

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

February 11, 2009
State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, Washington
2:00 p.m. – 4:00 p.m.

AGENDA

Call to Order

- | | | |
|--|--------------------------------|-------|
| • Approval of November 17, 2008 minutes | ACTION | Tab 1 |
| • Report from the Chair | INFORMATION | |
| • Director's report | INFORMATION | |
| • GET pricing adjustment timing review
GET pricing assumption review | INFORMATION
POSSIBLE ACTION | Tab 2 |
| • GET investment update
Diana Will, Investment Officer
Washington State Investment Board | INFORMATION | Tab 3 |
| • GET preliminary operating budget FY10
Larry Lee, GET Deputy Director | INFORMATION | Tab 4 |

Next Regularly Scheduled GET Committee Meeting

April 22, 2009, 2:00 – 4:00 p.m.

LOCATION CHANGE:

Insurance Building, Capitol Campus

4th Floor Conference Room

302 Sid Snyder Avenue SW

Olympia, WA 98504

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Monday, November 17, 2008

State Investment Board

2100 Evergreen Park Drive SW, Suite 100

Olympia, WA 98502

MINUTES

HECB staff in attendance:

Betty Lochner, GET Director
Don Bennett, HECB Deputy Director
Larry Lee, GET Deputy Director
Heidi Auderer, GET Operations Manager
Susan Martensen, GET Communications Specialist
Betsy Hagen, Special Assistant to the
GET Director

Guests in attendance:

Terry Ryan, Office of the Attorney General
Diana Will, State Investment Board
Marc Webster, Office of Financial
Management
Scott Copeland, State Board for
Community and Technical Colleges

WELCOME

GET Committee Chair Ann Daley called the meeting to order at 2:05 p.m. Members of the GET Committee in attendance were Ann Daley, Chair; Shad Pruitt, on behalf of Michael J. Murphy, State Treasurer; Marc Webster on behalf of Victor Moore, Director of the Office of Financial Management (OFM) – note: Victor Moore arrived at 2:15; Beth Stecher Berendt, citizen member; and Mooi Lien Wong, citizen member.

APPROVAL OF APRIL 2008 MEETING MINUTES

Committee members reviewed the minutes of the April 23, 2008 meeting. Berendt moved to adopt the minutes as presented. Webster seconded the motion. The motion was approved unanimously as presented.

APPROVAL OF 2009 MEETING CALENDAR

Committee members reviewed the proposed 2009 meeting calendar. Meeting dates will be February 11, 2009, April 22, 2009 and August 12, 2009. All meetings will be held at the State Investment Board, unless otherwise announced. Berendt moved to adopt the calendar schedule. Wong seconded the motion. The motion was approved unanimously as presented.

REPORT FROM THE CHAIR.

Ann Daley presented an update regarding the legislative outlook for 2009. Daley noted the new revenue forecast will be released next Wednesday and is expected to be gloomier than first thought. Daley added that the future will bring tough times for residents and will create new challenges for the state. Daley understood this to be the worst fiscal crisis in the state for the past 30 years. She urged Committee members to scrutinize college tuition setting dialogue during this upcoming session.

DIRECTOR'S REPORT CONTRACT STATISTICS

Betty Lochner presented current enrollment status of the Program. As of Nov. 17, 2008, the new enrollment count is 1,852 with 92,728 enrollments since inception. Lochner noted that the Program is on target for at least the second highest enrollment year ever.

Larry Lee distributed copies of the updated contract statistics format to Committee members. Lochner reviewed the information and Lee clarified the categories.

Following active discussion the Committee approved the new format and thanked Lochner and staff for their work.

MARKETING UPDATE

Lochner introduced Susan Martensen, GET Senior Communications Specialist. Martensen began her employment with GET in the summer of 2008.

Martensen presented the marketing campaign for the 2008-2009 enrollment period which includes:

- New print materials
- New radio ad
- Media relations and outreach
- PSAs
- New TV commercial (will run February 2 -March 30, 2009)

The new marketing campaign features children-engaged in play, pretending to be a scientist, engineer, nurse or archeologist. It highlights their natural curiosity and urge to learn. The message of the campaign is that GET families don't have to worry about future college tuition because GET is guaranteed. Committee members viewed the TV ad and listened to the radio ads.

