Guaranteed Education Tuition (GET) Committee Meeting
Wednesday, September 7, 2016

John L. O'Brien Building, Capitol Campus
House Hearing Room E
Olympia, WA 98504
2:00 p.m. – 4:00 p.m.

AGENDA

Call to Order & Welcome

• Approval of the June 23, 2016 Minutes	ACTION	TAB 1
• Chair's Report	INFORMATION	
• Director's Report	INFORMATION	
• GET Investment Update *Chris Phillips, Washington State Investment Board* *Allyson Tucker, Washington State Investment Board*	INFORMATION	TAB 2
• Preliminary Valuation Results *Matt Smith, State Actuary*	INFORMATION	TAB 3
• Legislative Report Update *Luke Minor, Associate Director for* *GET Marketing & Communications*	INFORMATION	
• Savings Plan Procurement Update *Mary Anne Busse, Great Disclosure, LLC*	ACTION	TAB 4
• GET Non-Penalty Refund Extension	ACTION	
• Next Steps - GET	DISCUSSION	
• Public Comment		
• Adjournment		

Next Meeting:
Tuesday, November 8, 2016
John L. O'Brien Building, Capitol Campus
House Hearing Room E
Olympia, WA 98504
2:00 p.m. – 4:00 p.m.

GET Committee Meeting

September 7, 2016

Welcome & Approval of Minutes

GET Guaranteed Education Tuition℠

Chair’s Report

Today’s Agenda Items

- **Director’s Report**
  - **Betty Lochner**, GET Director
- **GET Investment Update**
  - **Allyson Tucker & Chris Phillips**, Washington State Investment Board
- **Preliminary Valuation Results**
  - **Matt Smith,** Washington State Actuary
- **Legislative Report Update**
  - **Luke Minor**, Associate Director for GET Marketing & Communications
- **Savings Plan Procurement Update**
  - **Mary Anne Busse**, Great Disclosure, LLC
- **Non-Penalty Refunds Extension Discussion and GET Next Steps**
  - **Betty Lochner**, GET Director

Chair's Report

Objectives

- Highlight recent GET refund and distribution activity
- Share the latest GET investment update
- Preview forthcoming 2016 GET valuation results
- Provide update on GET legislative report
- Review RFP for 529 savings plan program management services
- Consider extending GET non-penalty refund window
- Discuss next steps for GET

Director’s Report

Betty Lochner
GET Director

- GET Non-Penalty Refunds Update
- GET Distributions Update

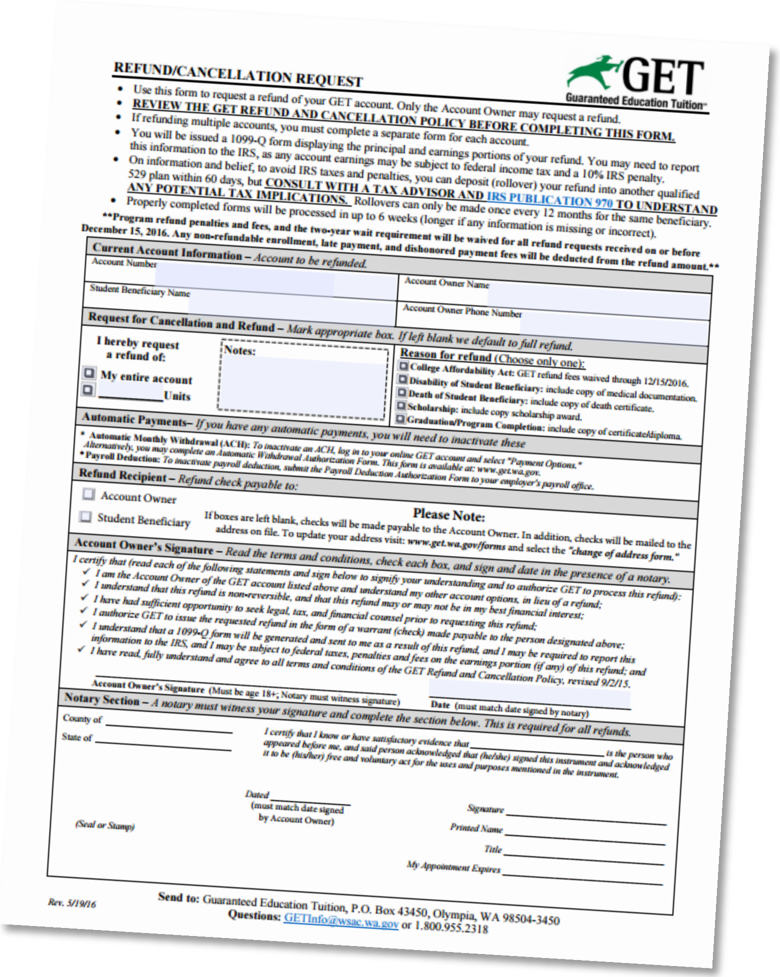
Director's Report

Non-Penalty Refund Update

(September 2, 2015 – August 31, 2016)

- Number of non-penalty refund requests received and processed:
  17,500
- Estimated dollar value of non-penalty refunds:
  $346 Million
- For comparison, the previous 12 months of refunds subject to a state penalty totaled:
  $6.9 million from 495 refund requests.

GET
Guaranteed Education Tuition℠



REFUND/CANCELLATION REQUEST

GET Guaranteed Education Tuition

- Use this form to request a refund of your GET account. Only the Account Owner may request a refund.
- **REVIEW THE GET REFUND AND CANCELLATION POLICY BEFORE COMPLETING THIS FORM.**
- If refunding multiple accounts, you must complete a separate form for each account.
- You will be issued a 1099-Q form displaying the principal and earnings portions of your refund. You may need to report this information to the IRS, as any account earnings may be subject to federal income tax and a 10% IRS penalty.
- On information and belief, to avoid IRS taxes and penalties, you can deposit (rollover) your refund into another qualified 529 plan within 60 days, but **CONSULT WITH A TAX ADVISOR AND IRS PUBLICATION 970 TO UNDERSTAND ANY POTENTIAL TAX IMPLICATIONS.** Rollovers can only be made once every 12 months for the same beneficiary.
- Properly completed forms will be processed in up to 6 weeks (longer if any information is missing or incorrect).

****Program refund penalties and fees, and the two-year wait requirement will be waived for all refund requests received on or before December 15, 2016. Any non-refundable enrollment, late payment, and dishonored payment fees will be deducted from the refund amount.****

Current Account Information – *Account to be refunded.*

Account Number | Account Owner Name
Student Beneficiary Name | Account Owner Phone Number

Request for Cancellation and Refund – *Mark appropriate box. If left blank we default to full refund.*

I hereby request a refund of:
☐ **My entire account**
☐ ________ **Units**

Notes:

Reason for refund (Choose only one):
☐ **College Affordability Act:** GET refund fees waived through 12/15/2016.
☐ **Disability of Student Beneficiary:** include copy of medical documentation.
☐ **Death of Student Beneficiary:** include copy of death certificate.
☐ **Scholarship:** include copy scholarship award.
☐ **Graduation/Program Completion:** include copy of certificate/diploma.

Automatic Payments– *If you have any automatic payments, you will need to inactivate these*

- **Automatic Monthly Withdrawal (ACH):** *To inactivate an ACH, log in to your online GET account and select "Payment Options." Alternatively, you may complete an Automatic Withdrawal Authorization Form. This form is available at: www.get.wa.gov.*
- **Payroll Deduction:** *To inactivate payroll deduction, submit the Payroll Deduction Authorization Form to your employer's payroll office.*

Refund Recipient – *Refund check payable to:*

☐ Account Owner
☐ Student Beneficiary

Please Note:
If boxes are left blank, checks will be made payable to the Account Owner. In addition, checks will be mailed to the address on file. To update your address visit: ***www.get.wa.gov/forms*** and select the ***"change of address form."***

Account Owner's Signature – *Read the terms and conditions, check each box, and sign and date in the presence of a notary.*

I certify that (read each of the following statements and sign below to signify your understanding and to authorize GET to process this refund):
✓ *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 9/2/15.*

Account Owner's Signature (Must be age 18+; Notary must witness signature) **Date** (must match date signed by notary)

Notary Section – *A notary must witness your signature and complete the section below. This is required for all refunds.*

County of ________
State of ________

I certify that I know or have satisfactory evidence that ________ is the person who appeared before me, and said person acknowledged that (he/she) signed this instrument and acknowledged it to be (his/her) free and voluntary act for the uses and purposes mentioned in the instrument.

Dated ________ (must match date signed by Account Owner)

(Seal or Stamp)

Signature ________
Printed Name ________
Title ________
My Appointment Expires ________

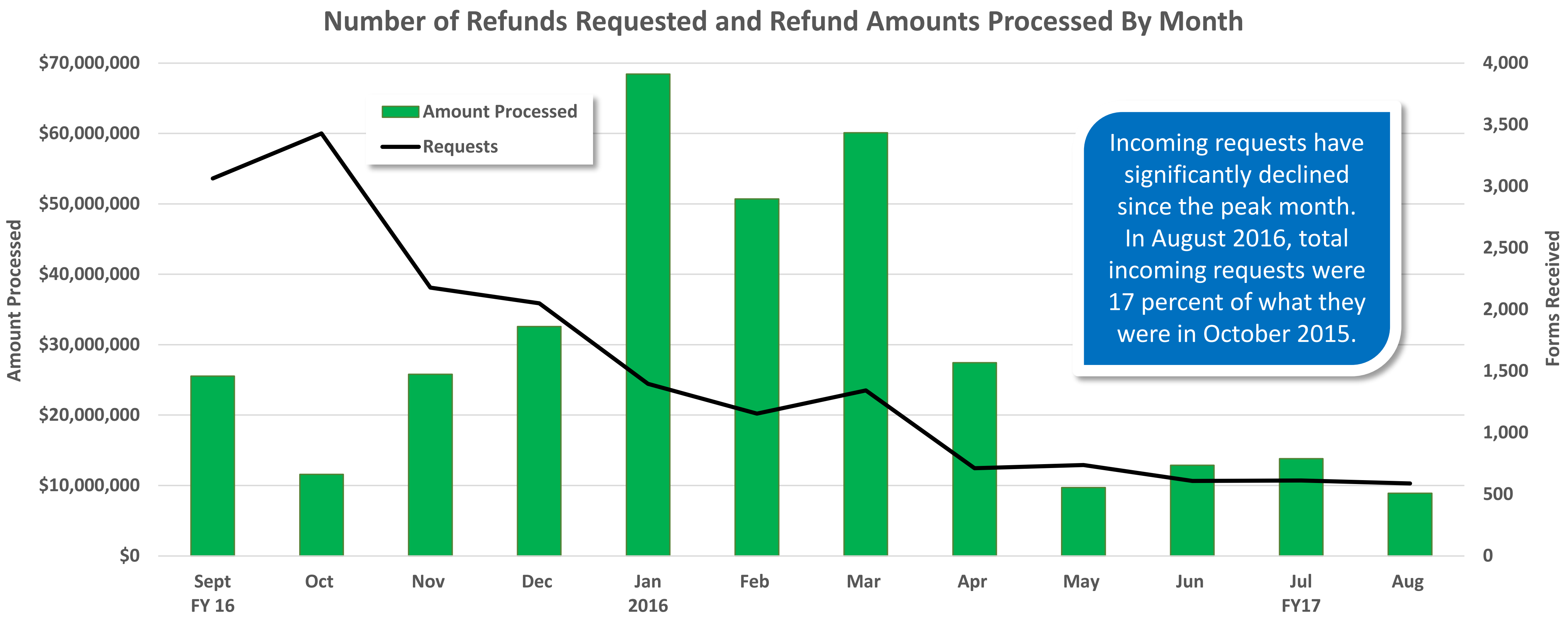
Rev. 5/19/16

Send to: Guaranteed Education Tuition, P.O. Box 43450, Olympia, WA 98504-3450
Questions: GETInfo@wsac.wa.gov or 1.800.955.2318

Director's Report

Non-Penalty Refund Update

(September 2, 2015 – August 31, 2016)



Director's Report

Distributions for Current College Students

(for payment of higher education expenses – as of August 31, 2016)

- Total accounts receiving distributions so far for the 2016-17 academic year: **5,160**
- Estimated dollar value of account distributions so far for the 2016-17 academic year: **$35 Million**
- Total accounts receiving distributions since inception: **44,770**
- Estimated dollar value of account distributions since inception: **$897 Million**

Director’s Report

Breakdown of Total Distributions ($897 Million)

(All years since program inception - as of August 31, 2016)

Direct Payments to Schools

University of Washington $138 M	Washington State University $75 M	Western Washington University $57 M
CWU $19.5 M	Eastern Washington University $11 M	the evergreen state college olympia, washington $6.5 M
Comm. & Tech. Colleges $23 M	Private Colleges (in-state) $67 M	Out-of-State Colleges $159 M

Reimbursements & Other Payments

Direct Reimbursements to Participants

$326 M

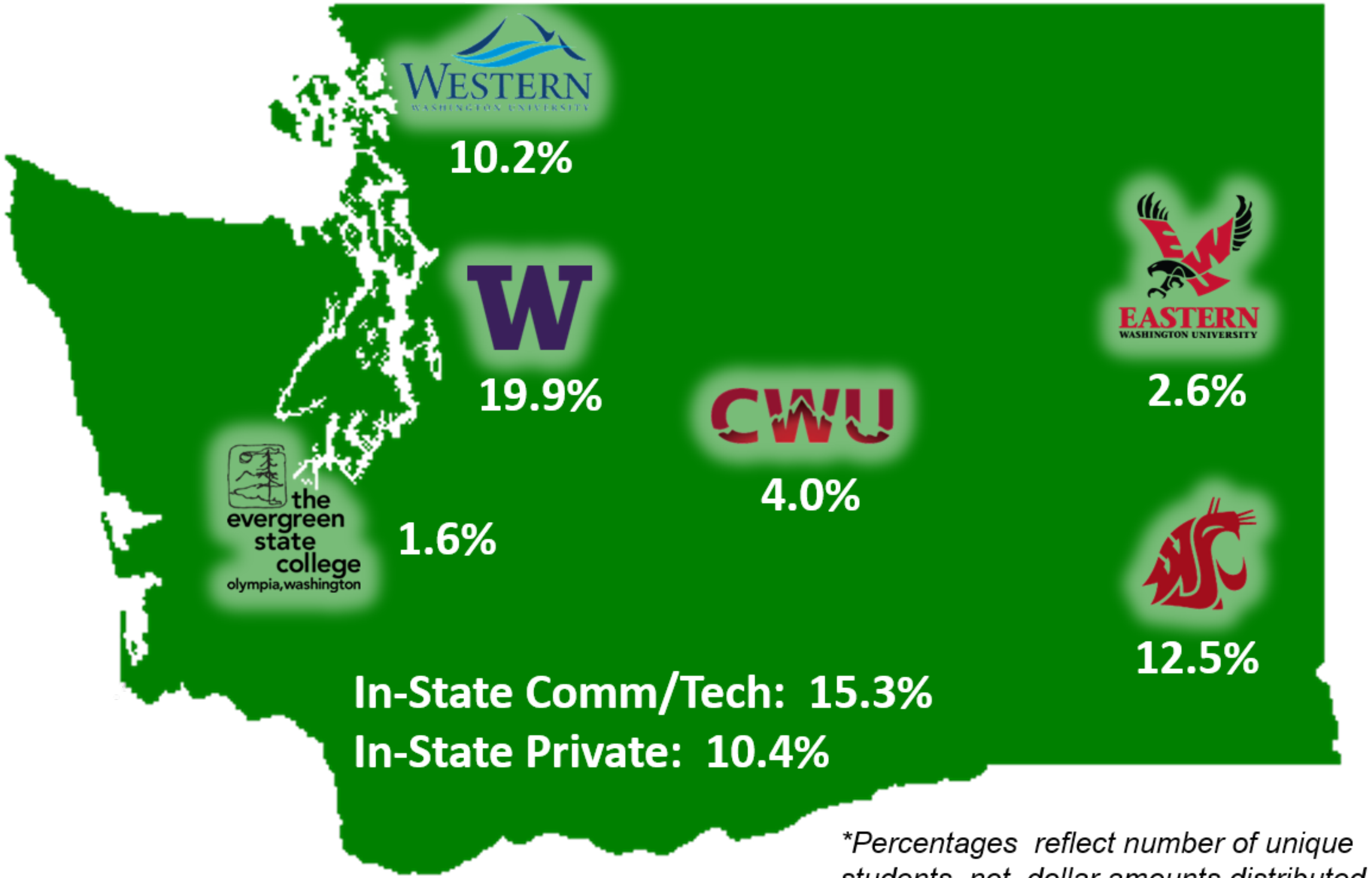
College Bound & GET Ready for Math and Science

$15 M

Director's Report

Where GET is being used – by number of students*

(All direct payments to institutions since program inception – as of August 31, 2016)



OUT-OF-STATE COLLEGES

23.5%

**Percentages reflect number of unique students, not dollar amounts distributed.*

GET Investment Update

Guaranteed Education Tuition℠

Allyson Tucker, Senior Investment Officer

Chris Phillips, Director, Institutional Relations & Public Affairs

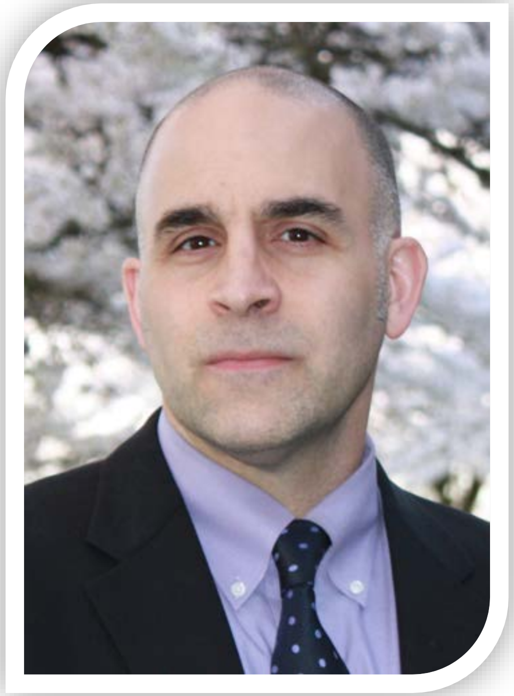
Washington State Investment Board

- Review of the Second Quarter GET Investment Report

Preliminary Valuation Results

Guaranteed Education Tuition℠

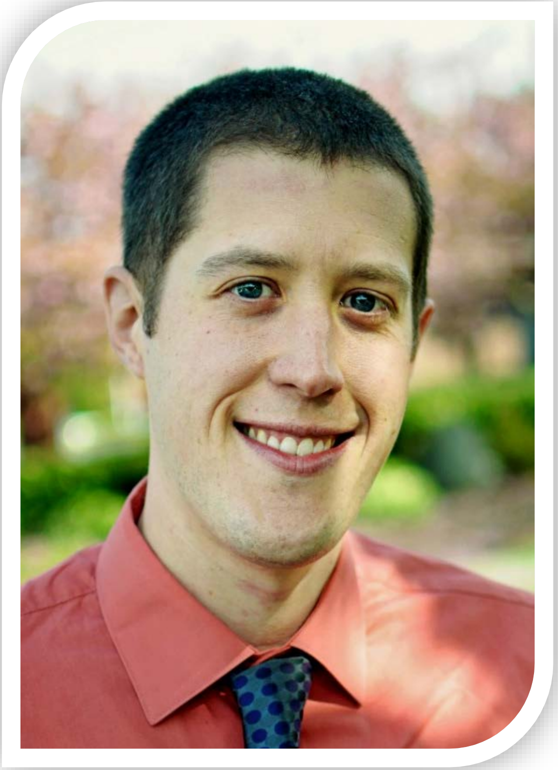
Matt Smith, State Actuary
Office of the State Actuary



- Update on GET Funded Status and timing of forthcoming 2016 GET Actuarial Valuation Report

Legislative Report Draft Review

Luke Minor
Associate Director for GET Marketing & Communications



- Update on draft GET Legislative Report

Legislative Report Draft Review

Four Key Findings Presented in June 23, 2016 Meeting

- Decreasing tuition rates have generally improved GET's funded status; future unit prices will likely start out lower than the $163/$172 unit prices.
- Determining the feasibility of establishing a 529 college savings program is in progress (Committee and staff currently engaged in an RFP process).
- The Committee does not recommend a cost of attendance payout metric, as it contains expenses outside the scope of 529 plans.
- It was determined that GET could implement temporary refund penalty policy changes and remain financially solvent; the Committee authorized non-penalty refunds through December 15, 2016.

