GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Monday, November 5, 2012

Office of the Insurance Commissioner
5000 Capitol Boulevard
Tumwater, WA 98501
2:00 pm – 4:00 pm

AGENDA

Call to Order

• Approval of July 24, 2012 minutes Approval of the 2013 Meeting Schedule	ACTION	Tab 1
• Report from the Chair Washington Student Achievement Council Update	INFORMATION	
• Director's Report Program Statistics National Update	INFORMATION	Tab 2
• Update on Legislative Advisory Committee Maria Hovde, Fiscal Analyst Senate Ways & Means Committee	INFORMATION	
• GET Investment Update Allyson Tucker, Senior Investment Officer Washington State Investment Board	DISCUSSION	Tab 3
• Review of Annual Valuation & Program Funded Status Matt Smith, State Actuary	INFORMATION	
• GET Program History and Options GET Staff	INFORMATION/ DISCUSSION POSSIBLE ACTION	Tab 4
• Adjournment		

Next meeting:
TBD – tentatively January 15, 2013
2:00 p.m. – 4:00 p.m.
Office of the Insurance Commissioner

GUARANTEED EDUCATION TUITION COMMITTEE MEETING
Tuesday, July 24, 2012

Office of the Insurance Commissioner
5000 Capitol Boulevard
Tumwater, WA 98501

MINUTES

Washington Student Achievement Council staff in attendance:
Don Bennett, Washington Student Achievement Council Executive Director
Betty Lochner, GET Director
Larry Lee, GET Deputy Director
Susan Martensen, GET Associate Director of Marketing and Communications
Betsy Hagen, GET Associate Director of Administrative Services
Jackie Ferrado, GET Community Relations Manager
Kim Porter, GET Records and Project Manager
Matthew Freeby, GET Finance Manager
Jane Olsen, GET Financial Accountant
Katie Gross, Special Assistant to the GET Director
Christine Goodman, GET Customer Service Specialist
Mallorie Rich, GET Finance Coordinator
Ashley Davis, GET Records Assistant

Guests in attendance:
Matt Smith, State Actuary
Troy Dempsey, Office of the State Actuary
Allyson Tucker, State Investment Board
Diana Will, State Investment Board
Nona Snell, Office of the State Treasurer
Terry Ryan, Assistant Attorney General
Jane Wall, The Evergreen State College
Maria Hovde, Senate Ways and Means Staff
David Pringle, Office of Planning and Research
Margaret Shepherd, University of Washington
Scott Copeland, State Board for Community and Technical Colleges
Madeleine Thompson, Office of Planning and Research, House of Representatives
Trista Zugel, Office of Policy & Research, House of Representatives
Becca Kenna-Schenk, Senate Democratic Caucus Staff
Kim Cushing, Senate Ways and Means Staff
Cody Eccles, Senate Republican Caucus Staff

WELCOME

Don Bennett, GET Committee Chair, called the meeting to order at 2:05 p.m. Members of the GET Committee in attendance were Don Bennett, Chair, Marty Brown, Director of Office of Financial Management, James L. McIntire, State Treasurer, Beth Stecher Berendt, citizen member, and Mooi Lien Wong, citizen member. Wong attended via teleconference. Bennett asked that all individuals in attendance state their name and title for the record.

APPROVAL OF THE AGENDA

Bennett asked for a motion to approve the meeting agenda. Berendt moved to approve the agenda as presented. Brown moved that the agenda be amended, adding 'and meet with legal counsel' to the Executive Session agenda item. Berendt moved to approve the agenda as amended. McIntire seconded the motion. Agenda was unanimously approved.

APPROVAL OF THE APRIL 16, 2012 MINUTES

Brown moved to approve the April 16, 2012 minutes. McIntire seconded the motion. The minutes were approved unanimously as presented.

REPORT FROM THE CHAIR

The Legislative Advisory Committee to the GET Committee met on June 28, 2012 to discuss program solvency. The next Legislative Advisory Committee meeting is scheduled for October 2, 2012.

The Washington Student Achievement Council, formerly the Higher Education Coordinating Board, was established as a cabinet-level state agency on July 1, 2012. The GET Program is now housed under this agency.

DIRECTOR'S REPORT

Betty Lochner, GET Director, briefly went over the program's contract statistics for the 2011-12 enrollment year. Lochner also reviewed the demographics of the program as of May 31, 2012.

Susan Martensen, Associate Director of Marketing and Communications, went over the program's marketing efforts for this past enrollment period as well as the marketing plan for the upcoming 2012-13 enrollment period.

Bennett thanked the GET program staff for their great work in marketing the program in a challenging environment.

Berendt asked about advertising efforts now that our enrollment period begins November 1, just before the elections. Lochner and Martensen answered that the enrollment opening will be a soft

launch and that advertising won't begin until mid-November. The big advertising push will be at the end of enrollment (April-May).

GET INVESTMENT UPDATE

Allyson Tucker from the State Investment Board (SIB) introduced herself and went over the asset allocation and overall portfolio of the program.

ACTUARIAL ANALYSIS AND UNIT PRICING

Matt Smith, State Actuary, thanked those involved in the collaboration of the presented pricing analysis. The information Smith presented was current as of June 30, 2012. Smith went over projected program solvency status in preparation for unit pricing. Continuous discussion ensued.

McIntire thanked the actuary's office staff for all of their work and their input to this committee.

The information indicates that a unit price of no less than $172 is recommended to ensure program solvency.

Lochner extended her gratitude towards the staff of the Office of the State Actuary and the value they have added to this process. Lochner stated that the GET staff recommends a $172 unit price for the 2012-13 enrollment period based on the actuarial findings. Brown moved to approve the recommendation of a $172 unit price. Berendt seconded the motion. There were no further questions. The motion to approve the $172 unit price was unanimously approved. The unit price was official set at $172 a unit for the 2012-13 enrollment year.

A short recess took place. All meeting participants, excluding Terry Ryan, AAG, Betty Lochner, GET Director, and members, were excused for the Committee to meet in executive session to discuss personnel and legal issues.

At 3:25 p.m. the Committee reconvened. A motion was made by Brown to adjourn. McIntire seconded the motion. Motion was passed unanimously. Meeting adjourned at 3:27 p.m.

Next GET Committee meeting:
Monday, November 5, 2012
2:00 p.m. – 4:00 p.m.
Office of the Insurance Commissioner
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2013 GET Committee Meeting Schedule

November 5, 2012

Background

As outlined in RCW 28B.95.030, WAC 14-104-010, the GET Committee shall hold regular meetings as needed. Additional special meetings may be scheduled if needed. The following is the proposed meeting schedule for the 2013 calendar year.

DATE	TIME	PLACE
Tuesday, January 15, 2013	2:00 – 4:00 p.m.	Office of the Insurance Commissioner 5000 Capitol Blvd SE Tumwater, WA 98501-4426 (360) 725-7000
Monday, March 4, 2013	2:00 – 4:00 p.m.	Office of the Insurance Commissioner 5000 Capitol Blvd SE Tumwater, WA 98501-4426 (360) 725-7000
Monday, May 20, 2013	2:00 – 4:00 p.m.	Office of the Insurance Commissioner 5000 Capitol Blvd SE Tumwater, WA 98501-4426 (360) 725-7000
Monday, August 12, 2013	2:00 – 4:00 p.m.	Office of the Insurance Commissioner 5000 Capitol Blvd SE Tumwater, WA 98501-4426 (360) 725-7000
Monday, October 14, 2013	2:00 – 4:00 p.m.	Office of the Insurance Commissioner 5000 Capitol Blvd SE Tumwater, WA 98501-4426 (360) 725-7000
Monday, December 9, 2013	2:00 – 4:00 p.m.	Office of the Insurance Commissioner 5000 Capitol Blvd SE Tumwater, WA 98501-4426 (360) 725-7000

Guaranteed Education Tuition

As of October 31, 2012

CONTRACT STATISTICS: Number of Contracts			
Contract Statistics by Plan Year	**1998-2011**	**2012**	**TOTAL**
# of Active Contracts			
Custom Monthly Contracts (CM)	33,752	22	33,774
Lump Sum Contracts (LS)	90,680	85	90,765
Total # of Active Contracts	124,432	107	124,539
# of Inactive Contracts	9,352	1	9,353
# of Depleted Contracts	10,633	4	10,637
Total # of Contracts	**144,417**	**112**	**144,529**

UNIT STATISTICS: Number of Contracted Units and Purchased LS Units			
	1998-2011	**2012**	**TOTAL**
Contracted Units (Active Accounts)	5,926,362	3,600	5,929,962
Lump Sum Units (Active Accounts)	18,848,149	4,540	18,852,690
Total Active Accounts	**24,774,512**	**8,140**	**24,782,652**
Contracted Units (Inactive Accounts)			567,906
Lump Sum Units (Inactive Accounts)			2,365,983
Grand Total Contracted and LS Units Purchased			**27,716,541**
Other Unit Facts			
Unpaid Contracted Units (Active Accounts)			2,560,483
Total Paid Out Units Since Inception (Active and Inactive Accounts)			5,100,806

CONTRACT PAYMENTS SINCE INCEPTION			
	1998-2011	**2012**	**TOTAL**
Total Payments Received (All Accounts)	$ 1,914,043,344	$ 837,070	$ 1,914,880,414
Total Fee Payments Received (All Accounts)	$ 7,489,613	$ 4,600	$ 7,494,213
Total Contract-Related Payments Received	$ 1,921,532,957	$ 841,670	$ 1,922,374,627
Future Custom Monthly Payments Due (Active Accounts)	$ 379,388,471	$ 1,146,463	$ 380,534,934

ITEMS OF INTEREST	
Since Inception	
Number of Students Accounts Used For Benefits	28,551
Benefits Paid	$ 367,121,084
Refunds Paid	$ 28,309,894
Total Paid Out In Benefits and Refunds	$ 395,430,977