Martensen added that Lochner will be interviewed December 18, 2008 for Comcast Newsmakers, which airs on CNN. The interview will run from December 25, 2008 – January 18, 2009. Lochner and Lee will also increase GET marketing and exposure through targeted outreach and media events this year.

GET INVESTMENT UPDATE

Diana Will, investment officer from the State Investment Board, presented the GET investment update.

The report is as of September 30, 2008. Will also shared updated figures:

- \$946 million – value as of September 30
- \$820 million – value as of October 30
- \$788 million – value as of November 14

Will reiterated that financial markets have not been good. All investments are down. The current allocation of GET portfolio investments are as follows:

- Cash 4.8%
- International Equity 14.9%
- TIPS 45.6%
- US Equity 34.6%

Active discussion between Committee members addressed portfolio rebalancing, new policies, and allocation decisions and Committee recommendations.

Berendt suggested the Committee wait to make any financial decision until after today's evaluation report from Alan Perry. She is also concerned about continuing to sell GET units in this period of market volatility. Berendt would like to revisit this concern at a future date.

GET ANNUAL ACTUARIAL VALUATION REPORT

Alan Perry presented information from the June 30, 2008 annual valuation report. Lee distributed copies to Committee members.

Active discussion ensued regarding the valuation report. Perry reminded Committee members that GET is a long-term investment.

GET's Actuarial Value:

- As of June 30, 2008 – total Program assets were \$1.2 billion with a stabilization reserve of \$104.5 million – 109% funded
- As of November 30, 2008 – total Program assets were \$890 million with a deficit of \$84 million – 84% funded

Perry reviewed the history of the 2002 market downturn. He stated that today we are close to matching that market's decline. He noted that recovery to 2000 market levels took until May 2007, so it's reasonable to anticipate a similar recovery period. Perry reminded the audience that if you are a long term investor, you'll be fine. Assuming everything eventually recovers – this may be the best time to invest.

Perry shared scenarios of assumptions, stabilization reserves, and liability of obligations. Discussion continued about the S&P 500 index, stocks, and the current economic crisis.

Conversation continued regarding future sales, smoothing mechanisms, assumptions, and investments.

Perry's recommendation is to price carefully, consider assumptions, and keep selling. He noted that if you price slightly above the expected cost and continue to sell units, you will recover, though it may take a long time. Continuing to sell generates a positive cash flow which will help to close the gap. Last year 2.2 million units were sold, creating \$160 million in revenue with \$9 million for the stabilization reserve.

Berendt expressed concern about continuing to sell GET units at this time. She stated that the Committee should have the ability to take measured actions regarding resetting prices and Program fees during economic hardships. Berendt added that the Committee needs to explore this and have a full range of options available to use to react to economic hardships; similar to what we're experiencing now.

Ryan responded by stating the Committee already has the discretion to adjust the GET unit price twice annually. It may be difficult to define a "true emergency" in an economic sense. Discussion continued on whether the current economic situation is a justifiable emergency. Ryan stated that in any event, for this enrollment year, GET has a contract with the general public to sell units at the \$76 rate through April 30, 2009.

The Committee had a number of questions about sales for future years, future emergencies, Committee empowerment over sales or reduction of rates, and the actuarially soundness of the Program.

Ryan suggested that parameters be written on what an emergency situation is and a policy established in order to provide the flexibility for the GET Committee to respond.

Daley asked Lochner, Lee, and Ryan to review GET policy documents and bring the information to the February 2009 Committee meeting. Any recommendations for changes will be addressed at the February 2009 meeting.

Lochner verified that the following guiding documents would be brought to and discussed at the February 2009 GET Committee meeting:

- GET statute
- GET marketing annual materials (Enrollment Kit)
- Master Agreement (Program Details)

ADJOURNMENT

The meeting was adjourned at 3:15 p.m.

