

Guaranteed Education Tuition (GET) Committee Meeting

Wednesday, October 11, 2017

John A. Cherberg Building, Capitol Campus
Senate Hearing Room 4
Olympia, WA 98504
2:00 p.m. – 3:00 p.m.

AGENDA

Call to Order: Welcome & Member Introductions

- Approval of the September 13, 2017 Minutes ACTION
- Chair's Report INFORMATION
Michael Meotti, GET Committee Chair/WSAC Director
- Director's Report INFORMATION
Betty Lochner, GET Director
- Savings Plan Development Update INFORMATION/POSSIBLE ACTION
Don Bennett, WSAC Deputy Director
Doug Magnolia, BNY Mellon
Chelsea Power, BNY Mellon
- Public Comment
- Adjournment

Next Meeting:
Thursday, November 16, 2017
J.A. Cherberg Building, Capitol Campus
Senate Hearing Room 3
Olympia, WA 98504
2:00 p.m. – 4:00 p.m.

GUARANTEED EDUCATION TUITION (GET) PROGRAM
Committee Meeting Minutes
September 13, 2017
John A. Cherberg Building, Capitol Campus
Senate Hearing Room 3

WSAC Staff in Attendance:

Don Bennett, WSAC Deputy Director
Betty Lochner, GET Director
Luke Minor, GET Associate Director for Marketing and Communications
Dan Payne, GET Marketing and Communications Specialist
Katie Gross, Special Assistant to the GET Director
David Mitchell, WSAC Chief Technology Officer
Maddy Thompson, WSAC Director of Policy & Government Relations

Guests in Attendance:

Rick Brady, Office of the Attorney General
Matt Smith, State Actuary
Chris Phillips, Washington State Investment Board
Don Charlton, Office of Financial Management
Clint McCarthy, Senate Staff
Evan Klein, Senate Staff
Senator Mark Mullet, Washington State Senator
Adam Hall, Senate Staff
James Crandall, Senate Staff
Mike Mulligan, citizen
Pat Mulligan, citizen
Lily Sobolik, Office of Program Research
Megan Mulvihill, Office of Program Research
Anthony Hemstad, Office of the State Treasurer
Graham Dyer, Office of the State Actuary
Michael Bennion, citizen

WELCOME AND INTRODUCTIONS

Mike Meotti, Executive Director of the Washington Student Achievement Council and GET Committee Chair, welcomed the Committee and all meeting participants. The GET Committee members in attendance were David Schumacher, Director of the Office of Financial Management, Beth Berendt, citizen member, and Shawn Myers, Assistant State Treasurer, attending as Treasurer Davidson's proxy.

APPROVAL OF THE JULY 6, 2017, MEETING MINUTES

Meotti called for a motion to approve the July 6, 2017 meeting minutes. Berendt motioned to approve the minutes and Myers seconded the motion. The minutes were approved unanimously as presented.

PUBLIC COMMENT

Senator Mark Mullet noted concern around the timing of decisions that put changes into effect before the legislative session starts in January. Mullet noted that the main topic of interest is the surplus (reserve) currently in the GET fund. Legislators are wondering who these funds will be used by (current vs. new customers) and asked that the Committee continue to communicate policy-related issues to the Legislature so that necessary dialogue can take place before decisions are made.

CHAIR'S REPORT

Meotti spoke to an email that all Committee members received from a former WSAC employee and noted that WSAC referred that communication to the State Auditor's Office for their independent review. WSAC staff have been told that a program audit will take place. Committee members will be kept abreast of the progress.

Berendt thanked the Chair for referring this matter to the Auditor's Office. She stated that the Committee has a fiduciary responsibility to ensure that the program is being run appropriately. As a long-term member, Berendt stated she has the utmost confidence in the program staff and has full-faith that this will be handled well.

DIRECTOR'S REPORT

Betty Lochner, GET Director, provided an update on non-penalty refunds. As of June 23, 2017, roughly 23,000 non-penalty refunds and 2,000 rollovers to other plans have been processed. This is roughly \$413 million refunded and \$48 million rolled out to other plans. Since the start of the non-penalty refunds (September 2015), roughly 19% of all accounts have been refunded or rolled over. There are roughly 97,000 accounts and 15.1 million units still remaining.

