Guaranteed Education Tuition (GET) Committee Meeting
Thursday, December 3, 2015

J.A. Cherberg Building, Capitol Campus
Senate Hearing Room 3
Olympia, WA 98504
1:00 p.m. – 3:00 p.m.

AGENDA

Call to Order & Welcome

• Approval of the October 7, 2015 Minutes Approval of the 2016 GET Committee Meeting Schedule	ACTION	Tab 1
• Chair's Report	INFO/DISCUSSION	
• Director's Report	INFO/DISCUSSION	
• GET Investment Update *Allyson Tucker, Senior Investment Officer* *Washington State Investment Board*	INFO/DISCUSSION	Tab 2
• Annual Valuation Overview *Matt Smith, State Actuary* *Office of the State Actuary*	INFO/DISCUSSION	Tab 3
• Independent Actuarial Valuation Review *Alan Perry, FSA, CFA, Principal, Consulting Actuary* *Milliman*	INFO/DISCUSSION	Tab 4
• Valuation Adoption *Marc Webster, Senior Fiscal Policy Advisor* *Washington Student Achievement Council*	INFORMATION	
• 529 Savings Plans Options *Jamie Canup, Hirschler Fleischer* *Allyson Tucker, Washington State Investment Board* *GET Staff*	INFO/DISCUSSION	Tab 5
• Next Steps	DISCUSSION	
• Adjournment		

<u>Next meeting:</u>
Thursday, February 11, 2015
2:00 p.m. – 4:00 p.m.
Cherberg Building, Senate Hearing Room 1
Capitol Campus, Olympia

GET Committee Meeting

December 3, 2015

Welcome & Approval of Minutes

Guaranteed Education Tuition℠

Chair’s Report

- Feasibility Study Update
- Review of Today’s Agenda

Chair's Report

Questions in the Feasibility Study that have been Answered to Date:

Question 1:

Beginning in the 2017-18 academic year, what program adjustments will be made to ensure that the total payout value of each account is not decreased or diluted as a result of the initial application of any changes in tuition?

Answer 1:

The GET Committee decided to freeze the payout value at $117.82 per unit indefinitely until the time when one year of resident undergraduate tuition and state mandated fees at Washington State's highest priced public university surpasses $11,782.

Chair's Report

Questions in the Feasibility Study that have been Answered to Date:

Question 2:

What is the impact of tuition reductions on the funded status?

Answer 2:

State Actuary Matt Smith provided a preliminary actuarial valuation report regarding the GET fund on September 1, 2015. Mr. Smith reported that the funded status of the GET program as of June 30, 2015 is 140%, up from 106% one year earlier. The increase in funded status was based in large part on lower than expected tuition growth as a result of the College Affordability Act. The Actuary advised the GET Committee that his preliminary valuation needs to be carefully considered as it is simply a snapshot in time and is sensitive to a number of economic and legislative variables.

Chair's Report

Questions in the Feasibility Study that have been Answered to Date:

Question 3:

What are the alternatives/impacts of removing the state penalty for non-qualified withdrawals?

Answer 3:

The GET Committee decided to waive all program refund penalties and fees until December 15, 2016 so that customers who are concerned about the tuition policy changes have the opportunity to move their savings into another investment, such as another 529 plan.

Chair's Report

What's Next?

With these decisions in place, the GET Committee is left with answering the following three questions in the legislatively mandated feasibility study:

1.) What is the impact of tuition reductions on future unit prices?
Continue to work with State Actuary on program analysis. Update at February 11, 2016 GET Committee meeting.

2.) What are some alternatives of linking GET's payout value from tuition and fees to cost of attendance?
Analysis in progress. Update at February 11, 2016 GET Committee meeting.

3.) What is the feasibility of creating a 529 college savings program?
Reviewing options and details at today's meetings and will discuss next steps based on Committee input.

Chair's Report

Today's Agenda Items:

1.) Director's Report
- **Betty Lochner**, GET Director

2.) GET Investment Update
- **Allyson Tucker**, Senior Investment Officer, WSIB

3.) Annual Actuarial Valuation Review
- **Matt Smith**, WA State Actuary

4.) Independent Actuarial Valuation Review
- **Alan Perry** with Milliman

5.) Valuation Adoption
- **Marc Webster**, Senior Fiscal Policy Advisor, WSAC

6.) Information Sharing and Discussion Regarding 529 Savings Plan Options
- **Jamie Canup**, Attorney, Hirschler Fleischer
- **Allyson Tucker**, Senior Investment Officer, WSIB
- **David Mitchell**, WSAC Chief Technology Officer

Director's Report

Customer Refund Update

Data as of December 1, 2015

- **Inbound calls:**
  19,748
- **Inbound emails:**
  3,158
- **Estimated number of refund requests received:**
  8,669 (6.7% of Active Accounts)
- **Estimated number of refunds processed:**
  2,845
- **Estimated dollar value of processed refunds:**
  $62,936,960

Director's Report

GET Customer Activity Update

- **Expenses as a result of the College Affordability Program:**
  - Approximately $100,000
  - Customer communications, computer programming, expert consultant assistance, etc.
- **Dollars not collected as a result of policy to waive program refund penalties:**
  - Total: $1,300,573
- **Lump sum and new account refunds on track for December distribution.**
  - These were accounts established and units purchased after July 1, 2015.
  - Approximately $2.5 million in refunds.
- **Amortization Refund on track for December distribution.**
  - Approximately 33,000 unique customers and $60 million in refunds.

GET Investment Update

Allyson Tucker, Senior Investment Officer

Washington State Investment Board (WSIB)

Washington State
Investment Board

Guaranteed Education Tuition Committee

Allyson Tucker, CFA

Senior Investment Officer
Risk Management and Asset Allocation

December 3, 2015

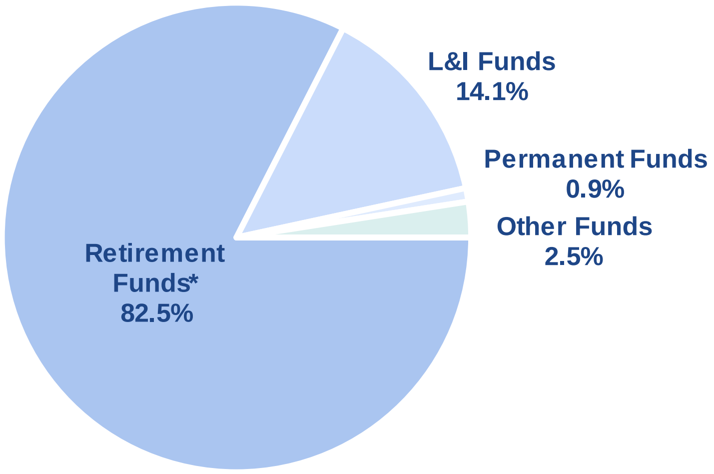
Agenda

- Who We Are
- GET Investment History
- GET Program Update

Who We Are

- Independent agency created in 1981
- 15 member governing Board made up of diverse system stakeholders
- Governance structure designed to ensure focus on fiduciary duty
- Central mission is to maximize return at a prudent level of risk
- 16 retirement plans' assets are commingled and invested using a single strategy
- Assets under management as of September 30, 2015: $103.4 billion, comprised of:
  - Retirement Funds
  - L&I Funds
  - Permanent Funds
  - Other Funds

Assets Under Management



*Commingled Trust Fund (CTF), DC Funds, and Higher Education Retirement Plan

GET Investment History

May 1997
- GET established

August 1998
- GET asset allocation and WSIB policy established

September 2002
- Updated asset allocation

September 2007
- Updated passive equity strategy

February 2011
- Updated asset allocation

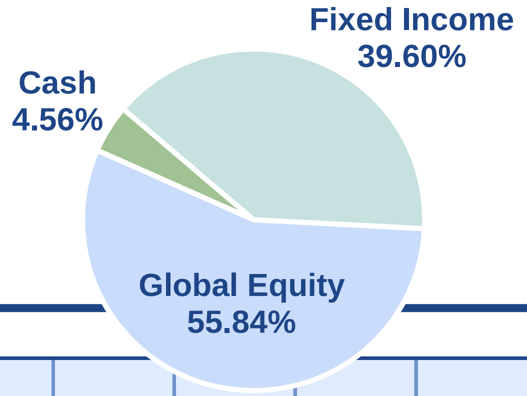
December 2014
- Updated asset allocation