Respectfully Submitted,

Betsy Hagen
Special Assistant to the GET Director

Guaranteed Education Tuition

As of January 31, 2009

CONTRACT STATISTICS: Number of Contracts

Contract Statistics by Plan Year	1998-2007	2008	TOTAL
# of Active Contracts			
Custom Monthly Contracts (CM)	22,592	914	23,506
Lump Sum Contracts (LS)	59,487	2,859	62,346
Total # of Active Contracts	82,079	3,773	85,852
# of Inactive Contracts	4,944	32	4,976
# of Depleted Contracts	3,821	14	3,835
Total # of Contracts	90,844	3,819	94,663

UNIT STATISTICS: Number of Contracted Units and Purchased LS Units

	1998-2007	2008	TOTAL
Contracted Units (Active Accounts)	4,346,880	163,850	4,510,730
Lump Sum Units (Active Accounts)	12,737,381	195,428	12,932,809
Total Active Accounts	17,084,261	359,278	17,443,539
Contracted Units (Inactive Accounts)			303,813
Lump Sum Units (Inactive Accounts)			775,298
Grand Total Contracted and LS Units Purchased			18,522,650

Other Unit Facts

Unpaid Contracted Units (Active Accounts)	2,394,487
Total Paid Out Units Since Inception (Active and Inactive Accounts)	2,860,793

CONTRACT PAYMENTS SINCE INCEPTION

	1998-2007	2008	TOTAL
Total Payments Received (All Accounts)	\$ 963,612,477	\$ 14,742,108	\$ 978,354,585
Total Fee Payments Received (All Accounts)	\$ 5,040,347	\$ 156,055	\$ 5,196,402
Total Contract-Related Payments Received	\$ 968,652,824	\$ 14,898,163	\$ 983,550,987
Future Custom Monthly Payments Due (Active Accounts)	\$ 222,033,114	\$ 18,362,418	\$ 240,395,531

ITEMS OF INTEREST

Number of Students Who Have Used Benefits	13,016
Benefits Paid	\$ 113,958,793
Refunds Paid	\$ 9,668,651
Total Paid Out In Benefits and Refunds	\$ 123,627,444

GET Pricing Adjustment Timing Review

February 11, 2009

Background

By statute, the GET Committee (Committee) must set an annual unit price and may also adjust it annually, if necessary, for the actuarial soundness of the program. The Committee has chosen May 1st for annual price setting, with an option to readjust the price on September 1st if necessary for each enrollment year. The Committee has set the current enrollment year as September 15th to March 31st.

At the November 17, 2008 Committee Meeting, staff were directed to investigate the following questions:

1. Are there options for more price setting flexibility to respond in a timelier manner when extreme circumstances, such as an economic downturn or unexpected tuition increases, present themselves?
2. Can the GET Program (Program) discontinue selling GET units if necessary to ensure the financial viability of the Program?

Question 1: Are there options for more price setting flexibility to respond in a timelier manner when extreme circumstances, such as an economic downturn or unexpected tuition increases, present themselves?

There are currently three policy documents for the GET Program:

- A. GET statute – Chapter 28B.95 Revised Code of Washington,
- B. GET Master Agreement (included with Program Details), and
- C. GET Annual Enrollment Kit.

- A. Ch. 28B.95 RCW.** This document is the enabling legislation for the program and can only be changed through the legislative process. As it pertains to setting the price, the statute states:

28B.95.020 Definitions. (15) “Unit purchase price” means the minimum cost to purchase one tuition unit for an eligible beneficiary... The analysis for price setting shall also include, but not be limited to consideration of past and projected patterns of tuition increase, program liability, past and projected investment returns, and the need for a prudent stabilization reserve.

28B.95.030 (6) The governing body shall annually determine the current value of a tuition unit.

28B.95.080 The governing body shall annually evaluate, and cause to be evaluated by a nationally recognized actuary, the soundness of the account and determine the additional assets needed, if any, to defray the obligations of the account. If funds are not sufficient to ensure the actuarial soundness of the account, the governing body shall adjust the price of subsequent tuition credit purchases to ensure its soundness.