Legislative Report Draft Review

Next Steps

- Revise response to the following item once 2016 GET Actuarial Valuation Report is complete:
  - The impact of decreasing tuition rates on the funded status and future unit price of the GET program.
- Review final report at November 8, 2016 Committee meeting.
- Pending GET Committee approval, submit to OFM and legislative fiscal and higher education committees.

Savings Plan Procurement Update

Mary Anne Busse, Special AAG
Great Disclosure, LLC

- Overview of RFP process and content
- Review of RFP decision criteria

Savings Plan Procurement Update

RFP Process Overview

- Internal savings plan advisory team worked through a detailed process:
    - Considered plan type (Advisor vs. Direct-Sold Plan)
    - Assessed existing WSAC resources
    - Developed RFP structure and key elements
    - Seeking input from key external partners (e.g. Washington State Investment Board, Department of Enterprise Services, and Office of the Chief Information Officer)

Savings Plan Procurement Update

RFP Process Overview

- Advisory Team determined the best approach was to focus the RFP on:
  - Direct-sold plan only
  - The following services:
    - Financial services – investment options
    - Records administration
    - Customer service
    - Marketing (in-house preferred)
  - Requiring bidders to submit at least one comprehensive proposal for all requested services

Savings Plan Procurement Update

Proposed RFP Content Overview

- Update RFP and sample contract format to reflect complexity and uniqueness of 529 savings plans.
- Offer a 10-year contract term with up to two additional one-year terms (at Committee's sole discretion).
- Highlight legislative mandates: 50 basis point annual fee limitation, integration with GET program, etc.
- Best-in-class format that requests detailed information regarding bidder's ability to provide services.

Savings Plan Procurement Update

Tentative Timeline for RFP

Activity	Date
Issue Request for Proposals (RFP)	September 2016
Question and answer period	September-October 2016
Proposals due	November 2016
Evaluate proposals	November-December 2016
Conduct oral interviews with finalists, if required	January 2017
Announce “Apparent Successful Bidder”	February 2017
Finalize and sign contract	February-March 2017
Begin implementation	March-April 2017
Tentative Washington 529 College Savings Plan opening	Summer 2017

Savings Plan Procurement Update

Next Steps

- GET staff seeking Committee approval to move forward with preparing and issuing an RFP for a direct-sold 529 college savings plan.

GET Non-Penalty Refunds & Next Steps

Betty Lochner
GET Director

- Discuss proposed non-penalty refund extension
- Review next steps for GET

GET Non-Penalty Refunds

Update

- Committee members expressed interest in extending deadline over the last two meetings (April and June).
- Senate Bill 6601 requires GET to reopen by July 1, 2017.
- The target opening timeframe for a savings plan is Summer 2017.
- By extending the deadline, the Committee can provide peace of mind for customers who are waiting to see their college savings options before making a decision on their GET accounts.

GET Non-Penalty Refunds

Staff Recommendation

- Extend the non-penalty refund window and allow customers to continue to receive the $117.82 payout value or their contributions (whichever is greater) until September 1, 2017, or until 60 days after a savings plan opens (whichever is later).

Next Steps (GET)

GET Reopening/Policy Discussion

- Staff are currently engaged in research and analysis on policy considerations on:
  - Custom Monthly Plan finance charge and contract terms;
  - Lifetime unit maximum per student;
  - Minimum unit holding period; and
  - Benefit use year extensions, account transfers, and beneficiary changes.
- Future meetings will further explore these topics.

Next Steps (GET)

GET Reopening/Policy Discussion

- In preparation for program policy discussions, the Committee should consider the following:
  - What is the optimal balance between customer flexibility, customer protection, and the program's actuarial soundness?
  - What are potential fiscal, customer behavior, actuarial, and operational impacts of any proposed program modifications?
  - Among current and future customers, who would be impacted by potential program modifications?

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, and include the subject line: "GET Committee Statement"

Questions & Answers

Next Meeting

Tuesday, November 8, 2016
John L. O'Brien Building
Capitol Campus, Olympia
House Hearing Room E
2:00 p.m. to 4:00 p.m.

GUARANTEED EDUCATION TUITION (GET) PROGRAM
Committee Meeting Minutes
June 23, 2016
John L. O'Brien Building, Capitol Campus
House Hearing Room E
Olympia, WA 98504

WSAC Staff in Attendance:
Betty Lochner, GET Director
Betsy Hagen, Associate Director for GET Operations
Luke Minor, Associate Director for GET Marketing & Communications
Matthew Freeby, GET Finance Manager
Dan Payne, GET Marketing & Communications Specialist
Jackie Ferrado, GET Community Relations Manager
Katie Gross, Special Assistant to the GET Director
Rachelle Sharpe, WSAC Deputy Director
Maddy Thompson, WSAC Director of Policy & Government Relations

Guests in Attendance:
Matt Smith, State Actuary
Allyson Tucker, Washington State Investment Board
Rick Brady, Office of the Attorney General
Angie Naillon, Washington State Investment Board
Wolf Opitz, Office of the State Treasurer
Scott Merriman, Office of Financial Management
Brad Hendrickson, Office of the State Treasurer
Michael Harbour, Office of the State Actuary
Michael Bennion, Office of the State Treasurer
Megan Mulvihill, Office of Public Research
Denny McKee, Citizen
Karin McKee, Citizen
Adam Hall, Senate Democratic Caucus
Antonio Sanchez, Central Washington University
Clint McCarthy, Senate Higher Education Committee
Stacey Folsom, House Republican Staff
Trudes Tango, Office of Public Research
James Crandall, Senate Republican Caucus

CALL TO ORDER

Gene Sharratt, Chair of the GET Committee and Executive Director of the Washington Student Achievement Council (WSAC), welcomed the Committee members and all other participants. GET Committee members in attendance were Treasurer James McIntire, David Schumacher, Director of the Office of Financial Management, Beth Berendt, citizen member, and Mooi Lien Wong, citizen member. Sharratt asked for a motion to approve the April 20, 2016 meeting minutes. McIntire motioned to approve the minutes as presented and Wong seconded the motion. The minutes were approved unanimously as presented.

CHAIR'S REPORT
Sharratt provided an overview of the agenda and thanked key individuals for their involvement in the GET program over the last three years. Sharratt recognized Rachelle Sharpe, Deputy Director of the WSAC, who will become acting Executive Director of WSAC, and GET Committee Chair starting July 1. Sharratt then recognized Betty Lochner, GET Director, as the recipient of the 2016 Distinguished Service Award presented to her by the national College Savings Plans Network (CSPN).

DIRECTOR'S REPORT
Lochner provided a recap of the National Association of State Treasurer's Treasury Management Training Symposium that both she and Treasurer McIntire attended the week prior. This event also serves as the annual College Savings Plans Network conference. At the conference, GET staff had an opportunity to announce their efforts around the development of a Washington college savings plan and received a good amount of interest and questions from other states and the vendor community.

Lochner directed the Committee's attention to the FY17 projected administrative budget, totaling around $5.4 million. There were no questions from Committee members regarding the projected administrative budget.

Lochner provided an update on program refunds and distributions.

- Penalty-Free Refunds (September 2, 2015 – May 31, 2016)
    - 15,247 refunds processed, totaling $310 million

Berendt noted the interesting fact that some account holders that requested refunds have also contacted GET to ask about putting their funds back in to the program. Lochner stated that many are waiting to make a decision regarding their GET account to decide if they want to invest in the savings plan.

- Distributions (as of May 31, 2016)
    - $157 million distributed for 15,800 accounts (FY16)
    - Since GET's inception, the program has distributed $855 million for 43,000 accounts

SAVINGS PLAN PROCUREMENT UPDATE
Lochner reminded the Committee that at the April 20, 2016 meeting the Committee authorized GET staff to move forward with a Request for Proposals (RFP). Staff established an internal savings plan advisory team who have been meeting weekly. Staff have also been collaborating with other state agencies and a premier national expert, Mary Anne Busse. Staff are working with state procurement experts at the Department of Enterprise Services, who recommended a Request for Information (RFI) as a first step in the process. The RFI was distributed nationwide and was open for response from May 19 to June 17, 2016. Staff received five formal written responses, two informal written responses, and two informal verbal responses. The internal advisory team is reviewing the responses and will begin the creation of the RFP.

The information gathered confirmed that staff are headed in the right direction. The Committee will be kept informed as steps are taken and a formal RFP will be presented to the Committee for review and approval at the September 7, 2016 GET Committee meeting.

GET INVETSMENT UPDATE
Allyson Tucker, Senior Investment Office at the Washington State Investment Board (WSIB), provided an overview of GET's first quarter investment report. The program's investment portfolio was at $2.19 billion as of the end of March 2016. Tucker reminded the Committee that the cash withdrawals noted are made up of account refunds and distributions (penalty-free refunds, amortization refunds and tuition payments). The quarter was good overall, as returns were positive. Tucker noted that the WSIB was pleased to report that total portfolio returns have exceeded the passive benchmarks that they are measured against. The GET program's assets were up 3.5% through May.

REVIEW OF COMMITTEE MEMBER RESPONSIBILITIES
Rick Brady, Assistant Attorney General, addressed the Committee. Berendt had asked Brady for information regarding contract agreements at the April 20 meeting and Brady spoke to her question. The question was: "Do the existing contracts currently permit the Legislature to close the program and therefore impair those contracts?" Brady stated that if the legislature closed the program to new entrants, those with existing program contracts will get the benefit they signed up for.

Brady also spoke to the Committee about member responsibilities. Looking at the statute (RCW 28B.95.030), Committee members are charged by the Legislature to provide a program that is actuarially sound. It does not provide specific direction to the Committee on how this should be done. Maintaining actuarial soundness can be achieved, in part, by actions the Committee already takes, such as meeting together, obtaining reports, consulting with outside experts, etc. A review of relevant case law and other state statutes does not clearly or consistently define 'actuarial soundness.' In regards to the new savings plan, E2SSB6601 states that 'the committee, after consultation with the state investment board or other contracted investment manager, shall determine the investment policies for the college savings plan.'

Brady stated that as policy statements are developed for the new savings plan, the question of member liability will continue to arise. He stated that, with the GET Program, Committee members are already taking the actions they should be taking to ensure actuarial soundness and to limit liability. He knows the Committee seeks council, has commissioned actuarial reports and that independent audits of the actuarial valuations are also conducted. Advice is checked and double checked and due diligence is always expected. He stated that these types of practice should be extended to the savings plan. In summary, Committee members need to establish and follow a sound process for decision making that ensures a successful program and limits liability. This includes engaging in due diligence, asking questions and deliberating, using consultants and experts, following and updating policies, being transparent, and continuing to monitor and review these efforts.

McIntire asked Brady who he owed the highest allegiance to as a Committee member (the investor, or the state?). Regarding the GET program, if the price of the unit is set too low, the state has to pick up the cost. The investor might find themselves short changed if the state had to close the program. Alternatively, if the price is too high, investors don't receive a reasonable return on their investment.

Brady responded that this is not a binary (either/or) issue. Participants choose to enter in to a contract and as long as they are able to get the benefit that they choose, and no one impairs that, you are fulfilling your responsibility to them. When a pricing decision is made, people will make a choice whether or not to invest their money. The benefit they are getting is a year of tuition (per 100 units). If the pricing decisions prove to be such that the program isn't actuarially sound, then the state would be obligated to contribute money and make an appropriation. To the extent that someone would question allegiance, some would say your responsibility was to the public. But the argument could go both ways. The Committee should continue to do its due diligence and to adhere to a transparent process.

McIntire asked if Brady was aware of any other states that require investors to consult financial advisors prior to making a contribution to a 529 plan (prepaid or savings). Both Brady and Lochner stated that plans recommend participants consult an advisor. GET staff recommend that customers consult with a financial advisor, but it isn't required. McIntire asked if the program can tell who consults with advisors and who doesn't. Lochner replied that GET does not collect data on this.

Brady mentioned that one of the things the Committee has done in the refund materials, by the signature line of the refund request, is note that by signing the request, the participant is stating they have read the materials, they understand them, and they had 'sufficient opportunity to seek legal, tax, and financial counsel prior to requesting this refund.'

LEGISLATIVE REPORT DRAFT REVIEW

Luke Minor, Associate Director GET Marketing and Communications, presented a review of the key items the legislature mandated the Committee to respond to as part of Senate Bill 5954. The four key items are:

- The impact of decreasing tuition rates on the funded status and future unit price of the GET program;
- The feasibility and different options of establishing a college savings program;
- A list of potential alternatives and impacts for changing the GET distribution policy from tuition and fees to cost of attendance; and
- A list of potential alternatives and impacts for whether the state penalty for withdrawal should be changed.

The Committee has worked closely with key partners, including the Office of the State Actuary, the Washington State Investment Board, our AAG, Rick Brady, and our 529 consultant, Jamie Canup. Work has been done to address these items since the start of fiscal year 2016 and the key findings are as follows:

- Generally speaking, decreasing tuition rates have improved GET's funded status, which was over 140% funded as of June 30, 2015. Additionally, future unit prices will likely start out lower than the $163/$172 unit prices, even after adjusting for the refund of the amortization component. (*Note that this particular finding is important to interpret within the full context of the information the State Actuary's Office provided – therefore the* *section that addresses this topic includes a full copy of Matt's letter on the subject directly in the section, rather than as an appendix*).

- The feasibility and different options of establishing a 529 college savings program are currently in progress, as the Committee completes the current procurement process that considers several possible plan structures.
- The Committee does not recommend a cost of attendance payout metric, as it contains expenses outside the scope of 529 plans. This could expose participants to unintended tax consequences. Alternative payout structures, such as a weighted-average tuition model, are viable but need further exploration.
- It was determined that GET could bear temporary refund penalty policy changes and remain financially solvent. The Committee authorized a temporary refund window, effective September 2, 2015 – December 15, 2016, allowing customers to refund their GET accounts without state penalties.

Minor welcomed any input or questions the Committee had for staff and informed them that a final draft will be prepared over the summer (2016). The final report will be reviewed by the Committee on September 7, 2016, and pending GET Committee approval, the report will be submitted to the legislative fiscal and higher education committees before the end of September 2016.

The Committee had no questions regarding the draft legislative report.

Lochner introduced the program's newest staff member, Michael Bennion, who was hired as the Associate Director for Fiscal Planning. Bennion is coming to GET from the State Treasurer's office and will start on July 18, 2016.

GET POLICIES UPDATE

Lochner informed the Committee that program staff have identified key program policies that the Committee may choose to address before the reopening of the program in July of 2017.
Key policies for future discussions include:

- Custom monthly plan – structural components
- Maximum beneficiary age
- Minimum holding period
- Lifetime unit maximum per student
- Minimum payout/"payout floor"
- Benefit use year extensions
- Account transfers

Discussions about these policies will begin at the September 7, 2016 GET Committee meeting. Sharratt asked if program staff will be meeting with each Committee member regarding these policies and Lochner confirmed they would. McIntire suggested that the Committee be thinking about minimizing the liability to the state and minimizing the likelihood that an investor in the program might experience some kind of negative return on their investment.

GET NON-PENALTY REFUND EXTENSION
Lochner reminded the Committee that during the April 20, 2016 meeting, members expressed interest in extending the penalty-free refund deadline. Currently, the deadline is set to expire on December 15, 2016. Program staff agree that by extending the deadline, the Committee can provide peace of mind for customers waiting to see what Washington will offer for a 529 savings plan. Staff recommend that the penalty-free refund window be extended to allow customers to continue to receive the $117.82 payout value or their contributions (whichever is greater) until September 1, 2017 or until a savings plan opens, whichever is earlier. Schumacher asked if it would make sense to allow the window to stay open until September 1 even if the savings plan had already opened. Berendt suggested deciding what period of time the consumer would have to make the decision after the plan opens. The Committee will take the timeline for reopening GET and the establishment of a new savings plan into consideration.

After some discussion, McIntire and Schumacher suggested giving this more thought to decide the extension date. Lochner reminded the Committee that the refund deadline is currently December 15, 2016. Berendt asked if there should be a restriction on refund requests stating that if you choose to refund your funds, you can't repurchase. McIntire noted this as another policy issue around reopening the program. Sharratt wrapped up the conversation and stated that this refund extension discussion would continue at a future meeting.

PUBLIC COMMENT
No public comment.

ADJOURNMENT
Sharratt reminded the Committee that the next meeting is scheduled for Wednesday, September 7, 2016 from 2:00 p.m. to 4:00 p.m. in this same room (John L. O'Brien Building, House Hearing Room E). The Committee will be discussing:

- The final SB5954 legislative report;
- The RFP for a Washington college savings plan;
- GET policy update considerations; and
- The GET 2nd Quarter investment report.

Sharratt asked if Committee members or staff had any other items of business. Lochner noted that since this is Sharratt's last GET Committee meeting in his role as Chair, staff wanted to extend their appreciation to him by holding a small reception following the adjournment of the meeting. Lochner noted that no action will be taken and no business will be discussed at this event, and the public was invited to attend.

Sharratt asked for a motion to adjourn. Berendt motioned to adjourn the meeting and McIntire seconded the motion. The meeting adjourned at 3:15 p.m.

