

# Guaranteed Education Tuition (GET) Committee Meeting

## Wednesday, February 22, 2017

John A. Cherberg Building, Capitol Campus  
Senate Hearing Room 3  
Olympia, WA 98504  
2:00 p.m. – 4:00 p.m.

### AGENDA

Call to Order & Welcome

- Approval of the November 8, 2016 and January 19, 2017 Minutes ACTION TAB 1
- Chair's Report & New Member Introductions INFORMATION TAB 2  
*Michael Meotti, GET Committee Chair/WSAC Director*
- Director's Report INFORMATION  
*Betty Lochner, GET Director*
  - *Legislative Update*
  - *Savings Plan Development Update*
  - *GET Refunds and Distributions Update*
- GET Investment Update INFORMATION TAB 3  
*Chris Phillips, Washington State Investment Board*
- GET Reopening Discussion – Program Policies & Pricing INFORMATION  
*Betty Lochner, GET Director*  
*Matt Smith, State Actuary, Office of the State Actuary*
- Public Comment
- Adjournment

**Next Meeting:**  
**Wednesday, April 26, 2017**  
**J.A. Cherberg Building, Capitol Campus**  
**Senate Hearing Room 3**  
**Olympia, WA 98504**  
**2:00 p.m. – 4:00 p.m.**

# GET Committee Meeting

## February 22, 2017



# Welcome & Approval of Minutes

## Review Meeting Minutes

- November 8, 2016
- January 19, 2017
  - Special Meeting



# Chair's Report

## Today's Agenda Items

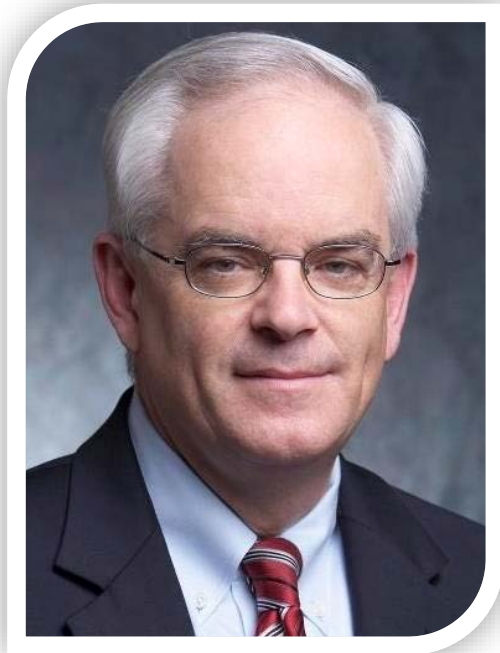
- **New Member Introductions**
- **Director's Report**
  - **Betty Lochner**, GET Director
- **GET Investment Update**
  - **Chris Phillips**, Washington State Investment Board
- **GET Reopening Discussion – Program Policies & Pricing**
  - **Betty Lochner**, GET Director
  - **Matt Smith**, Washington State Actuary



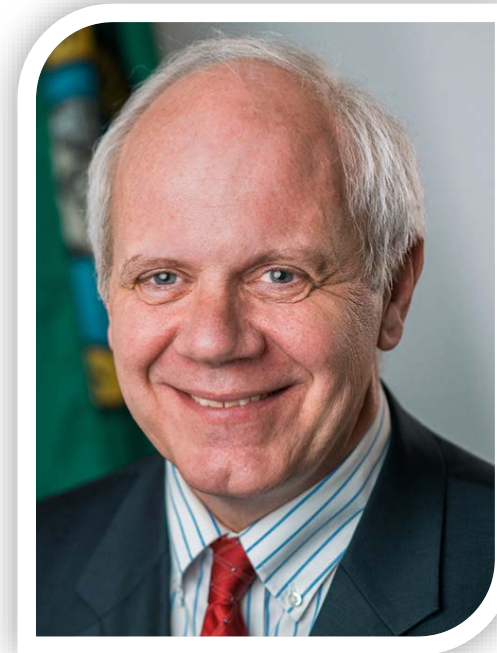
# Chair's Report

## Meet the New Committee Members

**GET Committee Chair Michael Meotti**  
**WSAC Executive Director**



**Treasurer Duane Davidson**  
**Washington State Treasurer**



# Director's Report

## Betty Lochner GET Director

- **Updates**

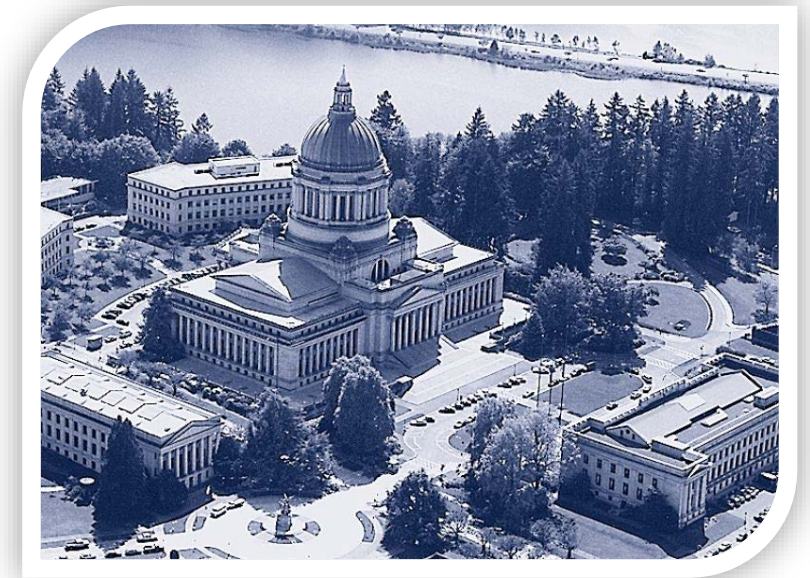
- 2017 Legislative Session
- Savings Plan Development
- GET Non-Penalty Refunds
- GET Distributions



# Director's Report

## Legislative Update

- **One bills with potential implications for GET:**
  - **HB 1425** - Creating the Washington next generation educational savings account pilot program
    - Proposes a pilot program where the state, communities and schools would work together to establish children's savings account to help families build assets and plan ahead for college expenses.
    - WSAC would manage this program, potentially using the savings plan or GET for account administration.



# Director's Report

## Savings Plan Development Update

- **WSAC issuing a revised RFP:**

- Streamlined based on industry feedback;
- Includes investment and program management services (except for marketing);
- Results will inform an analysis of the best approach for establishing a savings plan.

- **Concurrently, staff are:**

- Analyzing costs, time, resources, and other considerations for a partial in-house approach; and
- Identifying existing state plans that could be viable partners.





# Director's Report

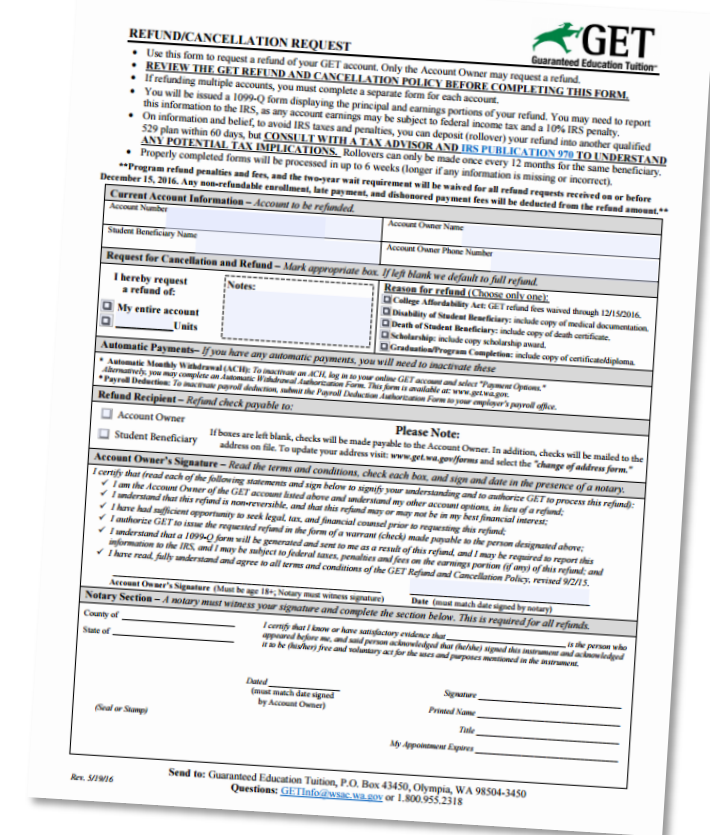
## Tentative Timeline for RFP

Activity	Date
<b>Issue Request for Proposals (RFP)</b>	February 2017
<b>Question and answer period</b>	February – March 2017
<b>Proposals due</b>	April 2017
<b>Evaluate proposals</b>	April – May 2017
<b>Conduct oral interviews with finalists, if required</b>	June 2017
<b>Announce “Apparent Successful Bidder”</b>	June 2017
<b>Negotiate contract</b>	June – July 2017
<b>Contract effective date/begin implementation</b>	July 2017