Prepared by Kim Porter 11/5/2012

Washington Student Achievement Council

GUARANTEED EDUCATION TUITION PROGRAM

GET
Guaranteed Education Tuition℠

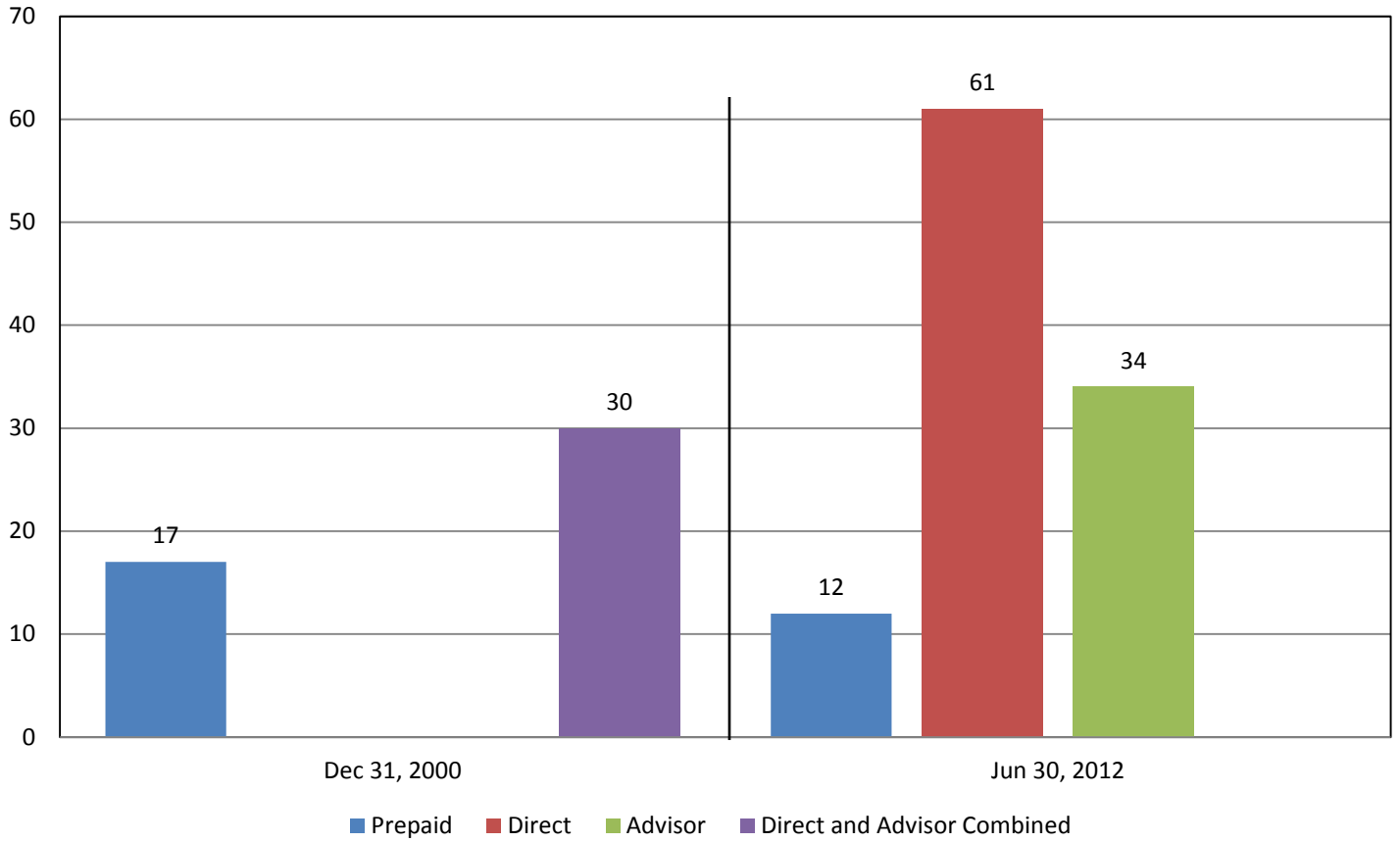
GET Committee Meeting – November 5, 2012

The 529 Industry Today

- **Forty-nine states plus the District of Columbia offer 107 different Section 529 qualified tuition plans**
- **Twelve issuers offer prepaid plans (“Prepaid Plans”)**
- **Forty-seven states plus District of Columbia offer sixty savings plans directly to the public (“Direct Plans”)**
- **Thirty-one states also offer thirty-four different savings plans through financial professionals (“Advisor Plans”)**

Washington Student Achievement Council

Number of available 529 Plans



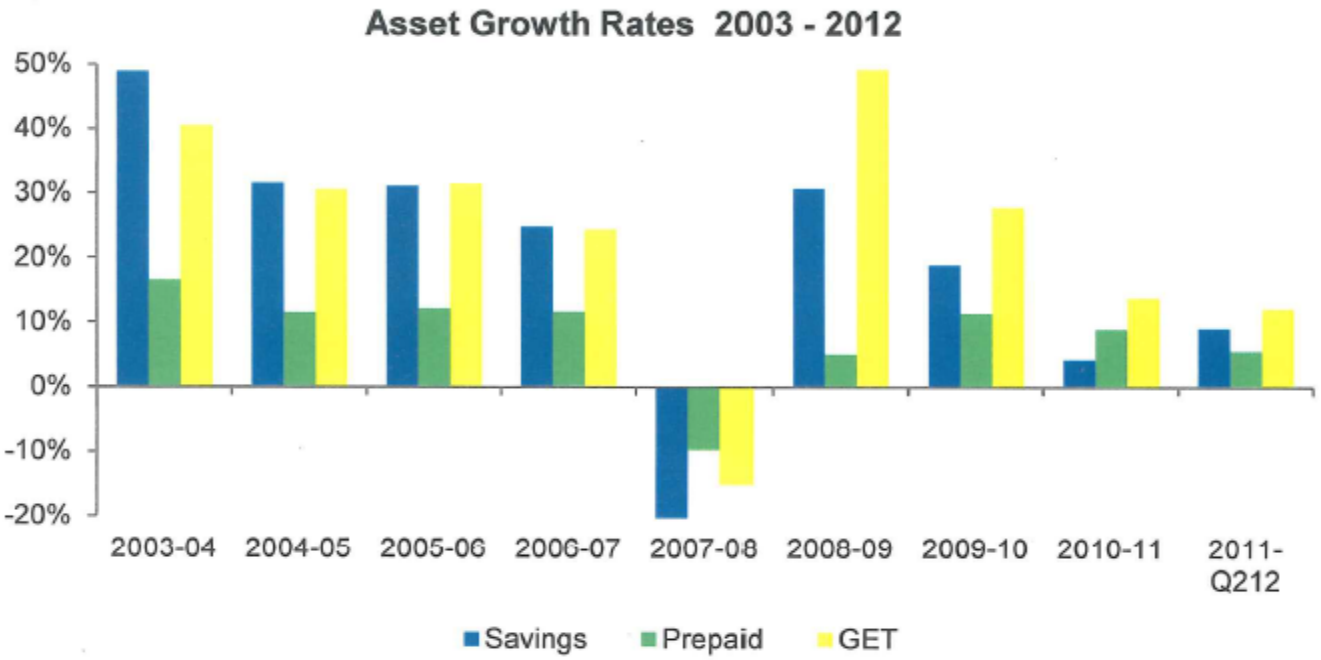
Source: College Savings Plans Network ("CSPN") data as of June 30, 2012

Advisor and Direct Plan counts each include Washington, DC Plan

While twelve Prepaid Plans are open today, twenty-two have been launched overall

Washington Student Achievement Council

Relative Asset Growth Rates January 2003 – June 2012

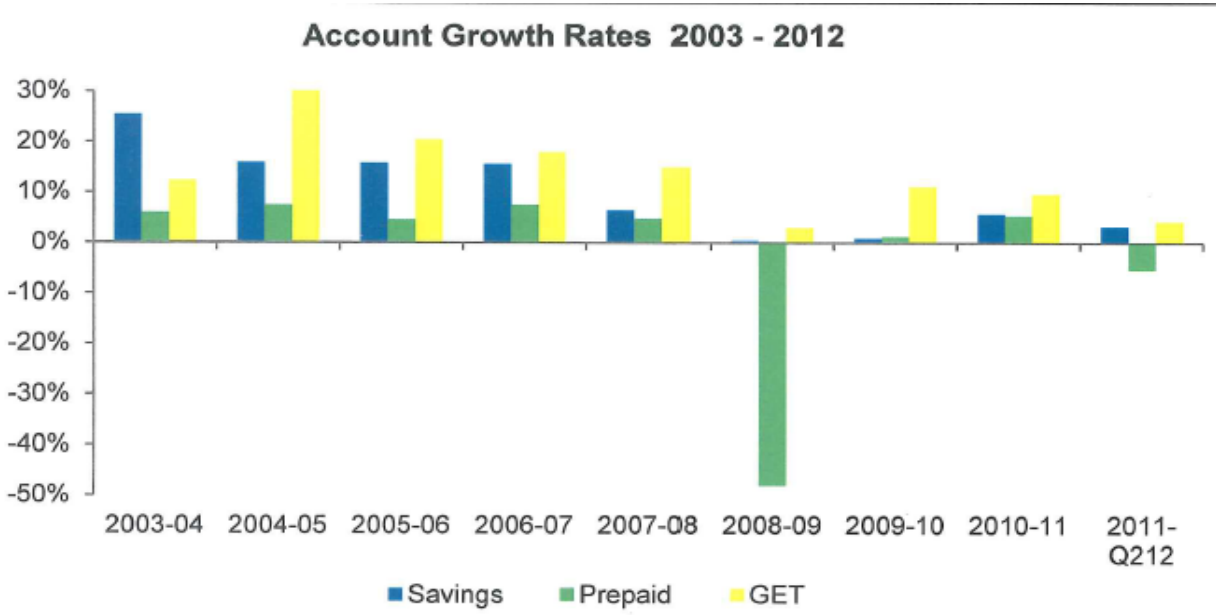


- Although lagging Savings Plan growth initially, GET asset growth rates mirrored trends in Savings Plans and exceeded them since 2008
- GET assets also consistently grew faster than other Prepaid Plans and continue to do so today

Source: CSPN data as of June 30, 2012

Washington Student Achievement Council

Relative Account Growth Rates January 2003 – June 2012



- GET account growth has consistently exceeded account growth in Savings Plans and Prepaid Plans
- Still, account growth rates have decreased over time

Source: CSPN data as of June 30, 2012

Washington Student Achievement Council

Washington Industry Position

- GET's size earns it top quarter rankings across all 529 Plans:

	All Plans	Savings	Prepaid
National 529 Assets	$179,015,423,307	$157,940,270,063	$21,075,153,244
Washington Assets	$2,026,753,759	N/A	$2,026,753,759
Industry Penetration	1.13%	N/A	9.62%
WA Assets Rank	**23**	**N/A**	**2**
National 529 Accounts	10,984,093	9,771,332	1,212,761
Washington Accounts	119,185	N/A	119,185
Industry Penetration	1.09%	N/A	9.83%
WA Accounts Rank	**29**	**N/A**	**2**