Lochner noted that the total unit count is a bit higher than what was shared in July because of the units added through the rebasing process. Lochner noted that the rebasing process ran smoothly and was completed successfully on August 1, 2017. Since the rebasing took place, refund activity has moderately increased. Staff believe this could be for two primary reasons: 1) customers have more information about the rebasing process and 2) the fact that the original Committee motion to extend the non-penalty refund date included September 1, 2017. In the first week of September, the amount of incoming refund requests leveled off.

Lochner provided distribution statistics for students attending college.

- As of the beginning of August, the program officially passed the billion dollar mark and has made distributions for nearly 50,000 students.
- In first month of the 17-18 academic year, the program distributed \$34 million to over 5,100 students.

SAVINGS PLAN DEVELOPMENT UPDATE

Don Bennett, WSAC Deputy Director, provided an update on the development of a 529 savings plan. Bennett reminded the Committee that during the July meeting, WSAC announced it would start contract negotiations with BNY Mellon to provide program management and investment services to a direct-sold 529 savings plan.

BNY Mellon representatives, Doug Magnolia and Chelsea Power, introduced themselves and noted their role in the project. Bennett reviewed progress since the July meeting and noted that the main item still being developed is the investment options. Bennett noted that there are multiple meetings each week that include topics such as marketing, branding, the investment lineup and plan features.

Magnolia added that investment portfolios continue to change over time. He noted the importance of providing a ‘best of breed,’ user-friendly savings plan for Washington, built off of the lessons learned from other 529 plans around the country.

Bennett added that the state plans to offer an expedited rollover option alongside robust yet simple investment options for investors. Bennett noted that contract negotiations are still being discussed and the Office of the Chief Information Officer (OCIO) has project oversight due to the large IT component. BNY Mellon has a robust platform already established, and they have been more than willing to comply with a rigorous security review of their systems.

Magnolia noted that this is the first state that they’ve worked with that has requested such a robust security review and is certain that the state will have a very secure platform.

Bennett mentioned that WSAC has contracted with a Quality Assurance (QA) consultant who conducted a readiness assessment of the project to identify any potential risk areas. This assessment is part of the OCIO reporting requirements.

Bennett noted the savings plan development timeline:

- Finalize agreement on plan design, investment lineup, and fees (September – October 2017)
- Continue developing the website, disclosures, and marketing materials (September – December 2017)
- System customization/integration (October – December 2017)
- User testing (January – February 2018)
- Launch – begin offering savings plan to the public (Early 2018)

Meotti noted that the Legislative Advisory Committee (LAC) to the GET Committee has a meeting scheduled for October 2, 2017. This meeting will provide the LAC a formal setting to talk through the process and will allow them to share their perspectives. Meotti noted that the GET Committee has a special meeting scheduled for October 11, 2017. This meeting will be focused on the progress of the new savings plan.

GET INVESTMENT UPDATE

Chris Phillips, Institutional Relations Director for the Washington State Investment Board (WSIB), provided the second quarter investment update. The total market value of the GET fund, as of June 30, 2017, is \$2.168 billion (up slightly over the same period last year). This is an increase of \$32 million over the prior quarter, and \$74 million since the beginning of the

calendar year. Phillips noted that fixed income has dropped slightly, and equities have increased. He added that WSIB increased the liquidity of the program to support anticipated redemptions due to program's transitions. There were no questions from the Committee.

GET REOPENING – Pricing, Policies, Marketing, FY18 Budget

Lochner reviewed the Committee's guiding principles for considering unit price and policy decisions. Matt Smith, State Actuary, reviewed the price setting analysis that the Committee members were given prior to the meeting:

Current program status

Smith noted that the program, as of June 30, 2017, is 132.4% funded with a \$564 million dollar reserve. The Office of the State Actuary (OSA) measured this using a roll-forward approach. Smith expects the funded status in the final actuarial valuation report to be close to this preliminary number. Two key underlying assumptions adjusted for this funded status report were to lower expected investment returns and reflect the tuition growth rates set in the 2017-19 state budget. The method for determining the present value of program shut down expenses and the impact of the unit rebasing process were also reflected in this funded status measure.

