



# Special GET Committee Meeting

April 10, 2018



# Agenda

DreamAhead Update

Senate Bill 6087  
Discussion



# DreamAhead Update

Luke Minor

GET Senior Associate 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.
  - QA consultant tracking project and providing monthly reports.
  - Project remains on track – targeted soft-launch date is no later than May 1.
- **IT development**
  - Continuing GET-DreamAhead rollover interface development, discussing SB 6087 implications.
  - Sumday and WSAC teams conducting user acceptance testing.



# DreamAhead Update

## Development Update

- Plan design

- Investment design is finalized – details are included on Sunday platform, marketing website, and Program Details Booklet.
- Institutional investment accounts set up with underlying fund companies.

- Marketing/communication

- DreamAhead trademark application filed.
- DreamAhead brochure finalized and sent to printer.
- Program Details Booklet under final review.
- Website content and functionality under final review.



# DreamAhead Update

## Next Steps

Conduct system testing and staff training (April 9-20)

Finalize DreamAhead Program Details Booklet (by April 20)

Finalize DreamAhead website and Sunday account management platform (by April 20)

Soft launch – begin offering savings plan to the public, with no advertising (by May 1)

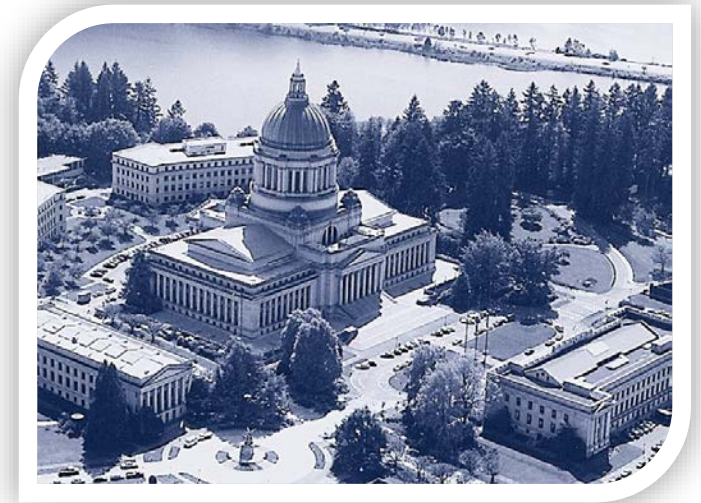
Full launch – begin media relations and web advertising efforts (TBD – after May 1)

# SB 6087 Discussion

Betty Lochner  
GET Director

Luke Minor  
GET Senior Associate Director

- Discuss SB 6087 implementation





# SB 6087 Discussion



## Reminder of Key Bill Directives

Phase	Bill Section	Directive
1	1(23); 2(8)	Provide a 90-day window for eligible GET customers to roll over to DreamAhead at a “unit cash value price.”
2	2.9(a)(i)	Increase the number of units for eligible GET customers with an average unit purchase price above \$117.82.
3	2.9(a)(ii)	If the funded status is higher than 125%, add up to 15% more units to all eligible GET customer accounts, in order to draw the funded status down to 125%.

# SB 6087 Discussion

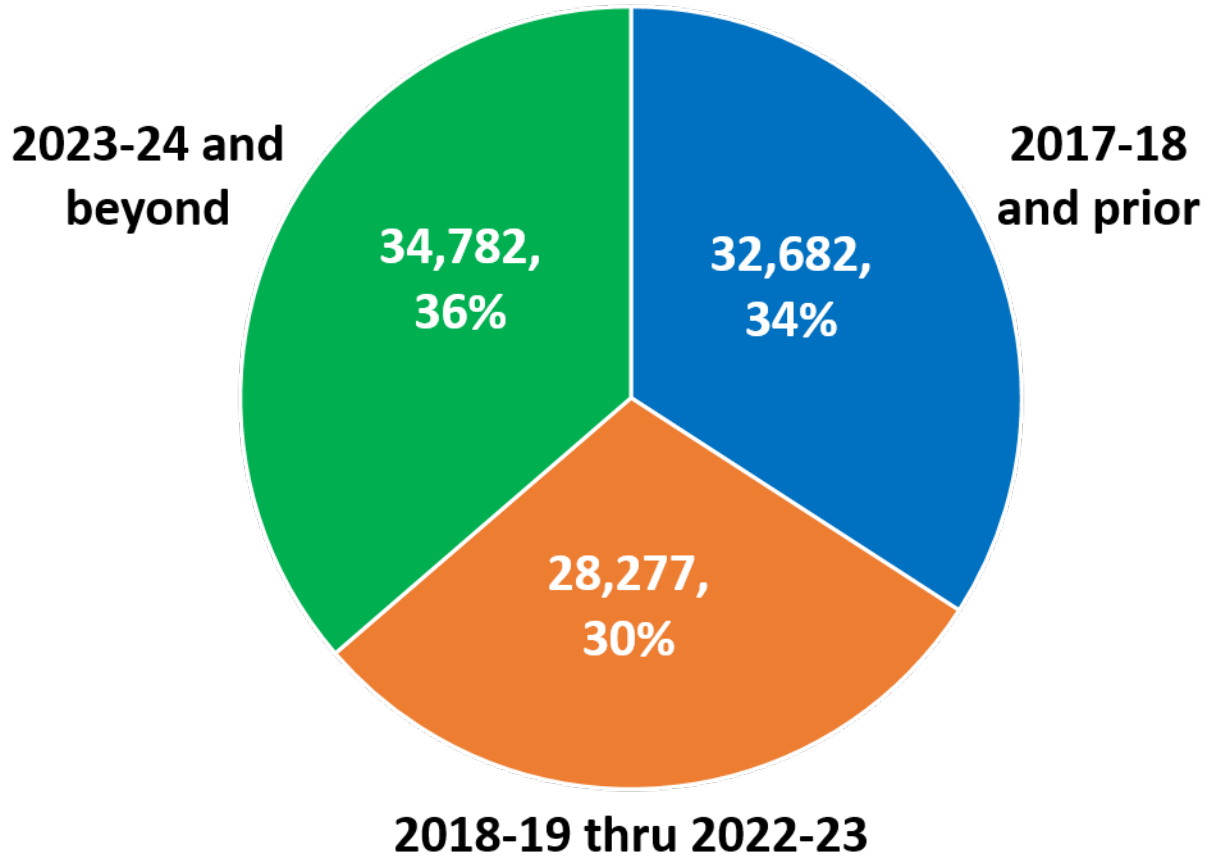
## Reminder of Key Dates Outlined in Bill