# Director's Report

## Non-Penalty Refund Update (September 2, 2015 – January 31, 2017)

- **Number of requests received and processed:**
  - Non-penalty refunds: **19,718**
  - Outgoing rollovers: **935**
  
- **Estimated dollar value of processed requests:**
  - Non-penalty refunds: **\$377 Million**
  - Outgoing rollovers: **\$23 Million**
  
- **Account statistics:**
  - Proportion of all accounts active on July 1, 2015 that have been refunded or rolled over: **16%**
  - Remaining total active accounts: **102,184**



**REFUND/CANCELLATION REQUEST**

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. \$20 plus 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 Unavailability 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 of scholarship award.

Graduation/Program Completion: include copy of certificate/diploma.

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

Automatic Monthly Withdrawal (ACH): To deactivate an ACH, log in to your online GET account and select "Payment Options."

Payroll Deduction: To deactivate 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](http://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 I read each of the following statements and signs below to signify my 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; 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 understood 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 \_\_\_\_\_ 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.

State of \_\_\_\_\_

Dated \_\_\_\_\_ Signature \_\_\_\_\_  
(must match date signed by Account Owner)

(Seal or Stamp) Printed Name \_\_\_\_\_  
Title \_\_\_\_\_  
My Appointment Expires \_\_\_\_\_

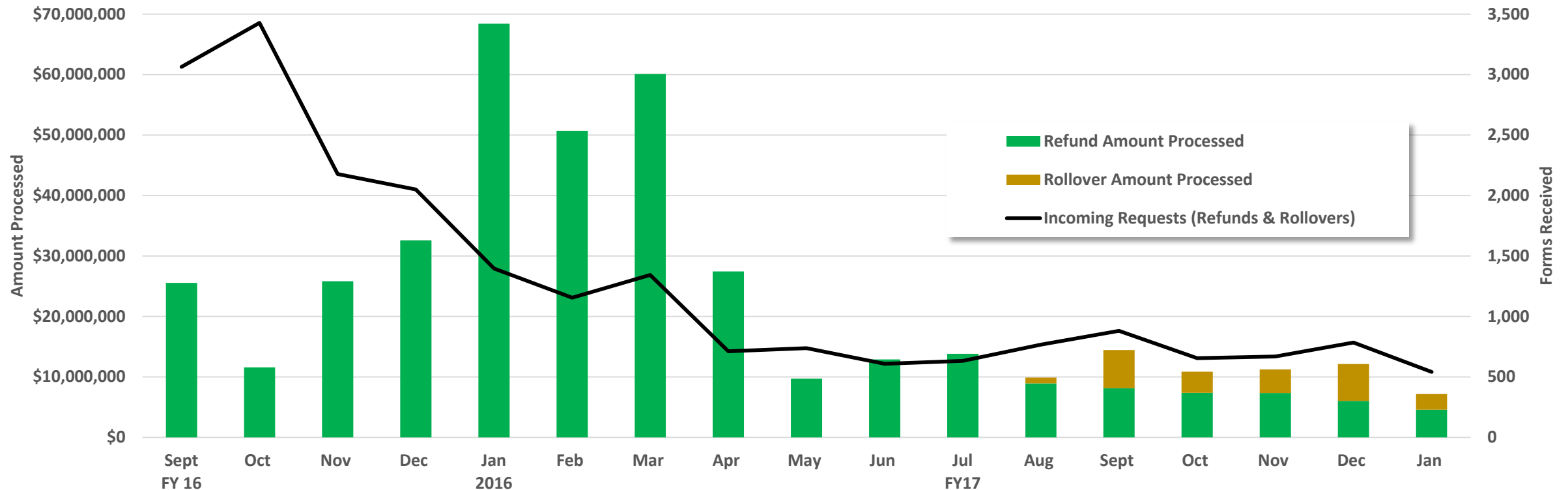
Rev. 5/19/16 Send to: Guaranteed Education Tuition, P.O. Box 43450, Olympia, WA 98504-3450  
Questions: [GETInfo@wsac.wa.gov](mailto:GETInfo@wsac.wa.gov) or 1.800.955.2318

# Director's Report

## Non-Penalty Refund Update

*(September 2, 2015 – January 31, 2017)*

Number of Refunds Requested and Refund Amounts Processed By Month



# Director's Report

## Distributions for Current College Students

*(for payment of higher education expenses – as of January 31, 2017)*

- **So far for 2016-17 academic year:**
  - Total dollars distributed: **\$99 Million**
  - Total students using units: **13,348**
- **Since program inception:**
  - Total dollars distributed: **\$960 Million**
  - Total students using units: **47,289**
  - Proportion of all accounts opened since inception that have requested distributions: **30%**



# GET Investment Update

**Chris Phillips, Director**  
**Institutional Relations & Public Affairs**  
**Washington State Investment Board**

- **Review the fourth quarter GET Investment Report**

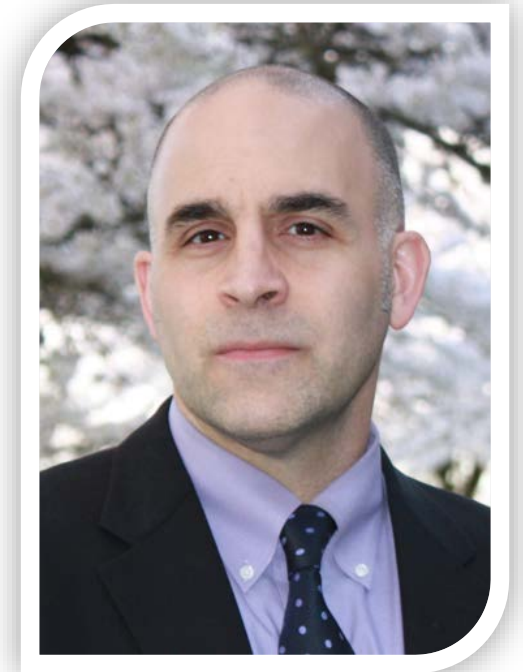


# GET Reopening – Policies & Pricing

**Betty Lochner**  
**GET Director**

**Matt Smith, State Actuary**  
**Office of the State Actuary**

- **Review considerations for:**
  - GET Program Policies
  - Upcoming 2017-18 Unit Pricing Analysis



# GET Reopening – Policies & Pricing

## Overarching Considerations for Program Policy Discussions

- **What is the optimal balance between customer flexibility, customer protection, and the GET fund's financial health?**
- **What are the potential impacts of any proposed program modifications?**
  - Fiscal/actuarial
  - Customer behavior
  - Operational/IT
- **Who will be impacted by possible program modifications (and how will they be impacted)?**
  - New customers
  - Current customers/specific cohort(s) of current customers

# GET Reopening – Policies & Pricing

## Program Policies for Committee Review

Policy Areas	Specific Policies for Review	Current Policies
<b>Custom Monthly Plans</b>	Contract Length	One to 18 years
	Financing Component	7.5 percent/annual
<b>Unit Maximums</b>	Lifetime Unit Purchase Maximum	500 units per student
	Annual Unit Use Maximum	125 units/year + rollover
<b>Minimum Unit Holding Period</b>	How Long a Unit Must be Held Before Refund or Distribution	Two year minimum holding period
<b>GET Unit Pricing</b>	Pricing Components/Factors	Expected tuition rates, investment returns, reserve, and administrative expenses



# GET Reopening – Policies & Pricing

## Custom Monthly Plans

- **Reason for Discussion**

- Custom Monthly Plan features have been the same since 2001 and have not been re-evaluated in recent years.
- Reviewing these features will help ensure Custom Monthly Plans are achieving the objective of providing customers a convenient way to pay over time.

