hopes to have clarity around the budget and disclosure information before the meeting in September.

Petz asked if her money is needed by the GET program to fulfill current obligations.

Berendt stated that the money that's invested in the account is not needed today, but it's the precedence. There are ramifications to all of these decisions.

Sharratt thanked those that provided public comment. Sharratt noted upcoming meeting dates and let the public know that GET Committee members and staff would be available to meet with any of those that have concerns or comments after meeting adjournment.

## **ADJOURNMENT**

Berendt motioned to adjourn. McIntire seconded the motion. Meeting adjourned at 2:42 p.m.

# GET Committee Meeting

## September 1, 2015



# Welcome & Approval of Minutes



# Chair's Report

- Review of the work that's been accomplished in the past 9 weeks since the passing of the College Affordability Act.
  - Review of legislation
  - Review of committee action
- Next Steps: What we hope to accomplish today.
  - Review of today's agenda



# Chair's Report



## Review of College Affordability Act:

- Tuition is reduced at all public institutions of higher education in WA:
  - 15% at UW and WSU (5% below 2014-15 levels in 2015-16, & another 10% below 2014-15 levels in 2016-17);
  - This is important because these are the two institutions for which GET's payout value is based upon.
- Tuition-setting authority is returned to the Legislature.
- Beginning in 2017-18 resident undergraduate tuition growth is capped at the annual percentage growth rate in the median state wage.

# Chair's Report



## Review of College Affordability Act:

- Directs the GET Committee to set the payout value at \$117.82 per unit for the 2015-16 and 2016-17 academic years (current value).
- Beginning in the 2017-18 academic year, the GET Committee is also required to make the necessary program adjustments to ensure GET customer accounts are not decreased or diluted as a result of lower tuition. This may include a cash refund, additional units, a minimum payout value, or another solution that is deemed appropriate.



# Chair's Report



## Review of College Affordability Act:

- Lastly, the legislation calls for the GET Committee to conduct a legislatively mandated feasibility study intended to answer the following questions:
  - How does GET continue to protect customer account values after two-year payout value is unfrozen?
  - What is the impact of decreasing tuition rates on GET's funded status and future unit price?
  - What are some alternatives and impacts for changing the program's distribution policy from tuition and fees to a cost of attendance metric?
  - What is the feasibility and impact of establishing a 529 college savings plan?
  - What are some potential alternatives and impacts for whether the state penalty for withdrawal should be changed?
- Answers to these questions must be researched and developed by December 1, 2016 and will be presented to the Legislative Fiscal and Higher Education Committees.

# Chair's Report



## Review of Committee Action to Date:

- 1.) Effective August 19, 2015, refund the amortization fee paid by customers who have unredeemed units at a purchase price of \$163 or greater.
- 2.) Effective July 1, 2015, delay new GET unit sales for a period not to exceed two years, except continued payments on Custom Monthly Plans established prior to July 1, 2015 shall be allowed.



# Chair's Report



## Customer Feedback:

- Over 1,100 customer survey responses since July 13<sup>th</sup> meeting.
- More than 2,000 customer phone calls since August 18<sup>th</sup> meeting.
- More than 500 customer emails since August 18<sup>th</sup> meeting.
- Hundreds of blog comments and social media messages.

## Message Themes:

- Concerns over the value of their accounts now and in the future.
- Anxious for committee decisions.
- Would like ability to rollover to another 529 savings plan.
- Concerns over GET not keeping pace with out-of-state/private school tuition.
- Would like options and flexibility with the assets in their accounts.
- Do not want to incur any penalties or fees for refunds or rollovers.
- Would like additional units.
- Would like interest income while payout value is frozen.

## Overall Trend:

- As more time passes since the College Affordability Act was enacted, GET continues to receive more phone calls, emails, and messages with concerns regarding the program.



# Chair's Report



## Summary:

- Today's possible actions are to continue to provide customers with some initial options.
- Moving forward we will look at a number of longer-term solutions to benefit customers. Steps we are taking today are not the final steps as there is much work still to be done with the legislatively mandated feasibility study.