GET Prepaid College Tuition Program

Quarterly Report – June 30, 2016

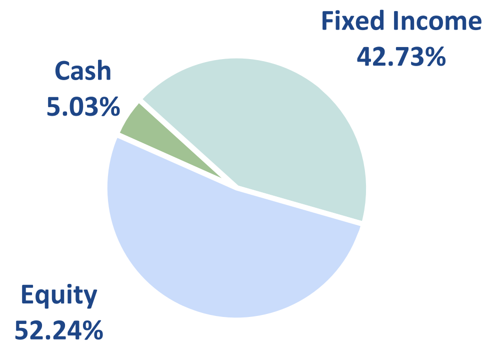
GET Prepaid College Tuition Program

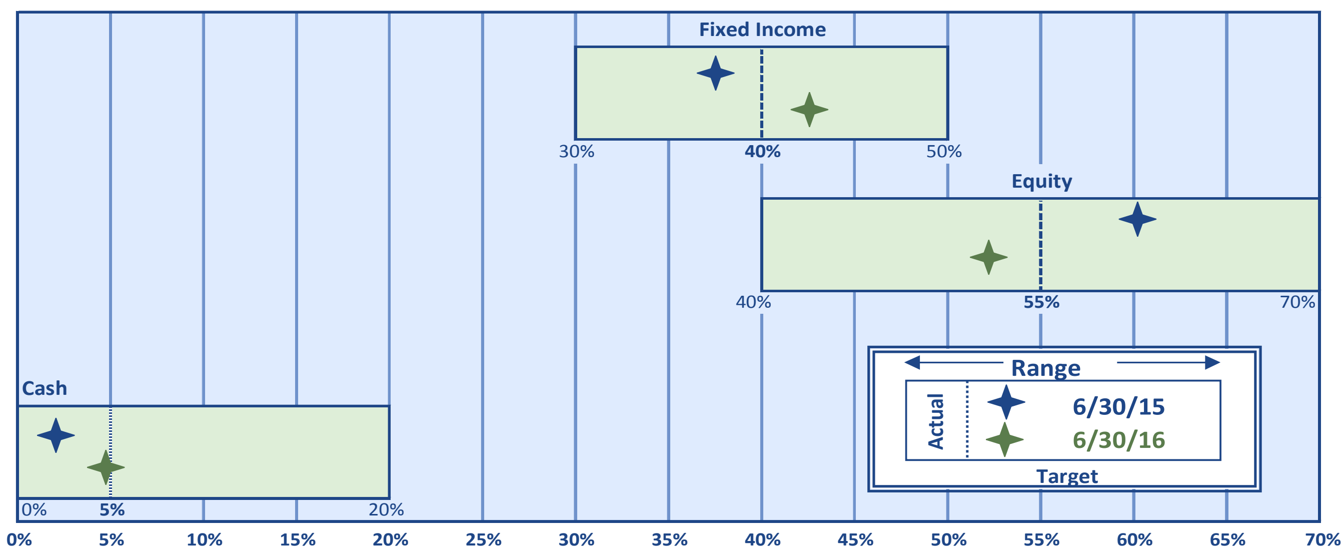
Quarter Ended June 30, 2016

Portfolio Size

Total	**$2,167,126,653**
Cash	$109,049,854
Fixed Income	$926,072,537
Equity	$1,132,004,262

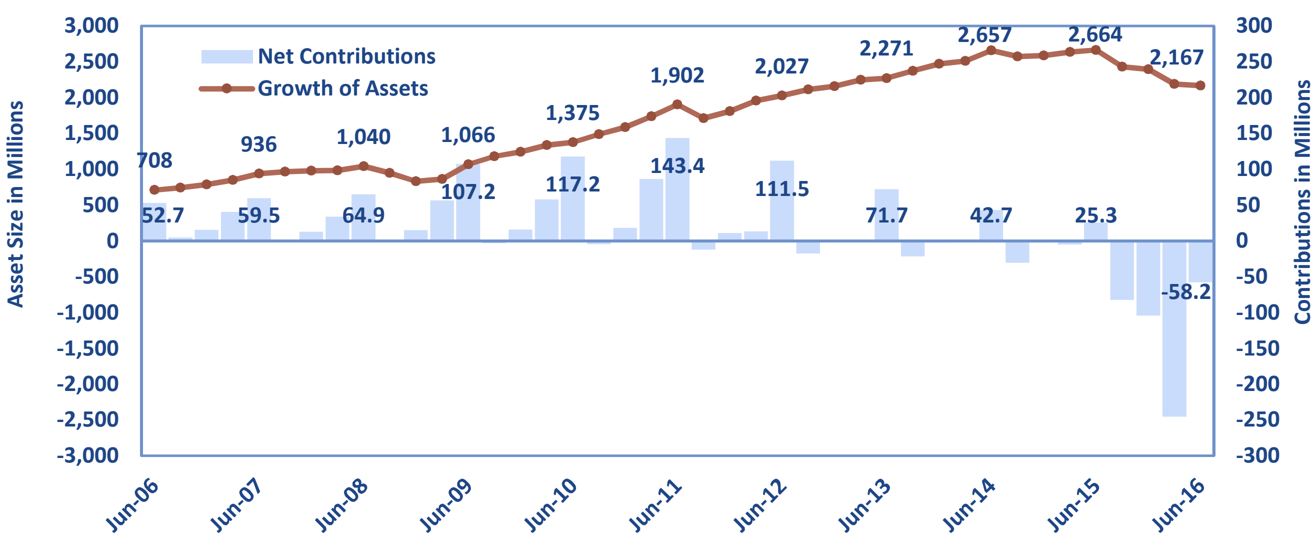
Actual Asset Allocation





Note: For comparison purposes in the chart above, fixed income and TIPs were added together for the prior year.

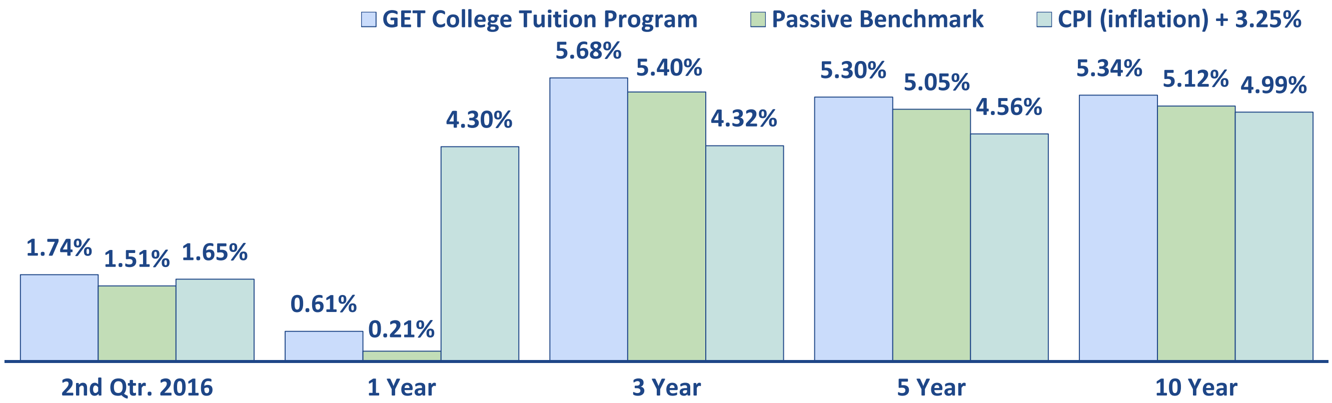
Assets Under Management



GET Prepaid College Tuition Program

Quarter Ended June 30, 2016

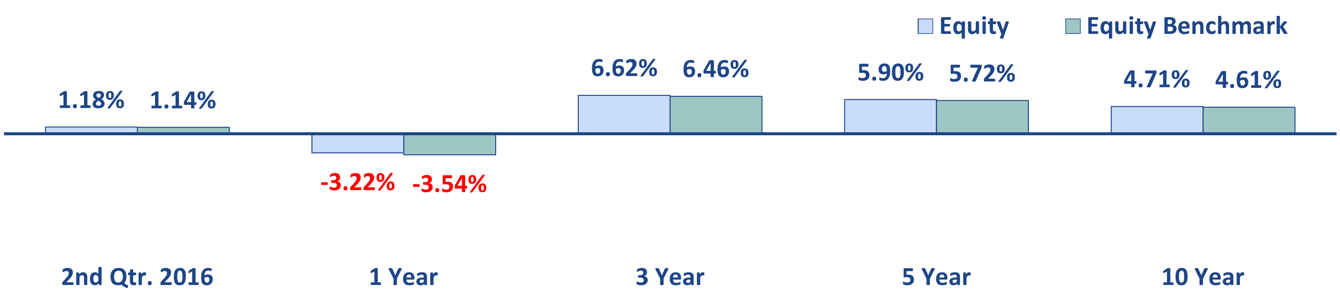
Total Return *



Return Breakdown

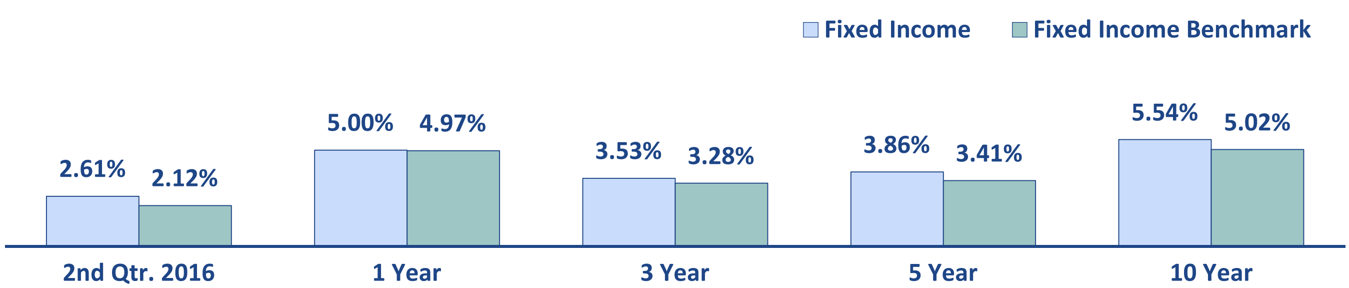
Equity Return *

Benchmark: MSCI ACWI IMI w/U.S. Gross and a historical blended return



Fixed Income Return *

Benchmark: Barclays Capital Intermediate Credit and a historical blended return



* The return numbers above are net of manager fees and other expenses that can be directly debited from the account for portfolio management but do not include the WSIB management fee.

Office of the State Actuary
"Supporting financial security for generations."

360.786.6140
state.actuary@leg.wa.gov
osa.leg.wa.gov

Update on GET Funded Status

September 7, 2016

The Office of the State Actuary (OSA) recently updated the funded status of the GET program for financial reporting purposes in the state's 2016 Comprehensive Annual Financial Report (CAFR). We provide a summary of that information in the table below.

Funded Status Summary		
(Dollars in Millions)	**2016***	**2015**
Present Value of Future Obligations	$1,726	$2,042
Present Value of Fund	$2,352	$2,862
Funded Status	136%	140.1%
Reserve/(Deficit)	$626	$820

**Estimated using roll-forward procedure starting with the 2015 GAVR.*

New this year, we prepared the 2016 CAFR results by rolling forward the results from the June 30, 2015, GET Actuarial Valuation Report (GAVR), to June 30, 2016. The Present Value of Fund equals the Market Value of Assets as of June 30, 2016, valued at $2,167 million, along with an estimated $184 million for the Present Value of Monthly Contract Receivables.

The results in the final 2016 GAVR will not be based on a roll-forward and may differ from the results shown above. We anticipate the GET Committee will adopt the final GAVR in November.

We prepared a separate actuarial communication to document the data, assumptions and methods we used to prepare the 2016 CAFR results for GET. A copy of this communication is available upon request.

O:\GET\2016\Sept.7.GET.Meeting.Handout.docx

Future Options for the Washington Advanced College Tuition Payment Program: Impacts of the College Affordability Program

Committee on Advanced Tuition Payment (GET Committee)

Report to the Legislature

DRAFT – June 2016

EXECUTIVE SUMMARY

During the 2015 session, the Legislature enacted the College Affordability Program (CAP), which lowered in-state tuition for two academic years and capped future tuition growth. The legislation directed the committee on advanced tuition payment (GET Committee) to review and report to the legislative fiscal and higher education committees on four items by December 1, 2016:

1) The impact of decreasing tuition rates on the funded status and future unit price of the Washington advanced college tuition payment program (GET program).
2) The feasibility and different options of establishing a college savings program as described in RCW 28B.95.150.
3) A list of potential alternatives and impacts for changing the advanced college tuition payment distribution policy from tuition and fees to a cost of attendance metric.
4) A list of potential alternatives and impacts for whether the state penalty for withdrawal should be changed.

In response to these items, the GET Committee offers the following findings to the Legislature:

1) Decreasing tuition rates have significantly improved the funded status of the GET program. As of June 30, 2015, the program was over 140 percent funded. If the current statutory tuition growth model holds, the committee will likely set lower future unit prices than the $163/$172 unit prices in effect since May 1, 2011.
2) The committee is still exploring the feasibility of different options for establishing a 529 college savings program at the time of this report, and is currently engaged in a formal procurement process to seek vendor proposals for investment and program management services. The committee is considering possible structures ranging from a fully-contracted plan to a blended approach, where the state retains certain program management aspects and contracts for investment management and other services.
3) The committee does not recommend cost of attendance as a basis for the GET payout. This metric contains expenses outside of the scope of what 529 plans are designed to cover, and could expose participants to unintended federal tax consequences. Alternative payout structures, such as weighted-average tuition models, are viable but need further exploration.
4) The committee determined that GET could bear temporary policy changes affecting the program's penalty for withdrawal and remain financially solvent. The committee authorized a temporary refund window, effective September 2, 2015 – December 15, 2016, allowing participants to refund their GET accounts without state penalties. The committee has also discussed extending this window until the proposed 529 college savings program opens, but have not reached a final decision at the time of this report.

The committee will provide updates as work progresses on developing a 529 college savings plan and preparing for GET's 2017 reopening.

TABLE OF CONTENTS

I. INTRODUCTION

During the 2015 session, the Legislature enacted E2SSB5954, which established the College Affordability Program (CAP), lowered in-state tuition for two consecutive academic years, and capped future annual tuition growth rates. Section 11 of E2SSB5954 directed the committee on advanced tuition payment (GET Committee) to review and report to the legislative fiscal and higher education committees on the following items by December 1, 2016:

1) The impact of decreasing tuition rates on the funded status and future unit price of the Washington advanced college tuition payment program (GET program).
2) The feasibility and different options of establishing a college savings program as described in RCW 28B.95.150.
3) A list of potential alternatives and impacts for changing the advanced college tuition payment distribution policy from tuition and fees to a cost of attendance metric.
4) A list of potential alternatives and impacts for whether the state penalty for withdrawal should be changed.

This report responds to each of these items and indicates which items are still in progress.

II. BACKGROUND

Washington's sole state-sponsored college savings option, the GET program, has been helping Washington families save for future college expenses since 1998. The GET Committee provides program oversight, and the Washington Student Achievement Council (WSAC) administers day-to-day operations, in accordance with the program's enabling statute (RCW 28B.95). Participants have opened more than 160,000 GET accounts since GET's inception, and the program has distributed more than $854 million on behalf of 43,000 students to help pay for college. Over 78 percent of the dollars paid directly to higher education institutions stay within Washington at public or private universities, colleges, and technical schools. In recent years, GET became one of the largest and fastest growing prepaid tuition programs in the country.

Historically, 100 GET units have equaled one year of resident undergraduate tuition and state-mandated fees at the state's highest-priced public university. The CAP significantly impacted future payout assumptions, as well as GET participant earning potential, as this legislation marked the first time since the program's inception that in-state tuition has been reduced. Acknowledging this impact, the Legislature, in Section 7 of the bill, directed the GET Committee to maintain the $117.82 per unit payout value for the 2015-16 and 2016-17 academic years. For academic years after 2016-17, the GET Committee is to: "make program adjustments it deems necessary and appropriate to ensure that the total payout value of each account on the effective date of this section is not decreased or diluted as a result of the initial application of any changes in tuition."

III. STATUS UPDATE

Impact of Decreasing Tuition Rates

GET's funded status is highly sensitive to changing assumptions regarding future tuition rates. Current and projected tuition and state-mandated fees are also central components for developing the GET unit purchase price. Accordingly, the following two provisions in the CAP have the most direct impact on the funded status and future unit price assumptions for the program:

- The 15 percent reduction in operating fees at the state's research institutions, phased in over the 2015-16 and 2016-17 academic years.
- The new tuition growth model based on the average annual growth in median hourly wage over the last fourteen years, as determined by the federal Bureau of Labor Statistics.

The GET Committee adopts a unit purchase price annually, based on a price-setting analysis conducted by the Office of the State Actuary (OSA), who is contracted to provide assistance to the GET Committee and the Legislature by providing actuarial services and consultation concerning the GET program. OSA's three primary services for GET include:

- Preparing an annual actuarial valuation of the GET program for the GET Committee.
- Preparing unit price-setting analysis for the GET Committee.
- Consulting, pricing, and communicating the effects of potential changes to the GET program for the GET Committee or the Legislature.

The OSA has provided a letter that addresses the remainder of this analysis on the impact of decreasing tuition rates, due to their expertise in this area. This report provides a copy of the OSA's complete letter on the following three pages, rather than in the appendices. It is important for readers of this document to review the following information in its full context.

Office of the State Actuary

"Supporting financial security for generations."

Ms. Betty Lochner
Director
Guaranteed Education Tuition
P.O. Box 43430
Olympia, Washington 98504-3430

RE: ACTUARIAL ANALYSIS FOR STUDY ON IMPACTS OF COLLEGE AFFORDABILITY PROGRAM

Dear Betty:

As you requested, we prepared actuarial analysis in response to the following question raised in the study on the impacts of the 2015 College Affordability Program (CAP):

> What's the impact of decreasing tuition rates on the funded status and future unit price of the Washington Advance College Tuition Payment Program (or GET Program)?

Please feel free to include this analysis, in its entirety, in your response to the study. The inclusion of the full analysis will help manage the use of our work product.

Impact of Decreasing Tuition Rates

Instead of responding based on a purely hypothetical decreasing tuition environment, we have assumed the specific tuition decreases enacted under the CAP for purposes of this analysis. Our analysis would change if we assumed a different future tuition growth environment.

<u>Funded Status Impacts</u>

Generally speaking, decreasing tuition growth rates improve GET's funded status. We provide additional context and details below.

The funded status represents a comparison of the program's assets, at a single point in time, with the present value of future program obligations measured at the same point in time. To measure the funded status, we make assumptions about future tuition growth rates. How those assumptions compare to actual experience and how quickly we update those assumptions will determine how much and how quickly the program's funded status will change. For example, if we did not change our assumptions in response to an emerging lower tuition growth environment, the program's funded status would not change at all initially. However, under this hypothetical scenario, over time the program would pay out lower tuition payments than expected and the program's funded status would slowly improve. If presented with this environment in reality, we would make some adjustment to

PO Box 40914 | Olympia, Washington 98504-0914 | state.actuary@leg.wa.gov | osa.leg.wa.gov
Phone: 360.786.6140 | Fax: 360.586.8135 | TDD: 711

assumptions upfront resulting in an immediate improvement in the funded status and then any subsequent difference between those assumptions and actual future tuition growth rates could further increase the funded status (if actual tuition growth is lower than expected) or decrease the funded status (if actual tuition growth is higher than expected).

For the *June 30, 2015, Actuarial Valuation Report*, we lowered our tuition growth assumptions in response to the CAP. The lower assumptions resulted in an increase in the funded status, measured at June 30, 2015, of 41 percentage points.

Actual future tuition growth as a result of the CAP may vary from our assumptions. As noted in our *2015 Actuarial Valuation Report*, if we assumed a long-term tuition growth rate 1 percent higher/lower, the program's funded status, measured at June 30, 2015, would change from 140 percent to 132/148 percent.

Please see our *2015 GET Actuarial Valuation Report* for additional considerations and supporting details.