Price setting information (page 3 of the letter)

Unit price components:

1. *Expected cost (Best estimate: \$94.34)*: Covers the expected present value of the cost of future tuition. The best estimate is based on an assumption that tuition will grow by 2.2% and 2% over the next two years, reverting back towards a long term historical average of 5% annually after that.
2. *Expenses*: \$4.18 of each unit is intended to cover the operating expenses of the program for FY18. It equals the budget for the program, minus enrollment fees, divided by the expected number of unit sales.
3. *Reserve (Best estimate: \$14.78)*: The Committee's current reserving policy is 15%. GET is intended to be self-sufficient, so the reserve is designed to offset lower than expected investment returns and higher than expected tuition growth.

Based on these three components, the best estimate unit price for 2017-18 is \$113, with a best estimate range of \$107 - \$119. Smith noted that the price could change depending on what assumptions are used, and any price within the best estimate range would be reasonable.

Risk analysis

The program's success is maintaining a balance between risk and affordability. Risk is managed by maintaining an adequate reserve. This analysis explored three possible risk scenarios:

1. Lower than expected returns: OSA looked at 1% lower returns. What would happen to the units sold? Would the reserve be sufficient to protect the program? Yes.
2. Higher than expected tuition growth: What if tuition goes up 1% more than the current assumption? The 15% reserve is still sufficient to protect the program.
3. How would the reserve hold up if there were another Great Recession? The 15% reserve would still be sufficient, assuming the Legislature again responded by lowering tuition. If tuition reductions did not repeat, an 18% reserve may be necessary.

Schumacher and Meotti asked for clarification about the sufficiency of the unit price as it relates to the program's funded status. Smith clarified that the best estimate unit price only looks at adequacy of reserves to cover the obligations of the new units being sold.

Meotti asked Smith to confirm that the expense component is a number provided to OSA by program staff. Smith confirmed this was correct.

Meotti asked where the future operational reserves of the fund show up for units purchased. Smith clarified that the estimated costs of shutting down the program are factors in determining the funded status, rather than the unit price.

Berendt asked for a visual display of the fluctuation of the reserve over time. Lochner said staff could provide this to the Committee.

Berendt noted that the process that the Committee went through to set the current reserve guidelines was very thoughtful and recognized that both participants and the state need to be protected. Investment experts may even say that a 15% reserve is low.

Lochner reviewed other considerations before the Committee sets a unit price. The primary consideration is that the best estimate unit price would be lower than prices paid by customers between May 2011 and June 2015. Rebasing has made up some of the difference, but many accounts could end up with more units by refunding under the temporary refund policy and buying new units. Staff have been exploring and will keep the Committee informed about the feasibility of a streamlined process for customers, as GET may receive a large influx of refunds.

Meotti asked for a motion to set the 2017-2018 unit price at \$113/unit. Schumacher motioned to discuss the \$113/unit price. Schumacher asked if there was any merit to setting the unit price at \$117 to reduce the complexity of the process. Berendt asked if the program could automatically reprice all higher priced units to a new lower unit price. Lochner replied that legal counsel advised that participants need to be given the option rather than making the process automatic.

Continued discussion ensued about the merits of setting the new unit price at \$117 versus \$113. Meotti emphasized that current customers will have options presented to them. Berendt cautioned the Committee to avoid artificial manipulation of the price for administrative ease. Schumacher said he wouldn't suggest a unit price outside the best estimate range. Smith, along with Luke Minor, GET's Associate Director for Marketing and Communications, clarified that the rebasing process effectively lowered unit prices by adding more units at no cost to the customer; those who originally paid \$117 are already effectively below \$113.

Meotti noted that the Committee can talk about how to operationalize any repurchase processes on October 11. The Committee needs to make sure that everyone is affected in the same way.

Schumacher motioned to adopt the \$113 unit price. Berendt seconded the motion. There was no further discussion and the motion passed unanimously.