# Approval of 2015-16 Budget

- **FY 2016 Proposed Budget:**  
**\$5,973,077**
- **Less Identified Expenses:**  
**\$1,333,000**
  - Less salary/benefits, marketing contract, web design contract, equipment, incidentals.
- **Adjusted Total:**  
**\$4,640,077**
- **Spending authority from OFM for the biennium:**  
**\$11,227,000**



# Preliminary Actuarial Valuation Report



- **Matt Smith, State Actuary**



# Review of Issues & Recommendations



## A.) Review of Refund Process & Procedures

## B.) Issues for Discussion:

1.) Refund Fees / 2 Year Holding Period

2.) Refund of Contributions



# Review of Issues & Recommendations



## Review of Refund Process & Procedures

All account owners are given options when they call in requesting information about a refund. The options are as follows:

1. Transfer to another family member of student (down to 1<sup>st</sup> cousin).
2. Hold onto the units in case the student decides to attend school later.
3. Possibility to change the Custom Monthly contract if they are having financial difficulty.
4. Request a reimbursement for any expenses during the calendar year.
5. Proceed with the refund.
6. We tell the account owner they will receive a 1099Q in January and they will have to report any earnings as ordinary income on their taxes if not used for qualified higher education expenses.



# Review of Issues & Recommendations



## Review of Refund Process & Procedures

Since July 22, 2015 all account owners submitting refund forms (where program refund fees/penalties apply) have received an email confirmation for their refund request in order to make them aware of all their options and to receive written direction from the account owner on their intent to refund.



# Review of Issues & Recommendations



## Review of Refund Process & Procedures

The Refund/Cancellation Policy contains information, instructions and considerations for Account Owner review prior to requesting a refund. Important information for Account Owner consideration include:

- The earnings portion of any refund may still be subject to federal taxes, penalties and fees, payable to the IRS (typically any increased value is taxed as income, and an additional 10% penalty applies).
- To avoid a taxable event, you may deposit your refund into another 529 plan within 60 days of the date your refund is processed. To compare various 529 plans, go to [www.collegesavings.org](http://www.collegesavings.org).
- A 1099-Q tax form will be sent to you that shows the principle and earnings portions of your refund. You may be required to report this information to the IRS.
- **WE STRONGLY ADVISE THAT YOU CONSULT [IRS PUBLICATION 970](#) AND A TAX ADVISOR ABOUT POTENTIAL TAX IMPLICATIONS BEFORE REQUESTING A REFUND. YOU SHOULD ALSO CONSULT YOUR LEGAL AND FINANCIAL ADVISORS BEFORE REQUESTING A REFUND.**

# Review of Issues & Recommendations



## Review of Refund Process & Procedures

The following disclosure statements will be part of the new GET Refund/Cancellation Request form. The Account Owner requesting the refund is required to sign this form in the presence of a notary to signify understanding of the disclosure information and to authorize GET to process their refund:

*I certify that:*

- I am the Account Owner of the GET account listed above and understand my other account options, in lieu of a refund;*
- I understand that this refund is non-reversible, and that this refund may or may not be in my best financial interest;*
- I have had sufficient opportunity to seek legal, tax, and financial counsel prior to requesting this refund;*
- I authorize GET to issue the requested refund in the form of a warrant (check) made payable to the person designated above;*
- I understand that a 1099-Q form will be generated and sent to me as a result of this refund, and I may be required to report this information to the IRS, and I may be subject to federal taxes, penalties and fees on the earnings portion (if any) of this refund; and*
- I have read, fully understand and agree to all terms and conditions of the GET Refund and Cancellation Policy, revised 9/1/15.*

# Review of Issues & Recommendations



## Refund Fees Background Information:

- Tuition reductions were never a part of the program's pricing assumptions, payout considerations and marketing materials.
- Some customers are reconsidering the value of the program to them, and the refund penalties make it harder to move between savings options.
  - By waiving the GET refund penalties, the program provides a means of direct rollovers to other 529 savings plans.
- Current customers pay the following refund fees when leaving the program after 6 months:
  - Refund Penalty: 10% of earnings or \$100, whichever is greater
  - Account Cancellation Fee: \$10
  - Account Maintenance Fee: \$1.70 per month while the account was open and active
  - Customers must wait two years before they can request a refund or qualified distribution

# Review of Issues & Recommendations



## Refund Fees Recommended Action:

- Based on the recent passage of the College Affordability Act, effective September 2, 2015 and through December 15, 2016, waive all GET program refund fees and the two-year hold requirement for all account owners.



## **Refund of Contributions Background Information:**

- Account owners who purchased units at \$163 and \$172 who plan to use their units in the next 6 to 8 years may not be able to recover their initial contributions to the program because of the recent changes in tuition-setting policy.
- Account owners who have purchased units through a Custom Monthly Plan may also have paid more than the current payout value due to finance charges associated with these plans. Due to the recent changes in tuition-setting policy, it may take several years to regain their contributions.