**Bill effective date: April 15, 2018**

Phase	Activity	Timeframe
1	Incentivized Rollover	No later than July 14, 2018, the Committee must set the 90-day incentivized rollover window and provide at least 30-days notice to eligible customers.
2	GET Repurchase	Once the 90-day incentive window (Phase 1) closes, and before March 1, 2019.
3	GET Funded Status Adjustment	Once the GET repurchase adjustment (Phase 2) is complete, and before March 1, 2019.

# SB 6087 Discussion

## GET Account Distribution by Benefit Use Year

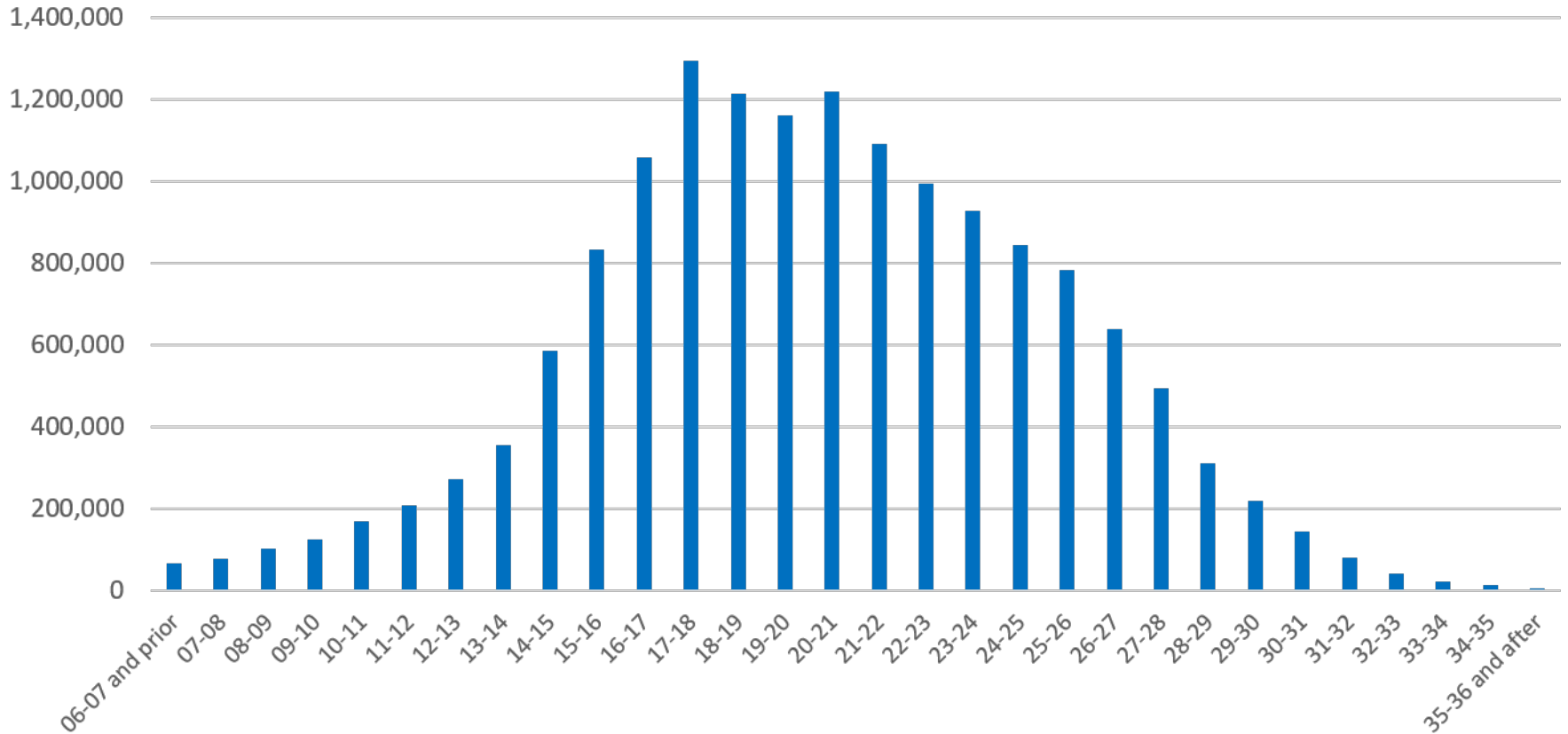


# SB 6087 Discussion



## GET Unit Count Distribution by Benefit Use Year

GET Units by Benefit Use Year (based on all purchased, unredeemed units)



# SB 6087 Discussion

## Considerations for implementing “Phase 1” (Incentivized GET to DreamAhead Rollover)

- The Washington State Investment Board (WSIB) will need to adjust GET’s asset allocation to ensure sufficient liquidity to facilitate rollovers out of GET.
- After April 15, the Committee is to establish a “unit cash value price” and set a 90-day incentivized rollover window.
- GET must notify eligible customers of their options no later than 30 days before the 90-day rollover window opens (potentially before a “unit cash value price” is set).

# SB 6087 Discussion

## Today's Objective

- Review supporting information from WSIB and the Office of the State Actuary (OSA).
- Provide WSIB with an estimate of the cash needs for the GET fund during the 90-day incentivized rollover window.
- WSIB will use this information for their April 19 board meeting, which will discuss needed adjustments to GET's asset allocation.

# Supporting Information

- Review WSIB presentation
- Review OSA presentation

# Public Comment

## Share Your Thoughts

- Process
  - Sign-up sheet
  - Three minutes per individual
  - You can submit written comments
    - Send to [GETInfo@wsac.wa.gov](mailto: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



# Guaranteed Education Tuition (GET) Program in Transition



April 10, 2018

# GET Program in Transition



**Engrossed Senate Bill 6087 passed the legislature on March 8, 2018 and is effective as of April 15, 2018**

- ▣ **It creates an incentive for existing GET unit holders to transfer to the new 529 DreamAhead college savings plan (anticipated launch in May 2018)**

