

Guaranteed Education Tuition (GET) Committee Meeting

Wednesday, January 17, 2018

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 & Member Introductions

- Approval of the November 15, 2017 Minutes ACTION
- Chair's Report INFORMATION
Michael Meotti, GET Committee Chair/WSAC Director
- Director's Report INFORMATION
Betty Lochner, GET Director
- Customer Account Options DISCUSSION
Betty Lochner, GET Director
Luke Minor, GET Senior Associate Director
- Savings Plan Development Update INFORMATION
Don Bennett, WSAC Deputy Director
- Public Comment
- Adjournment

Next Meeting:
April 25, 2018
John A. Cherberg Building, Olympia
Senate Hearing Room 3
2:00 p.m. – 4:00 p.m.

GUARANTEED EDUCATION TUITION (GET) PROGRAM
Committee Meeting Minutes
November 15, 2017
John L. O'Brien Building, Capitol Campus
House Hearing Room D

WSAC staff in attendance:

Betty Lochner, GET Director
Luke Minor, GET Senior Associate Director
Don Bennett, WSAC Deputy Director
Marc Webster, Senior Fiscal Policy Advisor
Dan Payne, GET Marketing and Communications Specialist
Katie Gross, Special Assistant to the GET Director
Maddy Thompson, Director of Policy & Government Relations

Guests in attendance:

Matt Smith, State Actuary
Rick Brady, Office of the Attorney General
Michael Harbour, Office of the State Actuary
Chris Phillips, Washington State Investment Board
Anthony Hemstad, Office of the State Treasurer
Shawn Myers, Office of the State Treasurer
Lily Sobilik, Office of Program Research
Daniel Masterson, Senate Staff
Saundra Richartz, Senate Staff
David Frockt, State Senator

WELCOME

Mike Meotti, Executive Director of the Washington Student Achievement Council (WSAC) and Chair of the GET Committee called the meeting to order at 2 32 p.m. and welcomed those in attendance. The other Committee members present were David Schumacher, Director of the Office of Financial Management, Treasurer Duane Davidson, Washington State Treasurer, and Beth Berendt, citizen member.

APPROVAL OF THE OCTOBER 11, 2017 MINUTES

Meotti asked for a motion to approve the October 11, 2017, meeting minutes. Schumacher motioned to approve the meeting minutes as presented and Berendt seconded the motion. The meeting minutes were approved unanimously as presented.

CHAIR'S REPORT

The Chair had nothing to report.

DIRECTOR'S REPORT

Betty Lochner, GET Director, reviewed the proposed 2018 meeting schedule with January 17, April 25, September 19, and November 6 meetings. Berendt motioned to approve the schedule as presented and Schumacher seconded. The 2018 meeting schedule was unanimously approved.

Lochner provided data from the first two weeks of the 2017-2018 enrollment period. In these two weeks, 785 new accounts were established (70% Lump Sum and 30% Custom Monthly). These counts are up 31% over the same point during the 2014-2015 enrollment period. GET received \$5.7 million in new contributions and has sold 85,000 new units (not including recurring auto payments).

Luke Minor, GET's Senior Associate Director, provided a contact center and marketing update for the first two weeks of enrollment. TV and radio advertisements started on October 31 and will run through November, with print and web advertising, and social media efforts continuing through May. TV and radio ads will restart in the spring.

Minor noted that in the 2017-2018 academic year thus far, GET has distributed around \$59.7 million to 10,800 students for higher education expenses. Since the program began in 1998, GET has distributed \$1.05 billion and over 51,000 students have used GET units for higher education.

Lochner provided information on non-penalty refunds between September 2, 2015 and October 31, 2017. GET processed 21,900 non-penalty refunds (\$420 million) and 2,200 outgoing rollovers (\$55 million). The program has 96,000 active accounts and 15 million purchased units remaining. Per Berendt's request at the last GET Committee meeting in October, Lochner provided a visual of the program's funded status since inception.

Minor recapped recent conversations and new legal advice regarding customers with units purchased between May 1, 2011 and June 30, 2015 at higher prices. Staff have been exploring the best approach for these customers. WSAC's AAG advised to continue providing choices to customers and to not automate the process. The program's Special AAG, Jamie Canup, advised that some customers could inadvertently face tax consequences if they refunded their accounts and repurchased units. Additional targeted communications are planned to notify affected customers of their options.