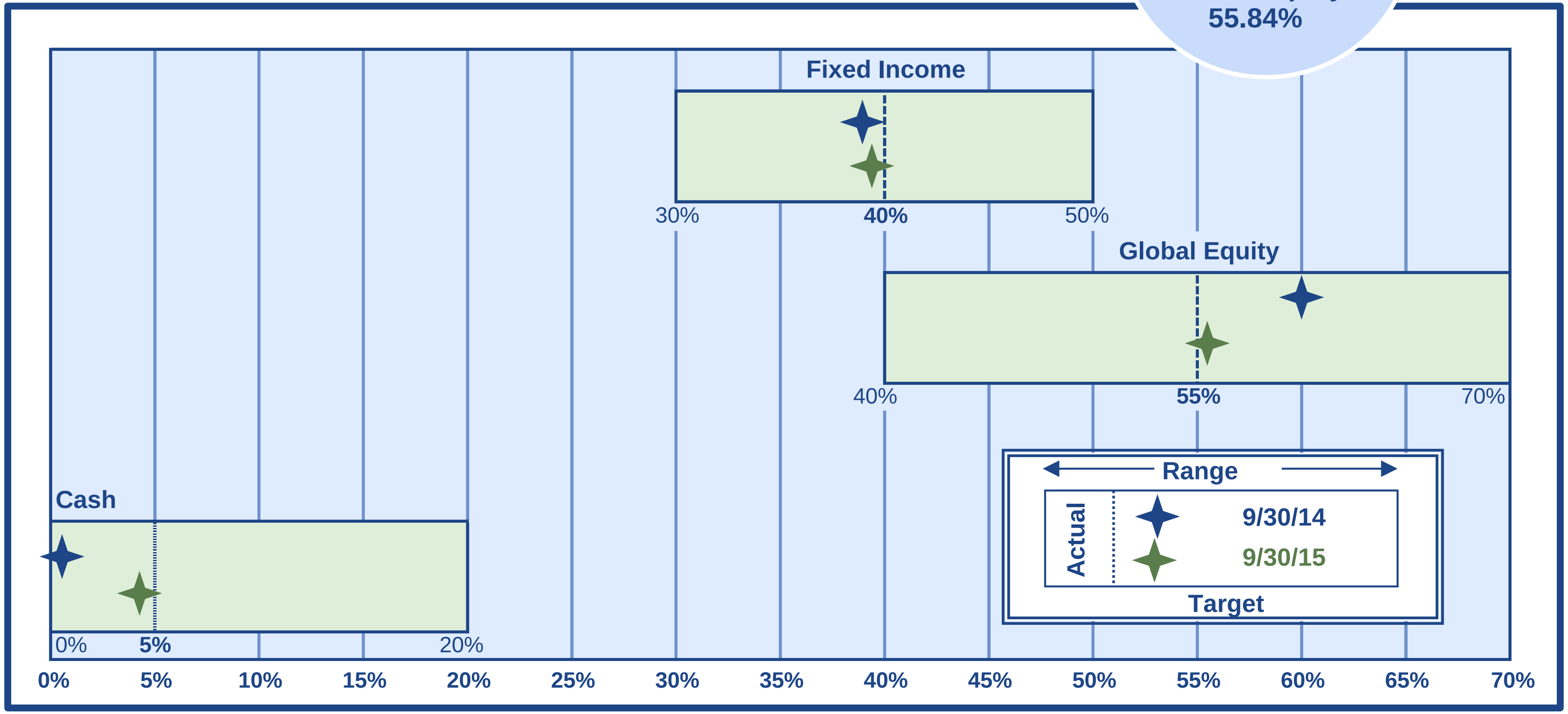
September 2015
- Adjusted asset allocation policy to add liquidity and flexibility as a result of major policy changes

GET Program Update - Market Values, Asset Allocation, Targets & Ranges

September 30, 2015

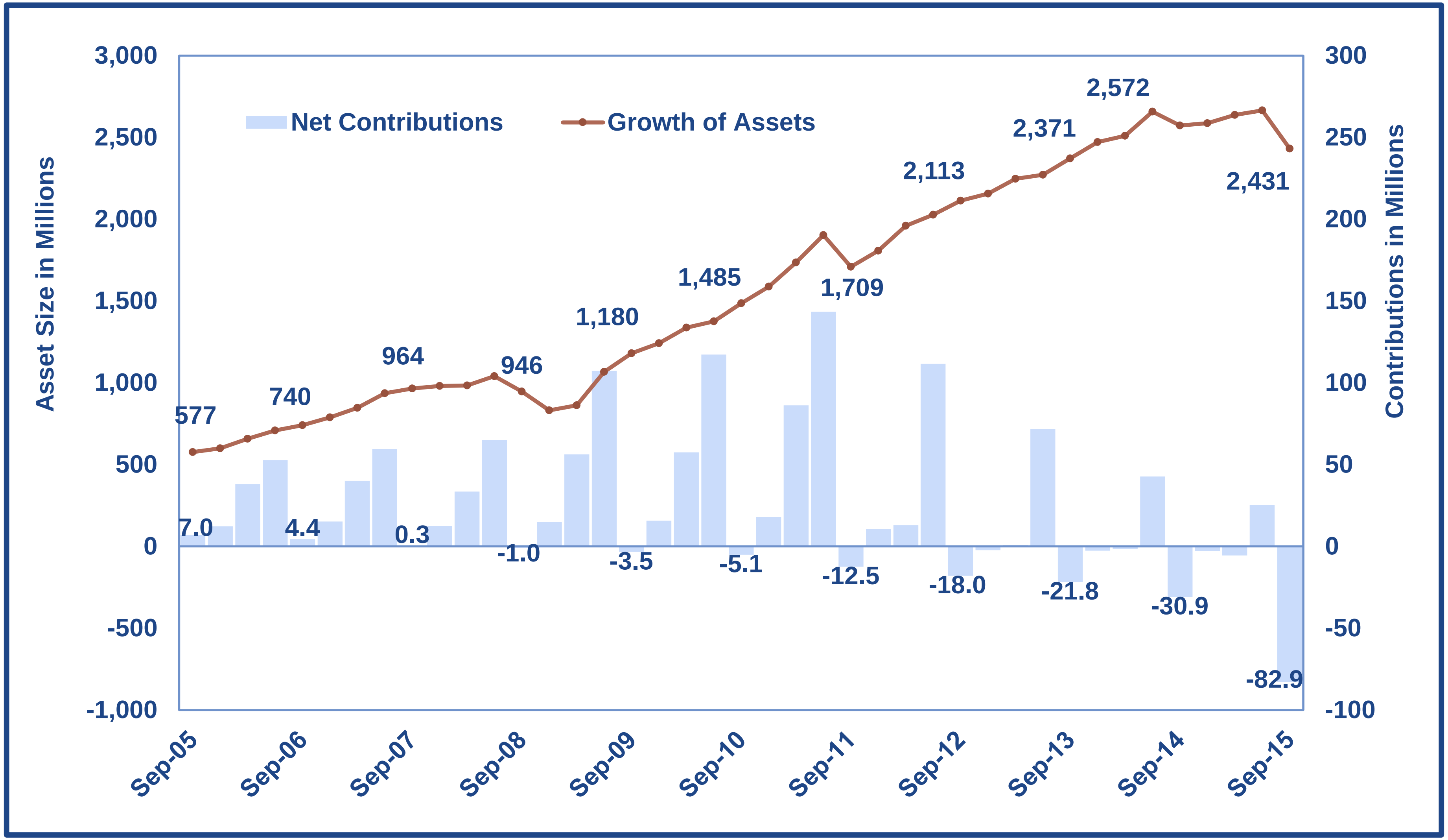
Total	$2,430,792,301
Cash	$110,884,440
Fixed Income	$962,615,064
Equity	$1,357,292,798





GET – Net Contributions & Growth of Assets

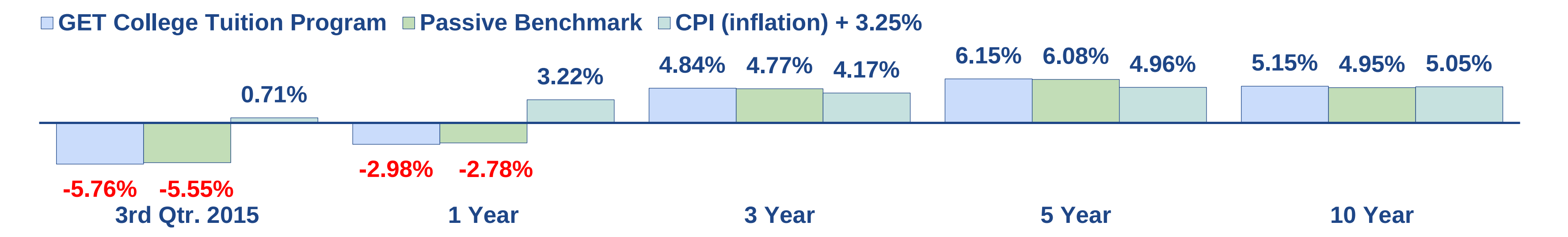
September 30, 2015



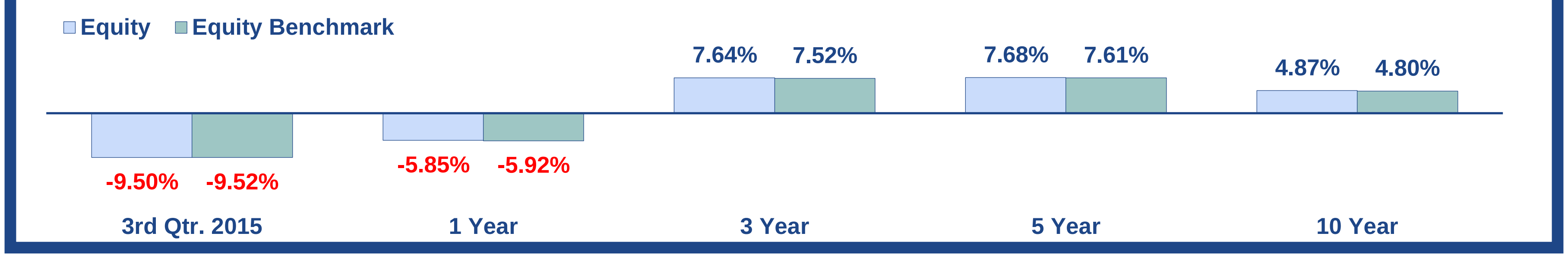
GET Performance

September 30, 2015

Total Return



Equity Return



Fixed Income Return

GET Program October Update

- The GET market value at month end was $2.51 billion, up from $2.43 billion at the beginning of the month.
- The consolidated portfolio returned 4.5 percent in October, driven by strong returns in the equity portfolio, which was up by 7.7 percent.
- October cash outflows from the account totaled $27 million.
- The actual asset allocation as of November 16, 2015, was:

Cash	5%
Fixed Income	46%
Equity	49%

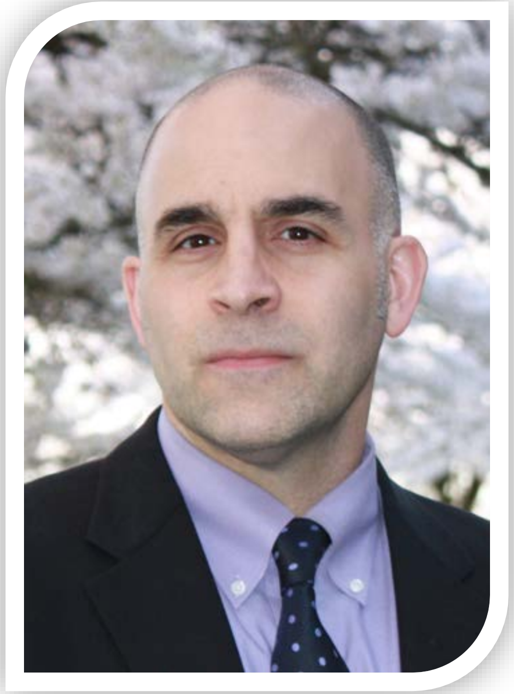
- In October, the Treasury weighting within the fixed income portion of the portfolio was increased to reduce credit risk and increase portfolio liquidity.

Annual Actuarial Valuation Overview

Guaranteed Education Tuition℠

Matt Smith, Actuary

Office of the State Actuary



Independent Actuarial Valuation Review

Alan Perry, Independent Actuary

Milliman (Independent Actuarial Services Provider)

Washington Student Achievement Council

Guaranteed Education Tuition Program

Actuarial Review
Summary of Results

Presented by:
Alan H. Perry, FSA, CFA, MAAA

December 3, 2015

- General Approach of the Review
- 2015 Experience Study
- 2015 Actuarial Valuation
- 2014 Price-Setting Analysis
- Suggested Improvements

Milliman

Overview of Findings

- By its nature, a review of another professional's work product will tend to focus on those aspects where the reviewer believes some modification in current procedures would be desirable.

- Hence, a report such as this will devote the vast majority of the presentation to criticism that, even though intended to be constructive, may give the reader the impression that only problems were found.

- ***Therefore, we would like to state clearly up front that we found the actuarial procedures and practices to be of a high quality and in compliance with all major aspects of the applicable actuarial standards.***

- While we will discuss several areas where we believe some modifications in actuarial assumptions or methods would be beneficial, that discussion should be considered within the context of an overall favorable report concerning OSA's work.

Milliman

General Approach of the Review

We were provided with:

- Unedited contract data file as of June 30, 2015
- Data reconciliation from OSA
- Asset values, asset reconciliation, and capital market assumptions from WSIB
- 2015 Experience Study report
- Preliminary 2015 Valuation report (and revised report)
- 2014 Price-Setting Analysis report
- Other detailed information from OSA requested by Milliman

Milliman

2015 Experience Study

Key Economic Assumptions:
– Investment rate of return

- **OSA recommends *increasing* from 5.5% to 6.0%**

- **OSA relies on WSIB’s capital market assumptions and asset allocation targets**

- **We believe 6.0% is reasonable, but optimistic**

- **A survey of advisory firms’ assumptions shows *decrease* in expected returns in 2015 compared to 2014**

- **Very few (if any) funds increased their assumption in 2015**

Milliman

2015 Experience Study

Key Economic Assumptions:
– Expected tuition growth (updated in Valuation report)

• OSA considers:
– long-term growth in cost of instruction
– expected changes to state support
– recent and potential future legislative impacts

• After the two years of tuition reduction (2015 and 2016) due to the College Affordability Act, OSA recommends two years of 6.5% growth, one year at 6.0%, and then 5.0% long-term tuition growth commencing in 2020.

• If the Act's policy of limiting tuition increases to the annual growth rate in the median state wage is maintained, then tuition growth in the future may be closer to 3-4 percent.

2015 Experience Study

Key Demographic Assumptions:

– **New entrant profile**

• **OSA recommends using a profile based on the actual distribution of unit sales, averaged over the previous three years, of:**

– **contract types**
– **number of units purchased**
– **beneficiary ages**

2015 Experience Study

Key Behavioral Assumptions:

– Unit redemption rate
• OSA recommends 20% per year

– Refund and Default rates
• OSA recommends eliminating these assumptions

2015 Experience Study

Key Miscellaneous Assumptions:

– Contract maintenance expense
• OSA recommends keeping this assumption

– Unit distribution expense and processing fee
• OSA recommends <u>eliminating</u> these assumptions

Milliman

2015 Actuarial Valuation

- ☐Contract Data
- ☐Assets
- ☐Sample Life Testing
- ☐Replication of Results:

Estimate Difference Difference	OSA's 2015 Preliminary Actuarial Valuation	Milliman Estimate	Difference	Difference
	($Mil)	($Mil)	($Mil)	(Pctg)
Present Value of Unit Redemptions	$2,019	$2,011	$8	0.40%
Present Value of Administrative Expenses	$23	$23	$0	0.00%
Present Value of Monthly Contract Receivables	$256	$256	$0	0.00%

Milliman

2014 Price-Setting Analysis (no sales in 2015)

- New entrant profile
- Expected number of contracts and units
- GET budget
- Replication of Results:

Price Component	OSA's 2014 Price-Setting Analysis (per unit)	Milliman Estimate (per unit)	Difference (per unit)	Difference (Pctg)
Present Value of Unit Redemptions	$126.42	$129.05	$2.63	2.1%
Present Value of Expenses	$5.45	$4.99	($0.46)	-8.4%
15% Reserve	$19.78	$20.11	$0.33	1.7%
Amortization (from report)	$20.82	$20.82	--	--
Total	$172.47	$174.97	$2.50	1.5%

Milliman

Suggested Improvements

☐Provide more detail in an appendix to the valuation and pricing reports
– Assumptions: timing of cash flows, GET budgets, expected number of contracts sold
– Contract/Unit data: contracts and units in force by year of purchase and projected first year of use

☐Provide a gain/loss analysis measured in dollars in the Valuation Report

☐Provide more detail in the asset reconciliation
– Break out inflows and outflows by source
• LS payments, installment payments, enrollment fees, other fees
• Unit redemptions, refunds, rollovers
• GET administrative costs

☐Work with GET staff and Banner to obtain more detailed contract experience information on a per contract basis for future assumption development

Milliman

BASIS FOR ANALYSIS

This summary report was prepared solely to provide assistance to the Washington Student Achievement Council. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that any third party recipient of this report be aided by its own actuary or other qualified professional when reviewing the Milliman report.

Please see our full report dated November 18, 2015 for more details and additional statements of reliance.

Valuation Adoption

Guaranteed Education Tuition℠

Marc Webster, Senior Fiscal Policy Advisor

Washington Student Achievement Council

Information Sharing / Discussion Regarding 529 Savings Plan Options

GET
Guaranteed Education Tuition℠

HIRSCHLER FLEISCHER
ATTORNEYS AT LAW

Jamie Canup, Attorney / 529 Plan Expert

Partner with Hirschler Fleischer Attorneys at Law

Investments

Age-Based Portfolio(s)

Static Portfolios

Fees

Program Manager Fees

Record-Keeper Fees

State Fees

Underlying Fees

Other Fees

HIRSCHLER FLEISCHER
ATTORNEYS AT LAW

Other Considerations

Marketing

Record-Keeping

Call Center, Website, IT Support

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State Incentives

Creditor Protection

Financial Aid Exclusion

Matching Funds

Scholarships

Information Sharing / Discussion Regarding 529 Savings Plan Options

GET
Guaranteed Education Tuition℠

Allyson Tucker, Senior Investment Officer

Washington State Investment Board (WSIB)

Washington State
Investment Board

DCP Overview for Comparison Purposes

Agenda

- WSIB's Role in GET Committee Deliberations
- Overview of Deferred Compensation Program (DCP)
- Guiding Principles of Menu Design
- DCP Example
  - DCP Menu Design
  - Expenses
  - Assets Under Management
- Key Considerations
- Appendix

WSIB’s Role in GET Committee Deliberations

Concept

The Committee is currently evaluating the feasibility of starting a 529 college savings plan in Washington. While not the only option, one of the paths under consideration is to create a direct plan with WSIB as investment manager.