**Office of the State Actuary (OSA) has preliminarily indicated the potential for significant outflow from GET to DreamAhead and will provide a projection in coming weeks**

**This has major implications for liquidity and asset allocation for both the departing assets and those that remain invested within GET**



# Terms of Engrossed Senate Bill 6087

## Phase 1

- ❑ Within 90 days of legislation's effective date, the GET Committee will establish a transfer window and a transfer price
  - ❑ The transfer window is a 90-day period during which eligible GET account holders may transfer funds from the GET program to the new 529 college savings plan
  - ❑ The transfer price is the price per unit at which eligible units may be transferred
    - ❑ It is calculated by taking the current net asset value of eligible plan assets divided by outstanding eligible units
- ❑ The bill requires a notification period of at least 30 days prior to the opening of the transfer window where GET will notify account holders of the option to transfer to the savings plan

## Phase 2

- ❑ After the transfer window is closed, remaining eligible account holders with an average purchase price above \$117.82 will receive additional units corresponding to the difference in their average unit purchase price and \$117.82

## Phase 3

- ❑ Any remaining actuarial surplus above 125% plan funded status will be used to increase total units for remaining eligible accounts subject to a 15% maximum for any individual account
  - ❑ All 3 phases must be complete by March 1, 2019

# GET Program in Transition – Managing Through Phase 1

Once the transfer price has been set, the GET fund will be comprised of essentially two commingled pools of assets: those that are staying and those that are departing

Staying assets should maintain the existing asset allocation to whatever extent possible, as they are being managed against future plan liabilities

- ❑ The risk/return of these assets is best reflected by a 60% equity, 40% fixed income allocation

Departing assets should be sold and converted to cash to meet anticipated outflows

- ❑ The WSIB will only be holding these assets for a period of months while all transfers are completed
- ❑ There is no need to maintain any market exposure

Since we cannot know the precise split between staying and departing assets ahead of time, the WSIB will raise cash in accordance with the GET program's projection on departing assets

- ❑ The Appendix examines scenarios where projections are either too high or too low