Unit Price Impacts

Generally speaking, and similar to the discussion above, decreasing tuition growth rates lower future GET unit prices. However, as discussed below, there are many additional factors outside future tuition growth rates that ultimately will determine future unit prices. For those reasons, we are unable to quantify, at this time, the specific impacts of the lower expected tuition rates from the CAP on future GET unit prices.

Since the last time the GET Committee set a new unit price, the program experienced tuition reductions, the GET Committee established a new minimum payout value for unredeemed units, the program refunded past amortization payments (an amount that ranged from about $18 to $21 per unredeemed unit), and the GET Committee provided a temporary window for special refund rules.

The removal of the amortization component from the unit price will lower future unit prices. We expect recent and planned tuition reductions from the CAP will lower future unit prices below prices paid by recent purchaser cohorts (after reflecting the refunding and removal of the amortization component from past unit prices paid).

In addition to these changes, when the GET Program reopens, the GET Committee will likely consider the following items in order to set a future unit price:

- What reserve in the unit price is required to manage the risk of providing the program's guarantee to new units sold?
- Should the program continue the minimum payout value to protect future purchasers from any future tuition reductions?
- Are any other program changes required under this new environment?

- ❖ Will there be an initial balance between risk (risk to the state from offering the guarantee) and affordability (the affordability of the unit to a future purchaser) to sell new units?
- ❖ What contingency plans are required to address any imbalance between risk and affordability that may occur in the future?

The forthcoming responses to these questions and actions, in combination with forthcoming actuarial analysis, will inform the GET Committee's adoption of a new unit price. Ultimately, that unit price will reflect the specific impacts of the tuition reductions from the CAP on the future GET unit price.

We appreciated the opportunity to provide this analysis and assist you in your response to the Legislature's study mandate. Please let us know if you have any questions or need further assistance.

Other Considerations

For other readers of this analysis, please note we prepared this analysis to respond to the specific question noted above. This analysis should not be used for other purposes. We also advise readers of this analysis to seek professional guidance as to its content and interpretation, and not rely upon this communication without such guidance. Please read the analysis shown in this letter as a whole. Distribution of, or reliance on, only parts of this analysis could result in its misuse and may mislead others.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this letter is intended to be complete, I am available to offer extra advice and explanations as needed.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA
State Actuary

O:\GET\2016\Actuarial.Analysis.for.Study.on.Impacts.of.CAP.docx

Key Finding

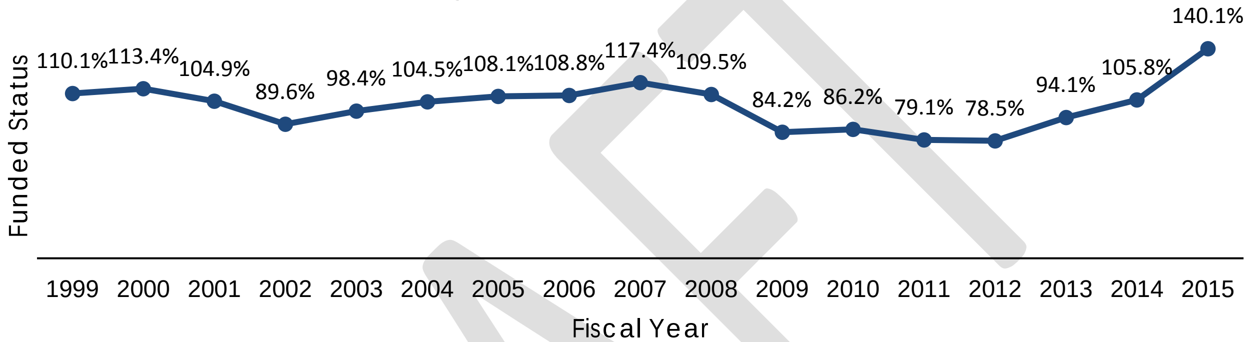
Decreasing tuition generally improves GET's funded status and lowers future GET unit purchase prices (see the preceding letter for limitations and assumptions on this finding).

Additional Notes on Funded Status and Unit Pricing

History of the GET Funded Status

As stated above, GET's funded status is sensitive to short term changes in assumptions. Figure 1 below shows the history of the GET funded status, which has oscillated from a low of 78.5 percent to a high of 140.1 percent. Historical precedence does not define future expectations, though it is important to see and understand the impact of this sensitivity.

Figure 1: GET Funded Status



Unit Pricing – Amortization Component

The GET unit purchase price has been based on an actuarial formula that includes current cost of tuition, estimated future tuition, inflation, investment returns, administrative costs, and the need for a reserve to assist in periods of fluctuating returns or higher-than-average tuition. Between May 1, 2011, and July 1, 2015, the pricing model included an amortization component. This amortization amount offset lower than expected investment returns due to the impacts of the 2008 recession, coupled with higher than expected tuition growth in the academic years leading up to 2011. Recent years of flat tuition growth, better than expected investment returns, and the passage of the CAP improved the program's financial health more quickly than expected. In response, on August 18, 2015, the GET Committee voted to refund the amortization fees paid by all participants who had unredeemed units purchased at prices of $163 or greater. This resulted in an effective unit price that was $18 to $21 less than the original purchase price paid by participants. In total, the program refunded $51 million for 43,000 accounts. The amortization amounts charged and associated unit prices are provided in Figure 2 below. As the OSA stated above, this policy change is another important factor that will impact future unit price assumptions.

Figure 2: Amortization Amount per Unit

Dates Units Purchased	Amortization Amount	Initial Unit Price	Adjusted Unit Price
05/01/11 to 06/30/12	$18.70	$163	$144.30
07/01/12 to 07/02/13	$19.73	$172	$152.27
07/03/13 to 06/30/15	$20.82	$172	$151.18

Feasibility of a 529 College Savings Program

Washington is one of two states that does not offer a 529 college savings plan, though there was an attempt to open a plan over a decade ago. In the 2001 session, the Legislature passed HB2126, granting the GET Committee the authority to establish a 529 college savings program. The section of the bill providing this authority was codified under RCW 28B.95.150. In 2002, the committee issued a Request for Proposals (RFP) to develop a 529 college savings program and selected an "apparent successful bidder." In early 2003, during the contract negotiation process, however, the vendor withdrew their proposal, citing issues with securing a cost-effective record keeper and uncertain 529 market conditions. The committee voted to accept the vendor's withdrawal and put a hold on pursuing a college savings plan until the market became more stable.

In the 2015 session, the Legislature provided a new opportunity to explore the feasibility and different options of establishing a 529 college savings plan by passing E2SSB5954.

The Current 529 Plan Landscape

There are currently 61 direct-sold (sold directly to the participant, rather than through a broker/broker-dealer) and 31 advisor-sold 529 college savings plans in the U.S., for a total of 92 open plans.[1] Nationally, the 529 industry continues to grow. According to the College Savings Plans Network (CSPN), as of December 31, 2015:[2]

- Total investment by U.S. families in 529 plans reached a record $253.2 billion.
- Approximately 12.5 million 529 plan accounts have been opened nationwide.
- The average 529 plan account has a balance of more than $20,190.

Looking ahead, a recent report from Strategic Insight projects that the college savings plan industry will double between now and 2019.[3] To assess the 529 market potential in Washington, GET completed a market analysis in December 2015.[4] This analysis included a survey of over 1,000 GET participants and looked at national trends and case studies of other college savings plans. GET found evidence of a significant demand for a 529 college savings plan option in Washington, though the success of such a plan would be contingent upon its overall investment performance, fee structure, and benefits to state residents.

Assessment of Possible 529 College Savings Plan Approaches

Throughout FY16, the GET Committee extensively explored the feasibility of developing a Washington-based 529 college savings program with the assistance the Washington State Investment Board (WSIB) and a national 529 expert.

---

1 Jamie Canup Memo to Betty Lochner, RE: 529 College Savings Plan, December 1, 2015. See Appendix A.
2 College Savings Plans Network. (2016). 529 Report: An exclusive year-end review of 529 plan activity. Lexington, KY.
3 Strategic Insight. (2015). 529 Distribution Study, 2015. Boston, MA.
4 The full Washington State 529 Savings Plan Market Analysis can be found in Appendix B.

The committee found that other states employ a wide range of 529 college savings plan options, from completely "in-house" plans, where the state manages all program aspects, to fully "turn-key" approaches where a third party vendor(s) provides all services. According to IRS regulations for 529 plans, there is no prescribed approach or formula that a state must follow if it decides to offer a 529 college savings plan. The committee determined that of the possible approaches, there were five key options to consider: [5]

- Leverage the GET program's existing self-operated infrastructure to establish a 529 college savings plan that is entirely run by the state, with WSAC as the program manager, and the WSIB as the investment manager.

- Self-operate all program management aspects, including record-keeping, marketing, customer service and other administrative functions, and outsource investment management services to a non-state entity.

- Contract with a third-party record-keeper and non-state investment manager while keeping other program management functions in-house.

- Contract with a third-party(ies) to either (a) entirely outsource a 529 savings plan or (b) outsource all program aspects except for in-state marketing efforts.

- Partner with another state-run 529 savings plan that runs its own direct 529 savings plan either to (a) entirely outsource the 529 savings plan or (b) outsource everything but in-state marketing, which would remain in-house.

The committee's analysis of these options began with the exploration of this key question: "Which plan type provides the greatest benefit for our state?" To supplement this overarching question, the committee established four criteria:

- Which plan is the ***most affordable*** for both the state and for plan participants?
    - Criteria include a fee structure that is competitive with other 529 plans already on the market, as well as low startup and on-going maintenance costs.

- What would provide the ***highest quality*** service, support, and options for participants?
    - Criteria include having a range of attractive investment options that provides sufficient choices for participants, with returns that meet or exceed the industry average. The top-rated plans typically feature user-friendly, age-based options that automatically adjust asset allocations as the beneficiary ages and nears college. They also feature several static options that allow participants to build a customized portfolio.

[5] Note that each of these options would consider both direct-sold and advisor-sold options.

- What would be the ***most efficient*** to establish, operate and sustain?
    - Criteria include ensuring that the selected model interfaces with the existing GET program and provides a seamless experience for program staff and participants of both GET and a college savings plan.

- What are the ***advantages*** of this plan for Washington residents?
    - Criteria include providing incentives for in-state residents to choose their home state's plan over other options. State income tax deductions on contributions are a common offering for in-state residents, but are not currently feasible for Washington. Other incentives the state could pursue include a matching program where the state or a private partner matches participant contributions up to a certain amount, or a "seed account" program where the State or a private partner opens an account containing a small amount of "seed" money for every child born in the state.

In late 2015, the GET Committee voted to prioritize exploring an "in-house" approach to a 529 college savings plan with WSAC as the program manager and WSIB as the investment manager, while performing due diligence on the other approaches. Over the remainder of 2015, and through early 2016, the committee and WSAC conducted extensive analysis on the various program and investment management options. They also provided information to legislators working on enabling legislation for a 529 college savings plan. During the 2016 session, the Legislature passed E2SSB6601, creating the Washington College Savings Program, establishing the appropriate account in the custody of the state treasurer, and providing parameters for the GET Committee in developing a 529 college savings plan.

New Legislative Direction

E2SSB6601 provided several key parameters for a new 529 college savings plan, including:

- Fees charged to the owner may not exceed one-half of one percent for any investment option on an annual basis (beginning January 1, 2018).

- The GET Committee shall promote, advertise and publicize the new plan and develop educational materials to highlight how the new plan and GET are different, and how they can complement each other.

- The GET Committee is directed to create an expedited direct rollover process between eligible Washington state-sponsored 529 accounts, and to out of state 529 accounts.

- Five policy goals are established in statute for which the GET Committee must develop objectives and performance measures and report to the legislature biennially on: Process, People, Parent, Performance and Price.

- Non-Washington residents may participate in a 529 college savings plan offered by WSAC, if it is established.

- The GET Committee is permitted to consider an advisor-sold option.

Additionally, the Legislature provided two mechanisms to fund startup costs for a college savings plan:

- A $25,000 appropriation (HB2376, Sec. 609(2)).
- Spending from a new Treasury account to cover startup costs with any account deficit repaid within 5 years pursuant to a plan/schedule to discharge any projected deficit established by the GET Committee by December 31, 2017.

Early discussions before and after E2SSB6601 passed indicated that WSIB may have been well-positioned to act as investment manager for a new 529 college savings plan. WSIB has significant scale in the retirement market and there was a potential opportunity to leverage the investment options available through the Deferred Compensation Program (DCP) that WSIB manages to keep fees low for 529 plan participants. Through their extensive due diligence efforts, WSIB discovered that the 529 industry has been built on mutual funds (which are accessible to any institutional investor) and that WSIB's existing DCP vehicles were not translatable to the 529 college savings industry. Ultimately, WSIB determined that it would not add significant value as the investment manager for a savings plan, and that the GET Committee could save participants a layer of fees by contracting directly with a private investment manager.[6]

Key Finding

On April 20, 2016, WSIB advised the GET Committee to hire an outside investment manager, instead of seeking investment management services from WSIB. The two remaining investment management options for a Washington-based 529 college savings plan include a non-state third party vendor, or to partner with another state.

Next Steps

Based on this new information, and the provisions in E2SSB6601, the GET Committee determined that a fully in-house plan was not feasible. In their April 20, 2016 meeting, the committee authorized WSAC to begin a formal procurement process to seek vendor proposals for providing services that will include investment management, and may include one or more of the following components:

- Record-keeping/account management services.
- Marketing.
- Customer service.
- Other administrative functions.

[6] Washington State Investment Board. (2016, April 20). Evaluating Investment Solutions for the GET College Savings Plan [Presentation to the GET Committee]. Olympia, WA. Full presentation available in Appendix C.

After consultation with state procurement experts at the Department of Enterprise Services (DES), WSAC first issued an informal Request for Information (RFI) to the vendor community. This helped narrow the scope of work for developing an official Request for Proposals (RFP). A formal RFP was issued on September XX, 2016. At the time of this report, WSAC and the GET Committee are still engaging in this process. The period of performance for any contract resulting from a competitive procurement for 529 college savings plan services is tentatively scheduled to begin in February 2017. A tentative schedule of activity is provided in Figure 3 below.

Figure 3: Tentative Procurement Schedule for a College Savings Plan

Activity	Date
Issue Request for Proposals (RFP)	September 2016
Question and answer period	September-October 2016
Proposals due	November 2016
Evaluate proposals	November-December 2016
Conduct oral interviews with finalists, if required	January 2017
Announce "Apparent Successful Bidder"	January 2017
Finalize and sign contract	January 2017
Begin implementation	February 2017
Washington 529 College Savings Plan opens	Summer 2017

The 529 college savings plan industry is still growing and there is evidence that there remains substantial opportunity in the market for a new entrant, such as the plan that the state is considering. Until the RFP and contract negotiation processes are complete, however, the committee is still determining feasibility and different options of establishing a plan that meets the specifications outlined in E2SSB6601 and within the available funding sources. The GET Committee will provide an update on the feasibility of a 529 college savings plan once these processes are complete.

Alternatives and Impacts of a Cost of Attendance Metric

The cost of attendance metric referenced in E2SSB5954 was not clearly defined by the legislation. At the advice of a national 529 and legal expert, the GET Committee interpreted this metric to represent the published cost of attendance used by institutions of higher education to determine financial aid eligibility for students. Using this definition, cost of attendance is the amount needed to cover one year's expenses at an institution of higher education and typically includes: tuition and fees, books and supplies, room and board, transportation, loan fees, and certain personal costs. These items are typically calculated for a full time student pursuing undergraduate education.

Cost of Attendance Assessment

No state prepaid tuition programs currently employ a cost of attendance payout model. The primary concern with using cost of attendance as a benchmark for the GET unit payout value is that this metric includes expenses that are not covered by Section 529 of the IRS Code as "qualified higher education expenses." Designing a program to index to a benchmark that includes costs outside of the IRS-approved expenses could expose GET participants to unintended federal tax consequences. Additionally, the stated cost of attendance is different for each higher education institution, so the program would need to tailor the GET unit payout value to each separate institution or would need a mechanism to standardize payments.

Key Finding
The GET Committee does not recommend cost of attendance as a basis for the GET payout. This metric contains expenses outside the scope of what 529 plans are designed to cover, and could expose participants to unintended tax consequences.

A more detailed assessment of the cost of attendance metric can be found in Appendix D.

Other Alternative Payout Models

Due to concerns associated with a cost of attendance metric, the committee reviewed and considered several other alternative payout structures employed by other state prepaid tuition programs. These alternative models are reviewed, generally, in Figure 4 below. Variations exist for most of these models. Readers of this report are encouraged to read Appendix E for more detailed descriptions, variations and considerations for these models.

Figure 4: Alternative Payout Models

Model	Description	Impact
Weighted-Average Tuition	Used by several states, this model is based on a weighted-average of tuition and mandatory fees at all of the in-state public institutions. Many variations of this model exist that vary between states. Some plans pay out the actual tuition and fees for in-state institutions and apply the weighted-average formula when a beneficiary attends an out-of-state or private institution. Others only pay-out the weighted-average tuition and mandatory fees of all public eligible educational institutions in that state.	Risk to the state is minimized compared to GET's current structure, as the highest in-state tuition level is not guaranteed. In some cases, participants may need another source of funds to fully-fund in-state tuition costs, if attending a higher-priced school. Differential tuition environments can create complications.
Credit Hour Model	Based on the mean weighted credit hour value at public institutions (either four-year or two-year/community college) in that state. In this model, pricing is dependent on whether the actual cost of the credit hours purchased is covered at any in-state public eligible educational institution or whether only a weighted-average credit cost at all in-state public institutions is covered by the program.	Can allow for a lower entry point for participants and match expenses to actual credit hours taken. The state matches the payout to individual credit hours, rather than entire academic years, semesters, or quarters.
Guaranteed Return	A model used by Pennsylvania that is based on average tuition increases in the school category and credit hour load selected. Participants anticipate that the increase in value over time (based on tuition increases) will be greater than the amount that they would have earned if they had invested in the market or in a 529 savings plans. Non-qualified withdrawals get a minimum payout equal to the greater of the "net earnings rate" of the program fund, or the participant's initial contributions	Pennsylvania's program is not backed by the full faith and credit of the state. Such a model could shift some of the risk from the state to participants.
Risk Transfer	A model used by the Texas Tuition Promise Fund that transfers the payout risk from the prepaid program from the program to the state higher education system. Participants can purchase tuition units at current tuition levels and when their beneficiaries are ready to enroll at a Texas public university or college, those institutions must accept those tuition units as payment for tuition. Market fluctuations in tuition do not affect the value of the tuition units purchased.	Risk is transferred to the state's higher education institutions and would require legislation similar to Texas's legislation that requires the Washington state public higher education institutions to accept the value of tuition units at matriculation for full payment of tuition obligations.

Further Considerations

At the time of this report, there are 19 open prepaid tuition plans nationwide. Several other plans that states have once offered are permanently closed or are not accepting new enrollments. Generally, each of these open and closed plans has a structure that is unique to their state.

Other than the risk transfer model found in the Texas program, the other models presented would require little or no change to RCW 28B.95 that governs the GET program. In addition, putting aside a model that pays out actual tuition and mandatory fees (as previously existed when the GET program was open), a prepaid program that is based on either (1) weighted-average tuition and mandatory fees (for the type of institution selected) either on a semester or credit hour basis; or (2) average tuition increases in the past ten years (or other measuring period) at the state's public eligible educational institutions (for the type of institution selected) may be models worth exploring.