Discussions

WSIB staff has engaged in conversations with the GET staff and consultant to achieve a high-level understanding of the savings plan requirements and WSIB capacity based on information known at this time. The goal is to provide the Committee with input to aid in its deliberations.

Comparisons

Through this process, WSIB staff has found that 529 plans offered by other states and the District of Columbia offer at least one asset allocation option, as well as additional investment options that allow participants to build their own portfolios.

This is similar to the structure of Washington’s DCP.

Overview of Washington's DCP Program

- Washington's DCP program is a supplemental savings plan.
- It is an Internal Revenue Code 457 qualified plan, which means contributions are pre-tax and subject to IRS annual limits.
- Employees choose how much to invest and can make changes to the contribution amounts.
- Washington State Department of Retirement Systems (DRS) is the administrator of the plan.
- WSIB selects and monitors investment options.
- Earnings in the plan are held in trust by WSIB.
- Participants in the plan select from a menu of investment options and manage their accounts (e.g., account access, transfers, contributions, rebalancing, rollovers, withdrawals).

Guiding Principles of Menu Design

- WSIB and DRS completed a comprehensive review of the investment options (i.e., menu design) of the DCP in 2010.
- The optimal menu design for our long-term savings plans are based on principles of investment theory and investor psychology.
- Menu design addresses these considerations:
  - Investment menu design itself influences behavior
  - Simplicity in design is essential
  - Most investors maintain initial allocation
  - No optimal design exists that satisfies all participants; hence we focus on the majority
  - The menu needs to be broad enough to build portfolios of varying risk levels
- A choice between asset allocation strategies (e.g., target date funds) and stand-alone options is preferable.
- Generally passive strategies should be utilized to lower all-in costs to participants.

Washington’s DCP Menu Design

- Easy, flexible, and smart, Washington’s DCP plan is a supplemental savings plan to help participants meet their retirement goals.

•The DCP offers two approaches to building portfolios:

- One-step investing
  - Asset allocation strategy that automatically rebalances
- Build and monitor
  - Participant creates investment mix
  - Participant should rebalance over time

One-Step Investment Options

- **Retirement Strategy Funds (default option)**

Build and Monitor Options

- **Socially Responsible Balanced Fund**
- **Savings Pool**
- **Washington State Bond Fund**
- **U.S. Large Cap Equity Index Fund**
- **Global Equity Index Fund**
- **U.S. Small Cap Value Equity Index Fund**
- **Emerging Markets Equity Index Fund**

Washington's DCP Participant Fees by Strategy

	Total Fund Manager Fees		DCP Administrative Fee			
Fund Name	Management Fee	Manager Administrative Fee	WSIB Fee	Record Keeper Fee	DRS Fee	Total Fees
Savings Pool	0.0000%	0.0041%	0.0205%	0.0625%	0.0453%	0.1324%
Washington State Bond Fund	0.0000%	0.0050%	0.0205%	0.0625%	0.0453%	0.1333%
Social Balanced Fund	0.3200%	0.0300%	0.0205%	0.0625%	0.0453%	0.4783%
US Large Cap Equity	0.0000%	0.0030%	0.0205%	0.0625%	0.0453%	0.1313%
US Small Cap Value Equity	0.0100%	0.0133%	0.0205%	0.0625%	0.0453%	0.1516%
Global Equity	0.0500%	0.0167%	0.0205%	0.0625%	0.0453%	0.1950%
Emerging Market Equity	0.1800%	0.0197%	0.0205%	0.0625%	0.0453%	0.3280%
Retirement Maturity Strategy	0.1597%	0.0000%	0.0205%	0.0625%	0.0453%	0.2880%
2005 Retirement Strategy [1]	0.1558%	0.0000%	0.0205%	0.0625%	0.0453%	0.2841%
2010 Retirement Strategy [1]	0.1532%	0.0000%	0.0205%	0.0625%	0.0453%	0.2815%
2015 Retirement Strategy [1]	0.1506%	0.0000%	0.0205%	0.0625%	0.0453%	0.2789%
2020 Retirement Strategy [1]	0.1605%	0.0000%	0.0205%	0.0625%	0.0453%	0.2888%
2025 Retirement Strategy [1]	0.1691%	0.0000%	0.0205%	0.0625%	0.0453%	0.2974%
2030 Retirement Strategy [1]	0.1754%	0.0000%	0.0205%	0.0625%	0.0453%	0.3037%
2035 Retirement Strategy [1]	0.1668%	0.0000%	0.0205%	0.0625%	0.0453%	0.2951%
2040 Retirement Strategy [1]	0.1519%	0.0000%	0.0205%	0.0625%	0.0453%	0.2802%
2045 Retirement Strategy [1]	0.1519%	0.0000%	0.0205%	0.0625%	0.0453%	0.2802%
2050 Retirement Strategy [1]	0.1519%	0.0000%	0.0205%	0.0625%	0.0453%	0.2802%
2055 Retirement Strategy [1]	0.1519%	0.0000%	0.0205%	0.0625%	0.0453%	0.2802%
2060 Retirement Strategy [1]	0.1507%	0.0000%	0.0205%	0.0625%	0.0453%	0.2790%

[1] The fees change on a quarterly basis and are based on the respective net asset values of the funds.
Note: DCP Administrative Fee = WSIB Fee + Record Keeper Fee + DRS Fee

Composition of DCP Expense to Participants

Low-Cost Provider

- The state of Washington provides the DCP at a competitive rate:

- External investment management fees and expenses
  - Pass-through of external management fees
    - Cash
    - Equity investment options
    - Passive implementation

- Plus WSIB fee
  - Pro rata share of WSIB's appropriated costs (e.g., salaries) and non-appropriated investment management expenses

- Plus DRS fees
  - Customer service and communications
  - Record keeper fee

Composition of DCP Expense to Participants

Low-Cost Provider

- The state of Washington provides the DCP at a competitive rate:

- External investment management fees and expenses
  - Pass-through of external management fees
    - Cash
    - Equity investment options
    - Passive implementation

- Plus WSIB fee
  - Pro rata share of WSIB's appropriated costs (e.g., salaries) and non-appropriated investment management expenses

- Plus DRS fees
  - Customer service and communications
  - Record keeper fee

DCP Assets Under Management

September 30, 2015

- DCP's scale offers the opportunity to achieve a competitive cost structure.

As of September 30, 2015		
Fund	**Assets Under Management**	**Total %**
Retirement Strategy Funds	1,531,575,540	44.8%
Savings Pool	868,655,854	25.4%
WSIB Bond Fund	222,538,489	6.5%
U.S. Large Cap Equity	343,235,674	10.0%
U.S. Small Cap Equity	167,322,311	4.9%
SRI Fund	126,330,021	3.7%
Global Equity	109,276,279	3.2%
Emerging Market Equity	47,363,806	1.4%
Total DCP funds	$3,416,297,975	100.0%

Key Considerations

- If the Committee chooses to pursue WSIB as investment manager for Washington’s direct 529 college savings plan, the following considerations must be addressed:

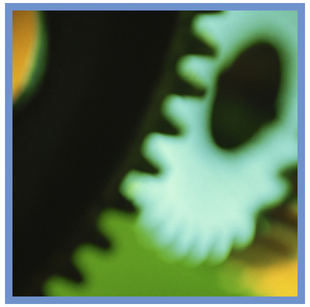
- Legal issues
  - The WSIB needs full investment authority granted by the Legislature, including authority over investment option selection. For example, such investment authority is found in the GET advanced college tuition and DCP statutes.
  - The WSIB needs assurances, such as a legal opinion, that the investment of the funds in stocks and bonds complies with the law.
  - GET needs to confirm authority to manage investment funds for residents outside the state of Washington or develop the program for Washington residents only.