Source: CSPN data as of June 30, 2012

Washington Student Achievement Council

Asset & Account Rankings Prepaid Plans

State	Rank	Assets
Florida	1	$10,004,761,949
Washington	2	$2,026,753,759
Virginia	3	$1,968,647,036
Texas	4	$1,556,763,306
Pennsylvania	5	$1,398,877,680
Illinois	6	$1,079,344,555
Michigan	7	$901,404,368
Maryland	8	$682,627,228
Alabama	9	$347,382,619
Mississippi	10	$247,583,826
Top Ten Assets		$20,214,146,326
Private College 529	11	$235,294,710
Nevada	12	$142,121,279
South Carolina	13	$117,029,569

State	Rank	Accounts
Florida	1	575,819
Washington	2	119,185
Texas	3	107,161
Pennsylvania	4	98,279
Virginia	5	69,847
Illinois	6	50,163
Michigan	7	47,249
Alabama	8	36,265
Maryland	9	31,193
Mississippi	10	22,272
Top Ten Accounts		1,157,433
Massachusetts	11	12,310
Nevada	12	10,289
Private College 529	13	8,143

Source: CSPN data as of June 30, 2012

Data is based upon 18 Prepaid Plans for which some are closed or suspended for new enrollments; Texas reflects The closed Guaranteed Plan and the open Prepaid Plan

Washington Student Achievement Council

Assets & Rankings – All Plans

State	Rank	Assets
Virginia	1	$36,880,830,692
New York	2	$13,344,595,604
New Hampshire	3	$10,749,381,421
Florida	4	$10,271,785,563
Nevada	5	$9,332,756,375
Rhode Island	6	$7,262,695,777
Ohio	7	$6,911,530,336
Maine	8	$6,012,164,844
Illinois	9	$5,615,243,786
Utah	10	$4,693,834,303
Top Ten Assets		$111,074,818,701
Pennsylvania	22	$2,503,877,680
Washington	23	$2,026,753,759
New Mexico	24	$1,963,160,094

State	Rank	Accounts
Virginia	1	2,230,049
New York	2	715,446
Ohio	3	632,529
Florida	4	608,886
New Hampshire	5	550,713
Nevada	6	545,737
Rhode Island	7	363,382
Illinois	8	315,671
Colorado	9	301,415
New Jersey	10	280,373
Top Ten Accounts		6,544,201
West Virginia	28	122,408
Washington	29	119,185
North Carolina	30	102,942

Source: CSPN data as of June 30, 2012

Data is based upon 18 Prepaid Plans for which some are closed or suspended for new enrollments

Program Options

Option 1 – Terminate GET

Option 2 – Close GET to new participants

Option 3 – Establish a new program (GET 2) with a different payout value

Option 4 – Continue re-pricing GET units including an amortization of the deficit

Option 5 – Add a savings plan

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Option 1 – Terminate program

- **Pros**
  - Prevents additional contracts/units from being sold
  - Reduces payouts to 10 years into the future
- **Cons**
  - Locks in liability while eliminating incoming cash flow
  - Requires immediate cash payout for all account holders more than four years away from using units (reduces invested assets needed to offset deficit)
  - Would require an annual cash infusion from the state beginning in 2017, running over seven years
  - Eliminates a popular state program and Washington's only college savings tool

Washington Student Achievement Council

Option 2 - Close program to new participants

- **Pros**
  - Prevents additional contracts/units from being sold
- **Cons**
  - Locks in deficit/liability while reducing incoming cash flow (investable assets) needed to offset/reduce deficit
  - Would require an annual cash infusion from the state beginning in 2025, running through 2036
  - Closes a popular state program and Washington's only college savings tool

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Option 3 – Offer new program with a different payout value (GET 2)

- **Pros**
  - Prevents additional contracts/units from being sold
  - Reduces payouts on future contracts/units
- **Cons**
  - May eliminate ability to save enough in GET 2 for students to fund four years of tuition and fees as required by RCW 28B.95.030 (2)(d)
  - Depending on whether funds are co-mingled, eliminates/reduces future cash flow (reduces investable assets needed to offset GET 1 deficit)
  - Changes to GET 1 will impact full funding plan/deficit, may result in a cash infusion from the state
  - Creating GET 2 with reduced payout value may result in reduced participation rates
  - Would require significant start up and ongoing costs

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Option 4 – Continue re-pricing GET units w/ amortization of the deficit

- **Pros**
  - Cash flow supports full funding plan and elimination/reduction of deficit over time
  - Maintains faith with current and future account owners
  - Program remains consistent

- **Cons**
  - Unit price increases result in fewer new contracts and fewer unit sales
  - Shifts deficit to future purchases

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Option 5 – Create a Savings Plan

- **Pros**
  - Additional state sponsored/controlled option for college saving
  - Limited liability to the state
  - Higher contribution limits
  - May provide a cash flow to assist with GET's deficit and with marketing
- **Cons**
  - Not guaranteed, investment values fluctuate with markets and economy
  - Complicates marketing and branding between programs
  - Challenging to create a program that can compete with existing plans at competitive rates
  - Crowded market (107 different 529 plans offered (12 prepaid plans, 95 savings plans)
  - Significant RFP and startup costs

Upcoming Meetings

GET Legislative Advisory Committee

Tuesday, December 11, 2012

National Update

November 5, 2012

Illinois – College Illinois, which suspended sales Sept. 30, 2011, has reopened its prepaid tuition plan to new participants effective Oct. 1, 2012. The program is selling contracts at 2011 prices through year end.

Mississippi – Enrollment in the Mississippi Prepaid Affordable College Tuition (MPACT) Plan has been temporarily deferred as it undergoes an actuarial audit to determine whether the program can continue without costing taxpayers in the future. The plan is backed by the full faith and credit of the state.

Alabama – On July 27, 2011, a Circuit Court approved a class action settlement that provided that future payments for tuition and mandatory fees would be made at the fall 2010 actual rates. The legal battle over Alabama's financially troubled Pre-pay a Child's Tuition (PACT) prepaid college tuition program is headed back to the Alabama Supreme Court, which will decide how much money the 36,000 participants will receive. A Montgomery judge ruled September 17, 2012 that a law passed by the Legislature in the spring to permit reduced tuition payments is constitutional and can be applied to participants who entered the program years before the law passed. The state Supreme Court had asked Circuit Judge Johnny Hardwick to review the law before the high court considers it.

Washington – Katherine Long wrote an article in the Seattle Times following an October 2nd Legislative Advisory Committee meeting in Seattle. The article talked about approaches to handling differential tuition, as well as potential changes that could be made to the GET program. The article was picked up by the Associate Press nationwide and prompted a KOMO news report.

H.R. 529 – If approved, this proposed Federal legislation would add computer technology and equipment to the list of eligible expenses, would provide a tax credit for contributions to a 529 plan, would increase to four the number of investment changes that could occur in a tax year, and would exclude from gross income employer contributions to 529 plans. There are twenty-eight co-sponsors, including McDermott and Reichert from Washington.

Coverdell Education Savings Accounts – Enhancements made to Coverdell accounts in years past are set to expire on Dec. 31. The annual contribution limit will go from $2,000 down to $500. Investors will no longer be able to make contributions to a 529 plan and a Coverdell in the same tax year without paying a penalty. Proceeds will no longer be available for use for elementary and secondary school expenses.

529 ABLE Programs (SB 1872 and HR 3423) – If approved, these programs would provide a tax-advantaged savings vehicle for disability related expenses. Congress is considering the creation of these programs which could authorize states to use their 529 plans for this purpose.

Washington Student Achievement Council

GUARANTEED EDUCATION TUITION PROGRAM

GET
Guaranteed Education Tuition℠

GET Legislative Advisory Committee

December 11, 2012

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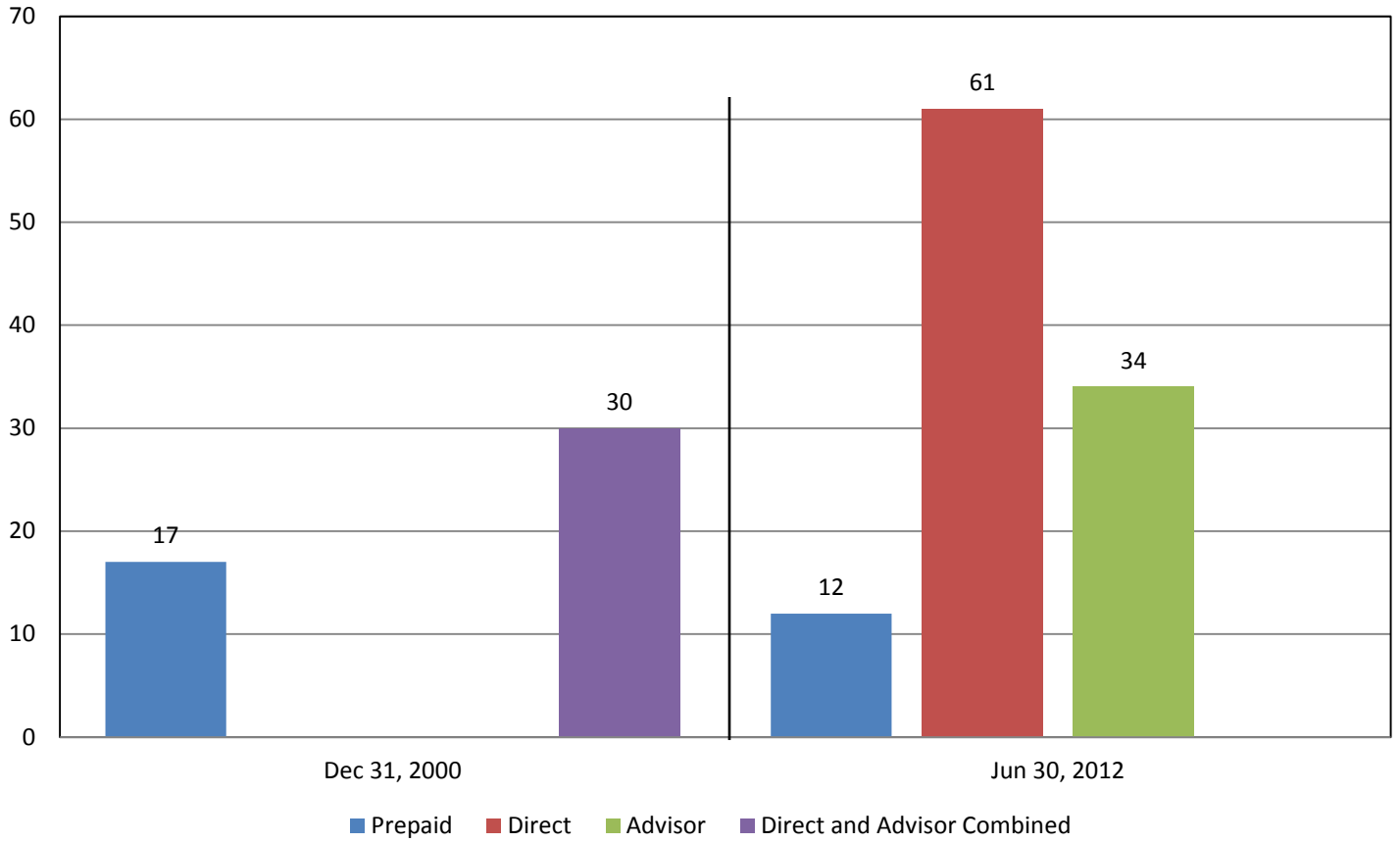
Washington Student Achievement Council

