

Guaranteed Education Tuition (GET) Committee Meeting

Wednesday, April 20, 2016

J.A. Cherberg Building, Capitol Campus
Senate Hearing Room 1
Olympia, WA 98504
2:00 p.m. – 4:00 p.m.

AGENDA

Call to Order & Welcome

- Approval of the February 11, 2016 Minutes ACTION
- Chair's Report INFO/DISCUSSION
- Legislative Update
Maddy Thompson, WSAC
- Director's Report INFO/DISCUSSION
- Feasibility Study Update and Timeline INFO/DISCUSSION
- 529 Savings Plan INFO/DISCUSSION/ACTION
Betty Lochner, GET Director
Theresa Whitmarsh, Washington State Investment Board
Jamie Canup, Hirschler Fleischer
- Next Steps DISCUSSION
- Public Comment
- Adjournment

Next Meeting:
Thursday, June 23, 2016
J.A. Cherberg Building, Capitol Campus
Senate Hearing Room 1
Olympia, WA 98504
2:00 p.m. – 4:00 p.m.

GUARANTEED EDUCATION TUITION (GET) PROGRAM
Committee Meeting Minutes
February 11, 2016
J.A. Cherberg Building, Capitol Campus
Senate Hearing Room 1
Olympia, WA 98504

WSAC staff in attendance:

Betty Lochner, GET Director
Betsy Hagen, Associate Director for GET Operations
Jackie Ferrado, GET Community Relations Manager
Dan Payne, GET Marketing & Communications Specialist
Kim Porter, GET Project Manager
Melissa Huster, GET Records Manager
Matthew Freeby, GET Finance Manager
Katie Gross, Special Assistant to the GET Director
Aaron Wyatt, WSAC Communications Director
Marc Webster, WSAC Senior Fiscal Policy Advisor
Maddy Thompson, WSAC Director of Policy & Government Relations

Guests in attendance:

Allyson Tucker, Washington State Investment Board
Matt Smith, State Actuary
Chris Phillips – Washington State Investment Board
Scott Copeland, State Board for Community and Technical Colleges
Ann Ryherd, Office of the State Treasurer
Cherie Berthon, Office of Financial Management
Rick Brady, Office of the Attorney General
Michael Harbour, Office of the State Actuary
Janet Michaelsen, Citizen
Pat Mulligan, Citizen
Denny McKee, Citizen
Karin McKee, Citizen
Representative Steve Bergquist, House of Representatives
Jamie Canup, Hirschler Fleisher (via phone)

CALL TO ORDER & WELCOME

The meeting was called to order at 2:00 p.m. Gene Sharratt, Chair of the GET Committee and the Executive Director of the Washington Student Achievement Council reviewed the meeting agenda. The GET Committee members in attendance were David Schumacher, Director of the Office of Financial Management, Beth Berendt, citizen member, and Wolf Opitz, Assistant Treasurer, on behalf of Treasurer McIntire.

APPROVAL OF THE DECEMBER 3, 2015 MINUTES

Berendt made a motion to approve the December 3, 2015, minutes. Schumacher seconded the motion. The minutes were approved unanimously as presented.

CHAIR'S REPORT

Sharratt provided a legislative update that included an overview of:

- The most recent GET Legislative Advisory Committee meeting,
- SB 6601 around the development of a 529 savings plan,
- HB2662 that would establish an educational savings account, and
- HB 2323 which would create the Achieving a Better Life Experience (ABLE) Act.

Sharratt noted that the Governor's supplemental budget maintains the tuition reduction passed as part of the E2SSB 5954 during the 2015 legislative session.

Maddy Thompson, WSAC Director of Policy and Government Relations, informed the Committee that SB 6601 had passed out of the Senate Ways and Means Committee.

GET INVESTMENT UPDATE

Allyson Tucker, Senior Investment Officer with the Washington State Investment Board (WSIB), provided a summary of the 2015 fourth quarter investment report. GET assets decreased which was attributable to cash outflows from the program. Tucker noted that WSIB continues to manage the portfolio with liquidity in mind. The program is invested in cash and publically traded equity and fixed income securities. This means the program is highly liquid. If the WSIB needs to make large scale redemptions of GET program investments, they will receive the prevailing market prices, which fluctuate all the time, but can liquidate quickly.

DIRECTOR'S REPORT

GET Director, Betty Lochner, provided program updates. She noted the estimated number of refunds the program has received since September 1, 2015 (approximately 11,760), and the estimated dollar amount of refunds processed as of January 31, 2016 (\$163,924,000).