# GET Reopening – Policies & Pricing

## Custom Monthly Plans

### • Background

- There are no statutory specifications for Custom Monthly Plans.
- The current 7.5% financing rate was set in 1998 and has remained unchanged.
  - Other prepaid plan financing rates (for comparison): IL 8%; MD 7.0%; MI 7.01%; NV 6.25%; TX 8%; VA 6.5%.
  - In total, Custom Monthly Plan customers pay more (for the convenience of paying over time) than they would if they had purchased the same number of Lump Sum units up front.
- In 2001, the Committee increased the maximum contract length from 10 to 18 years.
  - Customers may shorten their term to reduce total finance charges.
- Nearly 1/3 of all GET accounts opened have been Custom Monthly Plans.

### • Considerations

- Are Custom Monthly Plans still an optimal savings method for customers wanting to pay over time, and are any modifications necessary?

# GET Reopening – Policies & Pricing

## Unit Maximums

- **Reason for Discussion**

- Some families find that the current unit maximum per student (500 units) is not enough to cover their total college expenses.

# GET Reopening – Policies & Pricing

## Unit Maximums

### • Background

- GET was designed to cover undergraduate WA tuition & fees, but can be used at private and non-WA schools, and for other expenses (~1/3 of GET students attend private or non-WA schools).
- Statute allows the GET Committee to limit the number of units purchased (cannot be less than what is needed for 4 years of WA public tuition and fees).
- Since 1998, the lifetime unit maximum has been 500 units (9% of accounts reach the max).
- In 2002, the Committee increased the total units a student can use per year from 100 to 125.

### • Considerations

- To what degree would increasing the unit maximum impact future program assets and liabilities?
- Would implementing a 529 savings plan sufficiently address concerns of customers who feel that 500 units is not enough?

# GET Reopening – Policies & Pricing

## Minimum Unit Holding Period

- **Reason for Discussion**

- Some customers use their units before they “break even” (the point where the payout value matches or exceeds their original unit purchase price).

# GET Reopening – Policies & Pricing

## Minimum Unit Holding Period

- **Background**

- Statutory language requires a two-year minimum holding period.
- Program materials state that customers should hold units until the payout value exceeds the purchase price (~6-7 years in 2014-15 enrollment materials).
- On average, customers hold their units for 7.2 years before starting to use them.

- **Considerations**

- What is the appropriate balance between setting limitations and ensuring sufficient disclosure/customer awareness?

# GET Reopening – Policies & Pricing

## Unit Price for 2017-18 Enrollment Year

- **Reason for Discussion**

- It has been more than two years since the Committee has set a new unit price. This overview will provide a refresher for members.
- Some unit pricing components and inputs have changed since the last unit pricing exercise and/or could be modified.
- The unit price for the 2017-18 enrollment year may be lower than unit prices from recent enrollment years.

# GET Reopening/Program Policies

## Unit Price for 2017-18 Enrollment Year

- **Background**

- Statute directs the GET Committee to annually review the status of the GET fund and external factors that may impact the program, and adjust the unit purchase price as necessary.
- The Committee typically sets the unit price each fall prior to opening for enrollment.
  - Note: the statutory reopening date for GET is July 1, 2017.
- In 2011, the Committee adopted a revised four-component pricing model (overview on next slide).



# GET Reopening/Program Policies

## Unit Price for 2017-18 Enrollment Year

- **Primary Unit Price Components**

<b>Expected Cost</b>	Covers the expected cost of future tuition and certain administrative expenses.
<b>Expenses</b>	Covers the GET program's annual operating expenses.
<b>Reserve</b>	Covers unexpected future costs such as above-expected tuition growth or below-expected investment returns. <ul style="list-style-type: none"><li>• Current guidelines call for a 15 percent reserve.</li></ul>

- **Optional Unit Price Components**

<b>Amortization</b>	An optional component the Committee can implement to cover costs incurred that were unexpected due to significant program or policy changes.
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# GET Reopening – Policies & Pricing

## Unit Price for 2017-18 Enrollment Year

- Tentative Timeline and Inputs

February	March	April	May	June	July	August	September
Committee reviews pricing model/ inputs	Actuary/staff conduct preliminary pricing analysis	Committee reviews/discusses preliminary analysis	Committee considers/adopts any new program policies and/or pricing guidelines		Actuary/staff conduct final pricing analysis based on known inputs		Committee reviews final pricing analysis; adopts 2017-18 unit price

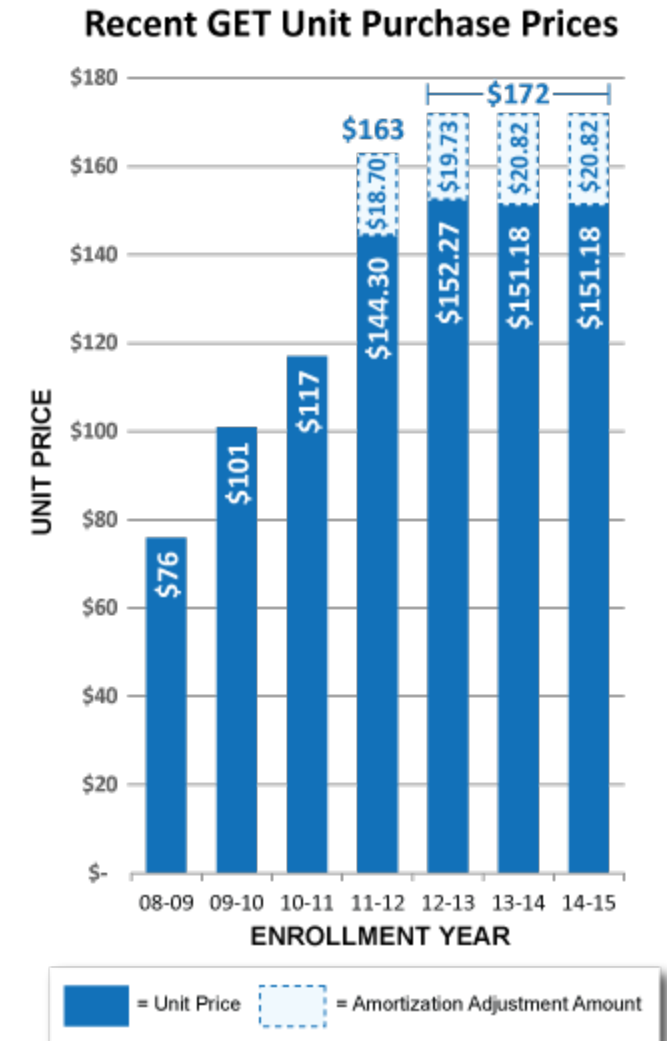
**Inputs/Factors:** College Affordability Program tuition policy; any possible statewide policy changes during 2017 Session; any possible changes to program policies and/or pricing guidelines; investment returns.

# GET Reopening – Policies & Pricing

## Unit Price for 2017-18 Enrollment Year

### • Considerations

- The 2017-18 unit price will likely be lower than prices paid by some recent cohorts, even after deducting the amortization portion of the 2011-2015 unit prices.
- If the 2017-18 price is lower than recent enrollment years, the Committee will want to begin considering how to address any customers who have paid more.



# GET Reopening – Policies & Pricing

## Next Steps for Reopening

- Discuss and make decisions on program policies and pricing at upcoming Committee meetings:



# Public Comment

## Share Your Thoughts

- **Process**

- Sign-up sheet
- If you would like to submit a written comment, please send your input to: [GETInfo@wsac.wa.gov](mailto:GETInfo@wsac.wa.gov), and include the subject line: “GET Committee Statement”



# Adjournment



## Next Meeting

Wednesday, April 26, 2017 | 2:00 p.m. – 4:00 p.m.