Number of available 529 Plans



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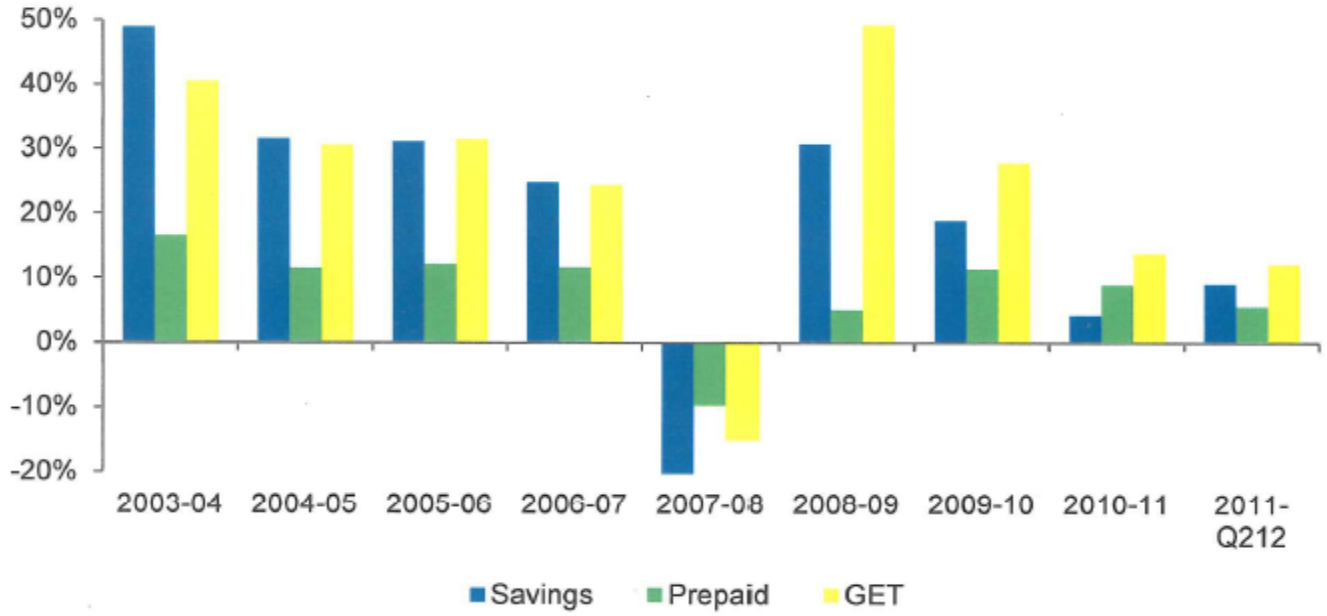

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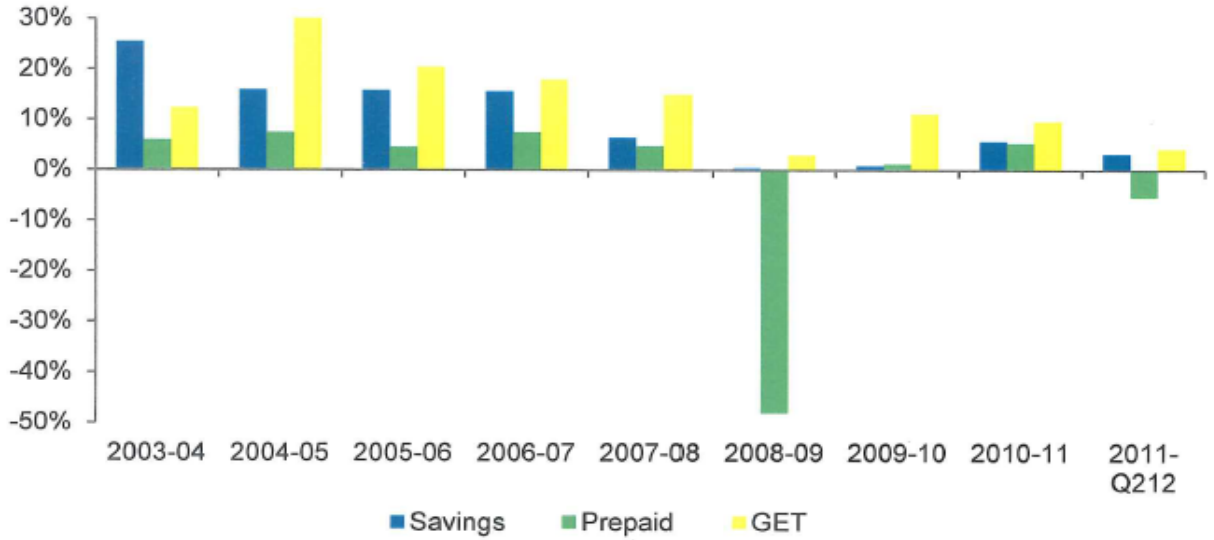

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GET Prepaid College Tuition Program

Quarterly Report – September 30, 2012

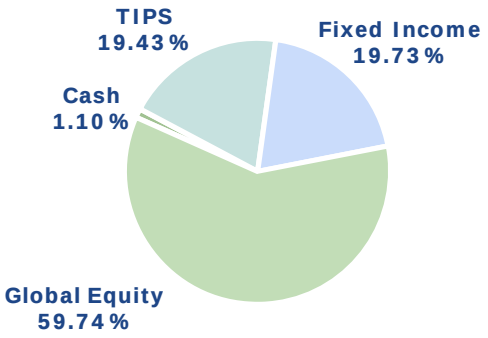
GET Prepaid College Tuition Program

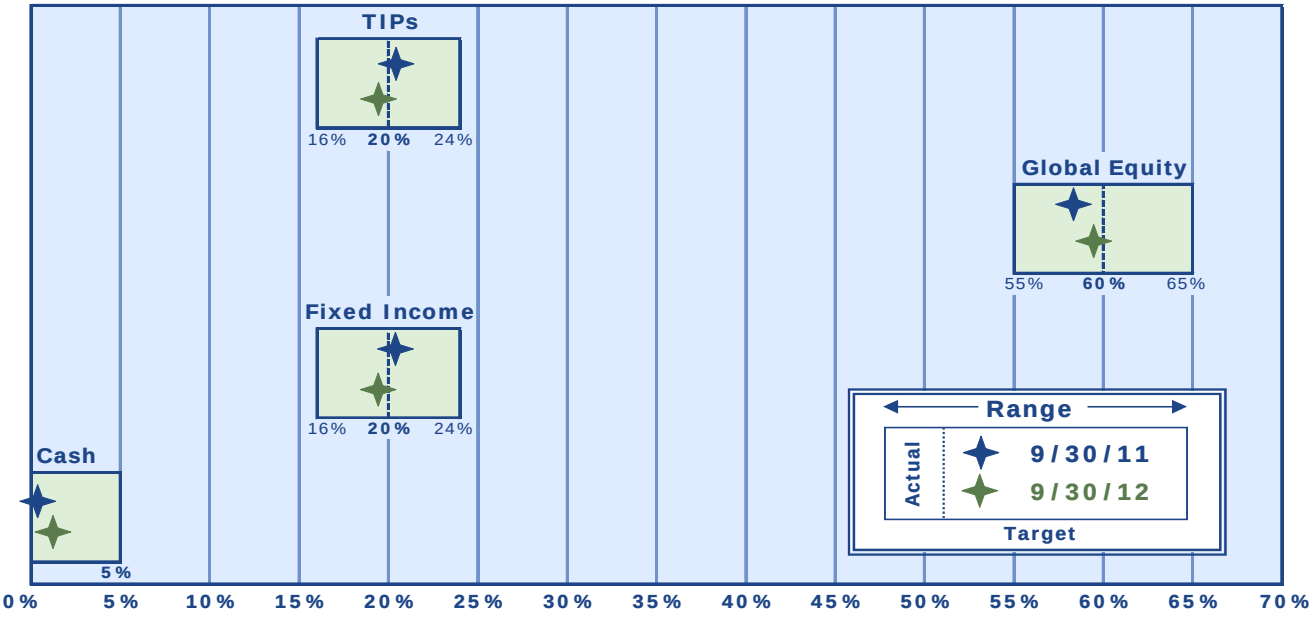
Quarter Ended September 30, 2012

Portfolio Size

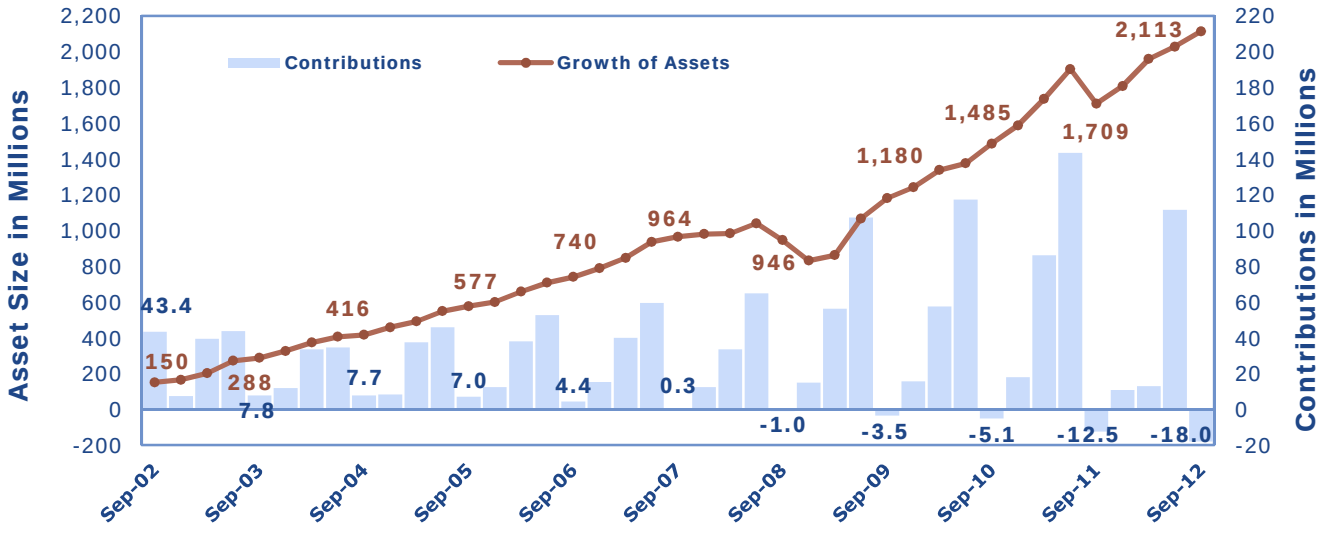
Total	**$2,112,846,503**
Cash	$23,332,092
Treasury Inflation Index Note (TIPs)	$410,487,846
Fixed Income	$416,853,062
Equity	$1,262,173,503