FEASIBILITY STUDY UPDATE

Lochner reviewed the items of the feasibility study that have been completed:

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?
2. What is the impact of tuition reductions on the funded status?
3. What are the alternatives/impacts of removing the state penalty for non-qualified withdrawals?
4. What is the feasibility of creating a 529 college savings plan?

Lochner also noted the two items that still need to be addressed:

1. What is the impact of tuition reductions on future unit prices?
2. What are some alternatives of linking GET's payout value from tuition and fees to cost of attendance?

Lochner asked Matt Smith, State Actuary, and Jamie Canup, 529 plan legal expert from Hirschler Fleischer, to address the two remaining items.

What is the impact of tuition reductions on future unit prices?

Smith addressed the GET Committee noting that two of the main components to try and balance while answering this question are risk and affordability. If the GET program continues, the state would need to continue to provide the guarantee. Both of these factors are important. Smith noted that his office completed an experience study and updated the rate of return assumptions. This resulted in a huge change to assumptions because of the tuition reduction. Smith and his staff will update the program's funded status once the window for penalty-free refunds has closed.

The removal of the amortization component will lower any unit price that the program might offer. Smith suggested reviewing the benefit to the purchases around this to provide ongoing protection from future tuition reduction.

- Does the balance between risk and affordability exist?
- Is it affordable for the citizens that want to buy it?

Smith noted that establishing contingency plans to address any imbalance between risk and affordability may need to be addressed in the future.

What are some alternatives of linking GET's payout value from tuition and fees to cost of attendance?

Jamie Canup, attorney with Hirschler Fleischer, referenced the two memos he submitted to the Committee. Canup noted that the 'cost of attendance' does not include the same components at each institution of higher education. This metric may be different than what qualifies under the 529 IRS code. Therefore, this variable would have to be measured in some way.

Canup noted five alternative structures that the Committee could consider linking the payout value to.

1. Weighted Average: the value of all schools wouldn't match the tuition at a particular school, but the value would be a weighted average. This option would even out the highs and lows of tuition. The Committee could also make a differentiation between a two-year and a four-year institution when looking at both pricing and payout options.
2. Credit Hours: this option would allow the program to sell units based on credit hours. This option could also be linked to a weighted average. The program would determine what the average cost of a credit is and link the unit payout value to that cost.
3. Variation: different payouts depending on where a student beneficiary plans to go to school (in-state, out-of-state, private, etc.). Considering a weighted average model to aid in this would also be a possibility. The Committee could consider a minimum return or something less than the earnings of the underlying investment. This option would involve policy changes.
4. Guaranteed Return: that option would look at the average tuition for different types of institutions. For example, the program could look at tuition prices over the last 10 years and create a model of the average of those years. The Committee would pick an in-state community college model, an in-state private model, etc. Each model would guarantee what the tuition increase has been for each of those models. Then the value is based off of

the tuition increases based on the model you pick. The program would still be 'on the hook' for increases in tuition.

5. Risk Transfer: this model was used in Texas where the prepaid program transferred the risk of the payout value to the state's higher education system. The state public university accepted whatever payout value was established by the prepaid plan. If it didn't equal tuition, the universities were on the hook. That would require a change in legislation and the risk would move from the prepaid plan to the higher education system.

Opitz thanked Canup for his complete analysis and presentation. He asked if these alternatives, if chosen, would apply to current customers or only for future customers. Canup answered that this information talks to what a new prepaid model could look like. If a change were made, it would apply to future customers as current customers are under existing contracts. These alternative structures would be under the assumption that the prepaid plan stay open, but with a new payout model for new participants.

Opitz summarized the alternatives provided, noting that there are wide range of benefits. Opitz asked for more guidance as to the priorities of the outcome.

Canup stated that most models are ways to reduce the risk to the state. Another consideration is to match the average tuition rate instead of the highest actual tuition cost (average community college, average regional university, etc.). Because there are a number of model options, Canup noted that it would be beneficial to the State Actuary if the Committee could provide some direction. The possible structures are mechanisms that could aid in determining a payout model.

Schumacher commented that the current simplicity around purchasing GET units is one of the big selling points. The Committee should be worried about a weighted, complicated risk factor. If the attempt is to sell something that is worth less than the current product, people are going to pay less. This wouldn't shift the risk much. Schumacher advised the Committee to keep the product being sold in mind.

Berendt mentioned that she is very interested in following the status of the current legislation around this. The Committee should know next steps by April, and if not, the Committee will have to take a hard look at this. Berendt noted that waiting until 2018 seems like a long time to have the program in a holding pattern. Berendt agreed with the need for simplicity. The beauty of the prepaid was for residents to easily save. It will be difficult to explain if things are complicated.