J.A. Cherberg Building | Senate Hearing Room 3 | Capitol Campus, Olympia

**GUARANTEED EDUCATION TUITION (GET) PROGRAM**  
**Committee Meeting Minutes**  
**November 8, 2016**  
**John A. Cherberg Building, Capitol Campus**  
**Senate Hearing Room 1**

**WSAC Staff in Attendance:**

Betty Lochner, GET Director  
Betsy Hagen, Associate Director for GET Operations  
Luke Minor, Associate Director for GET Marketing and Communications  
Michael Bennion, Associate Director for GET Fiscal Planning  
Dan Payne, GET Marketing and Communications Specialist  
Katie Gross, Special Assistant to the GET Director

**Guests in Attendance:**

Matt Smith, State Actuary  
Allyson Tucker, Washington State Investment Board  
Chris Phillips, Washington State Investment Board  
Rick Brady, Office of the Attorney General  
Michael Harbour, Office of the State Actuary  
Clint McCarthy, Senate Caucus Staff  
Breann Boggs, Office of Financial Management  
Lily Sobolik, Office of Public Research  
Megan Mulvihill, Office of Public Research  
Brad Hendrickson, Office of the State Treasurer  
Denny McKee, Citizen

**WELCOME AND CALL TO ORDER**

Rachelle Sharpe, Acting Executive Director of the Washington Student Achievement Council (WSAC) and the GET Committee Chair, welcomed the GET Committee members and meeting participants. Additional GET Committee members in attendance were Beth Berendt, citizen member, and Treasurer James McIntire.

**APPROVAL OF THE SEPTEMBER 7, 2016 MINUTES**

Sharpe called for a motion to approve the September 7, 2016 meeting minutes. Berendt motioned to approve the minutes and McIntire seconded the motion. The minutes were unanimously approved as presented.

**APPROVAL OF THE 2017 MEETING CALENDAR**

Sharpe called for a motion to approve the 2017 GET Committee meeting calendar. Five meetings are scheduled for 2017: February 22, April 26, June 7, September 13, and November 16; all meetings will take place from 2:00 p.m. to 4:00 p.m. on the Capitol Campus in Olympia. Special meetings may also be scheduled as necessary. Berendt motioned for the approval of the 2017 meeting calendar and McIntire seconded the motion. The calendar was adopted as presented.

## **CHAIR'S REPORT**

Sharpe reviewed the meeting agenda and provided informational updates around the current work at WSAC. Sharpe noted that this meeting was Treasurer McIntire's last meeting and thanked him for his eight years of service. McIntire thanked his fellow Committee members as well as Betty Lochner, GET Director, and the GET staff, for their excellent work.

## **DIRECTOR'S REPORT**

Lochner provided the latest data around GET non-penalty refunds (offered since September 2, 2015 in response to the passage of Senate Bill 5954 in the 2015 Legislative Session), as well as rollovers to other 529 plans and distributions for current college students:

- Non-penalty refund requests (September 2, 2015 – October 28, 2016): 18,720 processed, with a total dollar value of \$361 million.
- Rollovers to other 529 plans: 396 requests, with a total dollar value of \$10.5 million.
- Since September 2, 2015, roughly 14% of all active GET accounts took a non-penalty refund; as of October 28, 2016, the program had around 105,300 active accounts.
- Distributions for current students (as of October 28, 2016): 11,300 students requested distributions, with a total dollar value of \$63 million.
- Since GET's inception, the program has distributed \$924.5 million for roughly 46,600 accounts.
- Since GET's inception, 29% of all accounts have requested distributions.
- Since GET's inception, \$343 million has been distributed directly to in-state public schools, and \$230 million has been distributed directly to in-state private schools or out-of-state schools.

## **GET INVESTMENT UPDATE**

Chris Phillips, Washington State Investment Board (WSIB), provided the third quarter investment update (ending September 30, 2016). As of September 30, the program had a little over \$2.1 billion in total assets. Current asset allocation: 40% fixed income, roughly 54-55% equity, 5%-6% cash. Phillips noted that there's been a modest shift, increasing fixed income and decreasing equity, but the prescribed model level is on track. The report noted adequate liquidity and adequate risk return exposure. Phillips stated that the third quarter investment performance was overall positive, and that there's a healthy margin (performance vs. benchmark) given the results hoped for during the time periods noted. Of note, the bond fund, managed in-house, outperformed the benchmark by 1.75 percentage points over the one year period. Phillips noted, however, that it would be unrealistic for this to continue for multiple periods. There were no questions from the Committee.

## **FINAL 2016 GET ACTUARIAL VALUATION REPORT OVERVIEW**

Matt Smith, State Actuary, and Michael Harbour, Senior Actuarial Analyst with the Office of the Actuary, provided the final review of the 2016 Actuarial Valuation Report. Smith first provided a report on the program's funded status. As of June 30, 2016, the program had \$1.7 billion in obligations for future payments compared to \$2.3 billion in assets (assets include the value of the GET fund, plus the present value of expected future receivables for monthly contracts). This equates to a 136 percent funded status, with \$615 million in reserves. Smith noted that these figures are a point in time and that any changes to key assumptions would be reflected in the actuary's valuation a year from now. Smith stated that the program is currently actuarially sound.



A key driver leading to the change in funded status (140 percent last year, compared to 136 percent this year) was that investment returns were lower than expected. Refunds have also impacted the program's funded status, but were within expected ranges. The program will continue to see additional refunds, but those will be reflected in the next measurement period.

As of June 30, 2015, there were close to 21.7 million outstanding units. The program is currently at 17.6 million outstanding units; 1.3 million units were redeemed during this last reporting period, 2.6 million were refunded, and no new units were purchased (only through current monthly contracts).

Smith noted that the projection of current contracts noted is only an estimated assumption, which only includes current contracts, and doesn't reflect any future unit sales. Smith reiterated that the results are very sensitive to changing assumptions. If any assumptions change, (from WSIB, tuition increases/decreases, etc.), associated changes would be noted.

Smith talked about the possible cash inflows and outflows if the legislature were to terminate the program and refund all units within four years of use. Smith also noted the investment changes that would most likely take place if the legislature decided to redesign the program all together. The actuarial valuation's 'best estimate' shows that the program would have enough assets to cover obligations, even under these hypothetical possibilities.

Berendt asked Smith if this report was the final report and Smith confirmed this. Berendt suggested removing the draft watermark and Smith let the Committee know that his office will remove the watermark once GET adopts the valuation. His staff will then post the final version.

#### **FINAL VALUATION ADOPTION**

Michael Bennion, GET Associate Director for Fiscal Planning, addressed the Committee. As part of the agency's work with the State Auditor's Office and the Office of Financial Management, Bennion reminded the Committee that the data behind the Actuary's work must always be reviewed to ensure its accuracy. GET staff and agency data technicians provided the Actuary with requested information, including data sets. This data has been checked and revalidated. Having reviewed the valuation report in its entirety, Bennion noted that according to his judgment, the data and information contained therein is reasonable and accurate to the best of the agency's knowledge.

#### **APPROVAL OF THE FINAL GET LEGISLATIVE REPORT**

Luke Minor, GET Associate Director for Marketing and Communications, recapped the items covered in the GET Legislative Report, as required by the College Affordability Program (SB 5954, 2015 Legislative Session). The Committee was to review and respond to:

1. The impact of tuition reductions on the GET funded status and future unit pricing;
2. The feasibility and options of establishing a 529 college savings program;
3. Possible alternatives for changing the payout basis to a cost of attendance metric; and
4. Alternatives and impacts for potential changes to state penalties on withdrawals.

Minor noted the key revisions that GET staff made since the draft version was presented at the June 23, 2016 meeting:

1. Staff revised the 'Impact of Decreasing Tuition Rates' section to reflect the new 136% funded status, per the 2016 GET Actuarial Valuation Report (as of June 30, 2016).
2. Staff updated the 'Feasibility of a 529 College Savings Program' section to provide the most up-to-date status on procurement process (as of November 1, 2016).
3. Staff updated the 'Alternatives and Impacts for State Penalties on Withdrawals' section to include the recent Committee decision to extend the non-penalty refund window to September 1, 2017, or until 60 days after a savings plan opens (whichever is later).