Smith noted that the more detailed actuarial valuation report will be presented in November which will break this down even more.

FY 18 BUDGET

Lochner reviewed the FY18 operating budget. Lochner reminded the Committee that this budget, along with the program's estimated unit sales, informs the expense component of the unit price. The estimated budget is \$5.76 million and does not include expenses anticipated for the savings plan. Savings plan expenses will ultimately come out of the savings plan fund, not the GET fund.

Myers noted that, for the next budget cycle, Treasurer Davidson would like to see more detail, on anticipated revenues.

Berendt motioned to approve the program budget as presented. Myers seconded the motion. The budget was unanimously approved.

MARKETING STRATEGIES FOR THE REOPENING OF GET

Minor presented an overview of the typical enrollment cycle (November 1, 2017 - May 31, 2018) and noted the three main marketing objectives.

1. Awareness - TV, Print, Digital & Radio Advertising
2. Education - Website, Blog, Social Media, Direct Mail/Email, Community Outreach/Partnerships, Media Relations, Contact Center
3. Action - Website, Community Outreach, Direct Mail/Email, Contact Center

Minor noted that the program's online enrollment process is being updated and the program plans to eliminate the enrollment fee for online enrollments. The program plans to use the current campaign "Life is Full of Firsts" for at least another enrollment period, and the plan is to roll this out in November. The large push will be March through May.

Berendt asked if the Committee has the authority to shut down the enrollment period before May 31, if necessary. Lochner replied that if the program publishes an end date, it's a promise to the participants, but the program could stop advertising (though not without challenges). Berendt stated that there could be another period of unknown that could negatively impact pricing.

Meotti confirmed that any customer could purchase units starting November 1. New customers and existing customers will both be able to purchase units at this time.

Berendt motioned that GET reopen to existing and new customers from November 1, 2017 to May 31, 2018. Myers seconded the motion. The motioned was approved unanimously.

Myers motioned to adjourn the meeting. Berendt seconded the motion. The motion to adjourn was approved unanimously.

The meeting adjourned at 3:47 p.m.

GET Committee Meeting

October 11, 2017



Welcome

- Review September 13, 2017 Meeting Minutes
- Chair's Report



Director's Report

Betty Lochner
GET Director

- **Updates**
 - GET Master Agreement



Savings Plan Development Update

Don Bennett
WSAC Deputy Director

Doug Magnolia & Chelsea Power
Sunday/BNY Mellon



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

Savings Plan Development Update

Progress since September GET Committee Meeting

- **Weekly meetings with BNY Mellon**
 - Discuss project status updates (utilizing agile project management).
- **Continuing plan design and contract negotiations**
 - Refining investment lineup.
 - Reviewing form of contract.
 - Developing branding, marketing materials and website mockups.
- **Working with Office of the Chief Information Officer (OCIO) and Office of Cyber Security (OCS)**
 - OCIO has project oversight due to large IT component (approved investment plan on September 21).
 - Completing security design review with OCS.

Savings Plan Development Update

Overview of Proposed Plan Features

- Proposed investment options
- Proposed fee schedule
- Program administration
- Branding and marketing