# Risks Resulting From Projections That Differ from Actual Outflows

	Departing	Staying
Projected > actual (Raise too much cash)	No risk, assets still 100% cash	Cash drag during 3-month transition period
Projected < actual (Raise not enough cash)	Introduction of some market exposure, potentially putting the transfer price at risk	Low risk; potential to fund departing assets if market moves adversely



**The biggest risk for staying assets during the transition period is cash drag for 3 months if actual departures are lower than projected**

- ❑ Low impact during the life of an investment with years to maturity
- ❑ Not felt directly by unit holders, since they have a guarantee
- ❑ Plan's overfunded status not in jeopardy from a few months of cash drag

**The biggest risk for departing assets is market exposure if departing assets are greater than projected**

- ❑ This risk becomes more acute as cash leaves the account; the remaining market exposure comprises a larger share of the departing assets
- ❑ May result in the need to change the transfer price if the market experiences a steep decline late in the transfer window (after the majority of the cash has left the account)



# Working with WSIB during GET Plan Transfer Process



## Guidance from the GET Committee

- ❑ Estimated liquidity needs - dollar volume of anticipated transfers (based in input from OSA)
- ❑ Estimated transfer window - when transfers are authorized to occur (based on compliance with legislation)
- ❑ Incremental updates if cash needs change during transfer period

## Actions and Input from the WSIB

- ❑ Month-end total account values for existing GET fund (to support GET unit cash price calculations)
- ❑ Recommended asset allocation plan to accommodate plan transfer process
- ❑ Ask for WSIB Board approval of asset allocation plan (April 19)
- ❑ Implementation of modified asset allocation during all phases of plan transfers
- ❑ Ongoing consultation regarding cash liquidity needs during all phases of transfers



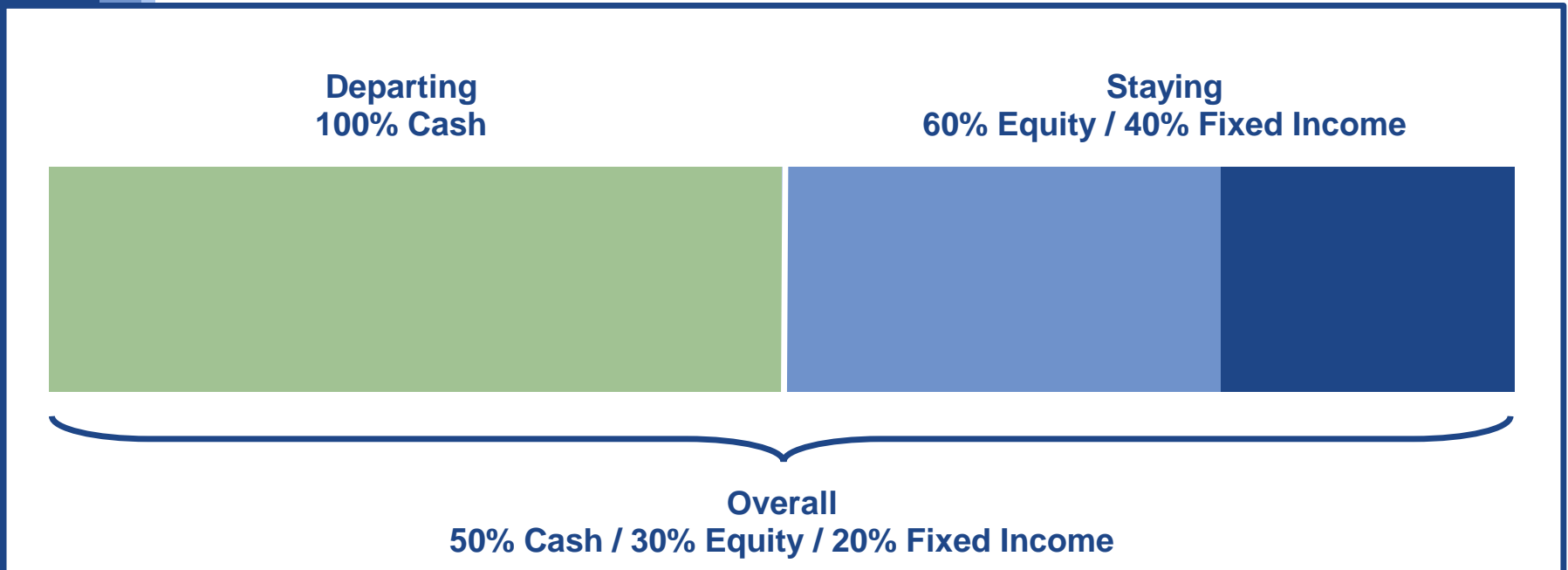
# Appendix



# Scenario 1 – Projections are Exactly Right

Assume projections are that 50% of plan assets will depart for the savings plan, and this forecast is proven correct