Key Considerations

A Starting Point

- WSIB capacity, implementation, and process:
  - Operational requirements to be identified and addressed
  - Analysis of 529 industry, including menu design
  - Identification of available investment options
  - Determination of investment procurement needs
  - Production of recommendations to the GET Committee
  - Development of investment policy and implementation recommendations to the WSIB

Appendix: DCP Performance

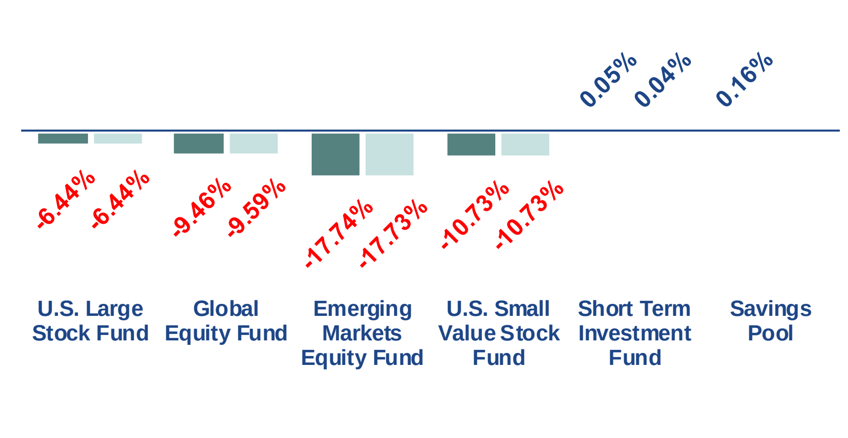




DCP – Equity & Cash Performance

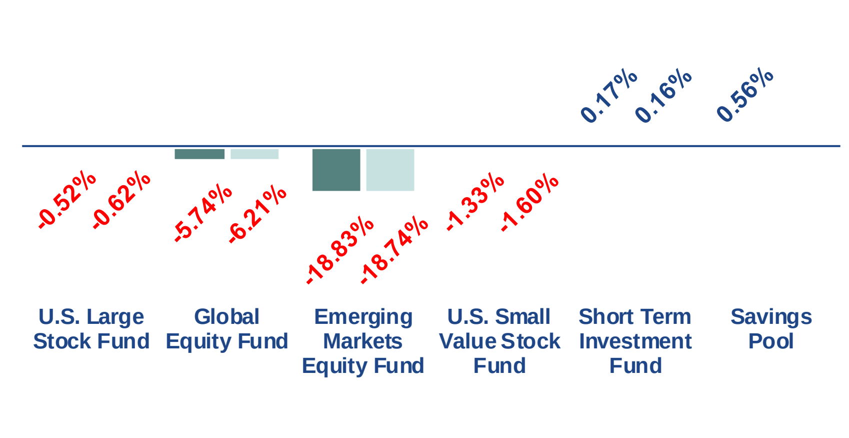
September 30, 2015

Fund Index

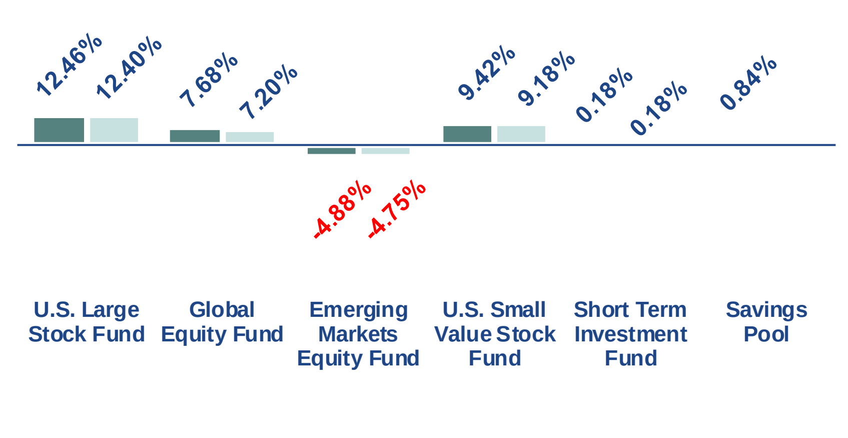
Quarter



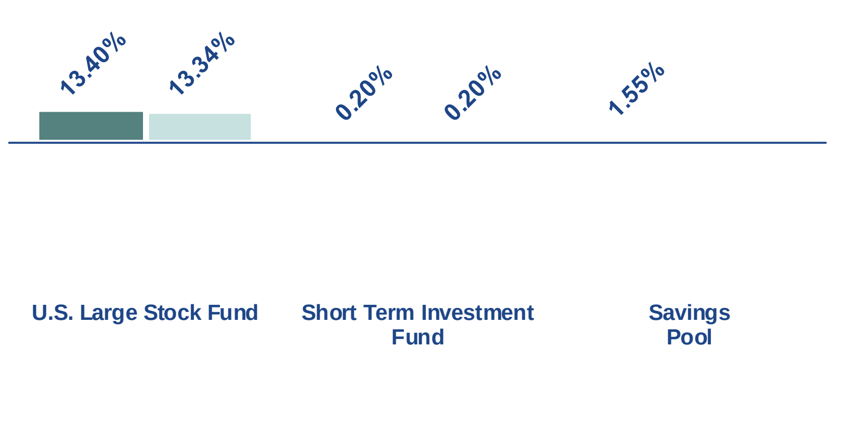
1 Year



3 Year



5 Year

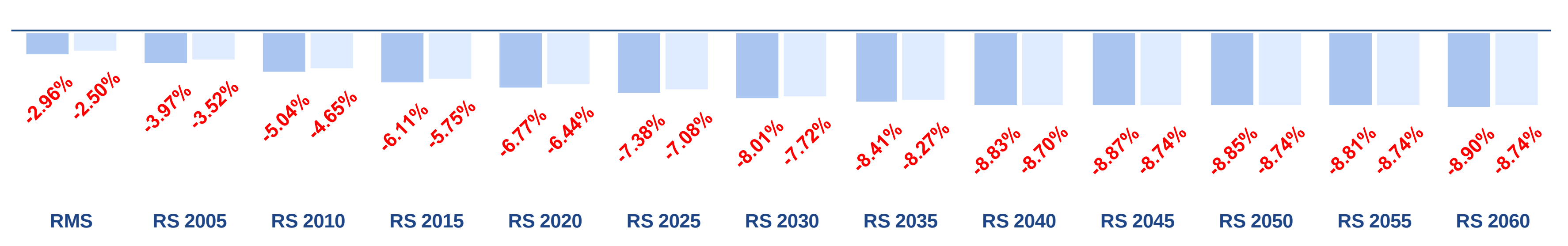


DCP – Retirement Strategy Funds Performance

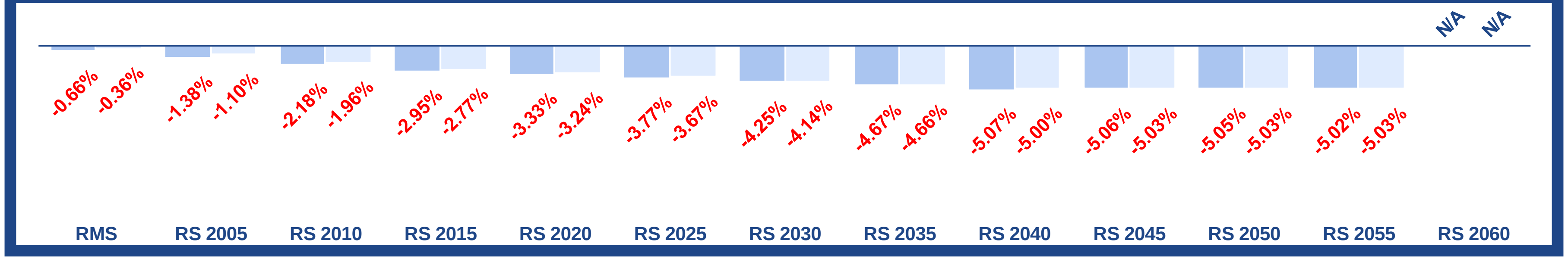
September 30, 2015

Fund Index

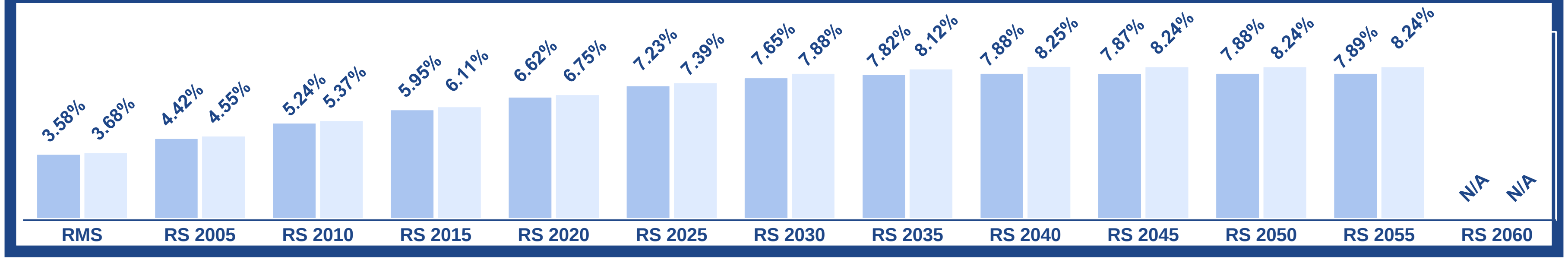
Quarter



1 Year



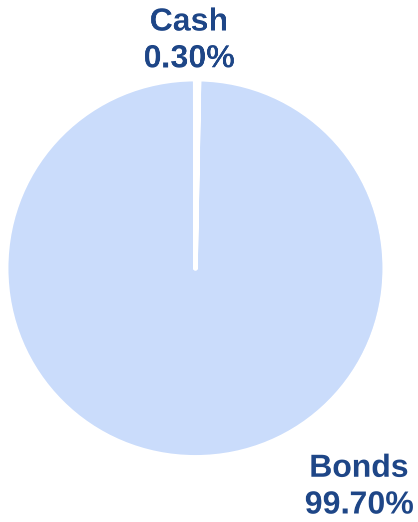
3 Year



Bond Fund Characteristics, Top 10 Credit Issuers & Asset Allocation

September 30, 2015

Bond Fund	$1,742,624,045	
	Fund	Index
Average Maturity	5.0 years	4.8 years
Yield to Maturity	3.14%	2.61%
Modified Duration	4.42	4.31
Average Coupon	3.50%	3.62%
Number of Holdings	260	4,309