Based on these updates, the four key findings for the final report are as follows:

1. Decreasing tuition rates have generally improved GET's funded status (136% as of June 30, 2016); future unit prices will likely start out lower than the \$163/\$172 unit prices.
2. Determining the feasibility of establishing a 529 college savings program is in progress (Committee and staff currently engaged in an RFP process).
3. The Committee does not recommend a cost of attendance payout metric, as it contains expenses outside the scope of 529 plans.
4. It was determined that GET could implement temporary refund penalty policy changes and remain financially solvent; the Committee authorized non-penalty refunds until September 1, 2017, or until 60 days after a savings plan opens (whichever is later).

Minor informed the Committee that the GET Legislative Report is ready to be submitted to the Office of Financial Management (OFM) and legislative fiscal and higher education committees, pending Committee approval.

Berendt motioned the approval of this legislative report as presented. McIntire seconded the motion. The report was approved unanimously as presented.

## **NEXT STEPS**

Lochner reviewed the status of the current RFP process that the Committee recently authorized staff to initiate. At their September 7, 2016 meeting, the GET Committee directed WSAC to prepare a Request for Proposals (RFP) seeking vendor proposals for providing investment and program management services to the Washington College Savings Program. Since that meeting, the WSAC Savings Plan Advisory Team has been working diligently to prepare and issue the RFP.

On October 4, 2016, WSAC issued RFP No.17-RFP147: Washington College Savings Program. This RFP will be open through November 30, 2016. WSAC is requesting support for investment management, records administration, and customer service for the new plan, but intends to keep marketing services in-house. However, the RFP allows vendors to submit alternative proposals that include marketing services.

Lochner informed the Committee that WSAC held a pre-proposal conference on October 24, 2016, where bidders could ask clarifying questions around the RFP. Five individuals representing two potential bidders participated, ten written questions were submitted before the conference, several more questions were asked during the conference, and formal responses were posted to WEBS.

Proposals will be reviewed in December and the apparent successful bidder will be selected by the end of January 2017. A contract will be negotiated with a goal of finalizing and signing a contract by March 23, 2017.

Lochner noted that the reopening of GET will be discussed at the February meeting. A detailed review of certain policy considerations will be on the agenda.

McIntire thanked Lochner for the update and for everything the staff is working on. McIntire urged his fellow Committee members to take every possible measure to make sure investors know about limited guarantees and that the program is a long-term investment vehicle, if they choose to reopen the program. McIntire stated that GET staff and the Actuary's office have done an extraordinary job to make this program work and that he's enjoyed working with everyone.

Sharpe stated that the Committee appreciated his remarks and will make sure to relay his concerns to the Committee members not able to attend today's meeting.

#### **NEXT MEETING**

Sharpe noted that the next GET Committee meeting is scheduled for February 22, 2017. Sharpe acknowledged Treasurer McIntire's years of service to the GET Committee and presented him with a plaque and proclamation. McIntire again thanked the staff and everyone that's been involved in the GET program during his tenure.

#### **PUBLIC COMMENT**

There was no public comment.

#### **ADJOURNMENT**

Berendt motioned to adjourn the meeting. McIntire seconded the motion. The meeting adjourned at 2:48 p.m.

**GUARANTEED EDUCATION TUITION (GET) PROGRAM**  
**Committee Meeting Minutes**  
**January 19, 2017**  
**Washington Student Achievement Council**

**WSAC Staff in Attendance:**

Betty Lochner, GET Director  
Betsy Hagen, GET Associate Director for Operations  
Luke Minor, GET Associate Director for Marketing and Communications  
Michael Bennion, GET Associate Director for Fiscal Planning  
Don Bennett, WSAC Deputy Director  
Jackie Ferrado, GET Community Relations Manager  
Matthew Freeby, GET Finance Manager  
Melissa Huster, GET Records Manager  
Katie Gross, Special Assistant to the GET Director  
Don Alexander, WSAC Director of Fiscal and Business Services  
David Mitchell, WSAC Chief Technology Officer  
Maddy Thompson, WSAC Director of Policy and Government Relations

**Guests in Attendance:**

Breann Boggs, Office of Financial Management  
Clint McCarthy, Senate Higher Education Committee Staff  
Zachary Anderson, Senate Majority Coalition Caucus  
Michelle Alishahi, Senate Ways and Means Staff  
Lily Sobolik, House Appropriations  
Shawn Myers, Office of the State Treasurer  
Rick Brady, Office of the Attorney General  
Mary Anne Busse, Great Disclosures, Special AAG  
Brad Hendrickson, Office of the State Treasurer  
Angie Naillon, Washington State Investment Board  
Chris Phillips, Washington State Investment Board  
David Walddon, Office of the Chief Information Officer  
Crystal Chindavongsa, Office of Senator David Frockt

**WELCOME AND CALL TO ORDER**

Rachelle Sharpe, Acting Executive Director of the Washington Student Achievement Council (WSAC) and the GET Committee Chair, called the meeting to order at 3:36 p.m. Sharpe welcomed all participants and asked everyone to introduce themselves. GET Committee members in attendance were David Schumacher, Director of the Office of Financial Management, Treasurer Duane Davidson (by phone), Beth Berendt, citizen member, and Mooi Lien Wong, citizen member (by phone). Sharpe will act as the WSAC Executive Director for three more weeks and Mr. Michael Meotti will take over as WSAC Executive Director and Chair of the GET Committee at the February 22 meeting.

## **CHAIR'S REPORT**

This special meeting was called to review the results of the RFP for a Washington 529 college savings plan. Agenda items included an update on the procurement process, lessons learned, and next steps for savings plan development.

Sharpe provided background on the development of a 529 savings plan and a summary of the work to date. After the Legislature passed the College Affordability Program (SB 5954) in the 2015 Session, the Committee began exploring a 529 savings plan as an option to complement GET, as part of a feasibility study that the legislation required. In 2016, the Legislature passed Senate Bill 6601, which established the Washington College Savings Program and provided a more clearly defined framework and possible funding mechanisms for developing a savings plan. In response to these pieces of legislation, the Committee and WSAC began assessing the services needed for a savings plan, and possible approaches to providing these services.

Sharpe reminded Committee members that in the summer of 2015, the Committee first evaluated an in-house approach that leveraged the GET infrastructure to operate the program, with the Washington State Investment Board (WSIB) as the investment manager. In April of 2016, WSIB concluded it was not best suited to provide these services. Sharpe asked Chris Phillips, WSIB's Institutional Relations Director, if that finding was still accurate.

Phillips confirmed this was accurate and provided a more in-depth explanation on these findings:

- Large institutional investment managers (the means for WSIB's money management) do not scale down affordably or structurally to serve smaller, self-directed accounts. WSIB's investment strategy and economies of scale come from pooling large asset assignments into even larger buckets of capital that can be invested for very long periods. WSIB's competitive advantage is based on access to institutional managers, large-scale assignments, and long, multi-generational time horizons.
- In contrast, college savings plans, by definition consist of relatively small accounts, have a wide range of varying investment allocations that must suit many different individuals, and have relatively short time horizons as families plan for college costs.
- Due to these fundamental structural differences, WSIB believes the mutual fund industry is a better-equipped and more cost-effective investment source for college savings plan.

Mary Anne Busse, Special Assistant Attorney General to WSAC, noted that, from a 529 savings plan perspective, because the separate accounts require a greater bandwidth, 99% of 529 plan investments across the country are invested in mutual funds.

Phillips noted that the industry itself came to the same conclusion. These investments would need to be through a mutual fund platform for 529 plans.

Schumacher commented that he understands that WSIB wouldn't be able to generate the kinds of returns that it expects from its current business practices. Schumacher asked if it would make sense to use an investment manager that could generate a rate of return, though lower than WSIB, but higher than others. Phillips responded that they've learned that it's not so much about the return as it is about the management of individual accounts in an institutional world. There's a different liquidity model as to when funds needs to be available, how long they're invested, and the mechanisms around this type of investment.