The WSIB would raise 50% cash in the account and transition the other assets to a 60% equity, 40% fixed income allocation:

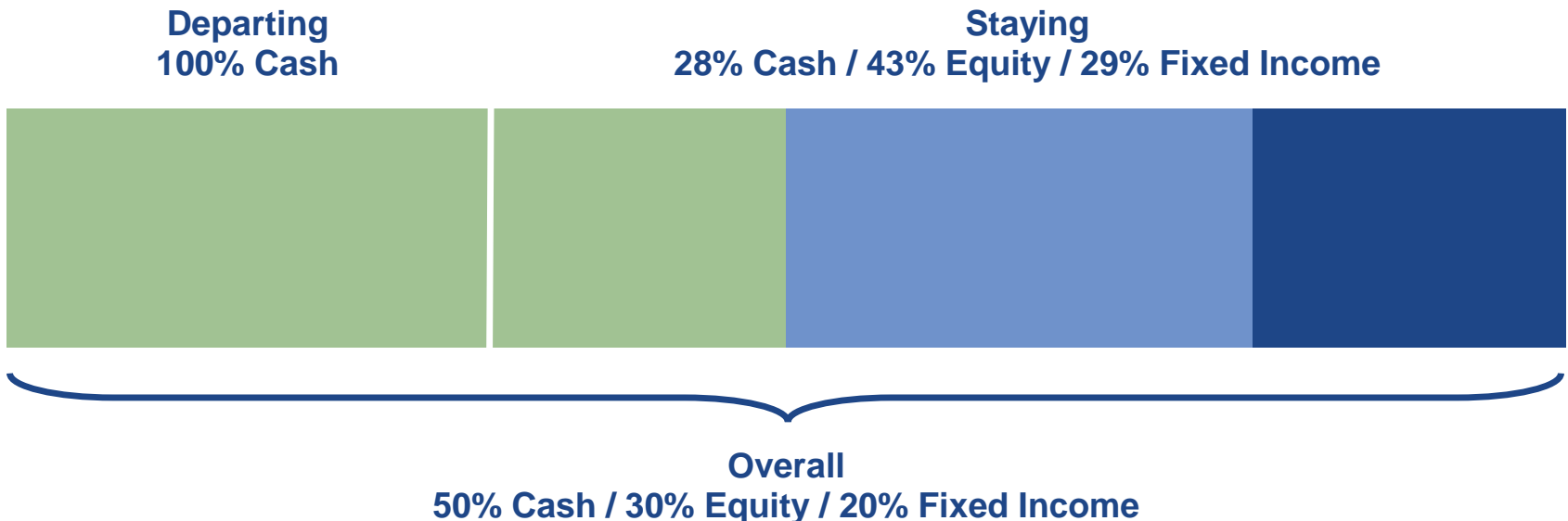


## Scenario 2 – Projections are Too High

Assume projections are that 50% of assets will leave the plan, but in reality, only 30% leave

The WSIB would raise 50% cash per the projection and migrate the rest to a 60/40 portfolio

Because actual departing assets are lower than projected, the staying portfolio would end up with a large cash allocation during the 3-month transition:



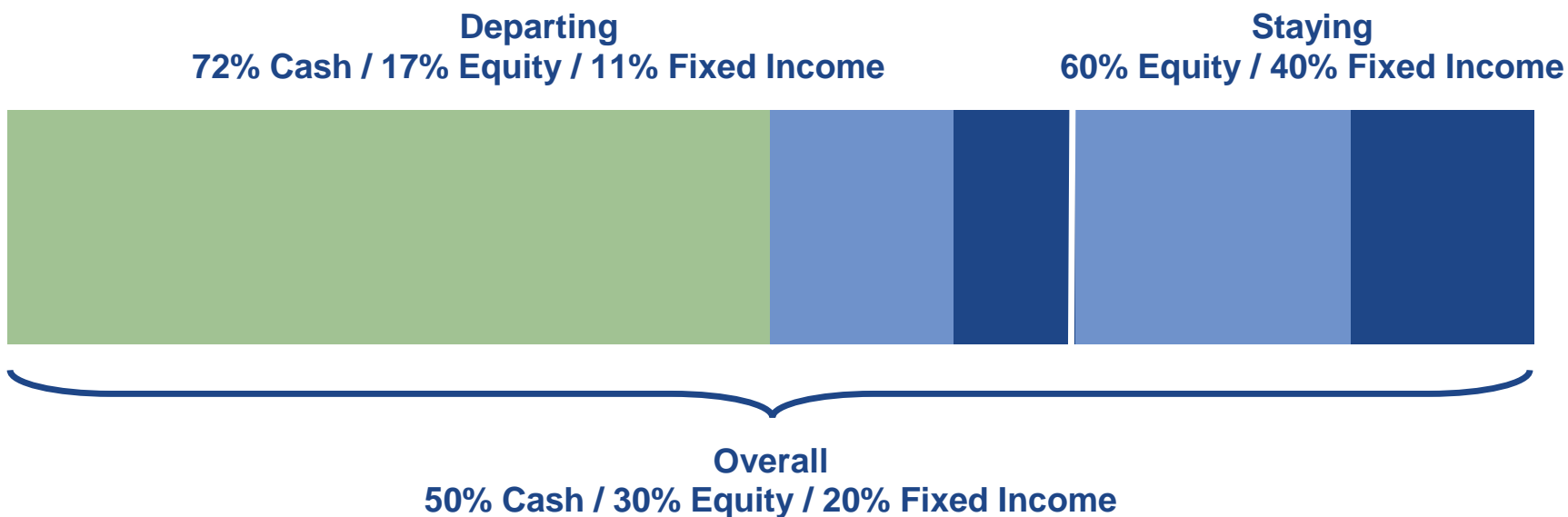
■ Cash ■ Public Equity ■ Fixed Income

## Scenario 3 – Projections are Too Low

Assume projections are that 50% of assets will leave the plan, but in reality, 70% leave

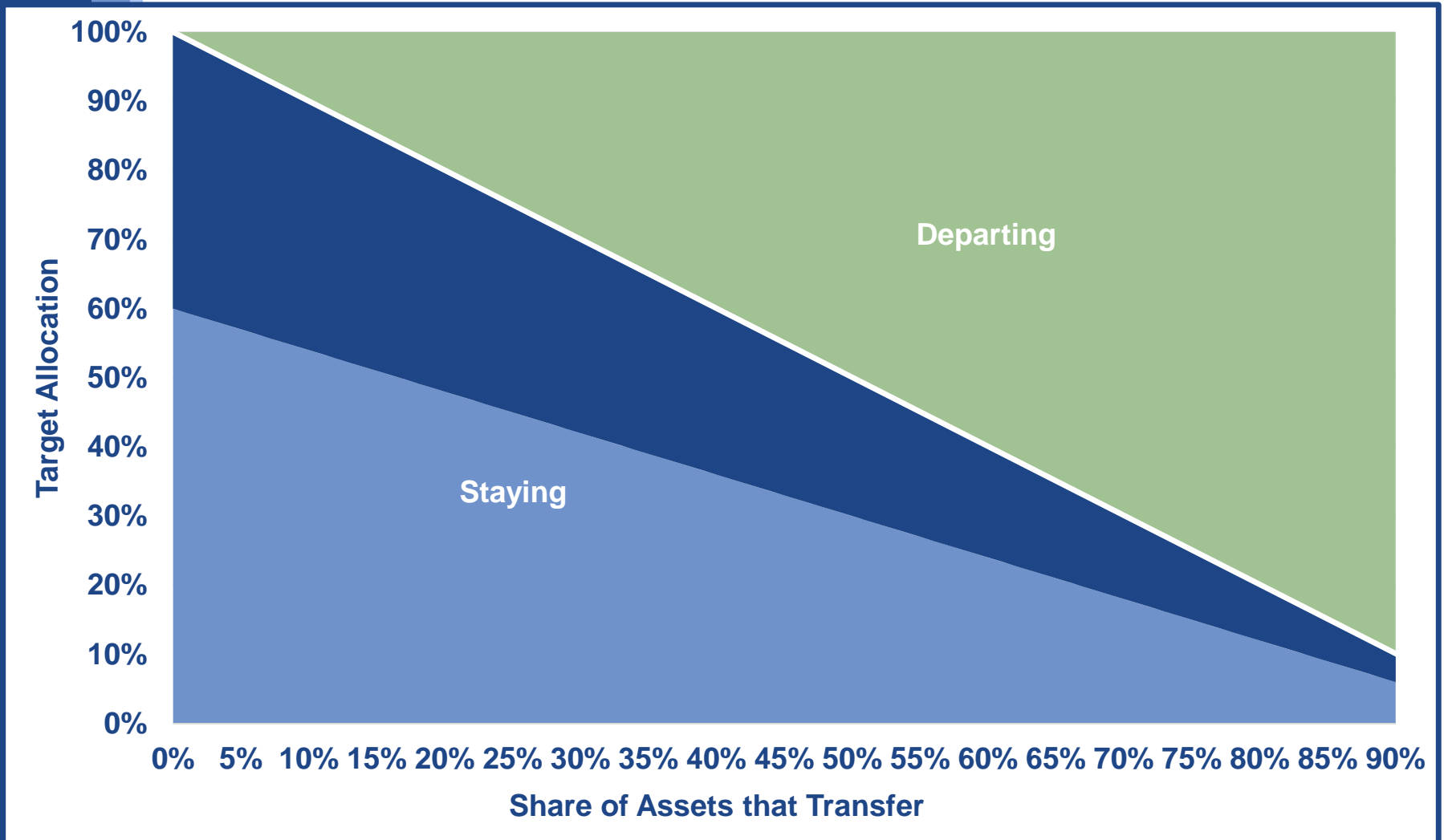
The WSIB would raise 50% cash per the projection and migrate the rest to a 60/40 portfolio