Actual Asset Allocation





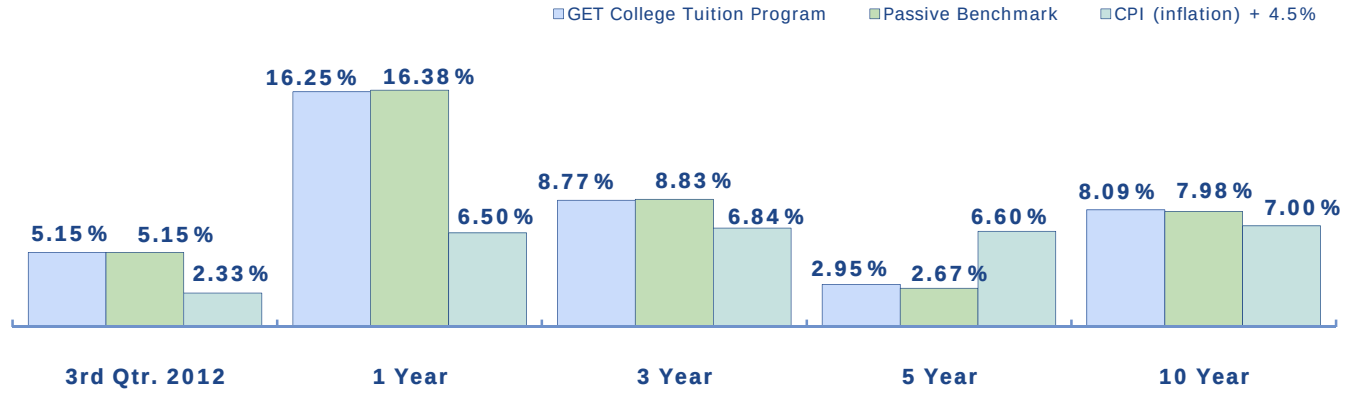
Assets Under Management



GET Prepaid College Tuition Program

Quarter Ended September 30, 2012

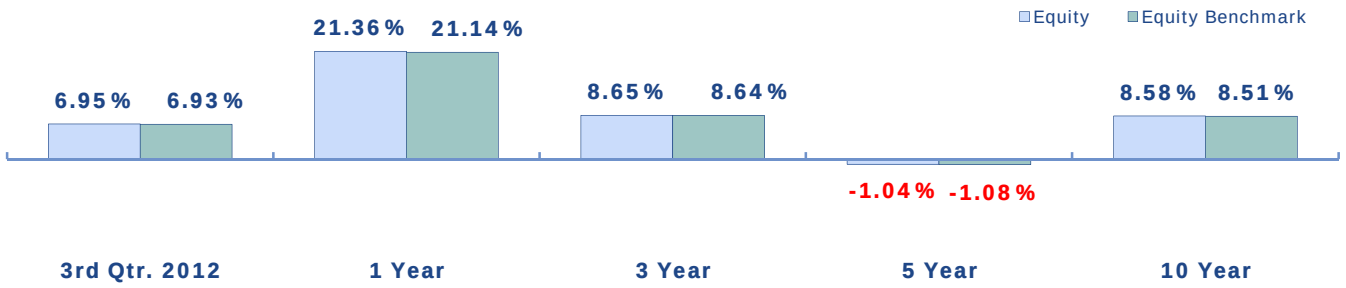
Total Return *



Return Breakdown

Equity Return *

Benchmark: MSCI ACWI IMI w/U.S. Gross and a historical blended return

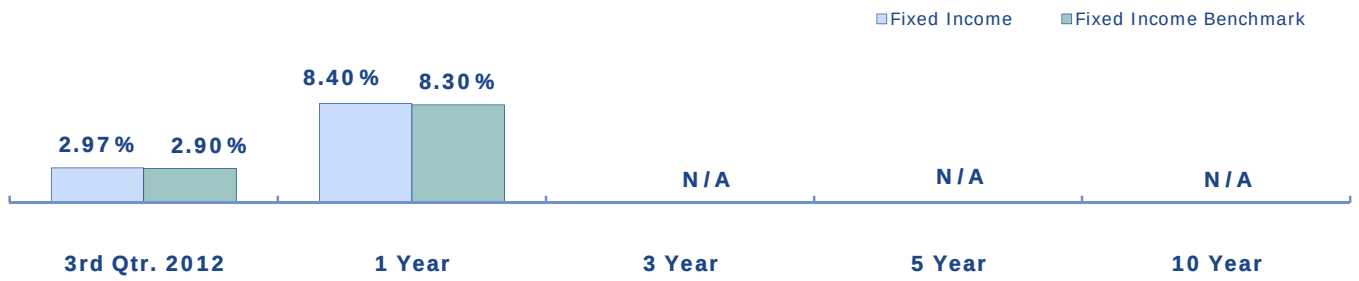


Treasury Inflation Index Note Return *

Benchmark: Barclays Capital Custom TIPS Index

Fixed Income Return *

Benchmark: Barclays Capital Intermediate Credit



* 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.

2012 Actuarial Valuation Report

Guaranteed Education Tuition Program

Office of the State Actuary

"Securing tomorrow's pensions today."

August 2012

Office of the State Actuary

"Securing tomorrow's pensions today."

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Letter of Introduction
Guaranteed Education Tuition
Actuarial Valuation Report
As of June 30, 2012

August 2012

This report documents the results of an actuarial valuation of the Guaranteed Education Tuition (GET) program. The primary purposes of this valuation are to:

- Calculate the funded status of the contracts sold as of the valuation date, explain how the funded status should be used, and illustrate how the funded status changes when we change our assumptions.
- Explain the ongoing nature of the program, illustrate the expected future funded status including future unit sales, and show how the funded status changes when we change our assumptions.

This report also provides information regarding the assumptions and methods used in the valuation of the GET program and explains the change in the surplus/(deficit) from the last valuation.

This report is organized in the following sections:

- Executive Summary.
- Background.
- Plan Description.
- Best-Estimate Results.
- Sensitivity of Best-Estimate Results.
- Appendices.

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The Executive Summary provides the key results for both current and future contracts. The Background and Plan Description sections explain how this valuation complements annual GET communications, how the Office of the State Actuary (OSA) supports GET, and provide a general understanding of the GET program. The next two sections provide detailed actuarial asset, liability, and cash flow information over the next 25 years. The appendices describe the key assumptions and methods, assets, participant data, and additional information used to prepare this valuation.

We encourage you to submit any questions you might have concerning this report to our regular address or our e-mail address at state.actuary@leg.wa.gov. We also invite you to visit GET's website (get.wa.gov), for further information regarding Washington's GET program.

Sincerely,

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

Troy Dempsey, ASA, EA, MAAA
Actuary

O:\Reports\Valuations\2012\GAVR\IntroLetter.docx

Executive Summary

Intended Use

The purpose of this report is to provide an annual update of the financial status of the Guaranteed Education Tuition (GET) program. This report provides a snapshot view of the present value of current contracts' obligations and assets as of the valuation date along with a best-estimate projection of the program assuming it remains open. The report also shows how these results could vary if key assumptions are altered. All of this information should be used together to understand the ongoing status of the GET program.

This report is one of several key documents related to GET throughout a fiscal year. This report is not intended to replace program information supplied by GET or price-setting analysis supplied by OSA.

Comments on 2012 Results

The following comments summarize the key changes from the last valuation. Please see the Actuarial Certification Letter for additional comments on the June 30, 2012, valuation results.

The actual rate of investment return for the plan year was below the assumed rate of 6.32 percent. The actual, annualized investment return on the market value of assets was 0.07 percent. The assumed annual future investment return has decreased from 6.32 percent in 2011 to 5.98 percent in 2012, which has increased the present value of future obligations.

The actual rate of tuition growth for the plan year was below the assumed rate of 18.0 percent. The actual, annualized rate of tuition growth was 15.2 percent. The assumed future tuition growth has remained unchanged from 2011 to 2012.

In 2011, the committee established a one-time 30-year amortization of the unfunded liability measured at June 30, 2011. After one year of experience, the full funding plan adopted last year is on track. Unit sales fell during the latest enrollment period, but exceeded the amount required under the amortization schedule (about 940,000 units sold versus 883,000 required for the year under the 30-year amortization schedule). The reserve dollars from these unit sales decreased the unfunded present value of future obligations.

The results of the valuation **exclude the impacts of differential tuition**. If differential tuition were implemented and included in the GET unit payout value, the results of this valuation could materially change.

Funded Status of Current Contracts

The table on the following page summarizes the key measures of the program's funded status. The present value of future obligations represents the expected value, as of the valuation date, of all future payments from the program for current contracts only. The future payments represent both unit payout values and expenses. The future payments are discounted to the present value as of the valuation date using the valuation discount rate. The present value of the Fund represents both assets currently on hand and the present value of monthly contract receivables discounted to the valuation date using the discount rate.

The funded status helps readers evaluate the health of the GET program. A history of funded status measured consistently over a defined period helps readers evaluate a plan's long-term ability to accurately assess and react to experience. A plan more/less than 100 percent funded is not automatically considered over-funded/at-risk.

The reserve/(deficit) indicates the excess/shortfall of the fund assets on hand to cover the program's obligations at the valuation date. The reserve level can be interpreted similarly to the funded status.

A self-sustaining program that collects all cash inflows up front, like GET, may want to aim for a long-term reserve of approximately 15 percent (or 115 percent funded status) in order to protect against unexpected adverse outcomes over the life of the program.

Funded Status Summary	
(Dollars in Millions)	
Present Value of Future Obligations	$2,942
Present Value of Fund	$2,311
Funded Status	78.5%
Reserve/(Deficit)	($631)

Please see the **Sensitivity of Best-Estimate Results** section for how these results could change under different assumptions.