Additionally, decisions would need to be made to determine if the program would (a) cover only tuition or tuition and mandatory fees; and (b) pay out the same benefits to beneficiaries who enroll in private or out-of-state public institutions rather than in-state public eligible educational institutions. Care must also be taken to define exactly what tuition and mandatory fees are covered by the state's prepaid program. Each of these models described above would need to be reviewed by the OSA to determine if a pricing model could be determined and sustained for the long-term.

If drastic changes are made to the current GET program, such changes would likely apply only to new participants. If the terms and conditions of the plan and the financial risk balance between the state and plan participants significantly shift, this may necessitate freezing the current GET fund to new contributions and establishing a new and separate fund. The GET Committee, in consultation with WSAC's legal counsel and the OSA are still assessing such alternative structures. The consideration and potential adoption of any alternative structures would be a key component of the next price-setting exercise. The committee will provide an update on this subject once the next price-setting exercise is complete.

Alternatives and Impacts for State Penalties on Withdrawals

College savings programs meeting the criteria of section 529 of the IRS Code are intended to be used only for "qualified higher education expenses," including tuition and fees, room and board, books and supplies. When used for such expenses, all account earnings (growth) can be distributed on a federal-tax-free basis. When a participant makes a distribution and does not use the funds to cover qualified expenses, the IRS imposes a 10 percent penalty on the earnings portion of the distribution, and taxes the earnings as ordinary income.

Permanent Program Refund Policies

To ensure GET funds are used to cover qualified expenses, the GET program also charges participants a program refund penalty for "non-qualified" distributions/refunds. Additionally, the program charges an account cancellation fee to cover the cost of processing the refund and charges an account maintenance fee to compensate the program for services rendered while the participant's account was open. These penalties and fees are summarized in Figure 5 below. Participants must also hold their funds for up to two-years before they may make a distribution or refund their account.

Figure 5: GET Program Non-Qualified Distribution (Refund) Fees

Penalty/Fee	Amount
Program Refund Penalty For all refunds except in the event of death, disability, scholarship, attendance at a U.S. service academy, or graduation/completion of higher education program.	10 percent of earnings or $100, whichever is greater
Account Cancellation Fee	$10
Account Maintenance Fee	$1.70 per month

Temporary Refund Policy Changes

After the Legislature enacted the CAP, the GET Committee heard from a number of GET participants who expressed concern about the future values of their accounts, based on the tuition policy changes. Participants who purchased new tuition units since May 1, 2011, at unit prices of $163 and $172 for older children were especially concerned about their ability to recover their full investment principal. After careful consideration of available options and the potential impacts on the program, the GET Committee unanimously voted to waive all program refund penalties and fees, as well as the two-year hold requirement for all account owners for a temporary period of time.[7] Additionally, participants who paid more for their units than the $117.82/unit payout value could receive their contributions back (including monthly finance charges for Custom Monthly Plan participants) to ensure

[7] GET has been clear in communications to customers that federal taxes and penalties may still apply to any account earnings if refunds are not deposited into another qualified 529 plan within 60 days.

they did not lose any principal. This special refund window was made effective September 2, 2015 through December 15, 2016.[8] Criteria for this decision included:

- The committee determined that this decision was the right thing to do for participants. While participants did sign a contract acknowledging the limitations of the GET guarantee and available refund options when enrolling in the program, marked changes in future tuition growth policy fundamentally changed the underlying growth assumptions in ways that the committee and GET participants did not foresee.
- Allowing penalty-free refunds provided participants who were reconsidering the value they were getting out of the program a mechanism to rollover their GET funds into another 529 plan and continue their college savings efforts.
- This option mitigated legal risk. While the committee believed that the GET Master Agreement (the contract between the program and GET participants) provided sufficient legal protection, a decision to not waive refund fees could still have presented a risk of future legal disputes. Such legal disputes could have proven costly even if the state prevailed.
- The healthy funded status of the program allowed for this penalty-free refund window without presenting undue financial risk that the program would could not meet its future financial obligations to participants. At the time of the decision, the program account was 140 percent funded, as measured by the OSA at June 30, 2015. The committee projected that if all customers who paid $163 or $172 for their units, and were within eight years of using their benefits (those the committee deemed to be most likely to refund their accounts) took advantage of this refund window, the program would pay out approximately $200 million. The impact of this policy decision could decrease the program's funded status by as much as five percent.

Key Finding

The committee determined the GET fund could bear temporary policy changes affecting the program's penalty for withdrawal and remain financially solvent. The committee authorized a temporary refund window, effective September 2, 2015 – December 15, 2016, allowing participants to refund their GET accounts without state penalties.

Participant Response and Associated Impacts

While the committee was confident that GET would remain a valuable college savings resource for years to come, it was clear that some participants wished to seek other options for their college savings. The committee chose to hold these participants harmless.

[8] At the April 20, 2016 GET Committee Meeting, several committee members expressed interest in extending this penalty-free refund window. If the committee chooses to extend this deadline, the final report to the legislature will reflect this decision.

At the time of this report, GET participants have taken $310 million in refunds on 15,400 accounts. This represents approximately 12 percent of accounts that were active as of June 30, 2015. As anticipated, preliminary figures show that participants who have purchased units at prices of $163 or higher make up the majority of participants who have taken penalty-free refunds since June 30, 2015 (nearly 60 percent). In total, participants have requested refunds on approximately 23 percent of all accounts opened since 2011, and 15 percent of all accounts containing at least one unit purchased at unit prices of $163 or greater. These preliminary figures are summarized in Figure 6 below:

Figure 6: GET Penalty-Free Refunds since September 2, 2015[9]

Refund Metric	Amount (as of 5.30.16)
Dollar value of all refunds	$310,163,837
Number of accounts refunded	15,427
Proportion of all accounts refunded that were active as of June 30, 3015	12.1%
Number of accounts opened since May 1, 2011 refunded	5,820
Proportion of accounts refunded opened since May 1, 2011 refunded	23%
Number of accounts refunded with at least one $163/$172 unit	7,049
Proportion of accounts refunded with at least one $163/$172 unit	15%

Anecdotally, the program has found that many participants are choosing to wait on deciding about whether to refund or leave their GET accounts as-is. Participants choosing to wait are wanting to learn more about the new unit purchase price, the on-going assumed rate of return (based on future tuition growth and/or any potential program adjustments), and what additional in-state college savings options (i.e. a 529 college savings plan) may come available in the near future. At the time of this report, the penalty-free refund window remains open. The committee has also discussed extending this window until the proposed 529 college savings program opens, but a final decision has not been made at the time of this report. The GET committee will provide an update on refund statistics and resulting impacts to the program once this refund window closes.

[9] Note that these are preliminary figures, and do not account for adjustments due to other account actions taken by participants, such as downgrades, conversions and transfers.

IV. CONCLUSION

Based upon the findings in this report, the GET Committee offers the following observations to the Legislature:

1) Generally speaking, decreasing tuition rates have significantly improved the funded status of the GET program, based on measurements provided by the OSA. If the current statutory future tuition growth model holds, future unit prices will likely start out lower than the amortization-adjusted unit prices since May 2011.

2) The 529 industry is still growing and there is evidence that there is sufficient state resident demand for a Washington-based 529 college savings program. The committee is still exploring the feasibility of different options for establishing a 529 college savings program at the time of this report, and is currently engaged in a formal procurement process to seek vendor proposals for investment and program management services. The committee is considering possible structures ranging from a fully-contracted plan to a blended approach, where the state retains certain program management aspects and contracts for investment management and other services.

3) The committee does not recommend cost of attendance as a basis for the GET payout. This metric contains expenses outside of the scope of what 529 plans are designed to cover. Designing a payout based on a benchmark that includes costs outside of the IRS-approved "qualified higher education expenses," could expose GET participants to unintended tax consequences. Alternative payout structures, such as weighted-average tuition models, are viable but need further exploration.

4) The committee determined that the GET program could bear temporary policy changes affecting the program's penalty for withdrawal and remain financially solvent. The committee authorized a temporary refund window, effective September 2, 2015 – December 15, 2016, allowing participants to refund their GET accounts without state penalties. The committee has also discussed extending this window until the proposed 529 college savings program opens, but have not reached a final decision at the time of this report.

As described above, the items covered in this report will require continued research and analysis. The GET Committee will provide updates as work progresses on developing a 529 college savings plan and preparing for GET's 2017 reopening to new enrollments and unit purchases.

APPENDIX A

HIRSCHLER
FLEISCHER
ATTORNEYS AT LAW

MEMORANDUM

TO:	Betty Lochner
FROM:	James W. C. Canup
DATE:	December 1, 2015
RE:	529 College Savings Plan

You have requested a memorandum that analyzes the investment components and the fee structure found in direct-sold, college savings plans (as opposed to prepaid plans) that are qualified under Section 529 of the Code of 1986, as amended (Code).

Overview

There are currently 101 open 529 Plans in the U.S. There are 19 prepaid plans (including both traditional prepaid plans and unit or guaranteed savings plans), nine of which are open for enrollment during some portion of the year (typically, prepaid plans have a limited enrollment period so as to determine a pricing model for that year's enrollment), and the ten remaining prepaid plans are either suspended or closed. In addition, there are 61 direct-sold, college savings plans and there are 31 advisor-sold, college savings plans. This memorandum is focused on direct-sold, college savings plans (i.e., those plans sold directly to an investor by State or governmental entity and without having to go through a registered broker-dealer or broker to invest in the program).

Investments

Typically, direct-sold, college savings plans offer a menu of investment options, often referred to as portfolios (Portfolios). An offering in a Portfolio is often referred to as a unit ("Unit"). An investor/account owner invests in Units, not the underlying investments that comprise a Unit. The direct-sold, college savings plan invests on an aggregate basis in the underlying investments that comprise the Units.

Sales of Units in a Portfolio are considered to be municipal fund securities under the Securities Laws[1] and the rules of the Municipal Securities Rulemaking Board (MSRB) and the rules of the Financial Industry Regulatory Authority (FINRA)[2]. So long as Units are offered directly by a State (or an instrumentality or an agency of a State) by employees in the course of their duties as employees of the State (or an instrumentality or an agency of a State), the Units do not have to be registered with any federal agency and are not subject to the Securities Laws of the U.S., except for the anti-fraud provisions of the Securities and Exchange Act of 1934, and those employees are not required to be registered or licensed pursuant to the Securities Laws. If a State engages a program manager or other third-party to help sell Units in a Portfolio, that third-party will be subject to the various requirements imposed under the Securities Laws and the rules of the MSRB and FINRA.

<u>Age-Based Portfolios</u>

Investments offered by direct-sold, college savings plans consist of a variety of types of Portfolios. Every direct-sold, college savings plan offers at least one (1) age-based Portfolio. Generally, an age-based Portfolio is a Portfolio that invests predominantly in equities in the early years and transitions over time to more conservative investments such as bonds and money-market or cash investments as the beneficiary nears or reaches enrollment at an institution of higher education. The transitions over time are typically referred to as age bands, usually in three-year increments (sometimes in two or four-year increments, or combinations of two, three and four-year increments).

Some direct-sold, college savings plans offer three age-based Portfolios (typically, a conservative, moderate and aggressive age-based Portfolio), and a few offer four or more age-based Portfolios. Utah's direct-sold, college savings plan offers the nation's only "customized" age-based Portfolio. Under that plan an investor can make a one-time selection when opening the account among a menu of underlying investments to tailor the investments of the age-based Portfolio for each of the age bands. The decision of how conservative or aggressive those investments are for each age band is made by the investor/account owner and where those investments ultimately transition to at or near enrollment in an institution of higher education is also determined by the investor/account owner (as opposed to the investor selecting from the pre-formed age-based Portfolios offered by the direct-sold, college savings plan).

These age-based Portfolios are sometimes referred to as "set it and forget it" Portfolios (they are also seen as akin to target date fund investments offered by retirement plans). Age-based Portfolios are popular with account owners who invest in direct-sold, college

[1] The applicable Securities Laws include, the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Company Act of 1940, the Investment Advisers Act of 1940, the Gramm-Leach-Bliley Act, and the Dodd-Frank Wall Street Reform Act. A discussion of these various Acts is beyond the scope of this memorandum.
[2] A discussion of the rules imposed by the MSRB and FINRA is beyond the scope of this memorandum.

savings plans. More money invested in direct-sold, college savings plans is invested in age-based Portfolios than any other type of Portfolio.

Static Portfolios

In addition to age-based Portfolios, every direct-sold, college savings plan also offers additional Portfolios. Some direct-sold, college savings plans offer as many as 20 or more Portfolios; the range of Portfolios offered is from a low of four to a high of 32 Portfolios. These Portfolios are often referred to as Static Portfolios because unlike the age-based Portfolios these underlying investments in the Static Portfolios do not change over time as the beneficiary of the 529 account nears or reaches enrollment age at an institution of higher education.

There are many different types of Static Portfolios offered by the various direct-sold, college savings plans. Some of these Static Portfolios consist of a so-called balance fund that include underlying investments in equities, bonds, and a money-market or savings account. The allocations within these balanced Static Portfolios is usually between 55 to 70% in equities and 30 to 45% in bonds and/or money-market or savings account.

Another form of Static Portfolio is a Portfolio where the underlying investments mimic or replicate a recognized index, such as the S&P 500 or the Russell 2000. Some Static Portfolios have underlying investments in a mix of U.S. large-cap, mid-cap and small-cap equities. Other Static Portfolios have underlying investments in U.S. equities, developed and emerging markets. Still other Static Portfolios only invest in one type of investment such as bonds, U.S. Treasuries, or a savings account that is subject to FDIC insurance. Utah's direct-sold, college savings plan offers the nation's only "customized" Static Portfolio. Under that plan an investor can make a one-time selection when opening the account among a menu of underlying investments to tailor the investments of the Static Portfolio. The decision of how conservative or aggressive those investments are and the allocations among the investments selected is made by the investor/account owner.

Investment Line Up Recommendation

At a minimum, the State-run, direct-sold, college savings plan must offer at least one age-based Portfolio and at least two Static Portfolios – one that is a form of a balanced fund and one that provides a conservative investment such as bonds, money market and/or savings account. Additional Static Portfolios can be added to the program over time as the Committee and its investment advisors deem appropriate.

The Washington State Investment Board (WSIB) has indicated that it has the capability to offer these types of Portfolios from the outset of any Washington direct-sold, college savings plan that is offered. More importantly, the WSIB has also indicated that it can offer both a customized age-based Portfolio and a customized Static Portfolio. A direct-sold, college savings plan offered by the State of Washington would then be the second 529 Plan in the country to offer such customized Portfolios.

Fees

There are several fees that an account owner of a Portfolio incurs by virtue of their investment. These include program manager fees, record-keeper fees, State fees, fees for the underlying investments (often referred to as the expense ratio), and other program or administrative fees (such as account opening fee, annual account maintenance fee, mailing fees, and transaction based fees). The trend in the past decades has been for these fees to be lowered as total assets under management in a 529 Plan have increased.

A State-run, direct-sold, college savings plan that does not outsource any functions to third parties would not charge a program manager fee, record-keeper fee and State fee, but instead would only charge one fee. To the extent any record-keeping function is outsourced, a separate record-keeper's fee would then apply, whether stated separately or included as part of the program manager's or State's fee.

Program Manager Fees/State Fees

Of the 61 direct-sold, college savings plans, seven do not charge a program manager fee or a State fee. Four of these seven plans are stand-alone bank or CD product 529 Plans and do not offer any other Portfolios; in addition, within the remaining direct-sold, college savings plans that have a Static Portfolio whose underlying investment is a bank or CD product many of those plans also do not charge a program manager fee with respect to that Portfolio. Some of the banks that provide the underlying bank or CD product for those Static Portfolios or the stand-alone, bank or CD product 529 Plans pay a fee directly to the State rather than having the plan charge a program manager fee to the investor.

The only three traditional direct-sold, college savings plans that do not charge a program manager fee are Louisiana, South Carolina and South Dakota. All three programs limit their enrollment to account owners or beneficiaries who are State residents. South Carolina also has an advisor-sold, college savings plans on which it receives 10 basis points (0.10%). As of June 2015, the SC advisor-sold plan had approximately $1.6 billion in assets under management, resulting in an annual State fee of $1.6 million to the State Treasurer's Office of South Carolina to help pay for all of its 529 Plans. The SC direct-sold plan had approximately $800 million in assets under management as of June 2015 in approximately 39,000 accounts.

The Louisiana 529 Plan is subsidized by the State of Louisiana. The amount of the subsidy is not disclosed. Assets under management as of June 2015 for the Louisiana 529 Plan was approximately $630 million in assets under management in over 52,000 accounts. The LA 529 Plan does not have a private program manager but is instead a State run, direct-sold, college savings plan.

It is not clear whether the South Dakota 529 Plan is subsidized by the State of South Dakota or if the State receives a payment directly from its Program Manager, Allianz Global Investors, which also manages the State's advisor-sold, college savings plan. As of June

2015, the combined SD 529 Plans had approximately $1.2 billion in assets under management in approximately 38,000 accounts but these numbers are not broken out between the direct-sold and advisor-sold plans.

The Commonwealth of Virginia has a direct-sold, college savings plan that is run by the Virginia College Savings Plans, an agency of the State. The direct-sold, college savings plan charges 15 basis points (0.15%) for its program manager fee. As of June 2015, this program had over $3 billion in assets under management in approximately 200,000 accounts resulting in fee income of approximately $4.5 million. In addition, Virginia has the largest 529 Plan in the country, an advisor-sold, college savings plan with approximately $50 billion in assets under management as of June 2015, in over 2.1 million accounts. The Virginia College Savings Plans collects a State fee of 10 basis points (0.10%) on the advisor sold plan resulting in an annual State fee of approximately $50 million.

The State of Utah runs a direct-sold, college savings plan that is run by the Utah Educational Savings Plan. The Utah plan had approximately $8.4 billion in assets under management as of June 2015 in approximately 280,000 accounts. The Utah Plan charges a State program manager fee that ranges from 11 to 20 basis points (0.11% to 0.20%) depending on the Portfolio selected (Utah residents who invest in the State's Public Treasurers' Investment Fund Portfolio do not pay any fee). The average State program manager fee is approximately 18 basis points (0.18%) resulting in annual fee income of approximately $15 million.

The State of Florida has one of the largest prepaid programs in the nation (with approximately $10.6 billion) and also has a direct-sold, college savings plan – the Florida College Investment Plan. That program had approximately $420 million in assets under management in over 45,000 accounts as of June 2015. Florida runs its own program and charges a program management fee of between 39 and 75 basis points (0.39 – 0.75%) that includes the underlying investment expenses. It is not clear what the amount of the total fees paid to the Florida programs equals.

The State of North Carolina is another program that is run by a State agency, the NC College Foundation. The program charges a program manager fee of 25 basis points (0.25%) on assets under management of approximately $1.7 billion as of June 2015 in approximately 130,000 accounts resulting in annual fees of approximately $4.25 million.