Smith voiced that a problem statement needs to be defined. Prepaid plan design options are available and an option could be chosen that satisfies the Committee's goals. The Committee will want to be clear on what they are trying to accomplish.

While reflecting on the number of years that the state has spent on managing risk exposure, Opitz noted that the program would have to be able to explain what the state is selling to a GET purchaser. Staff are good at actuarial work, risk assessment, and price setting, but are we good at describing and explaining this program once it's open? Given the historic reduction in tuition, Opitz noted that there is uncertainty moving forward.

Smith responded that if the GET program reopens, it could be alongside a savings option.

Opitz noted that that makes it even more important that staff can easily explain one as compared to another.

Berendt confirmed that any purchase of new units would need to be under a new plan while GET is delayed. The program should be sure not to co-mingle funds.

Smith noted that if there is a new prepaid plan offered with a different payout value, and it can't be commingled with the current GET program, actuarially, GET would be closed.

Lochner noted that purchaser behavior for a new option is hard to predict, however, survey responses from current participants indicate they like GET the way it is.

Schumacher asked the other Committee members what problem they are trying to solve by creating a new program. Schumacher felt that it is possible that the Committee could reopen GET and could maybe have a savings plan as well. Determining whether there is a need for a new prepaid product needs to be established.

PUBLIC COMMENT

Representative Steve Bergquist thanked the Committee for allowing public comment and gave an overview of the bill he proposed this legislative session. He expressed that keeping GET open is important to his constituents. He noted that the legislature is very aware of how policy-making affects things like GET. Bergquist stated that he feels that changing the payout value may make sense, but opening a second plan doesn't. He feels that amortization fees can go back on if tuition increases at a significant rate. He feels it's important to keep people invested in GET and a solid payout model may need to be provided to ensure long-term stability.

Janet Michaelson, citizen, expressed appreciation of the thoughtful way the Committee has conducted the program changes and considerations since last fall. Michaelson noted the non-penalty refund option and asked if the deadline would be extended if the 529 savings plan legislation passes. Lochner responded that the GET Committee has the ability to extend this deadline.

NEXT STEPS

Sharratt summarized next steps and Committee members thanked the staff for their continued work. Sharratt noted the next two meetings dates (April 20 and June 23) and thanked those that presented.

ADJOURNMENT

Meeting adjourned at 3:12 p.m.

GET Committee Meeting

April 20, 2016



Welcome & Approval of Minutes



Chair's Report

Today's Agenda Items:



- **Legislative Update**
 - **Maddy Thompson**, WSAC Director of Policy and Government Relations

- **Director's Report**
 - **Betty Lochner**, GET Director

- **Feasibility Study Update and Timeline**

- **529 Savings Plan Discussion and Possible Action**
 - **Betty Lochner**, GET Director
 - **Theresa Whitmarsh**, Executive Director, Washington State Investment Board
 - **Jamie Canup**, Attorney, Hirschler Fleischer

Chair's Report

Objectives



- Review Recently Enacted Legislation
 - Direction to the Committee

- Share the Latest GET Program Statistics

- Feasibility Study Update
 - What has been done?
 - What are the next steps?

- 529 Savings Plan Discussion
 - What plan management structure does the Committee wish to pursue?

Legislative Update



Maddy Thompson WSAC Director of Policy & Government Relations

- E2SSB 6601 – Establishing the Washington College Savings Program
 - Direction to the Committee
 - 529 Savings Plan
 - GET Program



Legislative Update



College Savings Plan (SB 6601) Provisions		Section/Subsection
Program creation and purpose	<p>The Washington College Savings Program (WCSP) is created as an option, in addition to the Washington Advanced College Tuition Payment (GET) Program, for individuals to save for college.</p> <p>\$25,000 (General Fund – State) is provided in the final supplemental budget to implement E2SSB 6601</p>	<p>Sec. 1 (2)</p> <p>Supplemental Budget HB2376, Sec. 609 (2)</p>
Administration	<p>Must be administered by the Committee on Advanced Tuition Payment and College Savings (Committee or Governing Body).</p> <p>Committee duties <u>must</u> include:</p> <ul style="list-style-type: none"> • Determining the conditions under which control, or the beneficiary of an individual college savings program account, may be transferred to another family member; • Promoting the WCSP <p>In addition to these duties, the GET Committee <u>may</u>:</p> <ul style="list-style-type: none"> • impose limits on the amount of contributions that may be made on behalf of any eligible beneficiary; • determine and set age limits and time limits for the use of benefits; • establish incentives to encourage participation in the WCSP; • impose and collect administrative fees and charges in connection with any transaction(s?); • appoint and use advisory committees and the state actuary as needed to provide program direction and guidance; • formulate and adopt all other policies and rules necessary for the efficient administration of the program; • purchase insurance to provide coverage against any loss in connection with the account's property, assets, or activities; make, execute, and deliver contracts, conveyances, and other instruments necessary to the exercise and discharge of its powers and duties under this chapter; and • contract for all or part of the services necessary for the management and operation of the WCSP. 	<p>Sec. 5</p>