Meotti noted that some thought the Committee was taking certain actions that would only benefit certain account owners, and this is not the case. The program does not plan to automate this option as it depends on individual federal tax circumstances. Minor confirmed that staff would try to make every effort to make sure people are aware of their options through enhanced communication.

Treasurer Davidson asked what type of communications are planned. Lochner noted that specialized emails will be sent and that staff will send out a direct mailing for those without email addresses or to those that have chosen the non-paperless communication option. Berendt added that it would be very easy for an email to be missed and that a paper mailing would be a good option. Berendt stated that the communications should also emphasize that the program advises customers to consult with a tax advisor, as staff do not provide tax advice. Lochner added that staff are working with the IT department to create online tools that customers could utilize to see the values of their account(s) to help them decide if refunding and repurchasing would result in more units.

GET INVESTMENT UPDATE

Chris Phillips, Institutional Relations Director with the Washington State Investment Board reviewed the third quarter GET investment report. At the end of the third quarter, the fund value was \$2.2 billion. The current investment allocation is 60% equities and 40% fixed income. Net growth of assets remains fairly flat and net contributions are down \$77.1 million (close to the numbers from a year ago). Total portfolio performance was up 3.4% for the quarter and nearly 11% for the one-year period. Phillips cautioned the Committee to monitor market performance and be prepared for a downturn. There were no questions from the Committee.

SAVINGS PLAN DEVELOPMENT UPDATE

Don Bennett, WSAC Deputy Director, provided an update on developing the new Washington 529 college savings plan. The fee structure has remained unchanged and staff, along with AAG, Rick Brady, are ready to move forward on finalizing the program management contract with BNY Mellon. Brady noted that substantial negotiations have taken place to harmonize the interest of both parties and that a few items remain to be negotiated:

1. The two parties have differences on data breach and data security coverage limits. The state wants more coverage (\$20 million per claim), based upon an optimistic estimate that in 5 to 6 years, the savings plan may have 50,000 accounts. The state is waiting to receive BNY Mellon's response to this proposed amount.
2. It is still being worked out who, between BNY Mellon and WSAC, will pay for securities opinions if the state seeks them.
3. The RFP called for a term of 10 years with WSAC having a unilateral right to extend the contract for two 2-year periods. BNY Mellon has asked for a 10-year, without extensions.

Bennett stated that he believes this contract is close to being finalized.

Minor noted that BNY Mellon and WSAC staff have been engaged in multi-track development during contract negotiations on several fronts. Two landing pages were launched in early November. One (dreamahead.wa.gov) provides information on the coming savings plan options and the second (wastate529.wa.gov) provides a side-by-side comparison of GET and the savings plan. Work is beginning on building the customer account management infrastructure.

Bennett noted that staff have been working with OFM on funding considerations for the savings plan. Currently, costs are paid using GF-S dollars, then transferred to Fund 463. Statute allows for an initial cash deficit of up to five years. While asset growth in the savings plan is unknown, WSAC's analysis projects that the agency can discharge the deficit within the allotted timeframe.

Berendt asked for confirmation that GET funds will not be used, and that the funds will come from the agency's general fund appropriation. Bennett stated this was correct. Berendt also asked if the agency would be working to recoup startup funds once the savings plan breaks even. Bennett responded that as of now, general fund dollars used in the first fiscal year would not be recouped. Schumacher stated that the work OFM has done with WSAC is to determine the appropriate way to manage a fund that has the authority to go into a deficit. Schumacher noted

that while OFM has the authority to manage accounts with a cash deficit, this should not become a normal practice for the state.

Davidson spoke to the 10-year term with BNY Mellon. His legal counsel has talked about five-year contracts being typical. Bennett stated that when the discussions first started, part of the reason for the long horizon was to entice vendors to bid on the contract. It could take a vendor a few years to see revenue for this operation. A more mature program may have a five-year term with an extension clause. With a new plan, a 10-year agreement was deemed a reasonable timeframe to ensure vendor interest. Meotti added that given the time horizon of the investors in a college savings plan, 10 years is an appropriate period and encourages investor confidence.