- B. Master Agreement.** This document, found in Program Details, is the contract, or master agreement between GET account owners and the Program. It interprets the program statutes and serves in place of rules for the program. The master agreement is published annually, is included

with the Enrollment Kit for prospective customers, and is on our Web site for current customers. The master agreement may be amended for technical corrections, to keep pace with changing tax laws, and when in the best interest of both the Account Owners and the Program (X.

Miscellaneous D. Amendments, page 11) and to provide new information. If a revision is made, all current customers must be notified and provided a copy of the new master agreement.

III. D. Pricing Tuition Units (page 5) – *For each year, the Program will use actuarial methods to determine purchase prices for Tuition Units purchased during that year and may include a premium over current tuition costs. The price for Tuition Units covered by an individual Custom Monthly Payment Plan will not change from year to year, but remain as determined at the outset of the Agreement. Units purchased under the Lump Sum Plan shall be priced annually and also may be adjusted once during the year, if necessary, to ensure the actuarial soundness of the Program.*

VIII. D. Annual Program Analysis (page 10) – *In accordance with state law, the Program will have an annual evaluation of the actuarial soundness of the Program. The results of this evaluation will be used to determine whether one or more Unit price adjustments are needed, and if so, how much the price may be adjusted.*

VIII. F. State Guarantee (page 10) – *The Washington Advanced College Tuition Payment Program is an essential State government function. Agreements with eligible participants are contractual obligations legally binding on the State.*

C. Annual Enrollment Kit. This document describes the Program in detail and includes the annual enrollment and price setting dates. It is revised and published annually at the beginning of each enrollment period. The current enrollment dates are September 15th through March 31st. The price setting dates are currently listed as:

May 1, 2009 – The GET Program may increase the unit price for Lump Sum purchases.

September 1, 2009 – The GET Program may set a new unit price for the 2009-2010 enrollment year. This affects both Lump Sum purchases and new Custom Monthly plans.

Question 1 Summary:

State law authorizes the GET Committee to adjust the unit price up to twice a year, and allows the Committee to choose those dates and to set the annual enrollment period. The Master Agreement reiterates the price change policy by stating that the price may be set annually and may also be adjusted annually to ensure the actuarial soundness of the Program. Neither the state statute nor the Master Agreement provide specific dates for setting the unit price or for adjusting it, or define the annual enrollment period. Specific dates for price changes appear only in the annual Enrollment Kit and may be changed at the direction of the Committee prior to printing (mid-August).

Although there is flexibility in modifying the pricing and enrollment dates announced in the annual Enrollment Kit, there is no flexibility in how many times the price can be changed (twice annually). The current program model provides predictability for customers and allows time for thorough analysis before adjusting the unit price or changing enrollment dates. Current dates are set to coincide with the close of the annual Legislative session, the annual setting of tuition rates by the research universities, and the academic school year. If a decision is made to change dates of the annual and adjusted price setting, committee members should do so before the annual enrollment kit is published.

A disclosure statement could be added to the Enrollment Kit to allow for a change to the price setting date during an enrollment period in extreme or emergent situations. The concern is that this could confuse prospective and current customers and erode confidence in the stability and predictability of the Program overall.

Question 2: Can the GET Program discontinue selling GET units if necessary to ensure the financial viability of the Program?

The statute states:

28B.96.030 (1)(d) – *The governing body may limit the number of tuition units purchased by any one purchaser or on behalf of anyone beneficiary, however, no limit may be imposed that is less than that necessary to achieve four years of full-time, undergraduate tuition charges at a state institution of higher education. The governing body also may, at its discretion, limit the number of participants, if needed, to ensure the actuarial soundness and integrity of the program.*

Question 2 Summary:

The RCW authorizes the Committee to limit the number of participants, if needed.

A disclosure statement could include the Committee’s authority to “limit the number of participants, if needed, to ensure the actuarial soundness and integrity of the program.” Again, the concern is alarming customers and eroding confidence in the Program.

Staff Recommendation

Staff recommends that no changes be made to the existing documents.

GET Pricing Assumption Review

February 11, 2009

Background

Each April the Committee reviews recommendations from the Program's contracted actuary, Milliman, prior to determining the annual GET unit price. In order for Milliman to prepare the necessary models and exhibits for that meeting, a number of assumptions must be determined and provided to actuary in advance. These assumptions include expectations for future tuition increases, expected returns on investments, projected new accounts and unit sales, and the operating budget for the Program. Some of the assumptions are based on historical averages, some are provided by Program staff, and others are provided by the State Investment Board.