## **Refund of Contributions Background Information:**

- Based on feedback we have received from our customer survey, phone calls and emails, we believe account owners who are planning to use their units in the next 8 years are most likely to request a refund of contributions.
- If account owners who plan to use their units in the next 8 years request a refund of contributions that would amount to \$199 million.
  - 546,867 units at a price of \$163 per unit
  - 638,176 units at a price of \$172 per unit
  - This represents 32% of total units purchased by this customer cohort

## Refund of Contributions Background Information:

- A refund of \$126.4 million in contributions, paid at June 30, 2014, would reduce the program's funded status measured at June 30, 2014, by 5%.
- The program's funded status at June 30, 2014, was 106%. The funded status as of June 30, 2015, is 141%.

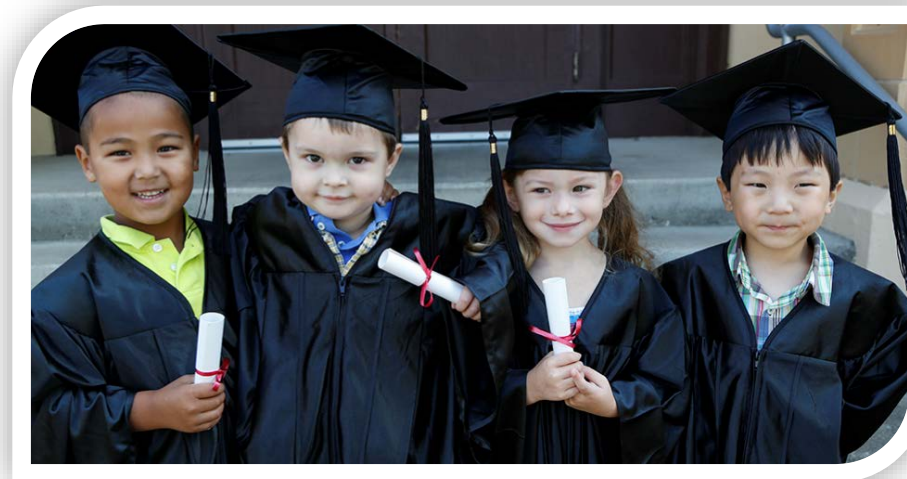


# Review of Issues & Recommendations



## Refund of Contributions Recommended Action:

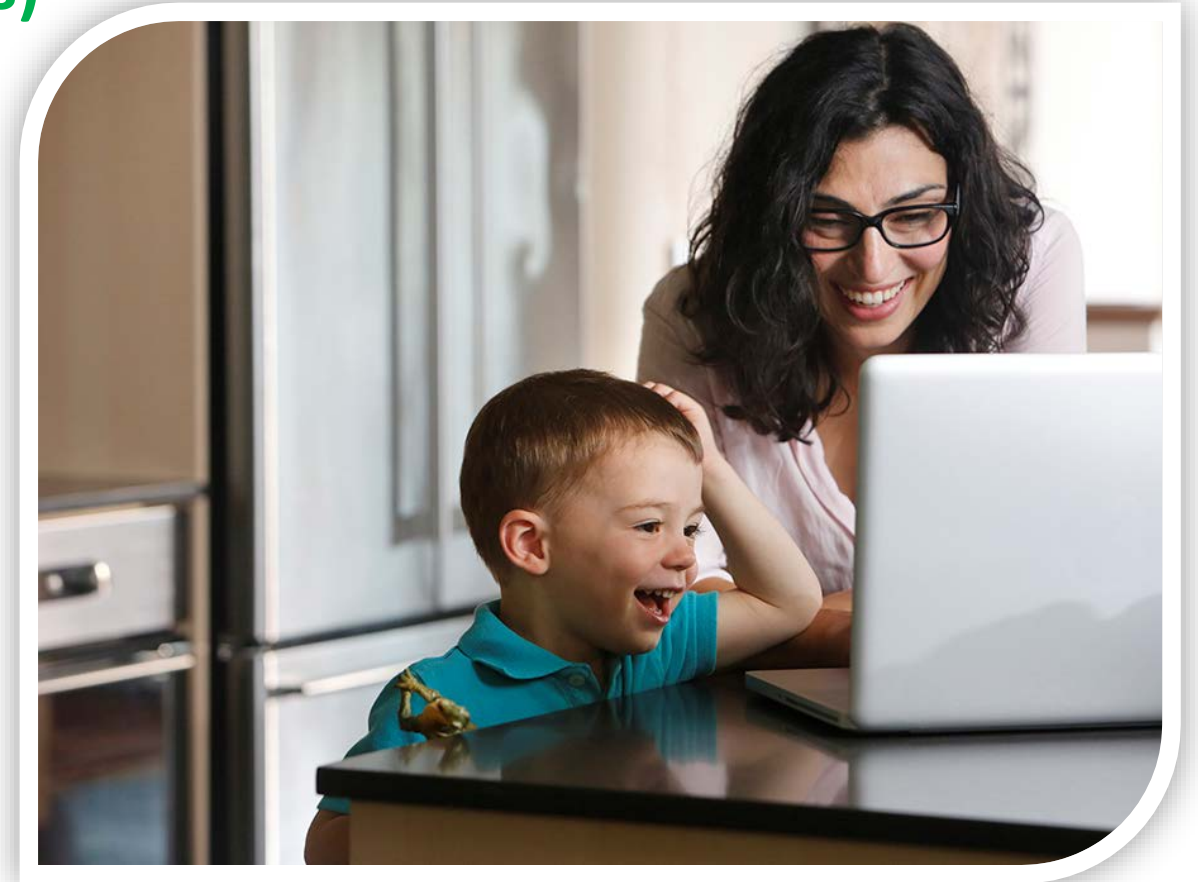
- Based on the recent passage of the College Affordability Act, move to permit that effective September 2, 2015 and through December 15, 2016 the GET program permit account owners to receive a refund of their contributions or the payout value, whichever is greater.