Legislative Update



College Savings Plan (SB 6601) Provisions		Section/Subsection
Program account created	<p>The Washington College Savings Plan account is created as a discrete, non-treasury account retaining its interest earnings.</p> <p>All monies received from the WCSP shall be deposited into this account. The assets of the account may be spent without appropriation for the purpose of making payments to institutions of higher education on behalf of the qualified beneficiaries, making refunds, transfers, or direct payments upon the termination of the WCSP.</p> <p>The WCSP account is authorized to maintain a deficit, up to five fiscal years, to defray administration start-up costs.</p> <p>By December 31, 2017, the Committee must establish an administration spending plan and a fee schedule to discharge any projected deficit to the account.</p> <p>The Legislature may appropriate funds into the account to reduce administration costs.</p> <p>The authority to establish all policies relating to the WCSP account resides with the Committee.</p>	Sec. 9
Eligibility	<p>The WCSP is open to eligible purchasers and eligible beneficiaries who are residents and nonresidents of Washington State.</p> <p>"Eligible purchaser" means an individual or organization that has entered into a participant college savings program account contract for an eligible beneficiary.</p> <p>"Eligible contributor" means an individual or organization that contributes money for an individual college savings program account for an eligible beneficiary.</p> <p>"Eligible beneficiary" means the person designated as the individual whose education expenses are to be paid from the advanced college tuition payment program or the college savings program.</p> <p>Eligible purchasers will not be required to make an initial minimum contribution that exceeds \$25.</p>	<p>Sec. 2 (8), (9) and (10)</p> <p>Sec. 5 (4)</p>

Legislative Update



College Savings Plan (SB 6601) Provisions		Section/Subsection
Managing Investments and Fees	The Committee may either work with the WSIB or contract with other states or non-state entities that are authorized to do business in the state for the investment of monies in the college savings program.	Sec. 5 (5)
	Advisor-sold college savings plans are defined as a channel through which a broker dealer, investment advisor, or other financial intermediary recommends the program to eligible investors and assists with the opening and servicing of individual college savings accounts.	Sec. 2(3)
	The Committee is permitted to establish an advisor-sold option for the program if deemed appropriate after reviewing other 529 college savings programs.	
	The investment manager has the full power to invest, reinvest, manage, contract, sell, or exchange investment money without limitation. As deemed appropriate by the investment manager, monies in the WCSP may be commingled for investment with other funds subject to investment by the investment manager.	
	The investment manager shall routinely consult and communicate with the Committee. The investment manager is required to provide age-based investment options for individual college savings program account owners. The investment fees charged to the owner of an individual college savings program account is limited to no more than one-half of 1 percent on an annual basis beginning January 1, 2018.	
	Investment options with fees that exceed one-half of one percent trigger a legislative review.	
Promotion	The governing body is directed to:	
	<ul style="list-style-type: none"> promote, advertise, and publicize the Washington College Savings Program. develop educational materials that highlight the differences between a prepaid tuition plan and a college savings plan, as well as how the two plans can be used to save for the full cost of attending college. 	Sec. 5 (7) Sec. 5 (8)