Over the last several months, declines in the value of Program investments have eliminated the actuarial reserve, and left a long-term projected deficit. As a result, staff is asking for clarification on a number of the assumptions that will be provided to the actuary for their work in preparing pricing recommendations for the Committee's April price setting meeting.

Current assumptions and information:

Staff has set goals for the coming enrollment period in line with those used for the current year for contracts (9,000) and unit sales (1.35 million). The preliminary budget number of \$4.4 million is slightly above the budget amount approved for the current year and will be provided for approval at the April meeting.

Current prices include a stabilization reserve of just 0.04 percent in each unit. The overall Program stabilization reserve now stands significantly below the lower guideline threshold of six (6) percent. Based upon Program Price-Setting Guidelines, the Committee should increase the reserve contribution in each new unit sold by two (2) percent every enrollment year until the overall program stabilization reserve is again within the 6-10 percent range (see attached Guidelines in blue). This guideline would direct the actuary to prepare their recommendations for the coming enrollment year with a reserve component of 2.04 percent in each unit being sold. This guideline was established to ensure that prices would not increase rapidly following a decline in the reserve saddling new purchasers with an inequitable share of replacement costs. The guidelines state that "the Committee should strive to make pricing adjustments gradually over multiple enrollment years wherever possible."

While current tuition policy limits tuition increases to seven (7) percent annually, major economic events are impacting the State's budgets and its ability to keep this tuition limit in place. Program staff has been asked by OFM and Legislative staff to provide information on how the Program would be impacted by tuition increases of 10 and 12 percent in each of the next two years, and of increases of 10, 15 and 20 percent in each of the next four years.

Assumption Direction Needed from the Committee:

1. Are the recommended enrollment goals for the next enrollment year acceptable?
 - New accounts: 9,000
 - Unit sales: 1.35 million
 - Administrative budget \$4.4 million

2. Should the contracted actuary, Milliman, prepare recommendations based on the GET Committee's price setting guidelines (see attached Guidelines in blue)?

The Committee's price-setting guidelines state that if the overall program stabilization reserve is below 6 percent, the Committee should increase the reserve contribution in each new unit sold by 2 percent every enrollment year until the overall program stabilization reserve is again with the range.

If not, what directives does the Committee want the actuary to follow in regard to the reserve component in new unit sales?

3. If the Committee wants to spread the stabilization recovery over a period of years, how many years?

Price-Setting Guidelines

October 31, 2007

The GET Committee adopted the following price-setting guidelines at the October 31 meeting. These guidelines are designed to provide guidance to Committee members in setting future prices of a GET unit.

- The target for the overall program stabilization reserve is 8 percent.
- The range for the overall program stabilization reserve is plus or minus 2 percent of the target (i.e. 6 to 10 percent).
- If the overall program stabilization reserve is outside of this range (6 to 10 percent), the Committee may increase or decrease the reserve contribution in each new unit sold in order to keep the overall program stabilization reserve within the range.
 - **If the overall program stabilization reserve is above 10 percent**, the Committee should reduce the reserve contribution in each new unit sold to 0.5 percent (minimum level) until the overall program stabilization reserve is again within the range.
 - **If the overall program stabilization reserve is below 6 percent**, the Committee should increase the reserve contribution in each new unit sold by 2 percent every enrollment year until the overall program stabilization reserve is again within the range.
- The Committee should make pricing adjustments gradually over multiple enrollment years.