# Public Comment Period

- **Time for Public Comment (30 Minutes)**

- Sign up sheet
- 3 minutes per person
- If you would like to submit a written comment, please send your input to: [getinfo@wsac.wa.gov](mailto:getinfo@wsac.wa.gov)
- Subject Line: GET Committee Statement



# Committee Discussion of Issues & Recommendations



- 1.) Refund Fees / 2 Year Holding Period
- 2.) Refund of Contributions

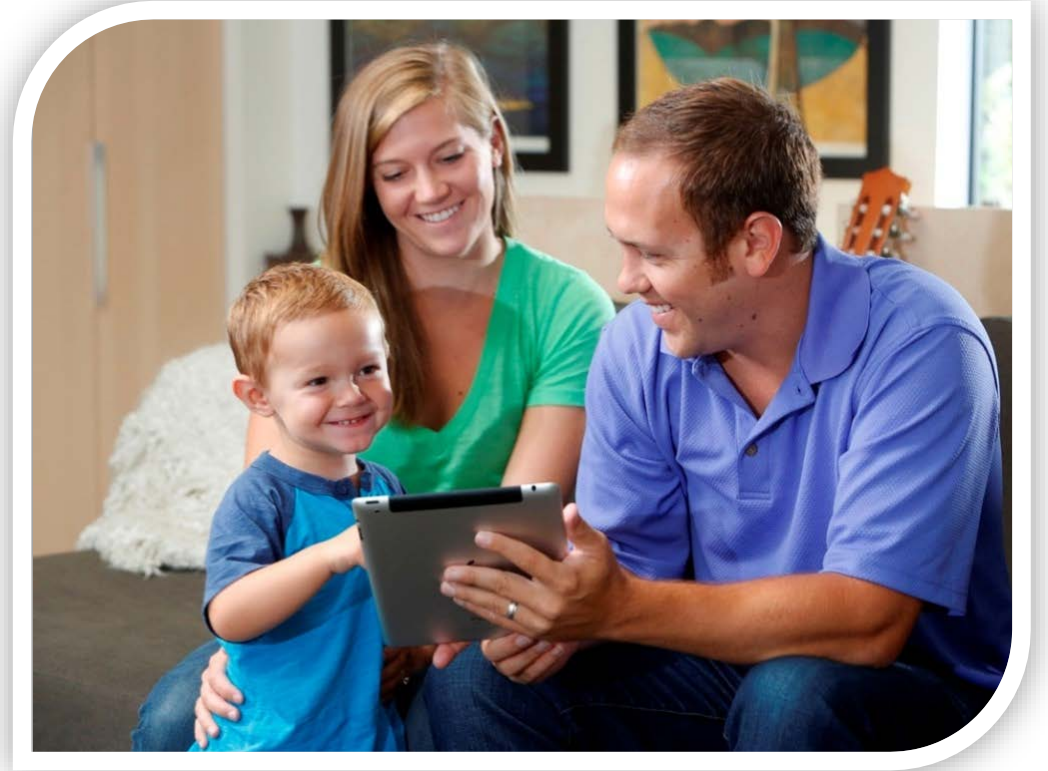


# Committee Action on Issues



1.) Refund Fees / 2 Year Holding Period

2.) Refund of Contributions

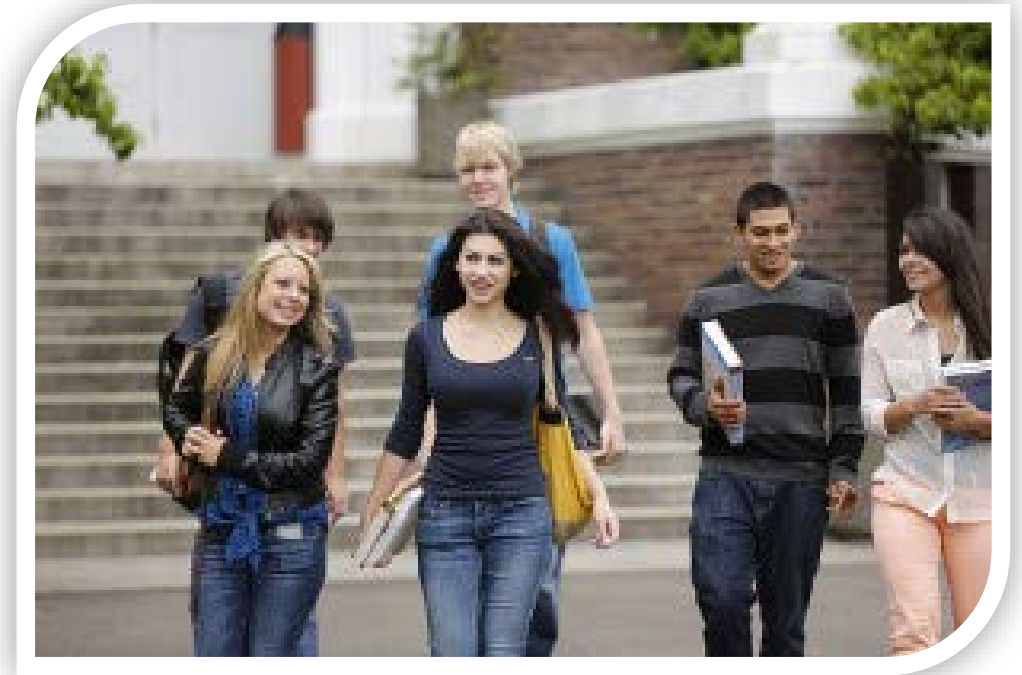


# Additional Public Comment Period



- **Time for Public Comment (If time allows)**

- Sign up sheet
- 3 minutes per person
- If you would like to submit a written comment, please send your input to: [getinfo@wsac.wa.gov](mailto:getinfo@wsac.wa.gov)
- Subject Line: GET Committee Statement



# Information Sharing / Discussion Regarding 529 Savings Plan Options



## Options for a 529 Savings Plans:

- 1.) Partnering with Another State-Run Program
- 2.) Contracting with a Third-Party Program Manager
- 3.) State Run Program