Savings Plan Development Update

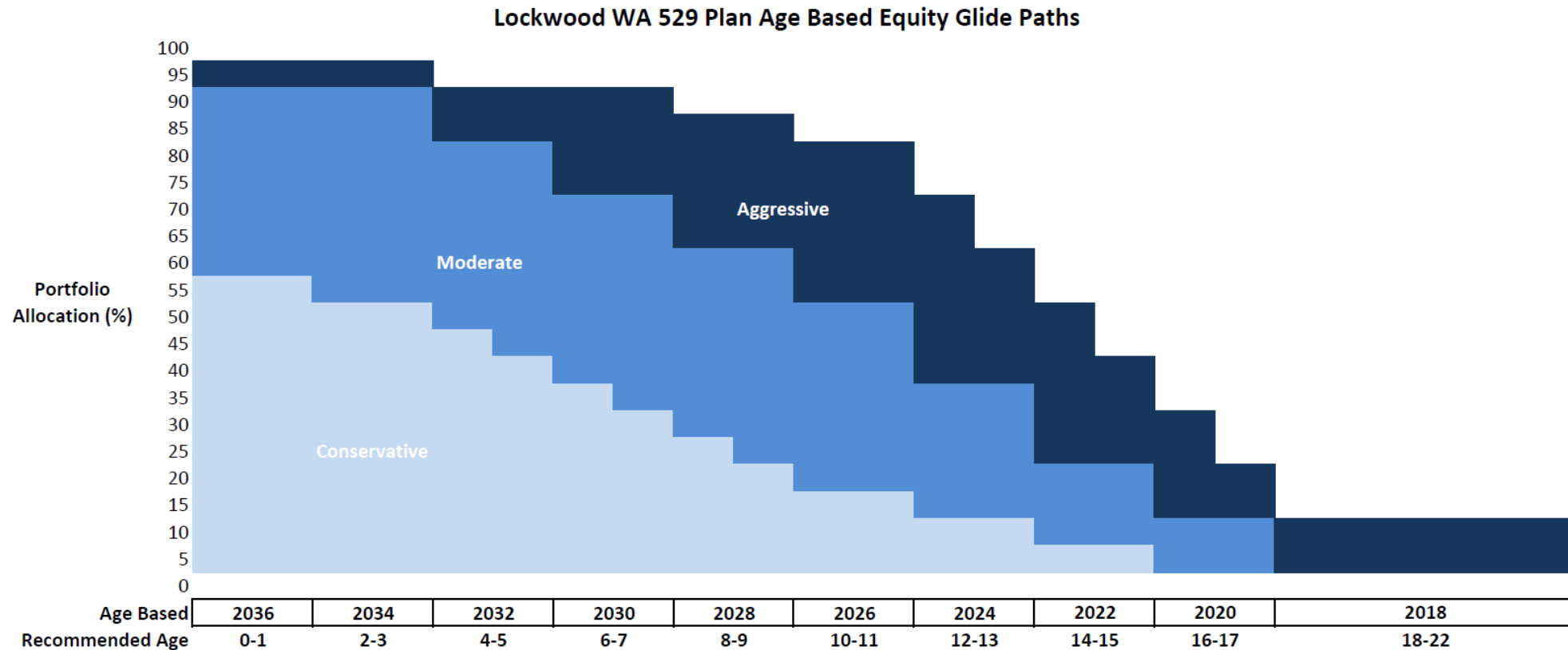
Proposed Investment Options

- **Low-cost investment portfolios**
- **Platform agnostic - underlying funds from a variety of fund managers**
- **Ten available portfolios**
 - Year of enrollment (age-based/glide path)
 - Three risk tolerance-based glide path options that automatically shift from more aggressive to more conservative portfolios as a beneficiary ages.
 - Fixed allocation
 - Six risk tolerance-based options that remain steady over time.
 - One cash-preservation portfolio.