GET Prepaid College Tuition Program

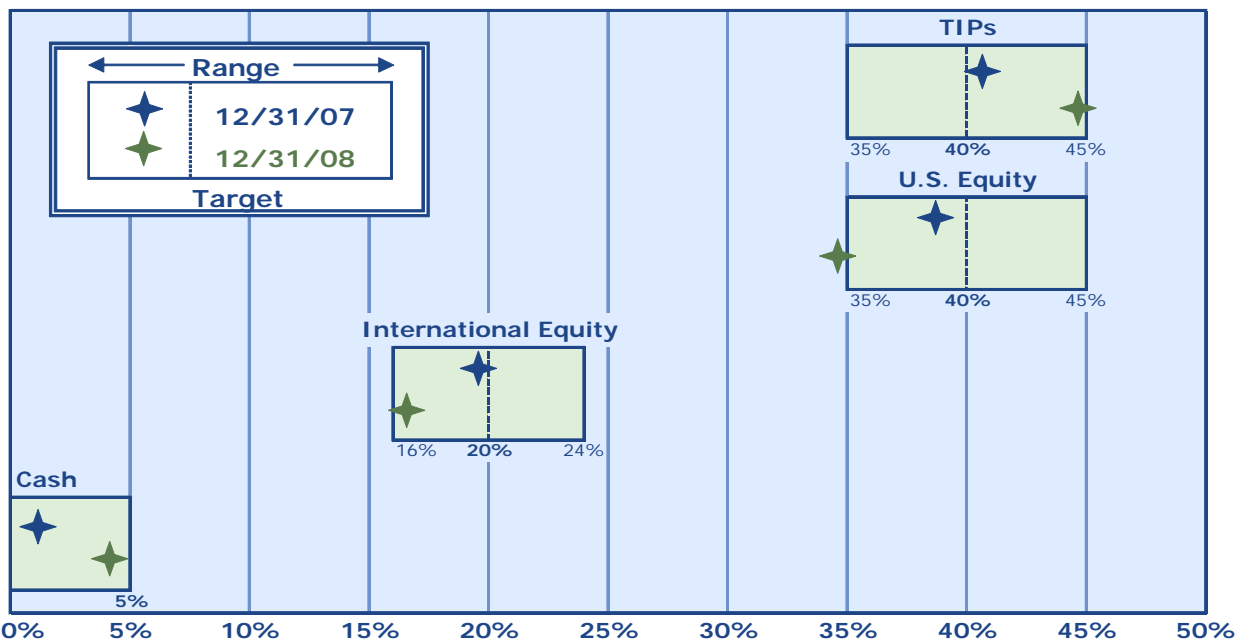
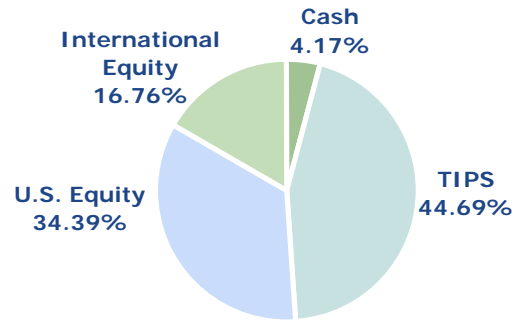
Quarterly Report – December 31, 2008