Legislative Update



College Savings Plan (SB 6601) Provisions		Section/Subsection
Policy goals and reporting requirements	<p>Policy goals are established for the Washington College Savings Program based on the following:</p> <ul style="list-style-type: none"> • <i>Process:</i> To have an investment manager design a thoughtful, well-diversified glide path for age-based portfolios and offer a robust suite of investment options; • <i>People:</i> To have a well-resourced, talented, and long-tenured investment manager; • <i>Parent:</i> To demonstrate that the committee is a good caretaker of college savers' capital and can manage the plan professionally; • <i>Performance:</i> To demonstrate that the program's options have earned their keep with solid risk-adjusted returns over relevant time periods; and • <i>Price:</i> To demonstrate that the investment options are a good value. <p>The committee is required to report biennially on established objectives and performance measures for the investment manager to progress toward the attainment of the policy.</p>	<p>Sec. 5 (10)</p> <p>Sec. 5 (11), (12) and (13)</p>
Refunds and Penalties	<p>The committee is permitted to issue refunds. Refunds may be subject to federal penalties and taxes associated with 529 college savings plans. Refunds must be issued under the following specific conditions:</p> <ul style="list-style-type: none"> • The beneficiary certifies that they will not attend a public or private institution of higher learning and is age 18 or older. • The refund is not to exceed the current value at the time of such certification minus a penalty at a rate established by the Committee; • The beneficiary has a death or disability certificate. • The refund shall equal 100 percent of the current value at the time that such certification is submitted to the Committee; • The beneficiary certifies graduation or program completion, the refund shall be as great as 100 percent of the current value at the time that such certification submitted to the governing body, less any administrative processing fees; • The beneficiary certifies that other tuition and fee scholarships will cover the cost of tuition; incorrect or misleading information provided by the purchaser or beneficiary may result in a refund of the purchaser's and contributor's contributions, less any administrative processing fees; • The Committee may determine other circumstances for qualifying for refunds of remaining unused participant WCSP account balances; and • The Committee may not impose a penalty on a beneficiary declaring that they will not use the account for the purpose of paying for postsecondary education. 	<p>Sec. 15</p>

Legislative Update



College Savings Plan (SB 6601) Provisions		Section/Subsection
Rollover option and reporting	<p>The committee is directed to create an expedited direct rollover process between eligible state sponsored 529 accounts, as well as to out of state 529 accounts.</p> <p>The committee must report annually to the Governor and the Legislature on the number of accounts that have been rolled into the Washington College Saving Program from out of state and the number of account rolled out of the Washington College Savings Program 529 plan into other states.</p>	Sec. 6
Excluded personal assets under bankruptcy	<p>With regard to bankruptcy filings and enforcement of judgments, deposits made by participants into the WCSP more than two years before the date of filing or judgments are considered excluded personal assets.</p>	Sec.16
GET-related provisions	<p>The Committee is required to include a disclaimer on all online and print publications that the only guarantee is that the GET prepaid college tuition plan will keep pace with in-state college tuition. The units may lose value whenever in-state college tuition is reduced.</p>	Sec 4(8)
	<p>The GET Committee is required to begin and continue to accept applications for new tuition unit contracts and authorize the sale of new tuition units by July 1, 2017.</p>	Sec. 11
	<p>In the event that annual sales of tuition units fall below 500,000, the GET Committee is directed to determine how to reinvigorate the GET program.</p>	Sec. 11
	<p>In the event that the state determines that the GET program is not financially feasible, the Legislature may declare the discontinuance of the program.</p>	Sec. 12 (1)

Director's Report

Betty Lochner
GET Director

GET Program Statistics

- Refund Update
 - Penalty-free Refunds
 - Amortization Refunds
 - July 1 Refunds
- Distributions for Students
- Customer Feedback and Communication



Director's Report

Penalty-Free Refund Update

(September 2, 2015 – April 8, 2016)



- Estimated number of penalty-free refund requests received and processed:
14,168

- Estimated dollar value of penalty-free refunds:
\$285,500,000

- 100 percent caught up on refunds (processing time down to one week):
 - In March, we received one-third the amount of refund requests that we received in October.

Director's Report

Amortization Refund Update

(September 2, 2015 – April 8, 2016)

- Estimated number of accounts that received amortization refunds:
43,000
- Estimated dollar value of all amortization refunds:
\$51,000,000

July 1 Refund Update

Refund of Lump Sum purchases made after July 1, 2015

- Estimated dollar value of July 1 refunds:
\$4,600,000



Director's Report

Distributions for Current College Students

(for payment of higher education expenses – as of March 31, 2016)

- Total accounts receiving distributions in FY16:
15,487
- Estimated dollar value of account distributions in FY16:
\$143,000,000
- Total accounts receiving distributions since inception:
42,780
- Estimated dollar value of account distributions since inception:
\$842,000,000



Director's Report

Customer Communications

(September 2, 2015 – April 8, 2016)



- Inbound calls: **40,045**
- Inbound emails: **6,182**
- Examples of recent customer messages:
 - “I just received the latest GET program update; I must say that you have done a very remarkable job managing communications in a pretty difficult and uncertain context, over the past year. I want to congratulate you for this, as it must have been pretty difficult some days. Thanks for what you do!”
 - “I just finished using the last of the money saved in my son's GET account. He is at a 4 year college getting a degree in engineering. He will be a 'super senior' this next year because he changed majors from pre dental to engineering, so that is on me, but I have to say that the GET program has been about the best investment I have ever made.”
 - “We are very impressed by the super high quality of service the GET team has been providing us!!”