Because actual departing assets are higher than projected, the leaving portfolio would end up with some degree of equity/fixed income exposure during the transition period:



# Projections Will Determine Interim Asset Allocation

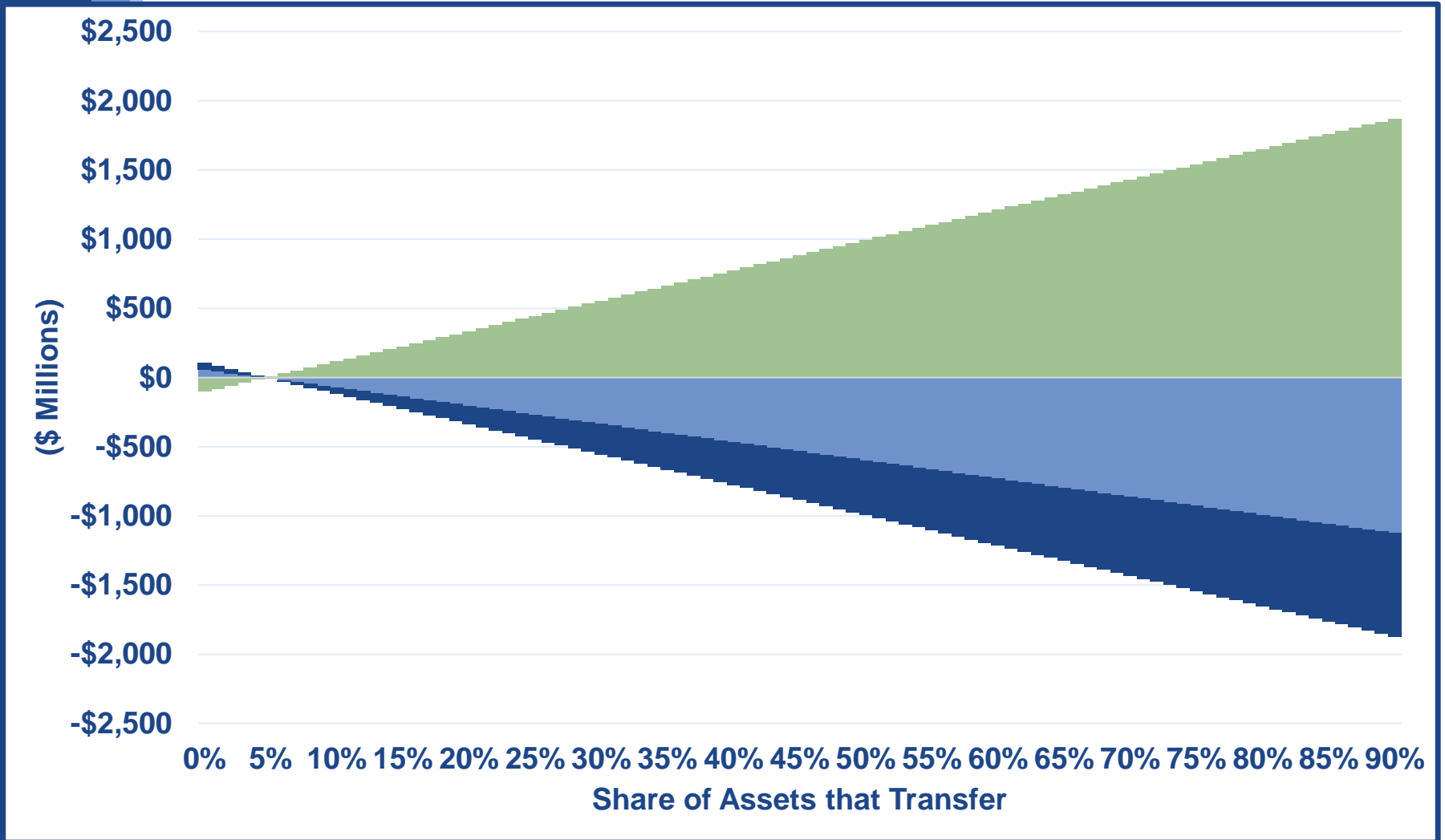
Target interim allocation to achieve a 60/40 allocation post-transfer



# Projections Will Determine Interim Asset Allocation

*Forecast Uses 2/28/18 Account Value of \$2,190.8 (\$ Millions)*

Anticipated transactions to achieve a 60/40 allocation post-transfer



■ Cash
 ■ Public Equity
 ■ Fixed Income

# Estimating Transfers To DreamAhead Plan

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

Presentation to: GET Committee





## Today's Presentation

- Assist the GET Committee in estimating transfers from GET to DreamAhead plan due to ESB 6087
- GET Committee estimate will inform WSIB's temporary change to GET's asset allocation
- Temporary asset allocation will provide sufficient liquidity for transfers



## Actuarial Analysis For ESB 6087

- During the 2018 Legislative Session, OSA prepared scenario-based analysis on SB 6087
- The purpose of the analysis was to analyze how SB 6087 may impact GET's funded status, reserve and risk levels
- "Because each individual places a different value on risk and uncertainty, we cannot predict how account holders will ultimately respond to this transfer opportunity."
- To demonstrate the potential impact of SB 6087, we provided scenarios only - not a best estimate
- How might the GET Committee estimate transfers?