Berendt asked about the ‘termination for cause.’ Brady stated that “for cause” is not noted in the contract but the reasons for termination are. WSAC can terminate the contract for negligence, material breach of this contract, fraud, and breach of fiduciary duty. Berendt asked if there was any discussion around having an inflationary factor built in to increase the insurance coverage and policy amounts over time. Brady was not able to provide an answer to that. Berendt asked if the state’s risk manager provided information. Brady responded that the direction around cyber insurance was to aim for a point in the future that would be higher than what the state needs now. Brady added that BNY Mellon knows that contract has not been finalized and that the GET Committee was meeting today and may want to revise some of the terms.

Davidson moved to authorize the GET Committee Chair to engage in final negotiations with the Contractor, Sunday, an affiliate of BNY Mellon, to execute a final program management agreement that is substantially the same as the draft program management agreement provided today. Schumacher seconded the motion. Schumacher wanted to encourage the Committee not to rush to finalize the contract if something were to come up. Berendt shared appreciation for the work done to vet how the plan is being funded and asked that the State Risk Manager be asked to look at the contract. The motion carried.

FINAL 2017 GET ACTUARIAL VALUATION REPORT OVERVIEW

Matt Smith, the State Actuary, provided an overview of the 2017 GET actuarial valuation report. Smith compared the results to the roll-forward results from earlier in the year. The roll-forward results showed a funded status of 132.4% and this valuation report showed final funded status of 132.8% with a reserve of \$570 million (as of 6.30.17).

Summary results:

1. Higher than expected investment returns increased the funded status by 6%.
2. The updated tuition growth assumption based on the adopted state budget increased the funded status by 5%.
3. The updated investment return assumption based on the most recent analysis from the WSIB decreased the funded status by 3%.
4. The August 1, 2017 program rebase decreased the funded status by 15%.

Summary of Contract Data and Key Assumptions:

- As of June 30, 2017, there were 99,000 active contracts and 17.5 million purchased units;
- Actuary staff lowered the assumed rate of investment return from 6% to 5.65%;
- Actuary staff updated tuition growth assumptions consistent with the enacted state budget.

Funded Status Details:

1. Present value of obligations: \$1.7 billion
 - a. Present value of unit redemptions: \$1.7 billion
 - b. Present value of administrative expenses: \$15 million
 - i. Includes the estimated expense of running the program if it were terminated. This measurement has always been included, but the methodology has changed. The prior actuary used an actuarial assumption to estimate this cost, but it was hard to reconcile. The new method uses data from GET staff and is more transparent.
2. Fund value: \$2.3 billion
 - a. Market value of assets (as of June 30, 2017): \$2.2 billion
 - b. Present value of future receivables: \$136 million
 - i. Represents the present value of all future remaining payments custom monthly plan holders. Smith noted that this amount is added to the market value of assets (\$2.2 billion) to arrive at a final present value of the fund of \$2.3 billion.

Sensitivity of Results to Key Assumptions Changes

- Actuarial staff looks at tuition assumption and the assumed investment return. Smith went over how the program's funded status would change under different scenarios.

Smith noted that the program is very healthy and could weather significantly lower investment returns. He stated that if the program was terminated, the state contributions needed to pay out the necessary obligations are zero using current assumptions.

There were no questions from the Committee.

FINAL VALUATION ADOPTION

Marc Webster, WSAC Senior Fiscal Policy Advisor, spoke to WSAC's process in reviewing the actuarial valuation.

1. The data that the State Actuary uses comes from GET. The data is verified by GET Records staff, reviewed by WSAC Research staff, and sent to the actuary's office.
2. Webster also reviews the data at a high level and looks at trends. Analysis is done to see if the data seems reasonable.

Webster, having reviewed the draft valuation and the underlying data, stated that he believes the actuary's work is reasonable and accurate. Meotti stated that with the actuary's work helps the committee ensure GET remains self-sufficient, and that taxpayer dollars are not needed to pay future obligations.

PUBLIC COMMENT

No public comment.

ADJOURNMENT

Berendt motioned to adjourn the meeting and Davidson seconded the motion. The meeting adjourned at 3:42 p.m.