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

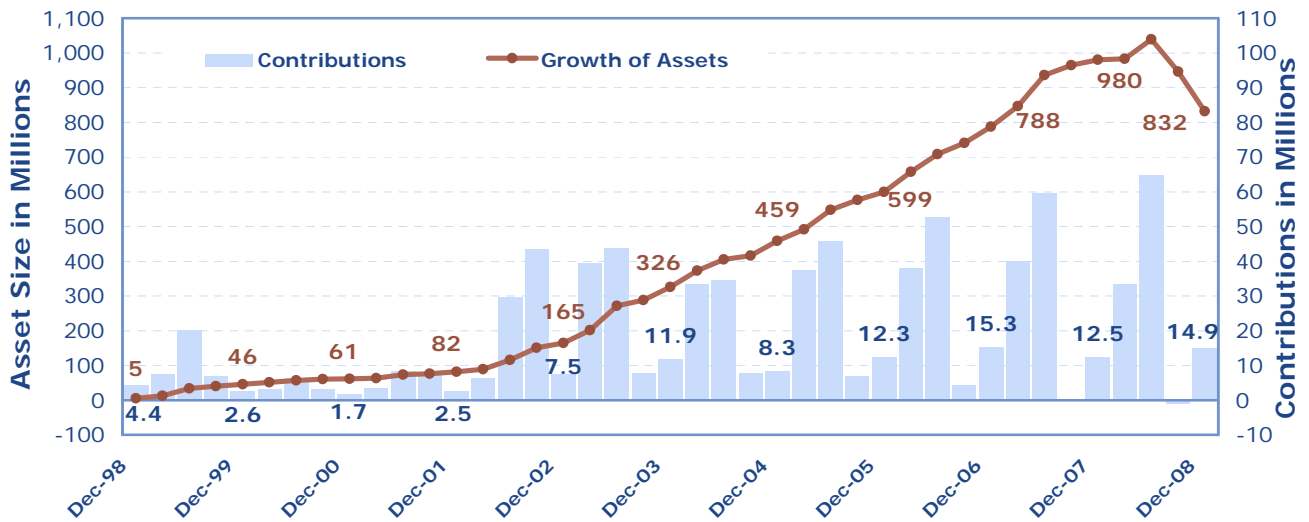
Dated: January 22, 2009

Portfolio Size Actual Asset Allocation

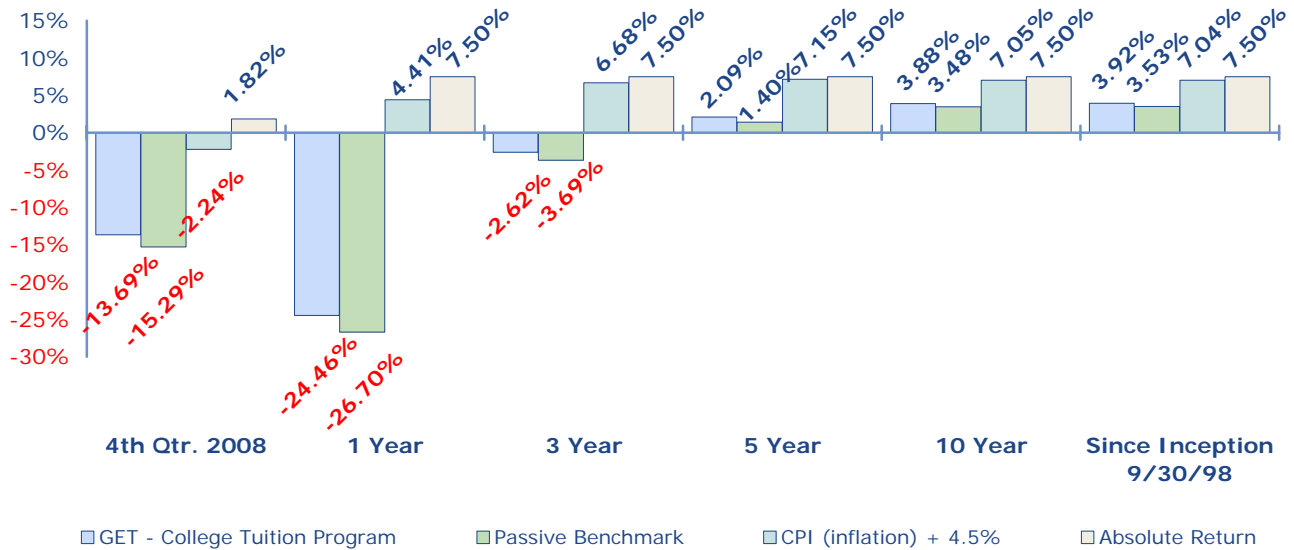
Total	\$831,574,085
Cash	34,666,474
Treasury Inflation Index Note (TIPS)	371,617,408
U.S. Equity	285,954,837
International Equity	139,335,366