## A Simplified Response Model

- An unknown percentage,  $X$ , will respond to the incentive to transfer
  - Incentive = excess of unit cash value price over the standard payout value
  - The larger the excess, the larger the incentive
  - Based on our judgment,  $X$  will likely range from 25% to 75%, but could fall outside this range
- An unknown percentage,  $Y$ , will transfer for other reasons
  - Already planning to transfer
  - Will transfer even without an incentive
  - Will transfer for other unknown reasons including non-economic reasons
  - Based on our judgment,  $Y$  will likely range from 5% to 15%, but could fall outside this range

## A Simplified Model For The Incentive

- Incentive = excess of unit cash value price over standard payout value
  - The larger the excess, the larger the incentive
  - If no excess, then no incentive under purely economic model
- Unit cash value will likely range from \$130 to \$160, but could fall outside this range
- The standard payout value is uncertain and will vary with future tuition growth
- For eligible account holders, future payouts will also increase for additional units granted after DreamAhead transfers if funded status exceeds 125%
  - One-time increase will likely range from 10% to a maximum of 15%, but could fall below 10%

## Illustration Of Incentive Under Simplified Model Assuming \$150 Unit Cash Value Price – Not A Best Estimate

Use Year	Unit Cash Value Price	Standard Payout Value (SPV)*	SPV After Increase**	Incentive
2017-18	\$150	\$103.86	\$114.25	\$35.75
2018-19	\$150	\$105.94	\$116.53	\$33.47
2019-20	\$150	\$112.82	\$124.11	\$25.89
2020-21	\$150	\$120.16	\$132.17	\$17.83
2021-22	\$150	\$127.97	\$140.76	\$9.24
2022-23	\$150	\$136.28	\$149.91	\$0.09
2023-24	\$150	\$143.10	\$157.41	\$0

\*Assumed growth rates match tuition growth rates from June 30, 2017, GET Actuarial Valuation Report. Actual tuition growth rates may vary.

\*\*One-time 10% assumed increase after DreamAhead transfer based on funded status. Actual increase may vary.

## Estimated Distribution Of Unredeemed Units By Use Year\*

Use Year	Number of Units	Number of Contracted Units	Estimated Number of Non-Contracted Units (NCU)
2017-18	5,096,935**	893	4,469,165
2018-19	1,318,427	12,361	1,145,404
2019-20	1,269,640	28,150	1,088,771
2020-21	1,217,576	45,545	1,027,857
2021-22	1,286,881	61,260	1,074,854
2022-23	1,166,189	71,024	960,446
2023-24+	6,068,555	724,309	4,686,837

\*Measured at June 30, 2017, including estimated number of rebased units.

\*\*Includes an estimated 3.5 million units with use year before 2017-18.

Note: NCU adjusted for consistency with assumed \$150 unit cash value price. NCU does not equal number of units less number of contracted units due to adjustment.

## Illustration Of Simplified Transfer Model Assuming \$150 Unit Cash Value Price – Not A Best Estimate

Use Year	NCU	Transfer Amount from Incentive*	Transfer Amount for Other Reasons**	Cumulative Transfer Amount
<i>(Dollars in Millions)</i>				
2017-18	4,469,165	\$216.9	\$9.9	\$226.8
2018-19	1,145,404	\$80.4	\$8.6	\$315.8
2019-20	1,088,771	\$59.1	\$8.2	\$383.1
2020-21	1,027,857	\$38.4	\$7.7	\$429.2
2021-22	1,074,854	\$20.8	\$8.1	\$458.1
2022-23	960,446	\$0.2	\$7.2	\$465.5
2023-24+	4,686,837	\$0	\$35.2	<b>\$500.7</b>

\*50% transfer assumption decreasing in proportion to incentive amount. 25% transfer assumption for estimated units with use year before 2017-18.

\*\*5% transfer assumption for other reasons.



## Bringing It All Together

- Using this simplified transfer model and the range of assumptions noted previously, the estimated transfer as a percent of program assets ranges from about 15% to 50%
- The actual transfer could fall outside this range
- This analysis does not represent best estimate analysis or an OSA recommendation
- We prepared this analysis to illustrate how the GET Committee could approach this estimate and simplify the decision making process under a single, simplified model
- The use of another model and set of assumptions could produce materially different and reasonable results