Projection of Current and Future Contracts

The funded status of the current contracts only tells part of the full story of the GET program. Consideration of the full history of the funded status along with a projection of future funded status provides the reader with a more complete picture of the program's health.

GET is currently open to new purchasers on an ongoing basis. The table below shows a projection of future funded status based on units continuing to be sold under the current price-setting guidelines (see **Appendix D** for price-setting guidelines). Along with the funded status, the table shows the expected number of units sold, present value of obligations (so the reader can assess the size of the program), assets, and net cash flows.

Please see the **Sensitivity of Best-Estimate Results** section for how these results could change under different assumptions.

Projection of Current and Future Contracts (If All Assumptions are Realized)					
(Dollars in Millions)					
Fiscal Year	Funded Status	Units Sold	BOY Fund Value	BOY Obligation Value	Net Cash Flow
2012	79%	845,569	$2,311	$2,942	$126
2013	79%	869,288	2,458	3,096	109
2014	80%	861,123	2,591	3,232	86
2015	81%	866,814	2,702	3,345	58
2016	81%	892,654	2,786	3,428	45
2017	82%	899,118	2,859	3,499	45
2018	82%	907,440	2,935	3,568	59
2019	83%	914,932	3,025	3,649	69
2020	84%	924,248	3,127	3,738	76
2021	84%	935,700	3,237	3,831	76
2022	85%	943,892	3,350	3,923	79
2023	86%	951,762	3,467	4,014	85
2024	87%	959,453	3,592	4,108	95
2025	89%	969,082	3,729	4,207	108
2026	90%	976,698	3,880	4,315	118
2027	91%	986,312	4,045	4,429	136
2028	93%	994,280	4,231	4,556	164
2029	95%	1,004,270	4,447	4,705	205
2030	96%	1,012,920	4,708	4,890	249
2031	98%	1,020,504	5,017	5,112	297
2032	100%	1,030,222	5,378	5,374	342
2033	102%	1,039,096	$5,788	$5,674	$390

Key Assumptions

The results of this valuation are based on a number of assumptions including future economic conditions and purchaser behavior. We summarize the key assumptions in the table to the right. Please see the **Assumptions, Methods, and Data** section in the Appendix for a detailed listing of the assumptions used in this valuation.

Key Assumptions	
Annual Investment Return	5.98%
Annual Tuition Growth	
2013-14	12.0%
2014-15	10.0%
2015-16	10.0%
2016-17	8.0%
2017+	5.5%
Average Annual Unit Sales*	936,803

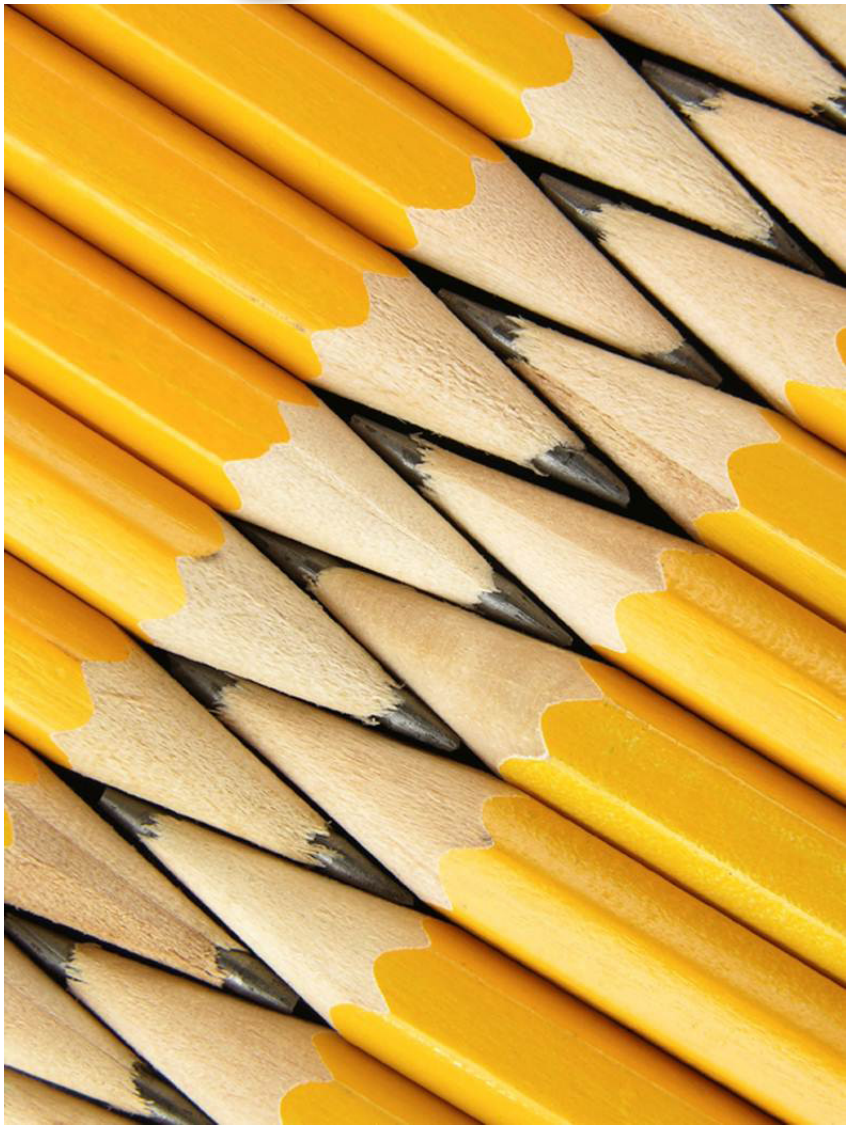
**Over next 20 years.*

Contract Data

The following table summarizes the current contract and unit data used in this valuation for the plan year ending June 30, 2012. Please see the **Contract Data** section in the Appendix for detailed information about when units were bought and are expected to be used.

Contract Summary	
Number of Current Contracts	125,738
Number of Units Outstanding	22,953,845

Background



The Washington State Legislature created the Guaranteed Education Tuition (GET) program in 1997. The program has sold units annually ever since its inception.

RCW 28B.95 outlines the purpose of the GET program along with general guidelines regarding how it is run. The statute establishes the five-member Committee on Advanced Tuition Payment (GET Committee). The GET Committee meets regularly to discuss the goals and status of the program, make administrative decisions, and set the unit price for the following enrollment period.

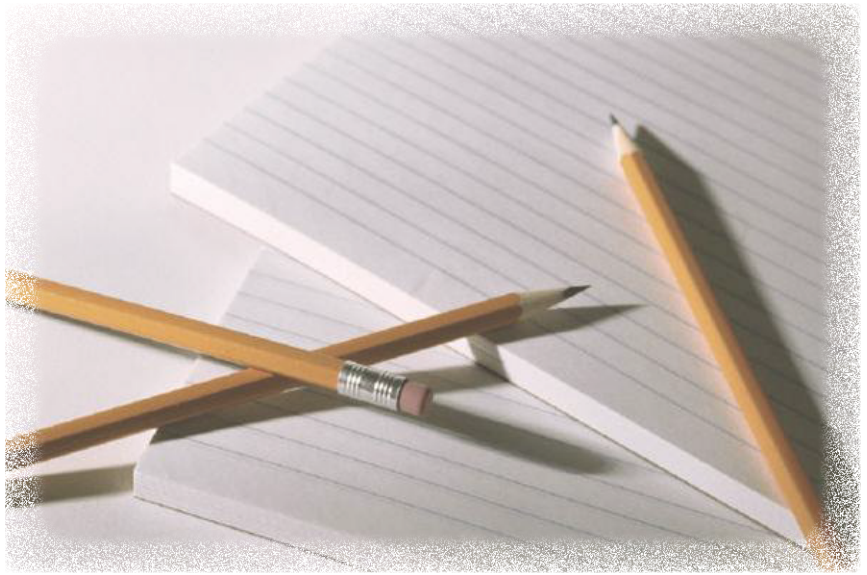
GET staff supports the functions of the program and the board by administering the program and staffing GET Committee meetings. GET staff also prepares studies and reports directed to the GET Committee by the Legislature. Communications from GET staff can be found on their website (get.wa.gov).

Statute also defines the eight-member Legislative Advisory Committee (LAC). The LAC provides advice to the GET Committee and Office of the State Actuary (OSA) regarding the administration of the program.

OSA assists the GET Committee and Legislature by providing actuarial services and consulting. OSA's three primary services for GET include:

- Prepare an annual actuarial valuation of GET (this document) for the GET Committee.
- Prepare unit price-setting analysis and a unit price recommendation for the GET Committee.
- Consult, price, and communicate the effects of potential changes to the GET program for the GET Committee or Legislature.