Sharpe provided additional background around the savings plan development process. Staff issued a Request for Information (RFI) to learn about the industry's reaction to the requirements in Washington and their willingness to bid on a Request for Proposals (RFP) if one were issued. The agency received 11 responses showing interest; four with thorough responses. In May 2016, the agency formed a cross agency advisory team that brought together varied expertise to help outline the essential components of an RFP.

The GET Committee authorized staff to issue an RFP, which was issued in October 2016. One proposal was submitted and then later withdrawn. WSAC gathered feedback from the vendor community to learn about the challenges that potential bidders faced in responding to the RFP. Potential bidders indicated the following key challenges:

- Achieving profitability within the contract period. Reasons cited included:
  - The statutory annual 50 basis point fee cap;
  - Limited state start-up funds for program development;
  - The bundled RFP excluded bids for specific services;
  - The fact that the state is opening a new plan with no existing plan assets; this limits the amount that can be collected to cover administrative costs in early years.
- Timing issues - fall 2016 coincided with several competing priorities in the industry, including RFPs, contract renewals, and ABLE plan launches in other states.
- Plan competitiveness - Washington has no income tax (state income tax breaks are often used as a participation incentives) and does not currently offer other participation incentives. Vendors also cited the competitiveness of the maturing 529 industry. Initially, it may be hard to compete with low fee options already available in other states.

## **REVIEW 529 SAVINGS PLAN OPTIONS**

Lochner reviewed the three remaining approaches to delivering a Washington savings plan:

**Option A: Partial In House Approach.** WSAC would leverage the GET infrastructure and retain all program management services, and seek investment management services from a non-state third party vendor, rather than WSIB. Preliminary estimates project the cost may be approximately \$750,000 for start-up, and then \$1.5 million annually. Customer fees under this option may start out higher than the lowest cost 529 savings plans, but could decrease as assets grow. Due to system modifications, hiring an investment manager, etc., the estimated launch timeframe would be the end of 2017/early 2018.

**Option B: Modified Turn-Key Approach.** Seek a contract with a third party for all 529 savings plan services, except for marketing and administrative oversight. The preliminary estimated cost is \$500,000 to start and roughly \$1 million annually thereafter. Customer fees under this option would be similar to the Partial In-House option. WSAC would need to issue a new RFP and work with the vendor(s) to determine what's needed. Under this approach, a plan could possibly open by the end of 2017.

Berendt asked if bidders would be interested if a new RFP were issued. Busse confirmed that there is interest if another RFP were issued, though she's not sure of the extent of the interest. Berendt asked if a broker would be required if GET retained the marketing component. Busse

replied that the state is exempt from broker/dealer rules and regulations, and one is not required if they retain marketing. This makes bidding simpler for some vendors in the industry.

Berendt asked if there could/would be a requirement that potential purchasers to seek outside financial expertise before enrolling. Currently, staff don't have that expertise. Discussion around this confirmed that current staff don't provide tax or financial advice. Staff currently recommend that current/potential customers consult with a tax/financial advisor if they have questions around investments, tax benefits, etc.

Busse noted that for the State to retain the marketing component is not unusual (many self-market their 529 plans). Disclosure is made very clear to investors and information cited in marketing materials shouldn't provide investment advice.

Berendt was interested to know if any states have added to such expertise to their staff on a voluntary basis (certified financial planners, etc.), and whether this would protect or add risk to a plan. Busse responded that, generally, states don't have licensed advisors on their staff. Customer service representatives are usually trained to provide information and not advice.

**Option C: State Partnership.** This approach is similar to Option B in that WSAC would retain marketing and administrative oversight. However, WSAC would contract with a well-established 529 plan in another state for all other services, rather than with a non-state provider. The preliminary estimated cost for startup is \$500,000 and \$500,000 annually in ongoing operational costs, primarily to cover marketing and administrative costs. Under this approach, a plan could possibly launch by the end of 2017.

Davidson asked how many examples there are of other state partnerships. Lochner and Busse confirmed that they know of two (GA/TN and WY/CO). Both partnerships were dissolved and were not considered successful.

Davidson asked if the firm that withdrew their proposal provided feedback, or only those who did not respond to the RFP. Lochner clarified that feedback was solicited from the firm that withdrew and the others that said they were interested but didn't end up bidding.

Berendt asked if there were any barriers in the procurement process for a state partnership in terms of contract length, etc. Don Bennett, WSAC Deputy Director, stated that if a state partnership was explored, the state doesn't have the same type of procurement guidelines. It would look more like an inter-agency agreement and wouldn't be an open/competitive process. Lochner stated that while past research has been done, other states have mentioned that roughly 5 to 10 years could be how long it might take to recoup some of the potential upfront costs. A state partnership/contract would most likely not be less than 5 years.

Berendt asked if there are currently other states with 529 plans that might be a viable option for a state partnership. Lochner noted that although nothing has been explored in depth, the RFI that was issued had one response and there are possibly other states who are self-operated and have enough scale to add a partner state.

## **APPROVE NEXT STEPS FOR 529 SAVINGS PLAN DEVELOPMENT**

Sharpe noted that the plan is to continue to explore the Committee's interest in the three approaches (A, B, C). If the Committee decides to vote on next steps, they should consider language that provides staff with flexibility. Berendt voiced the concern around repeating the same RFP process that was just completed. Berendt stated that she would like the Committee to further explore Option C. Given the track record of partnerships, she hopes that the Committee can learn from past lessons. She also suggested continuing to explore the other two options. Berendt noted that Option B seemed to be a practical approach since systems are already in place.

Schumacher stated that Option B seems to be an attempt to perfect what was already tried and that it makes sense to apply what we learned and try Option B again, while exploring Option C.

Davidson noticed that a lot of thought was put in to Option B and a lot of good feedback was gleaned for a new approach and asked if exploring Option C would disrupt the timeline of issuing the RFP. Lochner and Sharpe clarified that all three options can be pursued without detrimentally slowing down the process.

Busse said the first RFP draft could be ready for review in about a week. It would look similar to the previous RFP, but would not include the marketing component. Berendt asked if there are any timing issues within the industry to be aware of for reissuing an RFP this spring and if vendors would need more time to respond. Busse responded that vendors were given 60 days to respond which is customary in the industry. Busse foresees additional RFP activity in the summer, so it will be beneficial to get a new RFP out as soon as possible.

Sharpe noted that under Option B the RFP could be constructed so that the costs of each service could be compared to the in-house costs of Option A. Berendt asked for clarification on whether an RFP in Option B would be seeking one vendor or multiple vendors. Sharpe responded that this is a key question to explore. Busse stated that the RFP could categorize the possible services, noting options around one or multiple services that a vendor could bid on.

Berendt mentioned the fact that when GET started, most of the services were outsourced and that over time, services were brought in house. Berendt asked if there was any merit to approaching a savings plan in a similar way. Lochner responded that with GET, services were brought in house because it was most cost effective as assets grew. For a savings plan, GET already has IT infrastructure in place that could be leveraged.

David Mitchell, WSAC Chief Technology Officer, proposed that the Committee further explore Option A and look at possible low cost options that leverage existing structures and resources.

Sharpe noted the importance of the multi-agency approach on the advisory team and the due diligence needed while comparing options.

Berendt noted that the Committee may have prematurely pushed the state partnership option away last summer. She suggested the Committee give it a more thoughtful review and continue the evaluation as more research is done.



Schumacher stated that the cost differences between the options shouldn't be a big factor; he is interested in the success of the program from the customer perspective. He is in favor of Option B and issuing an RFP as soon as possible, while analyzing Option A. He also suggested that staff talk with other states to be prepared in case reissuing an RFP ends without a contract.

Davidson agreed with this approach.

David Walddon, Office of the Chief Information Officer, asked the Committee to consider the possible technology risks of all three options (Option A – higher risk; Option C – lower risk). Berendt asked how much of Option A would be building on existing GET systems. Sharpe noted that the advisory team could put 'technology risk' on the list of things to keep in mind while moving forward. Walddon noted that if a state partnership was finalized, but the relationship later dissolved, the technology risk would heighten because there wouldn't be a structure to place the assets into. Mitchell noted that although there are risks with any approach, if the control was in-house, the agency would own the risk.