Tennessee just recently re-opened its direct-sold, college savings plan after an unsuccessful attempt to "merge" its prior plan with the State of Georgia. The new Tennessee direct-sold, college savings plans had assets under management of approximately $33 million in approximately 7,200 accounts. The TNStars program is operated through the State Treasurer's office (as is its closed prepaid program). The program management fee is currently capped at 35 basis points (0.35%) and includes the underlying investment fees of its Portfolios. The State of Tennessee provides a subsidy to the program that is believed to be approximately $1.5 million.

The great majority of States do not run their own programs but instead have engaged a third-party program manager to run their direct-sold, college savings plans. These States collect a separately stated fee that ranges from 0 basis points to up to 45 basis points (0.00 – 0.45%) depending on the Portfolio. Some of the States that do not charge any State fee either receive a subsidy from the program managers (Kansas receives at least $1 million adjusted upwards for inflation across its three programs). Other direct-sold programs count on fee income generated by the State's companion advisor-sold program to support the direct-sold program.

<u>Underlying Expense Ratio</u>

The underlying expense ratios are based on the types of investments that make up a Portfolio. Those fees generally run from 0 basis points to as high as 166 basis points (0.00% - 1.66%). The Portfolios that have underlying expense ratios of 0 basis points (0.00%) are invested in bank or CD products.

<u>Total Expense Ratio</u>

For many investors the total expense ratio (that is the total of the underlying fees and all State and program manager fees) is the number that matters. The 61 direct-sold, college savings plans have total expense ratios that run from a low of 11 basis points (I have excluded the 0 basis point attributable to bank or CD products) to a high of 214 basis points (2.14%) depending on the Portfolio selected by the account owner/investor. The great majority of direct-sold, college savings plans strive to stay within 20 to 45 basis points (0.20% - 0.45%) in total expense ratios. However, many such programs have total expense ratios that exceed this range. In fact, according to the study by Strategic Insight, the average total expense ratios in the second quarter of 2015 was 73 basis points (0.73%).

<u>Other Program Fees</u>

Other annual program or administrative fees are not included in calculating the total expense ratio. Therefore, they must also be considered when looking at the "all in" costs of an investment in a 529 Plan. While enrollment or application fees were previously more common, only one direct-sold, college savings plan (DC) charges an application fee – in amount equal to $25 to non-resident of the District of Columbia.

Account maintenance fees are more common with 22 direct-sold, college savings plans charging annual fees that range from $10 to $30, which often is waived (i) for non-residents, (ii) on accounts above a minimum threshold (from $10,000 to $25,000), (iii) on accounts with recurring contributions through an automatic payment plan, or (iv) for those account owners who elect to receive all communications via email rather than regular mail. However, most 529 Plans do charge for certain transaction-based fees, such as fees for wiring funds, returned check fees, over-night delivery fees, and other similar fees.

Most competitive direct-sold, college savings plans do not have either enrollment or annual account maintenance fees. Many of these plans have been very successful at moving their account owners to electronic delivery of disclosure materials and quarterly and annual account statements, which substantially reduces costs for the 529 Plans. However, account owners must elect electronic delivery of these communications and cannot be defaulted into electronic delivery of any disclosure materials.

Disclosure

Every direct-sold, college savings plan must have an offering document that describes the Portfolios offered and the risks associated with those Portfolios,

- discloses the fees that an investor will incur by investing in a Portfolios,
- provides the performance of the various Portfolios over time,
- describes the rules of the 529 Plan and the process for opening, maintaining, and making withdrawals from an account with the 529 Plan,
- provides a summary of the tax considerations in investing a 529 Plan, and
- discloses the administration and other relevant information of the 529 Plan.

The offering document must be compliant with the Disclosure Principles adopted by the College Savings Plans Network.

In addition, it is an industry best practice that marketing material should strive to be compliant with the rules promulgated by the MSRB and enforced by FINRA (although, marketing materials issued directly made by a State or agency or instrumentality of a State is not subject to the MSRB and FINRA rules, only the anti-fraud provisions of the Securities Laws.

Targeted Marketing

A State-run, direct-sold, college savings plan offers the opportunity for robust, targeted marketing of the State's college savings plan to all portions of the State or to targeted under-served communities. Typically, a State-run program puts more marketing dollars and emphasis on reaching all segments of the State's population. Having marketing dollars and marketing talent spent in-State by in-State based personnel who both understand 529 Plans and their State's needs is usually seen as an advantage that State-run programs have over those programs run by out-of-state third party program managers who tend to focus on more national campaigns and also on individuals with higher income in limited pockets within a State.

Other Considerations

Like the GET program, a State-run, direct-sold, college savings plan will need to have a call center, a web site with IT support, and record-keeping capabilities to serve its account owners/investors and beneficiaries. The Banner record-keeping program currently used by GET has the ability to provide record-keeping for both a prepaid and a direct-sold, college savings plan.

All of these functions are currently provided in-house by GET and to some extent will need to be continued by GET even if the Committee decides not to re-open GET or not to create a new prepaid 529 Plan. Leveraging the GET platform to provide these functions to a State-run, direct-sold, college savings plan in addition to GET may prove to be cost effective. In addition, the Committee can also look to see what third-party record keepers would charge to provide these functions.

<u>Incentives to Consider</u>

One of the questions raised by Committee members has been what incentives could a direct-sold, college savings plan run by the State of Washington offer to investors to make it more attractive to its residents. First and foremost, the two most important features to offer are (1) the investment line up found in the Portfolios and (2) the fees charged. Since the State of Washington does not have an individual State income tax a tax deduction or credit is not possible.

<u>State Creditor Protections</u>

Many States offer creditor protection to their residents who invest in their State's 529 Plan. These provisions typically provide that amounts invested in the State's 529 Plan are protected under State law from the reach of creditors. Typically, the amounts contributed must have been invested in the State's 529 Plan for a minimum period of time that varies from State to State. This protection is in addition to the federal bankruptcy protection afforded to all 529 Plan account owners who declare bankruptcy.

<u>Financial Aid Exclusion</u>

Some States provide that for State financial aid purposes, investors/account owners of the State's 529 Plan will not have those accounts included among their assets when making a determination with regard to State financial aid treatment. Currently, 23 States provide that the resident's 529 Plan account will not be considered when awarding State financial aid treatment. This encourages individuals to open and fund 529 Plan accounts without fear that their eligibility for State financial aid will be jeopardized. Anecdotally, 529 Plans have found that (other than individuals' procrastination) one of the impediments to opening accounts is the fear that the family and beneficiary will be precluded from obtaining financial aid to help pay for higher education if they open a 529 Plan.

At the federal level, the Department of Higher Education has been moving to remove this fear as an impediment. Currently, 529 Plan accounts owned by either parents or a beneficiary are included as a parental asset for FASFA purposes but only up to a maximum 5.6% for purposes of calculating the expected family contribution (EFC). Further distributions from a 529 Plan in any calendar year are from these accounts are not included as income to the beneficiary, which otherwise could have resulted in a maximum inclusion of up to 50% for purposes of calculating the beneficiary's EFC. The Department of Higher Education is currently considering increasing the types of assets that are excluded on the FASFA and among those potentially excludable assets are 529 Plan accounts.

Matching Fund Programs

Another incentive to consider is the possibility of matching funds when residents invest in the State's direct-sold, college savings plan. Many States offer small incentives at different times during the year to encourage residents to open and fund accounts in the State's direct-sold, college savings plans. These incentives usually take the form of matches to contributions made to an account. The matches are usually capped each year and may only be available for limited periods.

Some States have more formal matching programs that are targeted to specific segments of the State's population. For example, some States provide for a matching contribution to an account for every newborn when an account is opened for that child. Some other States provide for a matching contribution to an account for a beneficiary where the family's income is within certain percentages of the poverty line; for example, 200% of the State's federal poverty line for a family of four. Matching funds could be provided to 529 accounts opened for children who are eligible for free or reduced school lunches or to accounts opened for children who would be first-generation college attendees. Whatever metrics the State choses to use, a matching program could be used to encourage residents to open and fund accounts either on a State wide basis or on a targeted basis.

Scholarships

A number of States have teamed up with foundations and other charitable entities to provide scholarships for some or all of their residents through the State's 529 Plan. Maine provides a scholarship through its 529 Plan for every child born in the State of Maine by virtue of a partnership with the Harold Alfond College Challenge and Alfond Scholarship Fund. Other States have created scholarship programs that are directed to disadvantaged populations based on income, race, residence in certain areas of a State, or other targeted criteria. Some States, such as Louisiana, use their 529 Plans as a mechanism for awarding scholarships to residents who meet certain criteria.

Rewards Program

Twenty-five direct-sold, college savings plans have an affiliation with a rewards program that allows account owners to earn credit to be applied to their 529 Plan account. These programs typically are either with major credit card companies or with the Upromise rewards service.

Conclusions

With the suspension of the GET program, the State of Washington and the State of Wyoming are the only two States that do not currently offer a 529 Plan. A State sponsored, direct-sold, college savings plan that (1) leverages the infrastructure and platform provided by the GET program, (2) provides attractive investments options in its Portfolios including the possibility of offering customized Portfolios, and (3) has an "all in" fee structure that is under 45 basis points (0.45%) could be a very attractive and competitive 529 Plan for the residents of the State of Washington. In addition, the ability to market the program throughout the State and to target populations that may otherwise not have access to vehicles to finance their higher education not only serves those residents but also serves the interest of all the residents of the State by helping to educate the population, raise the quality of life for all Washington residents, and keep and attract employers to the State.

APPENDIX B

Washington State 529 Savings Plan:
Market Analysis

Presented to:
GET Committee
December 3, 2015

Overview

In the October 7, 2015 GET Committee meeting, Committee members expressed interest in learning more about the market potential if Washington State were to offer a 529 College Savings Plan. This analysis provides a high-level snapshot of key insights to help evaluate such market potential. The report starts with a review of relevant data from two recent GET customer surveys, follows with an overview of demographic profiles of GET's customer and Washington State citizens, national college savings attitudes and the 529 plan environment in other states, and concludes with a discussion of findings.

In reviewing this report, it is also important to keep in mind that in addition to meeting market demand, it is important to continue providing Washington families with college savings options. Time and time again, studies find that higher levels of education are associated with higher levels of income security, better job prospects, and a stronger economy. An often cited study from Washington University in St. Louis finds that children who know there is a college savings account in their name are seven times more likely to succeed in school and go on to college.[1] This illustrates the point that 529 plans are more than just simple savings tools. They also allow families to show ongoing support for their children's future success and reinforce the importance of education.

Insights from Recent GET Surveys

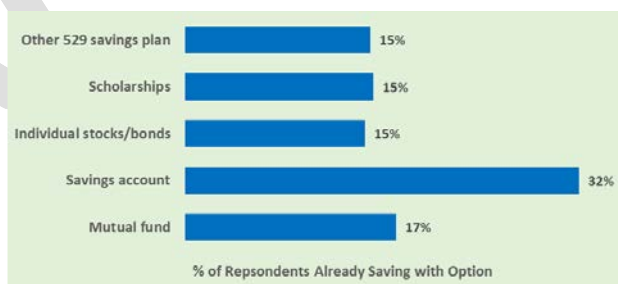
In the past 18 months, GET has conducted two customer surveys in order to develop a sense of what account owners value when it comes to their college savings. Each survey included questions specifically related to how GET customers are currently saving or plan on saving for their children's college education in addition to their GET account.

The first survey was conducted March-April 2014, and received over 7300 responses.

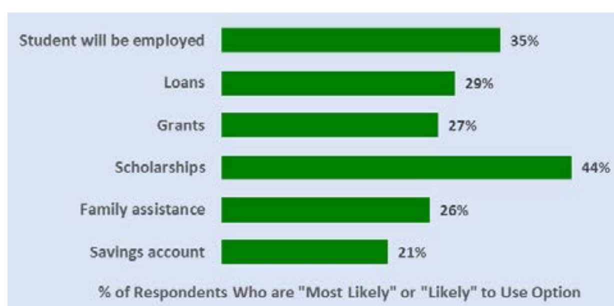
Three of the questions asked provide helpful insight for this analysis:

- ***"In addition to GET, what other ways are you planning to fund your child's college expenses?" (Please select an answer for each "savings method" listed below.)***

  - The ***most popular savings options already being used*** by respondents were:
    1.) Savings Account (32%)
    2.) Mutual Funds (17%)
    3.) Scholarships (15%)
    4.) Other 529 Savings Plans (15%)
    5.) Individual Stocks & Bonds (15%)

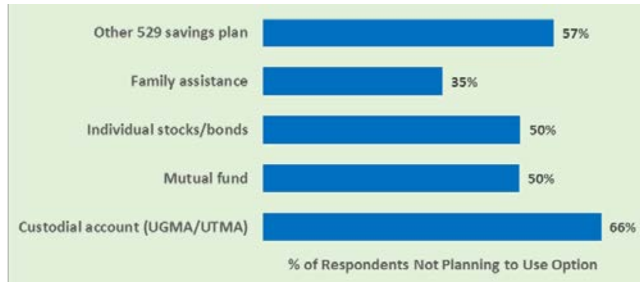


  The savings mechanisms that respondents ***were most likely or likely*** to use were:
    1.) Scholarships (44%)
    2.) Student will be Employed (35%)
    3.) Loans (29%)
    4.) Grants (27%)
    5.) Family Assistance (26%)
    6.) Savings Account (21%)

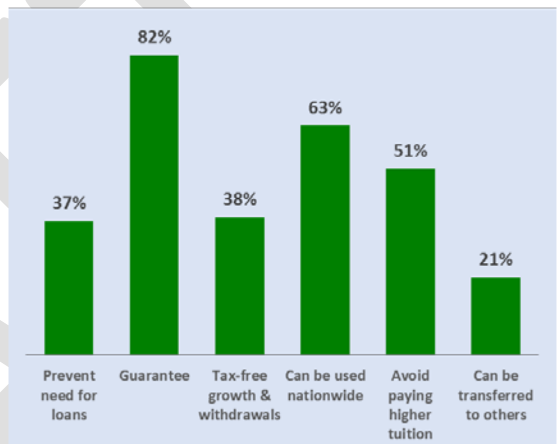


[1] Source: Center for Social Development, Washington University in St. Louis (2010). http://csd.wustl.edu/Publications/Documents/WP10-01.pdf

- The savings mechanisms that respondents ***were not planning to use at all*** were:
    1.) Custodial Accounts (66%)
    2.) Other 529 Savings Accounts (57%)
    3.) Individual Stocks & Bonds (50%)
    4.) Mutual Funds (50%)
    5.) Family Assistance (35%)



- **"How often do you contribute to your GET account?"**
    - **Over half of respondents (52%)** contribute to their GET account at least once per year.
- **"What are the main reasons you chose to open an account with GET? (choose up to three)"**
    - More than **four out of five respondents (82%) referenced the state guarantee** as a primary reason for choosing GET.
    - Other high-ranking reasons for opening a GET account included:
        - The ability to use GET at any public or private school in the country (63%)
        - To avoid paying higher tuition later (51%)
        - Growth and withdrawals are tax free (38%)
        - To prevent the need for taking out future loans (37%)
        - Can be transferred to other family members (21%)



The second survey was conducted October 2014, and received 190 responses.

One especially relevant question from this survey was:

- **"If GET were to offer a 529 Savings Plan in addition to our current 529 Prepaid Tuition Plan, would you be interested in investing in a savings plan?"**
    - **Over 55% of respondents said they would be interested in a 529 Savings Plan option,** though several noted in their open-ended comments that they had a number of questions about how the plan would work and benefit them. Other open-ended feedback from respondents who expressed interest in a 529 Savings Plan included:
        - Several respondents said they would be interested in a 529 Savings Plan because of the tax incentives, the ability to diversify their investments, and to balance the tuition advantage of GET with a more traditional investment.
        - Other advantages of a 529 Savings Plan mentioned by respondents included: the ability for parents with older children in middle and high school to have an in-state investment option, the capability for families to save for other expenses like room and board, books and other expenses beyond tuition and fees; and the opportunity to have an investment that could keep up with the cost of attendance at private and/or out-of-state schools.

- **Approximately 45% of respondents said they would not be interested in a 529 Savings Plan.** Open ended feedback included:
    - Some respondents had concerns about the risk associated with investments tied to securities products.
    - Respondents also noted that fees and fund performance would play a critical role in determining if they would invest in a 529 College Savings Plan or not.
    - Some respondents also said that they can barely afford to save for college as it is and more plans are not going to help, but rather make it more confusing.

What these survey results tell us.

These results indicate that there may be a potential market for a 529 College Savings Plan within GET's existing customer base of over 75,000. According to customer feedback, having an affordable and competitive product would be absolutely important in determining the value and role of such a plan in a family's college savings strategy. It should be noted that GET customers compose a relatively small subset of the Washington State population. The next section will address the state-level demographics to provide a sense of the current untapped market potential.

GET Customer Profiles

When it comes to customer profiles and demographics, it is likely that the typical 529 Savings Plan customer will carry many of the same attributes as our current GET customers. More than 50% of GET customers are female with household incomes greater than $100,000. Customers are typically highly educated with more than 80% of account owners having a bachelor's degree at minimum. The majority of customers are parents of young children with close to 60% of account owners ranging in age from 35 to 54. A growing segment of customers are grandparents and in the latest GET customer survey, 14% of customers describe themselves as grandparents, up 2% from the previous survey.

State-Level Demographics

In terms of market potential, it is important to consider the number and characteristics of children under the age of 18 living in Washington State. According to the U.S. Census Bureau,[2] as of 2014, there were approximately:

- 7,061,530 people living in Washington State.
    - 445,000 children under the age of five.
    - 1,158,000 children ages five to seventeen.

According to the Office of the Superintendent of Public Instruction[3] there are:

- 1,070,756 school age youth enrolled in public schools in the state of Washington.
    - Of these students, 482,024 (45%) receive free or reduced price meal benefits.

[2] Source: U.S. Census Bureau. (2015). http://www.census.gov/quickfacts.

[3] Source: Washington State Office of the Superintendent of Public Instruction. (2015). http://reportcard.ospi.k12.wa.us/summary.aspx?schoolId=1&reportLevel=State&year=2014-15&yrs=2014-15.

National College Savings Attitudes

It is equally important to consider the attitudes and behaviors of parents regarding college savings. According to a recent, large-scale national survey conducted by Sallie Mae[4]:

- Approximately 48% of parents with children under 18 years old were saving for college.
- On average, parents saving for college have saved $10,040.
  - Interestingly, single-parent families report saving more than the average: $11,868.
- Approximately 27% of parents saving for college use 529 plans.
- More than two out of five (43%) of parents not currently saving for college plan to begin saving in the near future.

The current 529 plan landscape should also be considered. According to the College Savings Plans Network,[5] as of June 30, 2015:

- Total investment by U.S. families in 529 plans reached a **record $253.2 billion**.
- Approximately 12.33 Million 529 plan accounts have been opened nationwide.
- The average 529 plan account has over $20,934.

529 Plans in Other States

In examining the 529 plan landscape, it is also important to consider the number of existing 529 College Savings Plans nationally. There are a total 92 529 College Savings Plans in 48 states and the District of Columbia, with varying models of plan management. Eight of those plans are managed directly by their state (a management option that the Committee has expressed significant interest in). The states managing their own plans are summarized below in Table 1.