Savings Plan Development Update

Proposed Investment Options

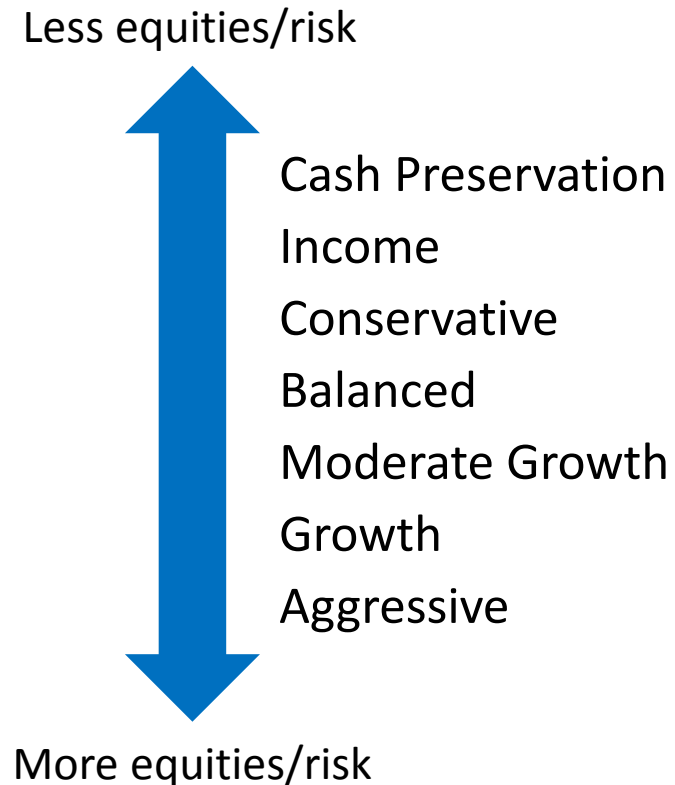
- Year of enrollment options overview



Savings Plan Development Update

Proposed Investment Options

- Fixed allocation options



Savings Plan Development Update

Proposed Fee Schedule

- **Asset-based fees**

- Program management fee to BNY Mellon: 12 bps
- Administrative fee to WSAC: 10 bps
- Underlying investments expense ratio: 4.27 to 6.63 bps (original range: 4.98 to 6.62 bps)

- **Account maintenance fee**

- To BNY Mellon: \$30
- To WSAC: \$5

**Total Asset-based
Fees per
Investment Option**

26.27 – 28.63 bps

*Note: 1 basis point (bps) = 1/100th
of one percent (or .01% or .0001)*

Savings Plan Development Update

Fee Examples

	\$10,000 Investment	\$20,000 Investment
50 basis points (bps)	\$50	\$100
Proposed fee schedule:		
• Asset-based fees	\$28.63	\$57.26
• Account maintenance fees	<u>\$35</u>	<u>\$35</u>
	\$63.63	\$92.26

Note: 1 basis point (bps) = 1/100th of one percent (or .01% or .0001)

Savings Plan Development Update

Maximum Contributions

- By federal and state law, a maximum contribution amount per student must be in effect for all of a state's 529 plans.
- Recommended maximum contribution (aggregated between GET and DreamAhead): **\$500,000**
 - Calculation consistent with industry approach: seven years of cost of attendance at a private university.
 - Measures will be in place to ensure customers do not exceed limits between the two plans.

Savings Plan Development Update

Branding and Marketing

- DreamAhead College Investment Plan



Savings Plan Development Update

Branding and Marketing

- Umbrella brand: WA529 (GET and DreamAhead as sub-brands)

WA529
WASHINGTON COLLEGE SAVINGS PLANS



Savings Plan Development Update

Branding and Marketing

- **Two new websites**
 - **dreamahead529.com** – Dedicated site for DreamAhead
 - **wastate529.com** – Landing page that highlights key features of both GET and DreamAhead and provides links to respective sites

Savings Plan Development Update

Development and Operating Costs

- **WSAC costs**

- Contract oversight
- Marketing and outreach
- Legal and consulting services

- **Vendor costs**

- Account servicing (Call center, records administration/finance, IT)
- Investment management

Savings Plan Development Update

Revenue Sources

- **WSAC**

- **Start-up:** authorization to temporarily allow deficit spending from savings plan account (Fund 463)
- **Long-term:** savings plan is to be self-sustaining (i.e. fee revenue covers program management costs)
 - Asset-based fees
 - Account maintenance fees
- **Breakeven:** projections indicate the savings plan could become self-sustaining within 5 years of opening

- **BNY Mellon**

- Covers its costs (start-up and on-going)

Savings Plan Development Update

Next Steps

Finalize plan features; seek GET Committee approval to sign contract (October – November 2017)

Continue developing website, disclosures, and marketing materials (October – December 2017)

System customization/integration (October – December 2017)

User testing (January – February 2018)

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

Public Comment

Share Your Thoughts

- **Process**

- Sign-up sheet
- Three minutes per individual
- 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.”



Adjournment



Next Meeting

Thursday, November 16, 2017 | 2:00 p.m. – 4:00 p.m.
J.A. Cherberg Building | Senate Hearing Room 3 | Capitol Campus, Olympia