GET Committee Meeting

January 17, 2018



Welcome

Approve November 15, 2017
Meeting Minutes

Chair's Report



Director's Report

Betty Lochner
GET Director

- Updates
 - GET Enrollment Statistics
 - GET Distributions and Non-Penalty Refunds



Director's Report

2017-18 Enrollment Statistics

(as of January 10, 2018)

- New enrollments (applications received): **2,142**
 - 25% of total new enrollments goal
- New units purchased/contracted: **260,462**
 - 19% of total unit sales goal
- Total contributions received: **\$24 million**
 - Total includes payments on existing custom monthly plan accounts



Director's Report

Distributions for Current College Students

(for payment of higher education expenses – as of January 10, 2018)

- **2017-18 academic year:**
 - Total dollars distributed: **\$87 Million**
 - Total students using units: **12,200**
- **Since program inception:**
 - Total dollars distributed: **\$1.08 Billion**
 - Total students who have used units: **51,600**



Director's Report

Non-Penalty Refund Update (September 2, 2015 – January 10, 2018)

- Number of requests received and processed:
 - Non-penalty refunds: **22,290**
 - Outgoing rollovers: **2,356**

- Estimated dollar value of processed requests:
 - Non-penalty refunds: **\$427 Million**
 - Outgoing rollovers: **\$58 Million**

- Overall account statistics:
 - Remaining total active accounts: **96,100**
 - Remaining purchased units: **15.5 Million**

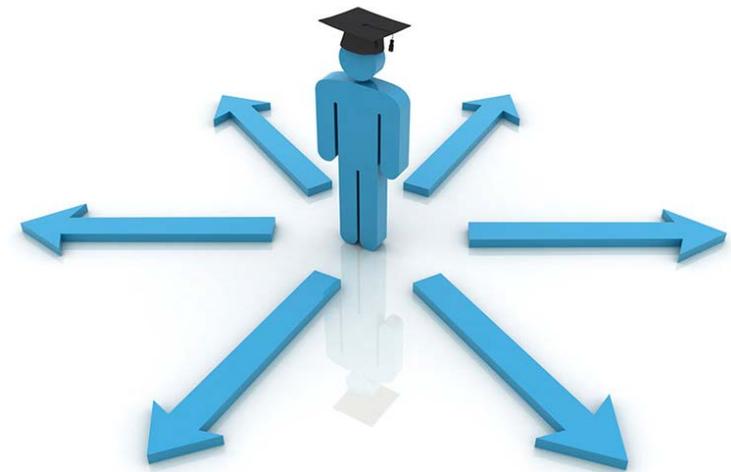


Customer Account Options

Betty Lochner
GET Director

Luke Minor
GET Senior Associate Director

- Review current status and considerations for GET account owners with higher-priced units.



Customer Account Options

Considerations for Accounts with Higher-Priced Units

- **Current status:**
 - Non-penalty contribution refund policy remains in place, allowing customers to refund and buy new \$113 units.
 - One step of this process will soon be simplified → refund form will be able to be submitted online without a notary, due to rollout of multi-factor identity verification.
 - Exploring options to further simplify refund-repurchase process.
 - Evaluating feasibility of semi-automated process for straightforward accounts (lump sum units only; no distributions or transfers; higher-priced units only).