Feasibility Study Update



- Questions Answered So Far
- Next Steps



Feasibility Study Update



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:

- The Committee froze the payout value at \$117.82 per unit 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.
- The Committee delayed new unit sales for a period not to exceed two years (except for continued payments on Custom Monthly Plans established prior to July 1, 2015).
- The Committee elected to refund the amortization fee paid by customers who have unredeemed units at a purchase price of \$163 or greater. GET staff has completed the amortization refund process.

Feasibility Study Update



Question 2:

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

Answer:

State Actuary, Matt Smith, provided a preliminary actuarial valuation report that showed GET's funded status, as of June 30, 2015, is 140 percent, up from 106 percent one year earlier.

Feasibility Study Update



Question 3:

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

Answer:

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.

Feasibility Study Update



Question 4:

What is the feasibility of creating a 529 college savings plan?

Answer:

- Over several meetings, the GET Committee reviewed information from a national 529 expert summarizing options and other states, as well as a market analysis.
- The Committee directed GET staff to begin the development of a state-managed direct-sold 529 college savings plan.
- Last month, Governor Inslee signed E2SSB 6601 into law, establishing the Washington College Savings Program.

Feasibility Study Update



Question 5:

What is the impact of tuition reductions on future unit prices?

Answer:

State Actuary, Matt Smith, shared that the removal of amortization component and recent and planned tuition reductions could lower future unit prices below prices paid by recent cohorts. Selling future units requires maintaining a delicate balance between “risk” and “affordability.”

Feasibility Study Update



Question 6:

What are some alternatives of linking GET's payout value from tuition and fees to cost of attendance?

Answer:

529 plan expert, Jamie Canup, reviewed alternatives payout value structures for GET. Canup cautioned that Cost of Attendance is not a preferred benchmark, as this metric can include expenses that 529 plans do not cover. Alternative structures include: weighted average, credit hours, variation, guaranteed return, and risk transfer.

Feasibility Study Update



What's Left?

- The GET Committee has performed the background work required by the Legislature.
- GET staff will complete a draft report and provide it to the GET Committee by June 23rd.
- GET Committee will review and provide feedback.
- GET staff will incorporate feedback over the summer and provide a final version for the GET Committee's approval at the September 7th meeting.

529 Savings Plan Discussion



Betty Lochner
GET Director

Overview of staff work completed to date on evaluating plan management structures.



529 Savings Plan Discussion



Now that the enacting legislation has passed, the Committee must begin the development and procurement phase.

Guiding question for the Committee:

What does the State of Washington wish to offer and achieve for its citizens when considering what the parameters of its 529 college savings plan should look like?



529 Savings Plan Discussion



Criteria to consider:

- What would be the ***most affordable*** to create and operate for the State, and for participants?
- What would provide the ***highest quality*** service, support and options for participants?
- What would be the ***most efficient*** to establish, operate and sustain?
- What are the ***advantages*** of this plan for Washington residents?