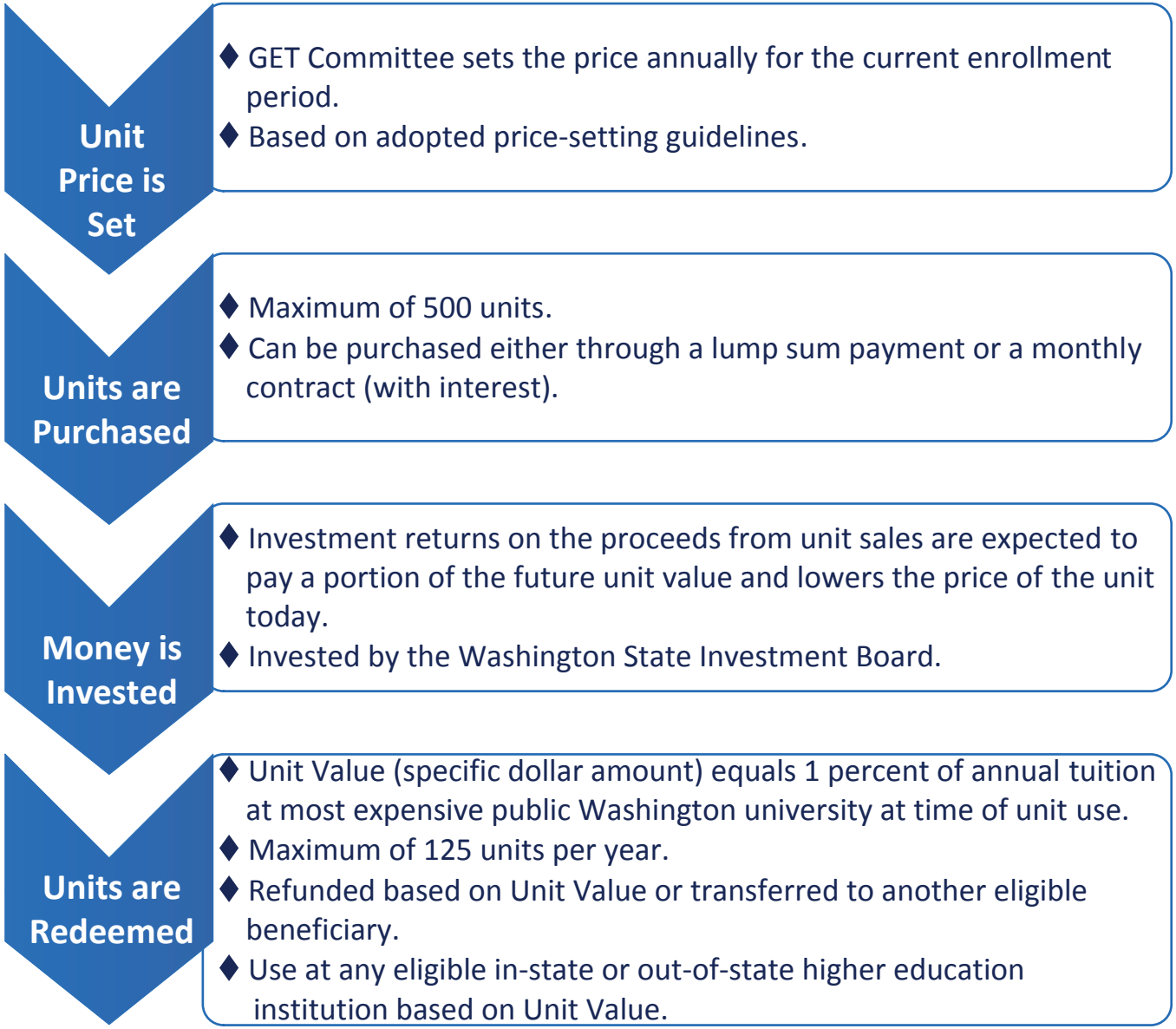
This valuation should not be used in isolation to understand the ongoing health of the GET program. Rather, this document should be used together with the annual report from GET staff, OSA's price-setting analysis, and any other studies or reports created by GET staff, OSA, or LAC.



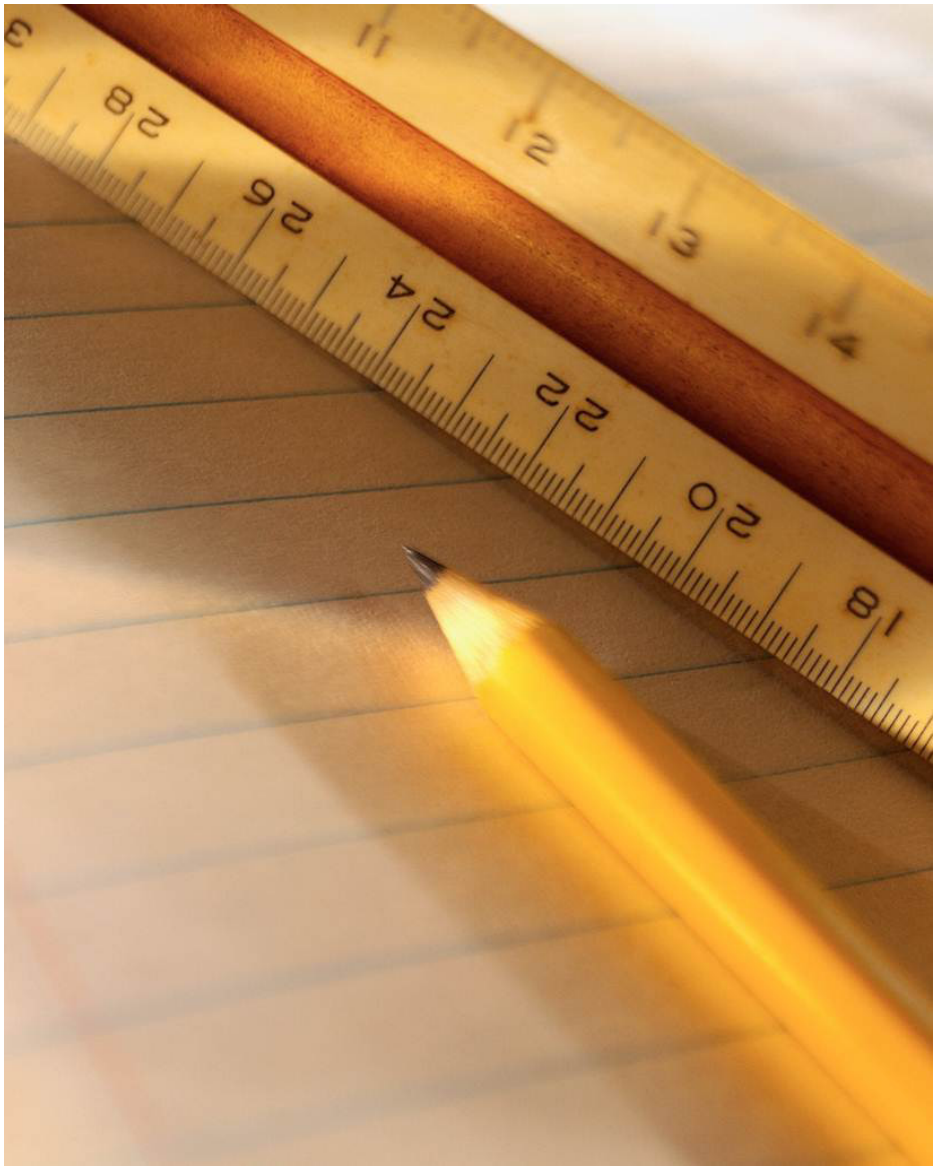
Plan Description

A combination of RCW 28B.95 (determined by the Legislature) and the GET contract (determined by the GET Committee) make up the terms of the GET program. Statute provides general guidelines and certain rules for the GET Committee, whereas the GET contract states all specific details for the purchaser.

The main plan provisions are outlined below so the reader can get a sense for what cash flows occur, what parties are involved, and what drives the results of the actuarial valuation. For a complete description of the plan provisions we direct you to GET's website, which includes both summarized plan provisions and the full GET contract (get.wa.gov).



Best-Estimate Results



This section provides details of our best-estimate of the present value of obligations, assets, cash flow, and funded status information for the GET program. The first subsection shows the assets currently set aside for the contracts sold as of the valuation date along with a history of the funded status. The second subsection illustrates how the program is expected to fare beyond the valuation date.

Please see the **Executive Summary** section for a description of what these terms mean and how they can be interpreted.

Status of Current Contracts

Obligations	
(Dollars in Millions)	
a) Present Value of Unit Redemptions	$2,913
b) Present Value of Administrative Expenses	$29
c) Present Value of Obligations (a+b)	$2,942

Fund Value	
(Dollars in Millions)	
d) Assets	$2,027
e) Present Value of Monthly Contract Receivables	$284
f) Present Value of Fund (d+e)	$2,311

Calculation of Funded Status	
(Dollars in Millions)	
g) Present Value of Fund (f)	$2,311
h) Present Value of Obligations (c)	$2,942
i) Ratio of Fund Value to Obligations (g/h)	78.5%
j) Reserve / (Deficit) (g-h)	($631)

Funded Status History	
Fiscal Year	Funded Status
2012	78.5%
2011	79.1%
2010	86.2%
2009	84.2%
2008	109.5%
2007	117.4%
2006	108.8%
2005	108.1%
2004	104.5%
2003	98.4%
2002	89.6%
2001	104.9%
2000	113.4%
1999	110.1%

Projection of Current and Future Contracts (If All Assumptions are Realized)

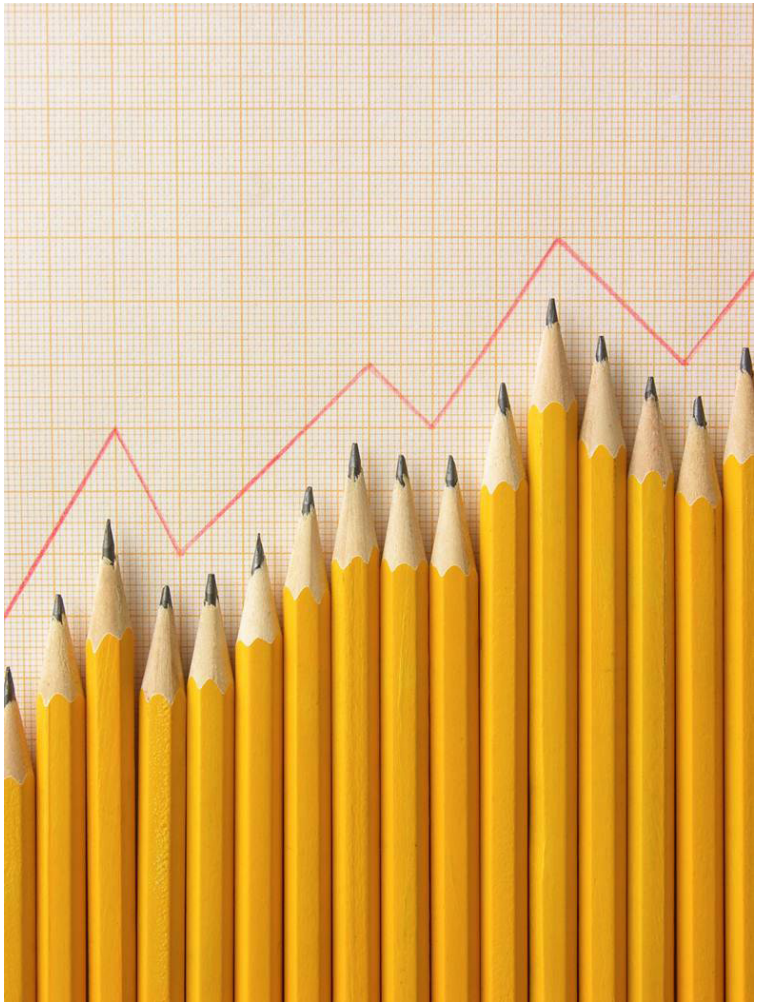
(Dollars in Millions)