Sharpe stated that there are a variety of areas that the advisory team will continue to look at (cost, competitiveness, quality, risk to the state, etc.). Sharpe recapped that the GET Committee advises WSAC staff to pursue Option B (modified turnkey) with the ability to compare and use Option A (partial in-house) as a benchmark. Staff will also further explore Option C (a state partnership).

Berendt asked if the current legislation allows the Committee to consider each option. Sharpe replied yes. Berendt asked if legislation was required if there was a need to change the 50 basis point cap. Sharpe noted that needs and possible changes would be clarified at the conclusion of the research of the three options.

Sharpe asked the Committee for a motion to have WSAC staff pursue Option B (modified turnkey) benchmarked to Option A (partial in-house) and explore Option C (state partnership). Schumacher made a motion reflecting these parameters. Berendt seconded the motion. The motion carried unanimously.

Sharpe stated that an update on this research will be provided at the February 22 GET Committee meeting. This meeting will also focus on policy considerations for GET's reopening.

Brad Hendrickson, Office of the State Treasurer, asked for confirmation that none of the options would require statutory changes. Sharpe confirmed this was correct. Lochner stated that there is no implementation date for the savings plan. However, GET must reopen on July 1.

Berendt asked if there was a need to revisit the statutory reopening GET reopening date. Sharpe responded that this will be discussed at the February 22 meeting, though, at this stage, there doesn't seem to be a reason to change the date.

## **ADJOURNMENT**

The meeting adjourned at 4:43 p.m.



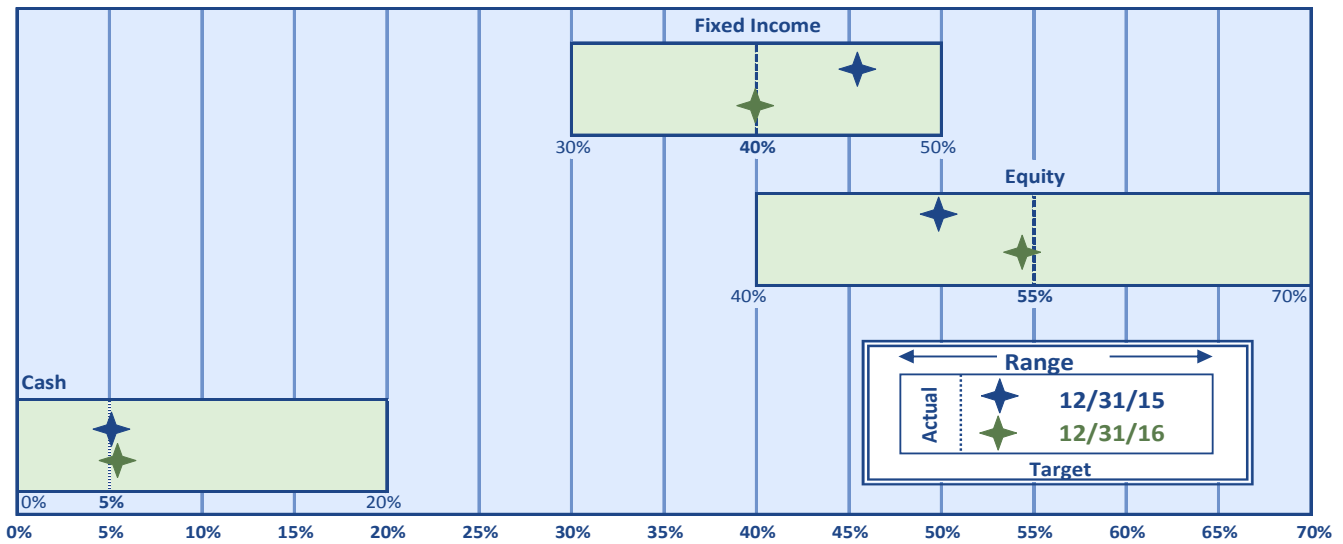
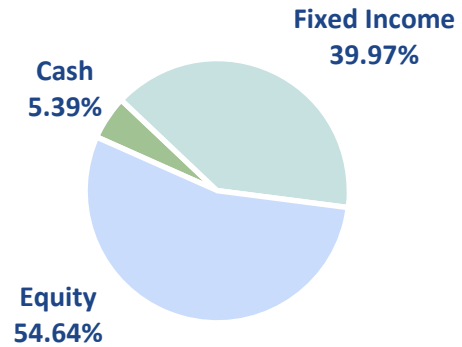
## **GET Prepaid College Tuition Program**

Quarterly Report – December 31, 2016

Portfolio Size, Allocation, and Assets Under Management .....	1
Performance.....	2

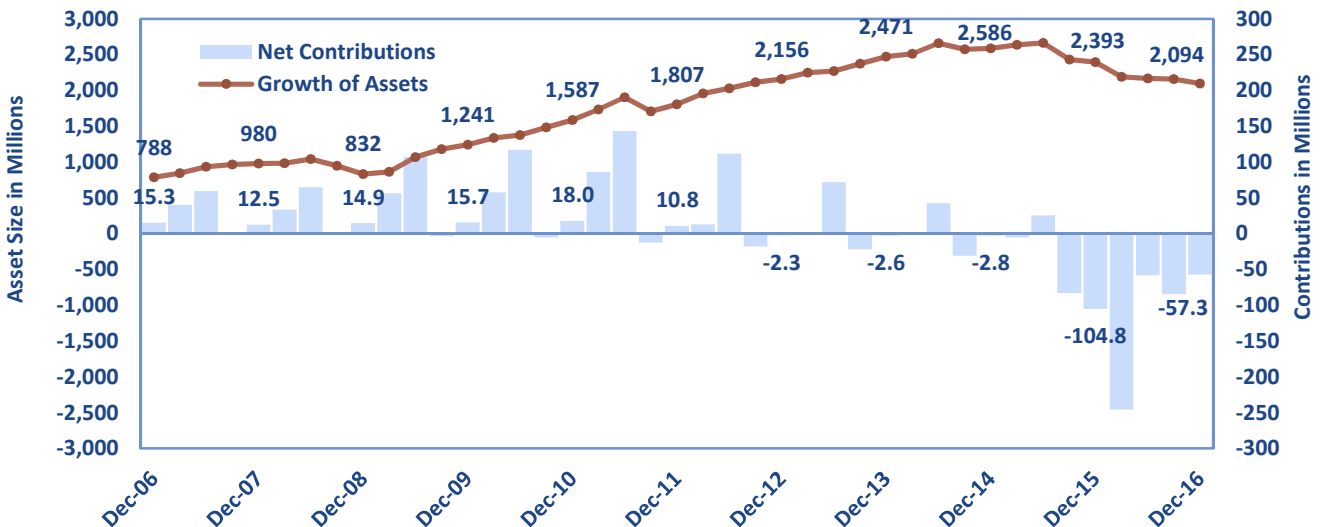
**Portfolio Size** **Actual Asset Allocation**