Table 1 – Self-Managed State 529 College Savings Plans

State	Total Assets	# of Accounts	State Population[6]	**MorningStar Rating[7]**
Florida*	$419,859,089	45,828	19,893,297	Neutral
Louisiana	$629,364,974	52,514	4,649,676	Not Rated
North Carolina	$1,689,489,102	129,092	9,943,964	Neutral
Ohio†	$4,343,900,936	260,598	11,594,163	**Silver**
Pennsylvania*	$1,876,328,649	91,523	12,787,209	Neutral
Tennessee	$32,864,591	7,235	6,549,352	Not Rated
Utah	$8,356,777,744	277,960	2,942,902	**Gold**
Virginia*†	$3,077,830,427	197,115	8,326,289	**Silver**

**FL, OH, and VA each also offer an active prepaid tuition plan.*

†VA and OH also offer an advisor sold plan.

[4] Source: Sallie Mae. (2015). How America Saves for College 2015. http://news.salliemae.com/sites/salliemae.newshq.businesswire.com/files/doc_library/file/HowAmericaSaves2015_FINAL.pdf

[5] Source: College Savings Plans Network. (2015). 2015 Mid-Year 529 Report. http://www.collegesavings.org/wp-content/uploads/2015/09/0909_CSPN_MidYearCS-1-FINAL.jpg.

[6] Source: U.S. Census Bureau. (2015). http://www.census.gov/quickfacts.

[7] Source: Morningstar. (2015). http://news.morningstar.com/articlenet/article.aspx?id=718259.

Nearby west coast states (Alaska, California, Oregon, Idaho) also offer 529 plans. Details on these plans are summarized in Table 2 below. It should be noted that these plans are all managed by third parties.

Table 2 – Nearby West Coast State 529 College Savings Plans

State	Total Assets	# of Accounts	State Population	MorningStar Rating[7]
Alaska (2 plans)	$6,395,105,750	235,323	736,732	**Gold***, Neutral**
California	$6,425,318,114	265,941	38,802,500	**Silver**
Idaho	$334,001,759	26,517	1,634,464	Neutral
Oregon (2 plans)	$2,420,995,227	160,808	3,970,239	**Bronze**†, Neutral††

*T. Rowe Price College Savings Plan; **John Hancock Freedom 529 Plan
†MFS 529 Savings Plan; ††Oregon College Savings Plan

Case Study for Creating a New Savings Plan

TNStars 529 College Savings Plan Overview[8]

The TNStars College Savings 529 Program, launched on September 18, 2012 by the state of Tennessee. The program is a very applicable case study for this analysis as it is the most recently opened state-managed 529 College Savings Plan.

Tennessee and Washington have many commonalities. Tennessee's state population is 6.5 million residents, compared to Washington's 7 million residents. Additionally, like Washington, Tennessee residents do not pay a state income tax. Therefore, program leaders understood the need to develop special incentives and benefits to encourage residents to invest in its new 529 College Savings program. This is especially important given that Tennessee's BEST Prepaid Tuition program (similar to GET) recently closed permanently to new enrollments.

Image Source: www.treasury.state.tn.us

At June 30, 2015, TNStars held a net position totaling $32.8 million with 7,235 accounts.

Program Fee Structures

TNStars offers investment products with a competitive fee structure. The program's total annual asset-based fees are currently 0.35 percent (35 basis points) for all investment options except the FDIC-insured option for which there is no fee. For example, if the account balance is $100, the annual asset-based fee collected would be $0.35. The program does not charge enrollment or front loaded fees. To keep fees low, the program's operating expenses are subsidized through appropriations made by the State.

Incentives

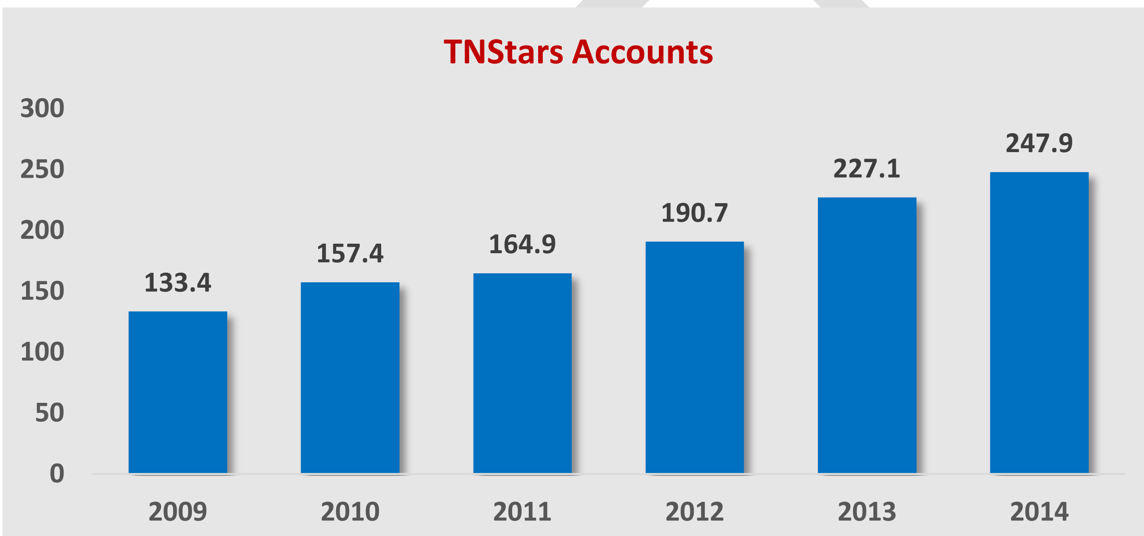
TNStars has offered multiple financial incentives to Tennessee residents for enrolling in the plan, rolling over funds from other 529 plans, setting up automatic deposits and for saving for babies in their first year. When the Tennessee Department of Treasury launched TNStars, they offered a $50 match for the first $50 invested in a new account and a $100 incentive for new accounts that were rolled over from other 529 plans. Both incentives were initially offered through December 31, 2012, but were extended through June 30, 2013 due to popular demand. While participation in the TNStars program is open to investors nationwide, the incentives are only offered to Tennessee residents.

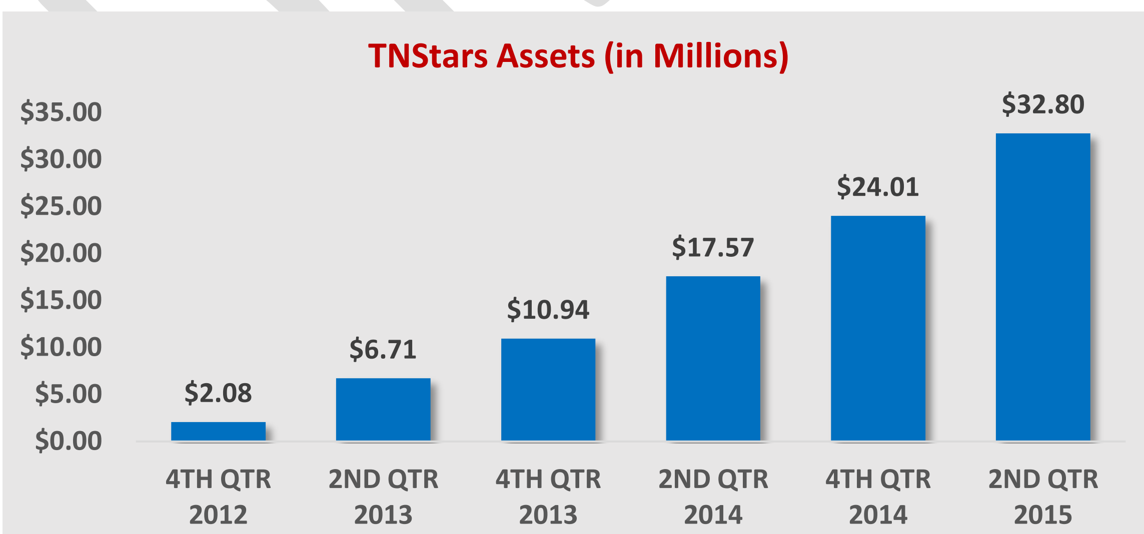
[8] Source (for whole section): Tennessee Treasury Department. (2015). http://www.treasury.state.tn.us/.

In September 2014, the State Treasury launched a new special initiative to help low and middle income families begin their college savings with TNStars. The Tennessee Investments Preparing Scholars (TIPS) program provides a 4-to-1 contribution match for income eligible families. The minimum deposit required is $25, and there is a maximum $500 match per student each year. Families may apply for the TIPS program for up to three years, meaning they could receive up to a $1,500 lifetime benefit per child. TIPS was designed to help encourage families of all means to start saving early for higher education expenses. To qualify, a family's household Adjusted Gross Income must be less than 250 percent of the federal poverty level. TIPS is available to the first 2,000 applicants who qualify. During the initial nine-month qualifying period, new TNStars accounts were opened for 163 Tennessee children from families with an average household income of $33,196.14 per year thanks to the TIPS program.

Enrollment and Investment Growth

The most current enrollment information from the TNStars program annual report is provided in the charts below. These charts give a sense of what a newly-opened, state-managed 529 College Savings Plan might expect in terms of new enrollments for the first few years of operation. Note that the 2015 data has not been released yet.





Discussion

In summary, there is likely a market for a 529 Savings Plan in the state of Washington; however, the plan's overall performance, fees and benefits to state residents will ultimately determine the plan's success. Since Washington State does not have state income tax, a tax deduction benefit for residents is not an option. Considering other benefits such as creditor protection, corporate tax breaks for contributions to employee accounts, exemptions from determining state financial aid, and matching funds for qualifying lower to moderate income households could provide residents with the incentives to invest their money with Washington's 529 plan.

APPENDIX C

Washington State Investment Board

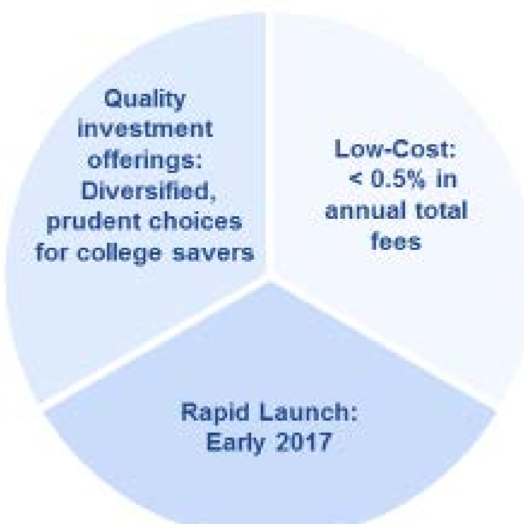
Evaluating Investment Solutions for the GET College Savings Plan

Theresa Whitmarsh, Executive Director, WSIB
April 20, 2016

Program Objectives

Goal

- Create a best-in-class, easily accessible College Savings Plan in fulfillment of Senate Bill 6601



WSIB

Page 2

Feasibility and Due Diligence

Legislation provides GET with three options for investment solution

- Select the WSIB as investment manager
- Partner with another existing state program
- Select outside entity experienced in 529 plans

Key questions for WSIB

- Will our strategic competitive advantages benefit GET 529 savings program?
- Access to best product offerings?
- Scale?
- Competitive pricing?
- Do WSIB's programs scale down to serve the needs of self-directed college savings plans, with required flexibility and low cost?

WSIB

Page 3

WSIB Due Diligence

Late 2015 – WSIB begins researching feasibility of direct-sold, state-run plans

Early 2016 – Deeper evaluation of institutional investment offerings

- Organized an internal team to develop a comprehensive plan
- Staff did extensive research on:
  - The direct-sold savings plan environment
  - Investment menus
  - Participant behavior
- Sought consultants to assist with:
  - Menu design
  - Manager search
- Developed detailed materials to implement manager search
- Identified additional operational processes necessary to accommodate new program
  - Investment accounting: cash flow notifications, pricing, unitization, and financial reporting
  - Investment compliance
  - Performance reporting
  - Fee development

WSIB

Page 4

WSIB Due Diligence

	Summary - College Savings Program Implementation Milestones	Lead	Start	Finish	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016	Sep 2016	Oct 2016	Nov 2016	Dec 2016
1	Draft project charter, milestones & timeline, status report, other project documentation	Angie	3/4/2016	3/25/2016										
2	Select menu design and age-based manager consultant(s)	Inv Div	3/9/2016	4/8/2016										
3	Draft age-based manager search document (with GET's input)	Inv Div	3/9/2016	4/22/2016										
4	WSIB and GET Executive Management meeting	Angie	4/1/2016	4/1/2016										
5	Evaluate fixed income and cash options	Inv Div	4/1/2016	7/31/2016										
6	GET Committee presentation	Angie	4/20/2016	4/20/2016										
7	Evaluate and select age-based manager	Inv Div	5/11/2016	7/31/2016										
8	Coordinate with WSAC to utilize funding; determine cost tracking	Finance Svcs	6/1/2016	6/30/2016										
9	Bid & select passive manager	Inv Div	6/1/2016	7/29/2016										
10	Board education session – menu design	Inv Div	6/16/2016	6/16/2016										
11	GET Committee education session – menu design	Inv Div	6/23/2016	6/23/2016										
12	Develop investment accounting processes related to cash flow notifications, pricing, unitization, and reporting. Open new accounts.	Inv Acct GET	7/1/2016	12/15/2016										
13	Investment Committee meeting - menu design recommendation	Inv Div	8/10/2016	8/10/2016										
14	GET Committee meeting - menu design & manager recommendation	Allyson Angie	9/7/2016	9/7/2016										
15	Public Markets Committee - menu design & manager recommendation	Inv Div	9/13/2016	9/13/2016										
16	Board meeting – consideration of menu and managers	Inv Div	9/15/2016	9/15/2016										
17	Negotiate & sign contract	Inv Div	9/16/2016	11/15/2016										
18	Complete offering document, fact sheets, financial literacy, staff training, record keeping procedures	GET Mgmt Dvsn Acct	9/16/2016	12/15/2016										
19	Public Markets Committee - consideration of investment policy	Inv Div	11/1/2016	11/1/2016										
20	GET Committee meeting	Allyson Angie	11/8/2016	11/8/2016										
21	Develop compliance policy	Compliance	11/15/2016	12/15/2016										
22	Board meeting – consideration of investment policy	Inv Div	11/17/2016	11/17/2016										
23	GET penalty and fee waiver period ends		12/15/2016	12/15/2016										
24	Planned program opening		1/1/2017	1/1/2017										

WSIB

Page 6

Findings and discovery

What we thought based on early discussions

- 529 savings plan marketplace might welcome a product similar to Washington's Deferred Compensation Plan (DCP)
- Our DCP model could be the basis for a new and innovative college savings plan
- WSIB could help create something new, customized and ground-breaking
- Groundwork would help prepare for a "sprint" work plan if WSIB was chosen as investment provider

What we realized based on due diligence

- WSIB's scale would not translate easily to a 529 savings plan platform
- Time requirements would conflict with customization efforts
- Existing investment tools used for DCP are not available for college savings plans
- GET can benefit from direct access to high-quality institutional mutual funds and ETFs, without WSIB as provider

WSIB

Page 8

Conclusions

WSIB does not provide the best competitive advantage for 529 plans
- WSIB scale does not add significant value
- Other institutional mutual funds are directly accessible to GET
- Marketplace may evolve toward demand, but not in time for this program

Established investment programs are available
- Turn-key platforms exist in marketplace that offer integrated investing and recordkeeping
- Proven user suitability for direct-sold college savings funds
- Lower cost than building a customized solution

Key finding: No added benefit (quality, cost, time) in having the WSIB develop an entirely new investment offering apart from those already readily available from outside providers.

WSIB

Page 7

Role of the WSIB

Legislation prompted WSIB to consider three possibilities
- WSIB as investment manager
- WSIB as investment advisor
- WSIB as consultant for general guidance

Optimal role – WSIB as consultant
- General program guidance and input (process and investments)
- Allows GET to run a fully independent, cost-effective program
- Allows GET access to WSIB expertise where value can be added

WSIB

Page 8


Role of the WSIB
Legislation prompted WSIB to consider three possibilities
WSIB as investment manager
WSIB as investment advisor
WSIB as consultant for general guidance
Optimal role – WSIB as consultant
General program guidance and input (process and investments)
Allows GET to run a fully independent, cost-effective program
Allows GET access to WSIB expertise where value can be added
WSIB
Page 8

APPENDIX D

HIRSCHLER FLEISCHER
ATTORNEYS AT LAW

MEMORANDUM

TO: Betty Lochner, GET Director

FROM: James W.C. Canup

DATE: August 5, 2015

RE: Cost of Attendance Metric

You have asked that I address the possibility of changing GET tuition payments from being based on tuition and fees to a cost of attendance metric.

I recognize that the newly revised Washington statute requires that GET provide to the legislative fiscal and higher education committee a "list of potential alternatives and impacts for changing the advanced college tuition payment distribution policy from tuition and fees to a cost of attendance metric".

What is cost of attendance?

The first item is to determine what is meant by "a cost of attendance metric". I'm assuming it is a reference to the "cost of attendance" formulation that all higher education institutions that qualify for federal financial aid are required to report to the federal government and others, and which is used in determining federal financial aid. The purpose of calculating a cost of attendance is to determine the amount of financial aid an individual may qualify for at a particular institution.

Cost of attendance is the amount need to cover one year's expenses at an institution of higher learning and typically includes:

- tuition and fees,
- books and supplies,
- room and board,
- transportation,
- loan fees, and
- certain personal costs

These items are typically calculated for a full time student pursuing undergraduate education. The cost of attendance for a student who is less than a half-time student is usually lower and the amount for a graduate student is usually higher.

Each institution is required to determine its own cost of attendance; so the amount can vary greatly across institutions based on the calculated costs specific to each institution.

Some of the items that fall under the rubric of personal costs, may include certain dependent care expenses (if applicable), rental or purchase of a personal computer, expenses associated with eligible study abroad programs, and certain costs related to a disability.

So the first thing to do is determine if the reference in the Washington statute is meant to be the same as the term "cost of attendance" that is used for federal financial aid purposes.

Assuming that is the case, we should confirm that the cost of attendance figure that will apply is the one that will be used by (a) Washington state public institutions for (b) undergraduate students who (c) are full-time students.

If that is not the case, we should determine that cost of attendance means for purposes of a GET distribution.

Cost of attendance versus qualified higher education expenses

Cost of attendance (assuming we have the correct definition) is not the same as "qualified higher education expenses" as defined by Section 529 of the Internal Revenue Code of 1986, as amended (the Code).

Section 529(e)(3)(A)(i) of the Code defines, in part, qualified higher education expenses to mean "tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary at an eligible educational institution".

This definition is not exactly on point with the term cost of attendance since the items enumerated in Section 529 must be **required** for enrollment or attendance (emphasis added). That is not necessarily the case for calculating cost of attendance figures. In addition, it is not clear whether we should read anything into the addition of the word "equipment" under the Code, which is not part of the list of items included in cost of attendance.

Room and board is a qualified higher education expense under Section 529 of the Code but only if the beneficiary is an eligible student who is at least a half-time student. The cost of attendance figure does permit some room and board costs for a student who is less than a half-time student but such payments are not permitted under Section 529. Under section 529, the allowable costs for room and board are tied to the higher of (I) the allowance for cost of attendance, or (II) if greater, the actual invoice for students residing in housing owned or operated by the eligible educational institution.