Customer Account Options

Considerations for Accounts with Higher-Priced Units

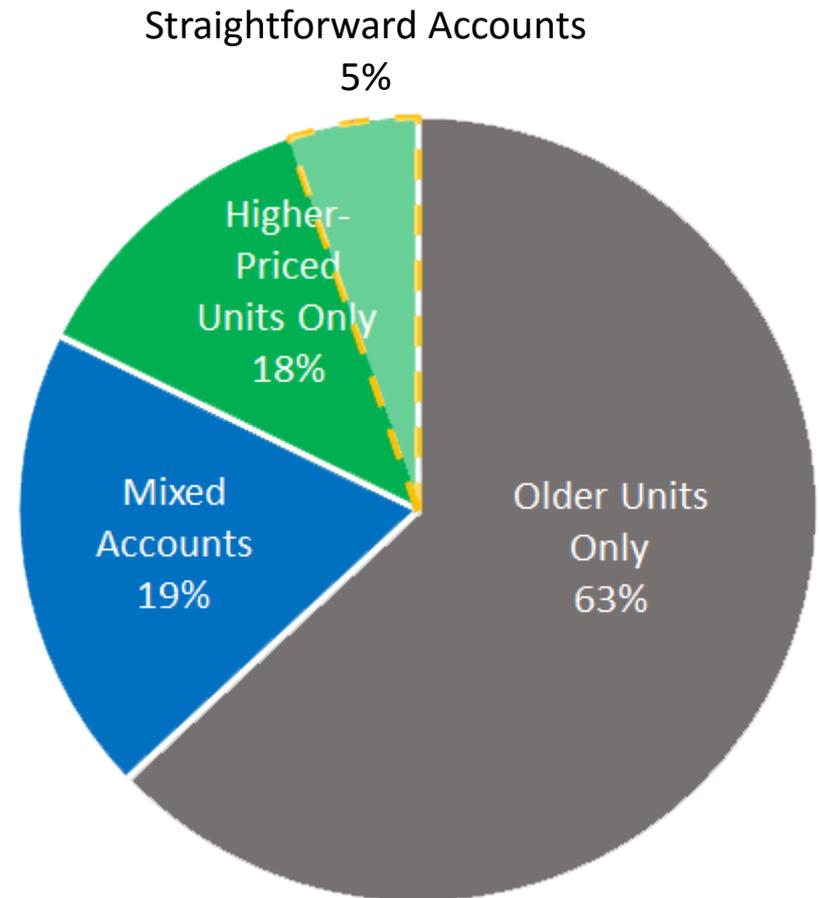
- Communication plan is being developed:
 - Different target groups identified to ensure messaging is properly targeted and audience-relevant.
 - Timing is contingent on several factors:
 - Savings plan contract and solidifying target launch date
 - Outcome of feasibility assessment of semi-automated process
 - Outcome of legislative proposals

Customer Account Options

Considerations for Accounts with Higher-Priced Units

- **Data points for consideration:**

- 96,100 total GET accounts
- 15.5 million purchased, unredeemed units.
- 18,500 accounts contain a mix of lower and higher-priced units
- 17,000 accounts contain higher-priced units only
 - 12,000 of these accounts are considered straightforward (lump sum accounts with no distributions or transfers)



DreamAhead Update

Don Bennett

WSAC Deputy Director

- Review progress on developing a direct-sold 529 college savings plan



DreamAhead Update

Development Update

- **Project management**
 - Office of the Chief Information Officer continues project oversight.
 - WSAC project team ensuring project scope, schedule and costs remain on track.
 - QA consultant tracking project and providing monthly reports.
- **IT development**
 - Office of Cyber Security approved security design review of IT infrastructure in early December.
 - Continuing GET-DreamAhead rollover interface development.
 - Continuing enrollment/account management interface customization.



DreamAhead Update

Development Update

- **Plan design**
 - Investment design is being finalized.
- **Marketing/communication**
 - DreamAhead trademark application to be filed once contract signed.
 - First drafts of disclosure booklet and other disclosure statements have been drafted.
 - Website content pages being written and developed.
 - Continuing to develop marketing materials and brand assets.



DreamAhead Update

Contract Negotiations with BNY Mellon

- Outstanding items from November committee meeting have been addressed.
- WSAC is satisfied with contract terms and is planning to sign no later than January 19, 2018.



DreamAhead Update

Next Steps

Sign program management contract (by January 19, 2018)

Continue developing disclosure booklet, website pages, and marketing materials (Winter-Spring 2018)

System customization/integration (Winter-Spring 2018)

User testing (Spring 2018)

Launch – begin offering savings plan to the public (Spring 2018)

Public Comment

Share Your Thoughts

- Process
 - Sign-up sheet
 - Three minutes per individual
 - You can submit written comments
 - Send to GETInfo@wsac.wa.gov and include the subject line: “GET Committee Statement.”



Next Meeting

April 25, 2018

John A. Cherberg, Olympia
Senate Hearing Room 3
2:00 p.m. – 4:00 p.m.



Adjournment