Evaluating Investment Solutions for the GET College Savings Plan



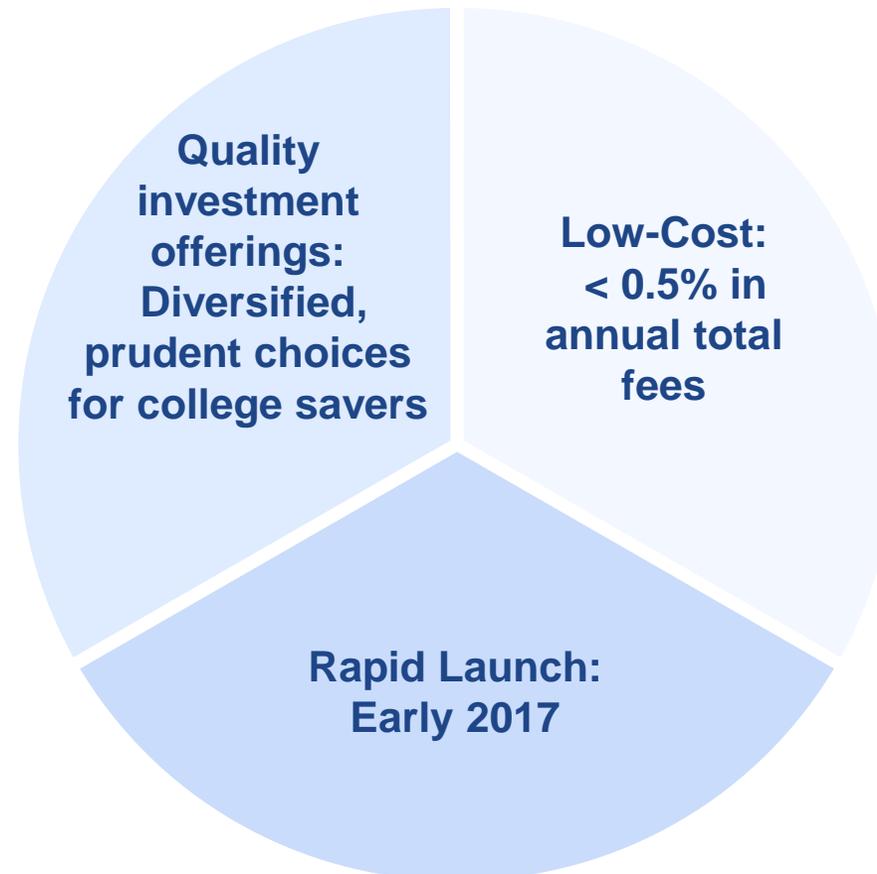
Theresa Whitmarsh, Executive Director, WSIB
April 20, 2016

Program Objectives



Goal

- Create a best-in-class, easily accessible College Savings Plan in fulfillment of Senate Bill 6601



Feasibility and Due Diligence



Legislation provides GET with three options for investment solution

- ❑ **Select the WSIB as investment manager**
- ❑ **Partner with another existing state program**
- ❑ **Select outside entity experienced in 529 plans**

Key questions for WSIB

- ❑ **Will our strategic competitive advantages benefit GET 529 savings program?**
- ❑ **Access to best product offerings?**
- ❑ **Scale?**
- ❑ **Competitive pricing?**
- ❑ **Do WSIB's programs scale down to serve the needs of self-directed college savings plans, with required flexibility and low cost?**

WSIB Due Diligence



Late 2015 – WSIB begins researching feasibility of direct-sold, state-run plans

Early 2016 – Deeper evaluation of institutional investment offerings

- ❑ Organized an internal team to develop a comprehensive plan
- ❑ Staff did extensive research on:
 - ❑ The direct-sold savings plan environment
 - ❑ Investment menus
 - ❑ Participant behavior
- ❑ Sought consultants to assist with:
 - ❑ Menu design
 - ❑ Manager search
- ❑ Developed detailed materials to implement manager search
- ❑ Identified additional operational processes necessary to accommodate new program
 - ❑ Investment accounting: cash flow notifications, pricing, unitization, and financial reporting
 - ❑ Investment compliance
 - ❑ Performance reporting
 - ❑ Fee development

WSIB Due Diligence

Summary - College Savings Program Implementation Milestones					Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016	Sep 2016	Oct 2016	Nov 2016	Dec 2016
1	Draft project charter, milestones & timeline, status report, other project documentation	Angie	3/4/2016	3/25/2016										
2	Select menu design and age-based manager consultant(s)	Inv Div	3/9/2016	4/8/2016										
3	Draft age-based manager search document (with GET's input)	Inv Div	3/9/2016	4/22/2016										
4	WSIB and GET Executive Management meeting	Angie	4/1/2016	4/1/2016	◆									
5	Evaluate fixed income and cash options	Inv Div	4/1/2016	7/31/2016										
6	GET Committee presentation	Angie	4/20/2016	4/20/2016	◆									
7	Evaluate and select age-based manager	Inv Div	5/11/2016	7/31/2016										
8	Coordinate with WSAC to utilize funding, determine cost tracking	Finance Svcs	6/1/2016	6/30/2016										
9	Bid & select passive manager	Inv Div	6/1/2016	7/29/2016										
10	Board education session – menu design	Inv Div	6/16/2016	6/16/2016	◆									
11	GET Committee education session – menu design	Inv Div	6/23/2016	6/23/2016	◆									
12	Develop investment accounting processes related to cash flow notifications, pricing, unitization, and reporting. Open new accounts.	Inv Acct/ GET	7/1/2016	12/15/2016										
13	Investment Committee meeting - menu design recommendation	Inv Div	8/19/2016	8/19/2016	◆									
14	GET Committee meeting - menu design & manager recommendation	Allyson/ Angie	9/7/2016	9/7/2016	◆									
15	Public Markets Committee - menu design & manager recommendation	Inv Div	9/13/2016	9/13/2016	◆									
16	Board meeting - consideration of menu and managers	Inv Div	9/15/2016	9/15/2016	◆									
17	Negotiate & sign contract	Inv Div	9/16/2016	11/15/2016										
18	Complete offering document, fact sheets, financial literacy, staff training, record keeping procedures	GET/ Mgr/Inv Div/Inv Acct	9/16/2016	12/15/2016										
19	Public Markets Committee - consideration of investment policy	Inv Div	11/1/2016	11/1/2016	◆									
20	GET Committee meeting	Allyson/ Angie	11/8/2016	11/8/2016	◆									
21	Develop compliance policy	Compliance	11/15/2016	12/15/2016										
22	Board meeting - consideration of investment policy	Inv Div	11/17/2016	11/17/2016	◆									
23	GET penalty and fee waiver period ends		12/15/2016	12/15/2016	◆									
24	Planned program opening		1/1/2017	1/1/2017	◆									