It is clear that transportation and loan fees are not included in qualified higher education expenses for purposes of Section 529 but are specifically included in the calculation of cost of attendance.

Computers are an additional item that must be addressed. While they are included in cost of attendance figures, they do not qualify for purposes of Section 529 unless they are required as a condition of enrollment or attendance. Passage of H.R. 529 would change this anomaly.

Disability expenses are another area of confusion. Section 529(e)(3)(A)(ii) of the Code does include "expenses for special needs services in the case of a special needs beneficiary which are incurred in connection with such enrollment or attendance" as qualified higher education expenses. However, no guidance has been provided on what "special needs services" are or who is covered under the term "special needs beneficiary". So it is not possible to tell if these terms are meant to be synonymous with cost related to a disability used in calculating cost of attendance. In addition, the enactment of ABLE under Section 529A of the Code may have an impact on these definitions. That remains to be seen.

Measures used by other 529 Plans

It is interesting to review what payout metrics typical 529 prepaid plans use. Not surprisingly the vast majority of prepaid plans tie their payouts to tuition and fees. Some prepaid plans pay out the amount of tuition and fees actually charged by the institution covered under the plan, typically only in-state eligible educational institutions (as defined under Section 529). Others payout an amount based on the weighted average public tuition and mandatory fees charged by the type of institution (four-year or two-year/community college). Others tie their payout to the mean weighted credit hour value of the public institution (either four-year or two-year/community college). Some will pay out the actual tuition and mandatory fees up to the weighted average for tuition and mandatory fees at the state's public institutions (four-year or two-year/community college); while others will pay out based on the lower amount of these two measures.

Each of the programs also have different payouts if the beneficiary attends a private school or an out-of-state school (public or private). Some programs provide a payout equal to the weighted average of the public institutions in that state, some provide a set return on investment, and some programs differentiate between in-state private schools and out-of-state schools (public or private) when calculating their payout.

Regardless, all of these programs calculate their payouts based on some metric based on tuition and mandatory fees (not cost of attendance). Among the open prepaid plans, only Pennsylvania and Washington have payouts attached to increase credit values, which has given them the moniker guaranteed savings plan (a form of hybrid prepaid plan).

Conclusions

It will be important to confirm what is meant by the term "cost of attendance metric". Assuming it refers to the calculation made for federal financial aid purposes, it is then important to recognize that under Section 529, the term cost of attendance covers different items than qualified higher education expenses.

Only qualified higher education expenses can be paid on a tax-free basis from a 529 Plan, such as GET. So calculating payouts based on cost of attendance may result in taxable distributions to account owners. Clearly, that would not be an intended consequence of moving to a calculation based on cost of attendance. Care will need to be taken to ensure that does not occur. In addition, cost of attendance is different for each institution so the GET payments would need to be tailored to each separate institution or some sort of mechanism would be needed to standardize payments.

APPENDIX E

HIRSCHLER FLEISCHER
ATTORNEYS AT LAW

M E M O R A N D U M

TO: Betty Lochner, GET Director

FROM: James W. C. Canup

DATE: February 1, 2016

RE: Alternative Structures for Prepaid 529 Programs

This memorandum is a follow up to my memorandum to you (copy attached) dated August 5, 2015, wherein I addressed the possibility of changing GET tuition payments from being based on tuition and fees to a cost of attendance metric in response to a feasibility study required under Washington State legislation. The issues associated with GET payments based on cost of attendance were identified in that memorandum. This memorandum addresses other possible metrics that GET payments could be tied to as part of the GET Committee's response to the legislatively required feasibility study.

In the memorandum of August 5, 2015, I identified other measures used by 529 prepaid plans:

> **Measures used by other 529 Plans**
>
> It is interesting to review what payout metrics typical 529 prepaid plans use. Not surprisingly the vast majority of prepaid plans tie their payouts to tuition and fees.
>
> Some prepaid plans pay out the amount of tuition and fees actually charged by the institution covered under the plan, typically only in-state eligible educational institutions (as defined under Section 529). Others payout an amount based on the weighted average public tuition and mandatory fees charged by the type of institution (four-year or two-year/community college). Others tie their payout to the mean weighted credit hour value of the public institution (either four-year or two-year/community college). Some will pay out the actual tuition and mandatory fees up to the weighted average for tuition and mandatory fees at the state's public institutions (four-year or two-year/community college); while others will pay out based on the lower amount of these two measures.

> Each of the programs also have different payouts if the beneficiary attends a private school or an out-of-state school (public or private). Some programs provide a payout equal to the weighted average of the public institutions in that state, some provide a set return on investment, and some programs differentiate between in-state private schools and out-of-state schools (public or private) when calculating their payout.
>
> Regardless, all of these programs calculate their payouts based on some metric based on tuition and mandatory fees. Among the open prepaid plans, only Pennsylvania and Washington have payouts attached to increase credit values, which has given them the moniker guaranteed savings plan (a form of hybrid prepaid plan).

Of course, a prepaid program can provide that it will pay the actual tuition and mandatory fees charged by the in-state public eligible educational institution. This payout can be provided to both beneficiaries who enroll in an in-state public eligible educational institution and to those who either attend private eligible educational institutions or out-of-state public eligible educational institution. This memorandum addresses alternative models in more detail.

Weighted-Average Tuition Models

While many prepaid programs pay out the actual tuition and mandatory fees charged by the public eligible educational institution in that state, other prepaid plans use a weighted-average tuition model (for the type of institution selected, i.e., two-year or four-year institutions) when calculating the payout to an account owner or beneficiary. This weighted-average tuition model can occur under multiple scenarios, including, under certain circumstances, even those plans that pay the actual tuition and fees charged by the public eligible educational institution in that state.

For example, a prepaid plan that would otherwise pay out the actual tuition and mandatory fees if the beneficiary attends an in-state public institution may pay out the weighted-average tuition and mandatory fees of all public institutions in that state when a beneficiary chooses to attend either a private or an out-of-state public eligible educational institution. Sometimes these payments to non-in-state public eligible educational institutions are capped at the lower of (1) the actual tuition and mandatory fees charged by the private or out-of-state public eligible educational institution, or (2) the weighted-average tuition and mandatory fees of all public educational institution institutions in that state.

Other prepaid plans only pay-out the weighted-average tuition and mandatory fees of all public eligible educational institutions in that state. This can be a significant driver in the pricing of the prepaid plan for those states where the various in-state public eligible educational institutions have significant differences in their pricing structure (putting aside the differences between two-year and four-year institutions). By only paying out the weighted-average tuition and mandatory fees of all public eligible educational institutions in that state, the prepaid plan is not on the hook for paying tuition and mandatory fees at the highest cost in-state public eligible educational institution. Of course, then the account owner or beneficiary is responsible for funding any differential to the extent the beneficiary attends an institution whose tuition and mandatory fees are in excess of the weighted-average tuition and mandatory fees of all public eligible educational institutions in that state.

Other Considerations for Tuition Based Models

One of the current issues faced by prepaid plans that use a tuition based model has centered on differential tuition charged within a public in-state eligible educational institution. Many prepaid plans are now specifying that their program only covers tuition and mandatory fees charged for all students attending that public in-state eligible educational institution. The prepaid plan would not cover, for example, differential tuition and fees charged by some schools within an institution or for a specific course of study. This has become a more significant issues as public eligible educational institutions seek to provide differential pricing based on the course of study or school within an institution, for example differential pricing for attending an undergraduate engineering or architecture school rather than the traditional liberal arts college within a specific institution.

Most prepaid plans that use a tuition based model also only cover a maximum number of credit hours per semesters; any credits hours in excess of that maximum number are not covered by the plan. In addition, if a student enrolls for a limited number of credit hours under the maximum amount allowed for that semester under the prepaid plan, there is no reimbursement or credit given for the hours foregone.

Some prepaid programs only pay tuition (whether actual or weighted average) and do not pay any fees, mandatory or otherwise. Other prepaid programs limit the mandatory fees that are covered by the plan. This has been in response to the trend by some public eligible educational institutions to either add to the types of fees they charge and/or to increase fees by more significant percentages than their increases in tuition (sometimes in response to public pressures to limit tuition increases). Therefore, some prepaid programs either do not cover fees at all or limit the nature and type of fees covered under the plan.

Credit Hour Model

A variation on the weighted-average tuition model is a model based on the mean weighted credit hour value at public institutions (either four-year or two-year/community college) in that state. This model ties pricing to credit hours purchased rather than to tuition, whether on a semester or other basis. The prepaid program can then price their offerings on a per credit hour basis rather than on the number of semesters or years selected by the participant. This can also allow for a lower entry point for account holders in order to participate in the state's prepaid plan.

Pricing of course is dependent in this model on whether the actual cost of the credit hours purchased is covered at any in-state public eligible educational institution or whether only a weighted-average credit cost at all in-state public institutions is covered by the program. The same issues as discussed above in the section on weighted-average tuition models applies. The main difference is in the ability to price the program (1) based on credit hours rather than semester or academic years, and (2) without covering any fees, mandatory or otherwise.

Variation on the Weighted-Average Tuition or Credit Hour Models

An alternative to the two models discussed above, is for a prepaid program to match its payout to the lowest tuition or lowest credit hour amount charged by any in-state public eligible educational institution. In essence, the program would be providing a hedge for participants based on the lowest pricing for either semester or credit hours at the time of matriculation of the beneficiary. The account owner or beneficiary would then be responsible for funding the difference between the actual cost of tuition incurred at that institution and the lowest price charged by any in-state public eligible educational institution. However, whether that pricing structure would be attractive to investors is an open question. No prepaid program currently offers this model as its main payout structure, but a few programs do provide a return based on the lowest amount if the beneficiary does not attend an in-state public eligible educational institution.

Regardless of what model is used another consideration is whether to have a differential payment based on whether the beneficiary attends (i) an in-state public, (ii) an out-of-state public, or (iii) in-state private eligible educational institutions. If a differential does exist under a program, it typically provides for lower payouts to eligible educational institutions that are not in-state public institutions. Some programs also differentiate on the payout if the beneficiary attends an in-state private versus an out-of-state public or private institution. Other programs provide the same payout regardless of where the beneficiary is enrolled. In those programs, the account owner knows that the return is the same and is based on an in-state tuition model but that he or she can use those funds at any eligible educational institution.

Guaranteed Return Model

One model used by the Pennsylvania program is a model based on average tuition increases in the school category selected (participants choose from a number of school categories, such as community college, public institutions in Pennsylvania, private institutions, Ivy League universities). Participants select both a tuition level and the number of credit hours for that level to determine the amount they must pay for that year's contract. The participant is counting that the increase in value over time, which is based on tuition increases over that time, will be greater than the amount that the participant would earn had their moneys been invested in the market or in a 529 savings plans. In essence the participant is counting on the fund's earnings to keep up or do better than tuition increases over the time moneys are invested in the program. The Pennsylvania program is not backed by the full faith and credit of the state nor is the program collateralized or guaranteed by another entity or insurance.

If a participant makes a non-qualified withdrawal (i.e., a withdrawal that is not used for qualified higher education expenses) then the return is equal to the greater of (1) the "net earnings rate" of the programs funds or (2) the participant's contributions (less fees). This return is based on the actual returns (or, in some cases, a percentage of the program's actual returns) and is not an unusual return for non-qualified distributions.

Massachusetts has a similar plan that covers actual tuition increases, however, participants purchase special tuition certificates that are backed by general obligation bonds issued by the Commonwealth of Massachusetts, which are backed by the full faith and credit of the Commonwealth of Massachusetts. When the tuition certificates mature, the participants can then use them to pay tuition at the participating eligible educational institutions.

A program could consider offering a prepaid plan that offers a return based on the plans actual investment returns. However, this would in essence be a savings program where the burden of investment decisions would be placed on the program rather than the individual. The participant would then be counting on the ability of the program and its investment advisors to generate a more attractive return than the participant could do on its own.

Alternative to this guaranteed return model based on actual tuition increases is to provide a return based on average tuition increases in the past ten years at the state's public eligible educational institutions rather than a promise to keep up with actual tuition increases for the type of institution selected. This model might work to even out swings in tuition increases (and possibly decreases) over a rolling ten-year period, especially if based on average tuition increases across all in-state public institutions (or a subset of in-state public institutions). Currently, no program is based on this possible model. It might be difficult to explain this model to potential participants so that they understand what they are purchasing. However, it could be an attractive way to handle unexpected spikes in tuition and mandatory fees that occur long after pricing of the prepaid took place.

Risk Transfer Model

A final model to consider is a model that transfers the risk on payouts from the prepaid program from the program to the state higher education system. This model is the model used by the Texas Tuition Promise Fund. Under that program the future cost of tuition is shifted to the state's public universities and colleges under state law. Participants can purchase tuition units at current tuition levels and when their beneficiaries are ready to enroll at a Texas public university or college, those institutions must accept those tuition units as payment for tuition. Market fluctuations in tuition do not affect the value of the tuition units purchased. Participants must select and pay for the amount and type of tuition units (Type I, Type II, and Type III units) depending on the type of in-state institution the participant selects. While the program is not guaranteed by the full faith and credit of the state, Texas law requires all Texas public eligible educational institutions to accept less than full tuition from the Texas program if the program's investment returns fail to keep pace with tuition increases.

This model would require the Washington legislature to enact a law similar to the Texas legislation that requires the Washington state public higher education institutions to accept the value of tuition units at matriculation in full payment of tuition obligations.

Considerations When Evaluating These Alternative Models

Other than the risk transfer model found in the Texas program, the other models presented would require little or no change to the Washington statutes that authorize the creation of GET. In addition, putting aside a model that pays out actual tuition and mandatory fees (as previously existed when the GET program was open), a prepaid program that is based on either (1) weighted-average tuition and mandatory fees (for the type of institution selected) either on a semester or credit hour basis; or (2) average tuition increases in the past ten years (or other measuring period) at the state's public eligible educational institutions (for the type of institution selected) may be models worth exploring. In addition, decisions would need to be made to determine if the program would (a) cover only tuition or tuition and mandatory fees; and (b) pay out the same benefits to beneficiaries who enroll in private or out-of-state public institutions rather than in-state public eligible educational institutions. Care must also be taken to define exactly what tuition and mandatory fees are covered by the state's prepaid program.

Conclusions

There are many alternative structures to consider if the GET Committee and the legislature decide to reopen or redefine GET as a prepaid tuition program. Each of these models described above would need to be reviewed by the OSA to determine if a pricing model could be determined and sustained for the long-term. These alternative models described above are presented as a response to the analysis in the prior August 2015 memorandum that addressed using a cost of attendance model for reopening or redefining GET.

If you have any questions, concerning this memorandum or the prior memorandum from August 2015, please do not hesitate to contact me. Thank you.

AUTHOR CONTACT INFORMATION

Betty Lochner
Program Director
Guaranteed Education Tuition
360.753.7871
bettyl@wsac.wa.gov

Lucas Minor
Associate Director for Marketing & Communications
Guaranteed Education Tuition
360.753.7628
lucasm@wsac.wa.gov

ACKNOWLEDGEMENTS

The GET Committee would like to thank the following organizations and individuals for their important contributions to this report:

- Office of the State Actuary
- Washington State Investment Board
- Richard D. Brady, AAG, Office of the Attorney General
- Jamie W.C. Canup, National 529 Expert and Special Counsel to the GET Committee, Hirschler Fleischer

WASHINGTON STUDENT ACHIEVEMENT COUNCIL
EDUCATION · OPPORTUNITY · RESULTS

UPDATE: WASHINGTON 529 COLLEGE SAVINGS PROGRAM

Background

In 2016, the Legislature established the Washington College Savings Program (WCSP) – a traditional 529 college savings plan. The enabling legislation (Senate Bill 6601) directed the GET Committee to develop and administer the WCSP. The Committee plans to offer the WCSP alongside the Guaranteed Education Tuition (GET) program, and is targeting a launch date of summer 2017.

Key RFP Development Recommendations

- Seek vendor services for a direct-sold college savings plan. Explore advisor-sold options at a later date.
- Seek vendor services for investment management, account administration, and customer service; WSAC to retain administrative oversight and WCSP marketing.
- Require vendors to submit at least one comprehensive proposal that includes all requested services; allow vendors to submit alternative proposals that still meet the RFP objectives.
- Seek a 10-year contract term with the option of two one-year extensions.

Next Steps

Issue RFP; begin accepting proposals.

Tentative schedule of activities

Issue RFP	Sep 2016
Q&A period	Sep-Oct 2016
Proposals due	Nov 2016
Evaluate proposals	Nov-Dec 2016
Conduct oral interviews	Jan 2017
Announce "Apparent Successful Bidder"	Feb 2017
Finalize/sign contract	Feb/Mar 2017
Begin implementation	Mar/Apr 2017
WCSP opens	Summer 2017

September 1, 2016

DETERMINING THE SCOPE OF A COMPETITIVE RFP FOR INVESTMENT AND PROGRAM MANAGEMENT SERVICES.

Summary of Work to-Date

On May 19, 2016, the Committee and the Washington Student Achievement Council (WSAC) issued a 30-day Request for Information (RFI) to gauge interest among the 529 college savings plan vendor community and solicit feedback on possible investment and plan management approaches. The RFI resulted in four detailed responses in addition to several other letters of interest and informal inquiries. An advisory team that inlcuded WSAC staff and a consultant experienced in state procurements for 529 plan services reviewed the RFI responses, performed additional research, and will use this information to develop and issue a formal Request for Proposals (RFP). Throughout the process, the advisory team consulted several key agency partners, including the State Investment Board, Department of Enterprise Services, the Office of Financial Management, and the Office of the Chief Information Officer. At their September 7, 2016 meeting, the Committee will consider approving WSAC to move forward with preparing an RFP for distribution.

Guiding Questions and Findings for RFP Development

Should the Committee pursue a savings plan that includes direct-sold options, advisor-sold options, or both types?

There are two types of 529 savings plans: direct-sold and advisor-sold. The advisory team weighed the level of interest that vendors expressed in RFI responses, assessed fee structures for advisor-sold plans in other states compared to fee limitations outlined in Senate Bill 6601, and considered the complexity of the bidding process. The team concluded that an RFP should focus on seeking vendor services for a direct-sold plan only, and explore advisor-sold options at a later date.

Which plan administration functions will the Committee include in an RFP?

It was critical to determine which services could be operated "in-house," and which services would require vendor support and needed to be included in an RFP. The advisory team reviewed 529 savings plans in other states, particularly those also offering prepaid tuition plans, and evaluated current in-house capabilities, while considering associated costs and budgetary limitations. The team concluded that an RFP should seek vendor services for investment management, account administration and customer service, while retaining required administrative oversight and WCSP marketing.

What key elements should bidder proposals include?

Finally, to narrow the focus for an RFP and provide additional guidance to interested bidders, the advisory team established other key criteria, including:

- ✓ Bidders may bid for a contract term up to 10 years in length, with the option of up to two one-year extensions at the state's discretion;
- ✓ Bidders must submit at least one comprehensive proposal that includes all requested services as outlined in an RFP; and
- ✓ Bidders may submit alternative proposals that meet RFP objectives and emphasize a seamless customer experience between GET and WCSP (e.g. co-branded advertising, and integrated website and online account management). Any alternative proposals will be scored separately, after scoring primary proposals.

Prepared by the Washington Student Achievement Council on behalf of the Committee on Advanced Tuition Payment and College Savings (GET Committee)