Assets Under Management



Total Return *

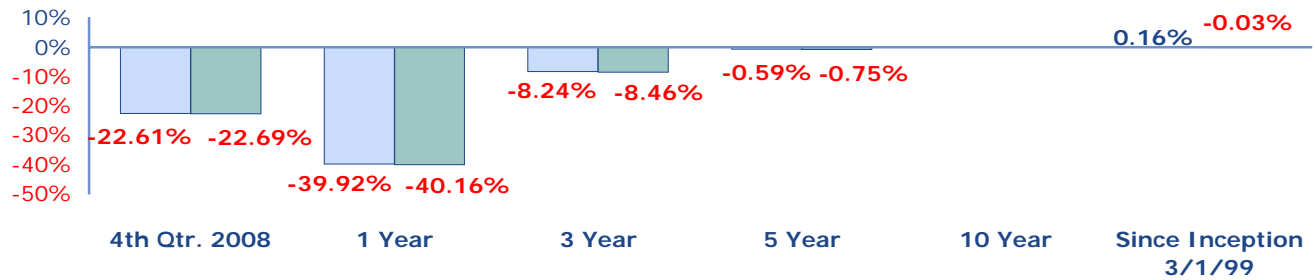


Return Breakdown

Equity Return *

Equity

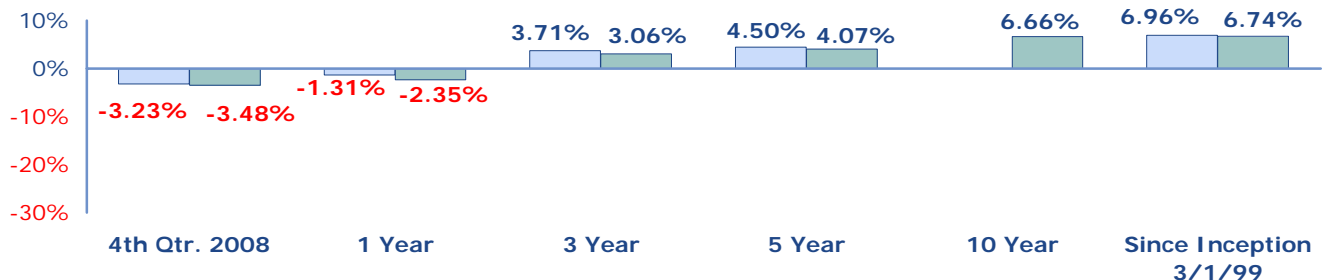
Benchmark - DJ Wilshire 5000 and a blended return of the MSCI EAFE + Canada and MSCI ACW ex U.S. IMI weighted to the policy's target (currently 66% and 33%)



Treasury Inflation Index Note Return *

Treasury Inflation Index Note

Benchmark - Lehman Custom TIPS Index



* The return numbers above are net of manager fees and other expenses that can be directly debited from the account for portfolio management but do not include the WSIB management fee. Inception date is when the WSIB first invested in the asset class.

**Guaranteed Education Tuition Program
FY 2010 Proposed Budget
July 1, 2009 - June 30, 2010**

	FY09 <u>Approved</u>	Projected Actual FY09 <u>Expenditures</u>	FY10 <u>Proposed</u>
Budgeted/Projected Contract Sales	9,000		9,000
Estimated Total Contracts	99,866		108,866
Enrollment & Other Fees	450,000		450,000
Administrative Fees in Unit Price	<u>3,996,000</u>		<u>3,996,000</u>
Projected Available Funds	\$4,446,000		\$4,446,000
Expenditures:			
Salary & Benefits - 26.8 FTE	\$1,721,000	\$1,620,000	\$1,887,000 ⁽²⁾
HECB Indirect Cost Allocation	\$765,837	\$842,673	\$962,673
Goods & Services	462,327	411,825	439,800 ⁽³⁾
Building Lease & Utilities	120,000	112,000	125,000
Travel	40,000	31,000	40,000
Actuarial Contract	63,000	63,000	63,000
Marketing	772,000	729,782	735,000
Records Admin Costs	<u>297,000</u>	<u>155,482 ⁽¹⁾</u>	<u>212,893 ⁽⁴⁾</u>
Total Expenditures	\$4,241,164	\$3,965,762	\$4,465,366

Notes:

- 1) Delayed purchase of \$100,000 scanner system and the purchase of additional block hours for Banner software upgrades
- 2) Includes COLA's, step increases and add't benefits costs (medical insurance up 38%), and seasonal help
- 3) Additional printing costs, postage for new accounts, replacement computer equipment
- 4) Eliminates \$100,000 scanning system, adds hours for Banner software upgrades