Findings and Discovery



What we thought based on early discussions

- ❑ 529 savings plan marketplace might welcome a product similar to Washington's Deferred Compensation Plan (DCP)
- ❑ Our DCP model could be the basis for a new and innovative college savings plan
- ❑ WSIB could help create something new, customized and ground-breaking
- ❑ Groundwork would help prepare for a “sprint” work plan if WSIB was chosen as investment provider

What we realized based on due diligence

- ❑ WSIB's scale would not translate easily to a 529 savings plan platform
- ❑ Time requirements would conflict with customization efforts
- ❑ Existing investment tools used for DCP are not available for college savings plans
- ❑ GET can benefit from direct access to high-quality institutional mutual funds and ETFs, without WSIB as provider

Conclusions



WSIB does not provide the best competitive advantage for 529 plans

- ▣ WSIB scale does not add significant value
- ▣ Other institutional mutual funds are directly accessible to GET
- ▣ Marketplace may evolve toward demand, but not in time for this program

Established investment programs are available

- ▣ Turn-key platforms exist in marketplace that offer integrated investing and recordkeeping
- ▣ Proven user suitability for direct-sold college savings funds
- ▣ Lower cost than building a customized solution

Key finding: No added benefit (quality, cost, time) in having the WSIB develop an entirely new investment offering apart from those already readily available from outside providers.

Role of the WSIB



Legislation prompted WSIB to consider three possibilities

- ▣ WSIB as investment manager
- ▣ WSIB as investment advisor
- ▣ WSIB as consultant for general guidance

Optimal role – WSIB as consultant

- ▣ General program guidance and input (process and investments)
- ▣ Allows GET to run a fully independent, cost-effective program
- ▣ Allows GET access to WSIB expertise where value can be added



Summary



Recommendations

- ❑ WSIB's investment partners do not provide optimal market-ready solutions
- ❑ Other fund platforms are proven performers for college savings plans
- ❑ Quality, cost and time considerations can be met by an existing program rather than a custom-built program
- ❑ WSIB adds more value with expertise and guidance rather than investment product

529 Savings Plan Discussion



Jamie Canup, Attorney / 529 Plan Expert
Partner with Hirschler Fleischer Attorneys at Law

Review of each program management option and suggestions for issuing an RFP.



529 Savings Plan Options



RFP Options*:

- **Self-Managed Plan**
 - WSAC responsible for “Program Management” functions
- **Partially Contracted Plan**
 - Some functions contracted to a third party
- **Fully Contracted Plan**
 - All or most functions contracted to a third party

**All options
assume
investments
will be
managed by a
third-party.**

**One RFP issuance could address all plan management options.*

529 Savings Plan Options

Considerations when evaluating RFP responses:

- Timeline
- Budget/costs
- Fees to participants
- Leveraging of existing resources
- Ease of transfer for current GET participants
- Assumptions
 - Consumer response
 - Asset growth



529 Savings Plan



Next Step:

- Consideration of an RFP (Request for Proposal) to solicit bids for investment and program management services for a new 529 college savings plan.



Public Comment



- 30 minutes
- Sign-up sheet
- 3 minutes per person
- If you would like to submit a written comment, please send your input to: GETInfo@wsac.wa.gov, and include the subject line: “GET Committee Statement”



Questions & Answers



Next Meeting

Thursday, June 23, 2016

J.A. Cherberg Building
Capitol Campus, Olympia
Senate Hearing Room 1
2:00 p.m. to 4:00 p.m.