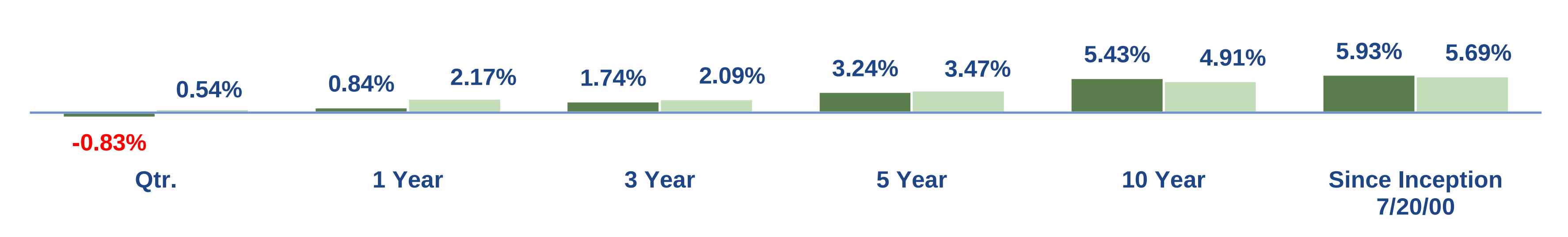
Top Ten Credit Issuers			
International Finance Corp.	0.99%	Standard Chartered Bank	0.88%
Glencore International AG	0.99%	Cencosud SA	0.88%
Ontario, Province of	0.94%	Union Pacific Corp.	0.88%
Macquarie Bank Ltd.	0.91%	Asian Development Bank	0.88%
Sempra Energy	0.89%	Air Products & Chemicals, Inc.	0.87%

Bond Fund Performance, Industry Distribution & Ratings

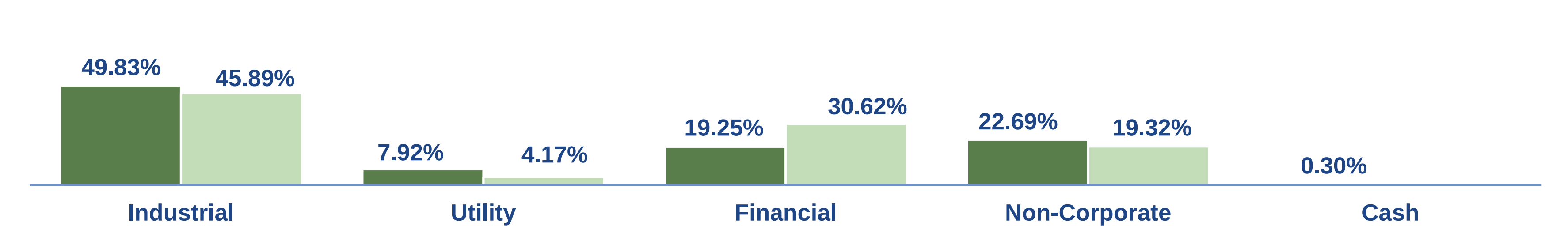
September 30, 2015

Fund Index

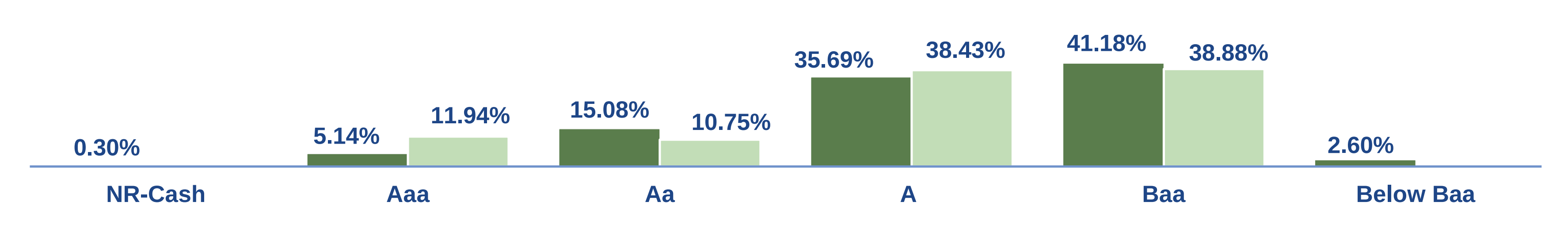
Total Return



Industry Distribution



Moody's Equivalent Ratings



Contact Information

Website: http://www.sib.wa.gov

Address: 2100 Evergreen Park Drive SW
P.O. Box 40916
Olympia, WA 98504

Phone Number: (360) 956-4600

Information Sharing / Discussion Regarding 529 Savings Plan Options

GET
Guaranteed Education Tuition℠

David Mitchell, Chief Technology Officer

Washington Student Achievement Council

Objective

- Discuss an in-house hybrid savings plan from an IT perspective

Risk

- Contracted services is seen as the answer

- WSAC has gone a different direction and has invested in internal IT resources

Why In-House?

- GET has long history of providing in house services
- To control important aspects:
  - Cost – 3rd party is expensive
  - Quality – have control of
  - Agility – react to change

Established Internal Developer Capacity

- Two teams of developers at WSAC:
  - GET (three developers and one QA)
  - Financial aid (four developers)
- Developed both teams over last 10 years
- Stable, low turnover
- Institutional knowledge
- Established Lean culture

Industry Standard Approach

- Technologies in use follow industry closely – modern web-based system

- Litmus test
  - Recent hires have drawn well qualified applicant pool

Leverage Existing Resources

Guaranteed Education Tuition℠

- Experienced developers, QA, and IT management
- Existing website, servers, databases, and tools developed over last ten years
- Existing statements, payment to AFRS, payroll deduction, lockbox, EFT's
- Customers can use existing accounts

Automation & Efficiency

- GET experienced high growth during Great Recession
- Led to a highly automated system
- Very efficient, low FTE count

Excellent Track Record

- GET program is way ahead of other states in terms of features and usability
- Excellent relationship with auditors

In-House Hybrid Solution

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- CSS is an established vendor used by several states for both prepaid and savings plans
- We've replaced web interface to tailor to our needs
- By hosting ourselves we have access to data for reporting needs
- Keep dollars and jobs here in Washington state

What are Other Agencies Doing?

GET
Guaranteed Education Tuition℠

- Met with staff at DRS:
  - Currently changing record keepers (again)
  - Very little control
  - Changes are slow and expensive
  - Didn't seem too happy with 3rd party record keepers, but didn't have the internal IT resources to go it alone