**Jamie Canup, Attorney / 529 Plan Expert**  
**Partner with Hirschler Fleischer Attorneys at Law**



# Information Sharing / Discussion Regarding 529 Savings Plan Options



## The main questions for the GET Committee are:

- Does the Committee want to offer a 529 Savings Plan to the citizens of Washington State?
- What does the State of Washington wish to offer and achieve for its citizens when considering what the parameters of its 529 college savings plan should look like?
- What questions do you have for Jamie since we have him on the phone with us today?

# Additional Public Comment Period



- **Time for Public Comment (If time allows)**

- Sign up sheet
- 3 minutes per person
- If you would like to submit a written comment, please send your input to: [getinfo@wsac.wa.gov](mailto:getinfo@wsac.wa.gov)
- Subject Line: GET Committee Statement





# Summary of Today's Meeting

- **What did we accomplish today?**
- **What is on the agenda for the October 7<sup>th</sup> Meeting?**



# Questions & Answers

- **Meeting Adjournment**
- **Next Meetings:**
  - **Wednesday, October 7, 2015**  
Cherberg Building, Capitol Campus  
Senate Hearing Room 3  
2:00 p.m. to 4:00 p.m.
  - **Thursday, December 3, 2015**  
Cherberg Building, Capitol Campus  
Senate Hearing Room 3  
1:00 p.m. to 3:00 p.m.