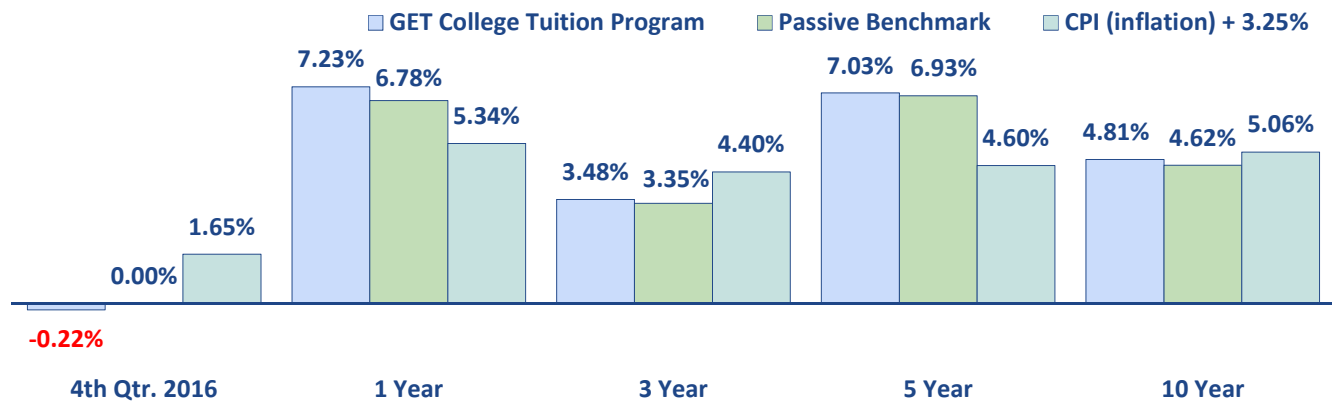
<b>Total</b>	<b>\$2,093,874,977</b>
Cash	\$112,837,631
Fixed Income	\$836,947,569
Equity	\$1,144,089,777



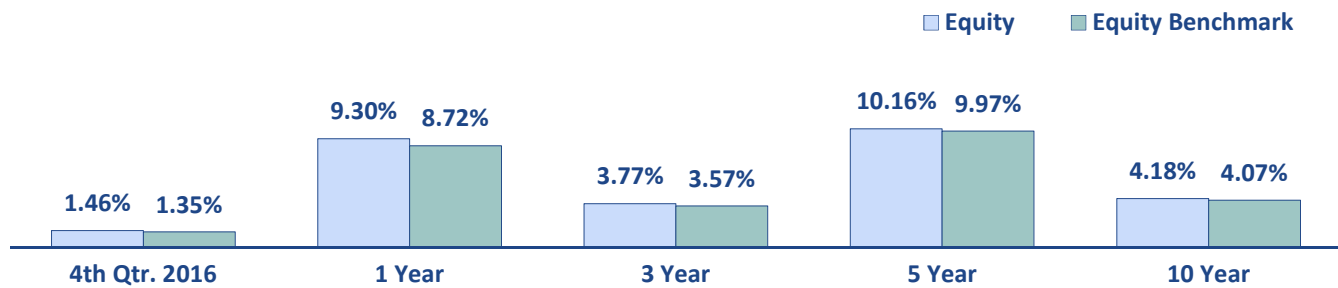
Note: For comparison purposes in the chart above, fixed income and TIPs were added together for the prior year.

**Assets Under Management**



**Total Return \***

**Return Breakdown**
**Equity Return \***

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


**Fixed Income Return \***

Benchmark: Bloomberg Barclays 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.

# THE GET COMMITTEE



**Michael P. Meotti, Executive Director of Washington Student Achievement Council, GET Committee Chair**

Michael Meotti was appointed Executive Director of the Washington Student Achievement Council (WSAC) by Governor Jay Inslee in December 2016. Mr. Meotti previously served as Commissioner of the Connecticut Department of Higher Education and Executive Vice President of the Connecticut Board of Regents for Higher Education.

Michael has extensive experience in financial matters involving higher education. He was the Board chair of the Connecticut Student Loan Foundation and board member of the Connecticut Higher Education Supplemental Loan Authority. As the father of two college students, he has been an active user of 529 plans!

Prior to his service in state government, Mr. Meotti served in leadership positions in both the nonprofit and corporate sector. He was the President of the United Way of Connecticut and President of the Connecticut Policy and Economic Council. Mr. Meotti is an attorney and worked in private firms and the law department of The Travelers Insurance Companies.

Michael holds bachelor's and law degrees from Georgetown University. He and his wife, Pamela, live in Olympia.



**Duane Davidson, State Treasurer**

Duane Davidson was elected as Washington State Treasurer in 2016. Prior to that, Treasurer Davidson took office as Benton County Treasurer in 2003, and was re-elected in 2014 to his fourth term. He is a Certified Public Accountant and keeps his license current.

He is currently serving his second term as President for the Washington State Association of County Treasurers (WSACT) and previously served as Treasurer for that organization. He has also served on the Audit, Legislative and Website committees as well as being the historian/archivist for WSACT.

Duane is the past-President for two separate Kiwanis Clubs in the Tri-Cities and currently the Treasurer for the Kiwanis Club of Tri Cities Industry Foundation. He has served as a Church Speaker for Gideon International and as Church Treasurer.

He served as the Chief Financial Accountant for Benton County immediately before his election to County Treasurer. Duane was previously an auditor for the Washington State Auditor's Office where he served as the Assistant Audit Manager in the Tri-Cities and was also in charge of the Walla Walla regional offices.

Duane was born and raised in Carnation, WA. He graduated from Tolt High School then started his undergraduate education at Bellevue Community College. After transferring to Central Washington University in Ellensburg he received a Bachelor of Science in Accounting.



### **David Schumacher, Director of Washington State Office of Financial Management**

David Schumacher was appointed Director of the Office of Financial Management (OFM) by Governor Jay Inslee in January 2013. He has nearly 25 years of experience in budgeting and policy development.

David joined the Inslee administration after spending two years as Staff Director for the Senate Ways & Means Committee. He held the same position from 2003 to 2008 before serving two years as Northwest Government Affairs Director for The Boeing Company.

He began his career in state service in 1990, working as an Economic Analyst for the State Department of Revenue for three years. He then worked for two years as a Revenue Analyst in OFM's Forecasting Division. He served as a Budget Analyst for the Senate Ways & Means Committee for eight years before being named Staff Director in 2003.

David holds bachelor's and master's degrees in economics from the University of Washington. He and his wife, Katy, have two sons and live in Olympia.



### **Elizabeth "Beth" Berendt, Citizen Member**

Beth Berendt brings over 35 years of hands on experience in the area of health care insurance regulation and compliance and purchasing with an emphasis on health care reform implementation and provider network adequacy.

Beth worked for 12 years as the Deputy Insurance Commissioner for Rates and Forms with the Washington State Office of the Insurance Commissioner where she was instrumental in the implementation of the Affordable Care Act in Washington State and at the national level through the National Association of Insurance Commissioners. She spent six years as the Assistant Administrator for Health Plan Management at the Washington State Health Care Authority where she implemented the first joint procurement for the Public Employees, Basic Health and Healthy

Options (Medicaid) contracting efforts.

Beth has also served as the Vendor Accounts Manager for Microsoft, and procured and managed over 27 different employee benefit programs. She was a Senior Policy Staff for the State Board of Health and managed the first study of Access to Critical Health Care Services in Washington. She also held a variety of positions with insurance companies including Blue Cross of Washington and Alaska (Premera) and The Prudential Insurance Company assuring compliance with state and federal insurance laws.

Beth formed her own consulting firm in the summer of 2013 with a focus on helping clients navigate the new world of health care delivery and financing under the Affordable Care Act.

Beth is a graduate of the University of Washington where she studied Speech and Hearing Sciences.



### **Mooi Lien ("M") Wong, CPA, CTFA, CFP®, Citizen Member**

Mooi Lien Wong is Senior Vice President and Regional Trust Manager for the western region of U.S. Bank's Wealth Management Group in the personal trust area. She is responsible for fiduciary oversight, compliance, audit, pricing, governance, and other day-to-day-management of trust business line functions.

Wong joined U.S. Bank in 1980 as a Trust Tax Accountant. She has held other positions within Personal Trust during her tenure with U.S. Bank such as Trust Officer, Team Leader, and Regional Trust Manager.

She earned a bachelor's degree from Eastern Washington University. She is a Certified Public Accountant (CPA), a Certified Trust and Financial Advisor (CTFA) and a Certified Financial Planner (CFP®). In 1996, she graduated from a leadership development program for culturally diverse leaders through the Executive Development Institute in Seattle (founded in 1994 under the guidance and direction of the Japanese American Chamber of Commerce).

Her current community activities include serving: on the advisory committee for Washington State's Guaranteed Education Tuition Program (GET); as an advisory member on the UW Consulting & Business Development Advisory Board; a member of the Washington Society CPAs; and a member of the Seattle Estate Planning Council.