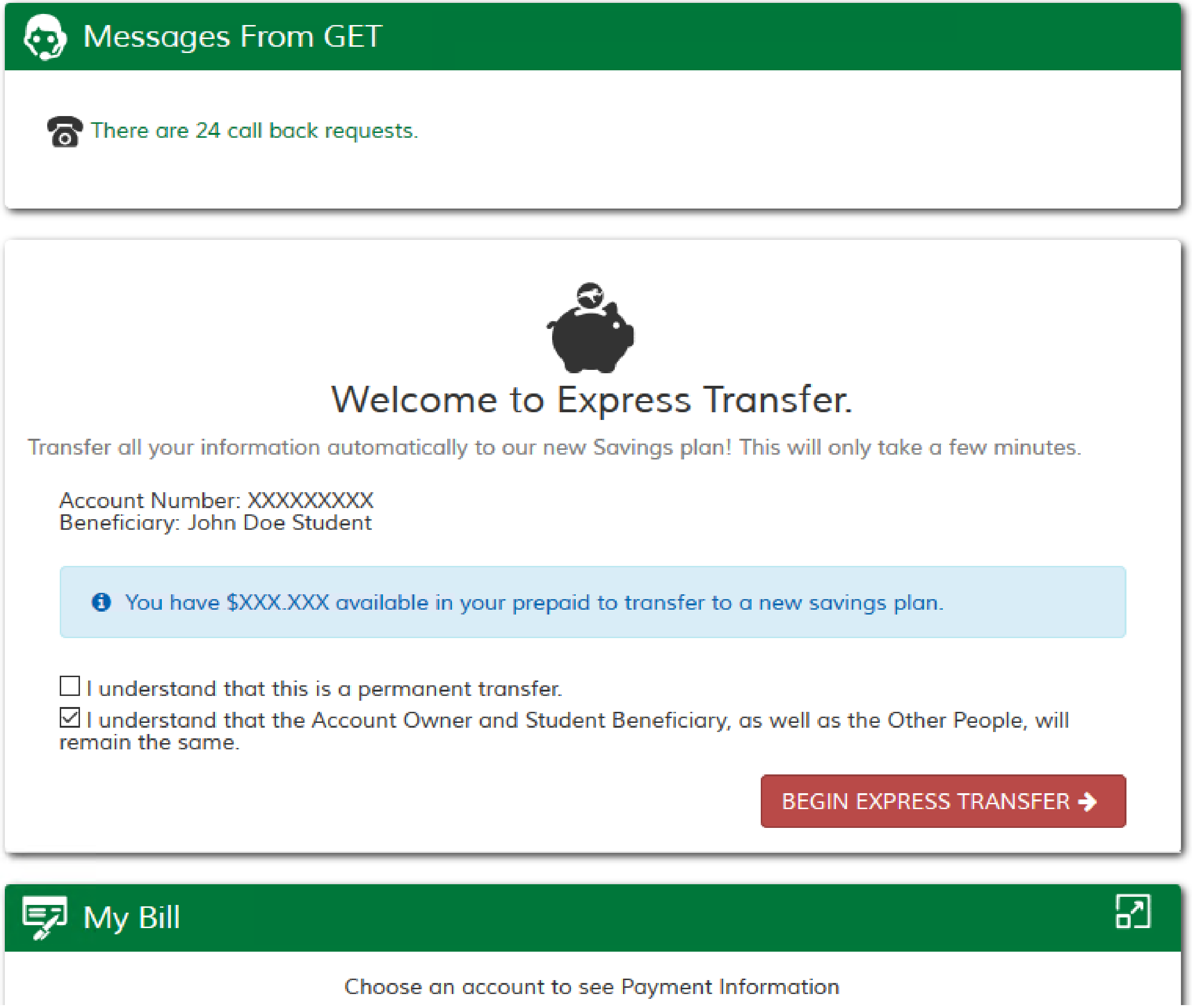
Next Steps?

Guaranteed Education Tuition℠

- Adding Savings to existing system is simple – system already in use in several other states
- Still would need several months to test and make sure it's ready (distributions, 1099's, statements, etc.)
- Would spend most time tailoring web-based system for Savings

“The Button”

Guaranteed Education Tuition℠



Takeaways

- In-house is really a hybrid system
- We have internal IT capacity
- We've been doing this for a long time
- Leverage existing infrastructure and staff to keep costs low

Questions?

- David Mitchell
- davidm@wsac.wa.gov
- (360) 753-7892

Savings Plan Discussion

Savings Plan Discussion

Guaranteed Education Tuition℠

Actions needed to establish a 529 savings plan

If the Committee chooses to move forward with a 529 savings plan the GET program will still need the following items to be approved by the Legislature before the one year timeline would begin:

1.) Appropriation for startup costs

2.) Incentives / Plan benefits for state residents

3.) Legislation to hire SIB / Investment authority

If the Committee chooses a state-run program

Savings Plan Discussion

Guaranteed Education Tuition℠

Discussion Questions

- What are the pros and cons of each plan management option?
- Does the Committee have a preference towards one of the three options?
- Would you like to see additional research regarding consumer demand for a 529 savings plan?
- Does the Committee want to see broader input from other stakeholders about establishing a 529 savings plan?

Savings Plan Discussion

Discussion Questions

- Do you need additional details about start up costs, resources and legislation needed to establish a plan?

- Do you have any concerns about moving forward with a 529 savings plan?
    - If so, what are your concerns?

- Is the Committee ready to move forward with a recommendation for establishing a plan?
    - If not, what research and information would you like GET staff to conduct and bring to the February meeting?

Savings Plan Discussion—Next Steps?

Guaranteed Education Tuition℠

Next Step Options Available to the Committee:

1.) Committee approval to establish a 529 savings plan provides an opportunity to move forward with legislation in the upcoming 2016 session to obtain the resources and support needed to create a plan.

- **This option likely creates a plan opening date of fall 2017.**

2.) Committee decision to conduct additional research allows for additional input from other stakeholders and more time to gather any other pertinent information the Committee deems necessary.

- **This option likely means any potential legislation will be deferred until the 2017 session with a plan opening date of fall 2018.**

3.) Committee decision to not establish a 529 savings plan concludes research into various 529 savings plan options.

- **GET staff include savings plan findings in legislative feasibility report.**

Questions & Answers

GET
Guaranteed Education Tuition℠

- **Meeting Adjournment**

- **Next Meeting:**

  - **Thursday, February 11, 2016**
    J.A. Cherberg Building
    Capitol Campus, Olympia
    Senate Hearing Room 1
    2 p.m. to 4 p.m.

HIRSCHLER FLEISCHER
ATTORNEYS AT LAW

MEMORANDUM

TO: Betty Lochner

FROM: James W. C. Canup

DATE: December 1, 2015

RE: 529 College Savings Plan

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

Overview

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

Investments

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

Sales of Units in a Portfolio are considered to be municipal fund securities under the Securities Laws[1] and the rules of the Municipal Securities Rulemaking Board (MSRB) and the rules of the Financial Industry Regulatory Authority (FINRA)[2]. So long as units are offered directly by a State (or an instrumentality or an agency of a State) by employees in the course of their duties as

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

employees of the State (or an instrumentality or an agency of a State), the units do not have to be registered with any federal agency and are not subject to the Securities Laws of the U.S., except for the anti-fraud provisions of the Securities and Exchange Act of 1934, and those employees are not required to be registered or licensed pursuant to the Securities Laws. If a State engages a program manager or other third-party to help sell Units in a Portfolio, that third-party will be subject to the various requirements imposed under the Securities Laws and the rules of the MSRB and FINRA.

Age-Based Portfolios

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

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

These age-based Portfolios are sometimes referred to as "set it and forget it" Portfolios (they are also seen as akin to target date fund investments offered by retirement plans). Age-based Portfolios are popular with account owners who invest in direct-sold, college savings plans. More money invested in direct-sold, college savings plans is invested in age-based Portfolios that any other type of Portfolio.

Static Portfolios

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

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

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

Investment Line Up Recommendation

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

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

Fees

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

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

Program Manager Fees/State Fees

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

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

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

It is not clear whether the South Dakota 529 Plan is subsidized by the State of South Dakota or if the State receives a payment directly from its Program Manager, Allianz Global Investors, which also manages the State's advisor-sold, college savings plan. As of June 2015, the combined SD 529 Plans had approximately $1.2 billion in assets under management in approximately 38,000 accounts but these numbers are not broken out between the direct-sold and advisor-sold plans.

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

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

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

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

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

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

<u>Underlying Expense Ratio</u>

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

Total Expense Ratio

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

Other Program Fees

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

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

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

Disclosure

Every direct-sold, college savings plan must have an offering document that

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

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

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

Targeted Marketing

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

Other Considerations

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

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

Incentives to Consider

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

State Creditor Protections

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

Financial Aid Exclusion

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

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

Matching Fund Programs

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

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

Scholarships

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

Rewards Program

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

Conclusions

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

Washington State 529 Savings Plan:
Market Analysis

Presented to:
GET Committee
December 3, 2015

Overview

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

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

Insights from Recent GET Surveys

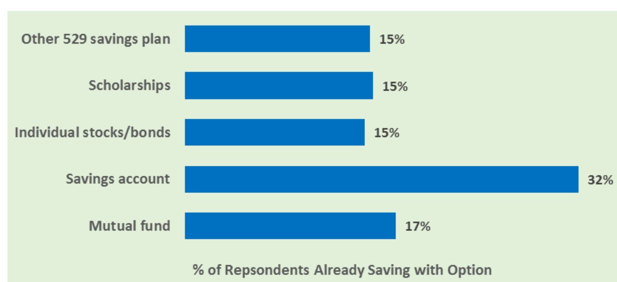
In the past 18 months, GET has conducted two customer surveys in order to develop a sense of what account owners value when it comes to their college savings. Each survey included questions specifically related to how GET customers are currently saving or plan on saving for their children's college education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

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

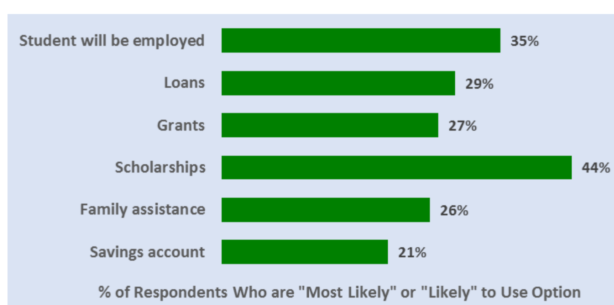
Three of the questions asked provide helpful insight for this analysis:

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

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

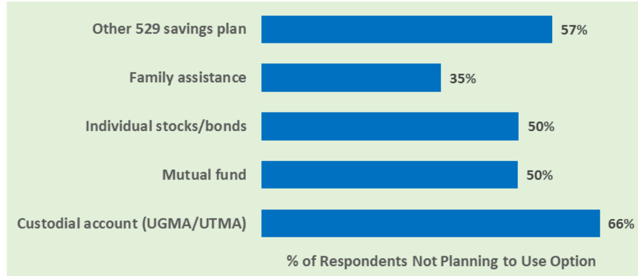


  The savings mechanisms that respondents ***were most likely or likely*** to use were:
    1.) Scholarships (44%)
    2.) Student will be Employed (35%)
    3.) Loans (29%)
    4.) Grants (27%)
    5.) Family Assistance (26%)
    6.) Savings Account (21%)

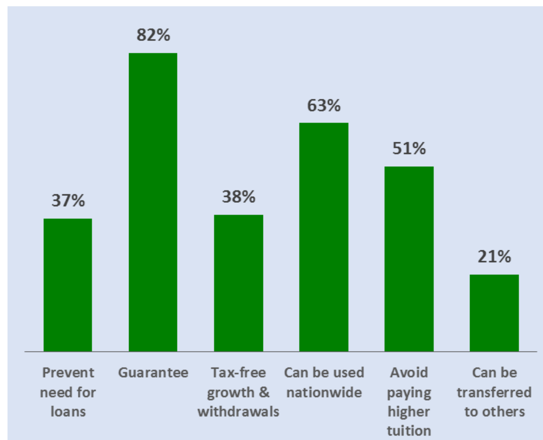


[1] Source: Center for Social Development, Washington University in St. Louis (2010). http://csd.wustl.edu/Publications/Documents/WP10-01.pdf

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



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



The second survey was conducted October 2014, and received 190 responses.
One especially relevant question from this survey was:

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

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

What these survey results tell us.

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

GET Customer Profiles

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

State-Level Demographics

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

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

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

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

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

National College Savings Attitudes

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

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

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

- Total investment by U.S. families in 529 plans reached a **record $258.2 billion**.
- Approximately 12.33 Million 529 plan accounts have been opened nationwide.
- The average 529 plan account has over $20,934.

529 Plans in Other States

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

Table 1 – Self-Managed State 529 College Savings Plans

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

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

†VA and OH also offer an advisor sold plan.

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

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

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

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

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

Table 2 – Nearby West Coast State 529 College Savings Plans

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

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

Case Study for Creating a New Savings Plan

TNStars 529 College Savings Plan Overview[8]

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

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

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

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

Program Fee Structures

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

Incentives

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

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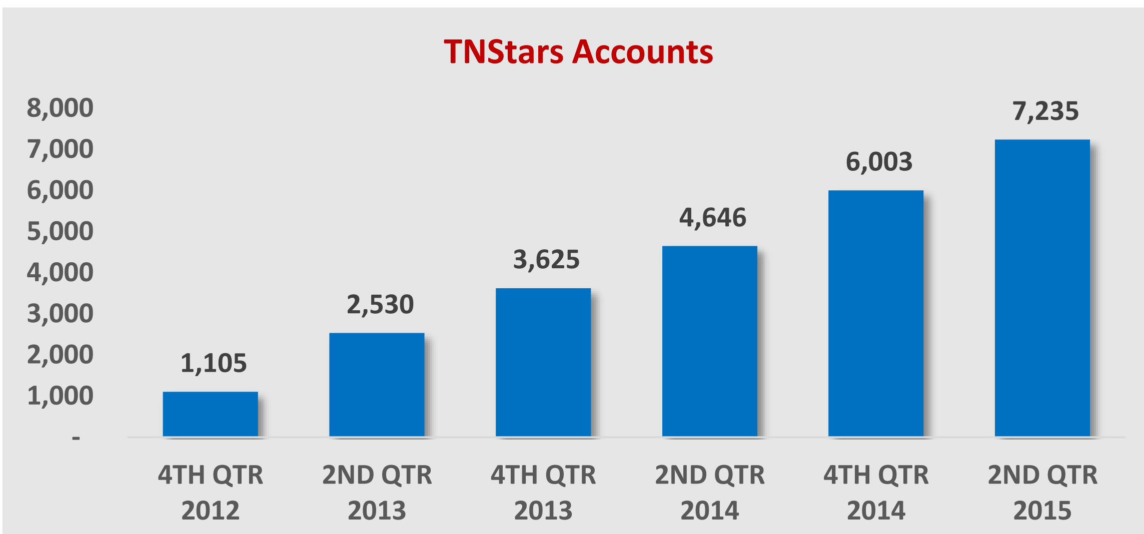
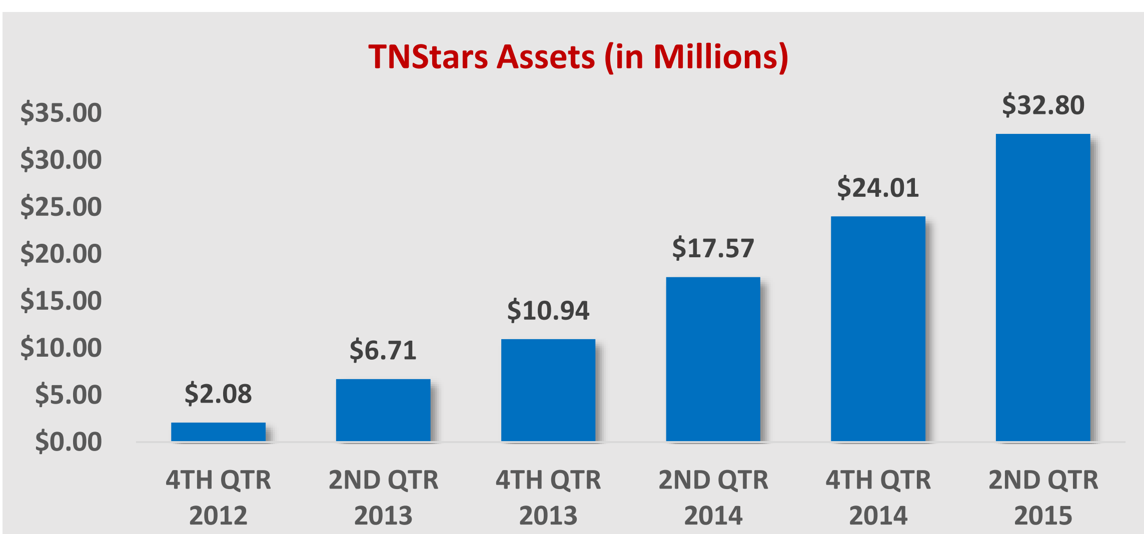
[8] Source (for whole section): Tennessee Treasury Department. (2015). http://www.treasury.state.tn.us/.

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

Enrollment and Investment Growth

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





Discussion

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

529 Savings Plan Options

State Run Program	Pros	Cons
	1.) Affordable to start & operate	1.) Additional financial oversight/expertise needed
	2.) Quickest to establish and retain GET customers/dollars	2.) Adviser sold program not an option
	3.) Greatest amount of control in terms of providing high quality customer service	
	4.) Tailored marketing for all state residents (including low-income households)	
	5.) Option to create state resident benefits (match, credit protection)	
	6.) Gives loyal GET customers another savings option with WA State	
	7.) Allows WA residents the opportunity to invest WA dollars in WA.	

Third Party Program Manager	Pros	Cons
	1.) State gets professionally managed plan	1.) Redundancy in operational services and functions
	2.) No need to create infrastructure to run program	2.) Infrastructure already in place with GET
	3.) Program manager provides prof. management and investment advice	3.) State loses quality control
	4.) Advisor sold program	4.) State loses ability to tailor program / little flexibility
	5.) Possible access to underlying funds	5.) Tough to remain competitive in terms of fees
		6.) Once you start this model you pretty locked in
		7.) Focused on reaching national market / Little state marketing
		8.) Focused on higher income households
		9.) State still does not outsource its fiduciary responsibility

Partnering with Another State	Pros	Cons
	1.) Potential to offer a quality 529 Savings option with relative ease (brand as WA product)	1.) Limited attempts by states to partner with other states
		2.) Lots of questions if this can be done under various securities laws
		3.) Lose control to tailor program
		4.) State residents can already invest in these plans as it is now

Start Up Needs of a State Run Program
1.) Interagency agreement with SIB / SIB Create investment options
2.) Regulatory compliance
3.) New disclosures / program details and policies
4.) New program materials / marketing /website
5.) Add savings module to database (IT infrastructure) for record keeping purposes
6.) Recruit, retain and train staff
7.) Develop operation processes