									Cash Inflows			Cash Outflows	
Fiscal Year	Funded Status	Unit Price*	Number of Units Sold	Unit Value*	Number of Units Used	BOY Fund Value**	BOY Obligation Value	Net Cash Flow	Lump Sum	Monthly Plan	Investment Return	Unit Use	Expense
2012	79%	$172	845,569	$118	1,069,791	$2,311	$2,942	$126	$83	$53	$119	($126)	($3)
2013	79%	181	869,288	132	1,213,951	2,458	3,096	109	90	57	126	(160)	(3)
2014	80%	191	861,123	145	1,352,901	2,591	3,232	86	94	61	131	(196)	(3)
2015	81%	202	866,814	160	1,491,196	2,702	3,345	58	100	65	135	(238)	(4)
2016	81%	212	892,654	172	1,543,007	2,786	3,428	45	108	69	138	(266)	(4)
2017	82%	224	899,118	182	1,540,323	2,859	3,499	45	115	75	140	(280)	(4)
2018	82%	236	907,440	192	1,470,350	2,935	3,568	59	122	80	143	(282)	(4)
2019	83%	249	914,932	202	1,429,678	3,025	3,649	69	130	86	146	(289)	(4)
2020	84%	262	924,248	214	1,407,154	3,127	3,738	76	138	92	150	(301)	(4)
2021	84%	276	935,700	225	1,419,771	3,237	3,831	76	147	99	155	(320)	(4)
2022	85%	291	943,892	238	1,419,413	3,350	3,923	79	156	106	159	(337)	(5)
2023	86%	307	951,762	251	1,407,167	3,467	4,014	85	166	114	163	(353)	(5)
2024	87%	324	959,453	265	1,383,805	3,592	4,108	95	177	121	168	(366)	(5)
2025	89%	341	969,082	279	1,356,346	3,729	4,207	108	188	130	174	(379)	(5)
2026	90%	360	976,698	295	1,338,577	3,880	4,315	118	200	138	180	(394)	(5)
2027	91%	379	986,312	311	1,302,977	4,045	4,429	136	213	147	187	(405)	(5)
2028	93%	400	994,280	328	1,245,790	4,231	4,556	164	226	156	195	(408)	(6)
2029	95%	421	1,004,270	346	1,160,473	4,447	4,705	205	241	166	206	(401)	(6)
2030	96%	444	1,012,920	365	1,081,928	4,708	4,890	249	256	176	218	(395)	(6)
2031	98%	469	1,020,504	385	1,013,770	5,017	5,112	297	272	187	234	(390)	(6)
2032	100%	494	1,030,222	406	964,564	5,378	5,374	342	290	199	252	(392)	(6)
2033	102%	521	1,039,096	428	924,856	5,788	5,674	390	308	212	273	(396)	(6)
2034	104%	549	1,063,466	452	898,325	6,250	6,011	441	332	225	296	(406)	(6)
2035	106%	$579	1,072,592	$477	889,088	$6,771	$6,391	$485	$353	$240	$322	($424)	($7)

** Shown in dollars (not in millions). Assumes continuation of current price-setting guidelines.*

*** Fund Value includes present value of monthly contract receivables. Fund Value is used for funded status measurement since liabilities include monthly contract units.*

Sensitivity of Best-Estimate Results



The results are sensitive to the key assumptions used in the valuation. In this section, we calculated the results after varying the rate of investment return (as well as the discount rate), tuition growth, and number of units sold per year to illustrate the sensitivity of the results to these assumptions. The table in the first subsection shows these results.

We also show the projected cash flows of the program if it were closed as of the valuation date, which the reader can use with a discount rate they deem appropriate to determine the present value of the current contracts. A closed program refers to the full benefits of the program being paid out to contracts sold before the valuation date, but no units being sold beyond the valuation date. The table in the second subsection shows these results.

In addition, we show the termination liability under RCW 28B.95.100 and the corresponding expected cash flows if the GET program were to be terminated as of the valuation date. Program termination means anyone beyond four years of their first expected unit use year would be immediately paid out the current unit value. All participants within four years of unit use would continue to be able to use the program as is for up to ten years.

If program termination were to occur the present value of obligations as of the valuation date would be $2.481 billion and the fund value would be $2.051 billion, which would result in a deficit of $430 million and a funded status of 82.7 percent (represents the funded status if the program were terminated at the valuation date and before the immediate payout occurs). The decrease in liability is due to the immediate payout at a lower than expected unit value for a portion of the contract holders and a portion of the monthly contracts being cancelled. The decrease in fund value is due to a portion of the monthly contracts being cancelled (lower than expected contract receivables). The table in the third subsection shows these results.

Sensitivity to Economic Assumptions

Sensitivity of Results to Key Assumptions							
(Dollars in Millions)	Best-Estimate	-1% Tuition	+1% Tuition	-1% Discount Rate	+1% Discount Rate	90% of Expected Unit Sales	110% of Expected Unit Sales
Present Value of Fund	$2,311	$2,311	$2,311	$2,322	$2,300	No Change	
Present Value of Obligations	$2,942	$2,725	$3,182	$3,204	$2,709		
Reserve / (Deficit)	($631)	($414)	($871)	($882)	($410)		
Funded Status (*as of June 30*)							
2012	79%	85%	73%	73%	85%	79%	79%
2013	79%	86%	74%	73%	86%	79%	80%
2014	80%	87%	74%	74%	88%	80%	81%
2015	81%	88%	75%	74%	89%	80%	81%
2016	81%	89%	75%	74%	90%	81%	82%
2017	82%	90%	76%	74%	91%	81%	83%
2018	82%	90%	76%	74%	92%	81%	83%
2019	83%	92%	77%	74%	94%	82%	84%
2020	84%	93%	77%	74%	95%	82%	85%
2021	84%	94%	78%	74%	97%	83%	86%
2022	85%	95%	79%	75%	98%	83%	87%
2023	86%	97%	79%	75%	100%	84%	89%
2024	87%	99%	80%	76%	102%	85%	90%
2025	89%	100%	81%	76%	103%	86%	91%
2026	90%	102%	82%	77%	105%	87%	93%
2027	91%	104%	84%	78%	107%	88%	94%
2028	93%	106%	85%	79%	109%	89%	96%
2029	95%	108%	86%	80%	111%	91%	98%
2030	96%	110%	88%	82%	113%	93%	99%
2031	98%	113%	90%	83%	115%	94%	101%
2032	100%	115%	91%	85%	117%	96%	103%
2033	102%	117%	93%	87%	119%	98%	105%
2034	104%	119%	95%	89%	121%	100%	107%
2035	106%	121%	97%	92%	123%	102%	109%

Closed Program Cash Flows

Projection of Current Contracts Only (If All Assumptions are Realized)											
(Dollars in Millions)								Cash Inflows		Cash Outflows	
Fiscal Year	Funded Status	Unit Value*	Number of Units Used	BOY Fund Value**	BOY Obligation Value	Net Cash Flow	Monthly Contracts	Investment Return	State Contributions	Unit Use	Expense
2012	79%	$118	1,069,791	$2,311	$2,942	$43	$53	$119	$0	($126)	($3)
2013	78%	132	1,204,650	2,316	2,986	7	48	120	-	(159)	(3)
2014	76%	145	1,339,893	2,288	2,998	(34)	43	120	-	(194)	(3)
2015	75%	160	1,472,880	2,222	2,974	(84)	38	116	-	(235)	(3)
2016	73%	172	1,516,714	2,109	2,907	(121)	34	110	-	(262)	(3)
2017	70%	182	1,503,445	1,963	2,809	(145)	29	103	-	(274)	(3)
2018	67%	192	1,419,317	1,795	2,692	(156)	26	94	-	(272)	(3)
2019	63%	202	1,359,492	1,619	2,569	(172)	22	84	-	(275)	(3)
2020	59%	214	1,310,981	1,430	2,436	(191)	18	74	-	(280)	(2)
2021	53%	225	1,292,151	1,224	2,291	(217)	15	62	-	(291)	(2)
2022	47%	238	1,256,567	995	2,126	(240)	12	49	-	(299)	(2)
2023	38%	251	1,204,335	745	1,943	(261)	9	34	-	(302)	(2)
2024	27%	265	1,138,091	476	1,746	(277)	7	19	-	(301)	(2)
2025	12%	279	1,064,540	192	1,538	(180)	5	2	112	(297)	(2)
2026	1%	295	996,688	7	1,322	0	4	-	292	(294)	(2)
2027	0%	311	907,867	4	1,097	0	2	-	281	(282)	(2)
2028	0%	328	794,152	2	870	0	1	-	261	(260)	(1)
2029	0%	346	649,663	0	652	0	0	-	225	(225)	(1)
2030	0%	365	499,552	0	459	0	-	-	183	(182)	(1)
2031	0%	385	346,167	0	297	0	-	-	134	(133)	(1)
2032	0%	406	224,180	0	177	0	-	-	92	(91)	(1)
2033	0%	428	128,833	0	92	0	-	-	56	(55)	(0)
2034	0%	452	63,746	0	41	0	-	-	29	(29)	(0)
2035	0%	477	22,441	0	13	0	-	-	11	(11)	(0)

** Shown in dollars (not in millions).*

*** Fund Value includes present value of monthly contract receivables. Fund Value is used for funded status measurement since liabilities include monthly contract units.*

Terminated Program Cash Flows

Projection of Program Termination (If All Assumptions are Realized)											
(Dollars in Millions)							Cash Inflows			Cash Outflows	
Fiscal Year	Funded Status	Unit Value*	Number of Units Used	BOY Fund Value**	BOY Obligation Value	Net Cash Flow	Monthly Contracts	Investment Return	State Contributions	Unit Use	Expense
2012	83%	$118	11,547,589	$2,051	$2,481	($1,270)	$11	$81	$0	($1,361)	($1)
2013	63%	132	1,183,499	771	1,228	(109)	8	41	-	(156)	(1)
2014	57%	145	1,322,734	655	1,139	(155)	5	33	-	(192)	(1)
2015	49%	160	1,458,519	495	1,008	(210)	2	22	-	(233)	(2)
2016	34%	172	1,503,687	283	827	(252)	0	9	-	(259)	(2)
2017	5%	182	1,221,919	31	608	(31)	0	-	193	(222)	(1)
2018	0%	192	870,696	0	414	0	0	-	168	(167)	(1)
2019	0%	202	554,366	0	266	0	0	-	113	(112)	(1)
2020	0%	214	401,393	0	165	0	0	-	86	(86)	(1)
2021	0%	225	263,449	0	85	0	-	-	60	(59)	(0)
2022	0%	$238	121,908	$0	$29	$0	$0	$0	$29	($29)	($0)

** Shown in dollars (not in millions).*

*** Fund Value includes present value of monthly contract receivables. Fund Value is used for funded status measurement since liabilities include monthly contract units.*

Actuarial Certification Letter

Actuarial Certification Letter
Guaranteed Education Tuition
Actuarial Valuation Report
As of June 30, 2012

August 2012

This report documents the results of a valuation for the Washington Guaranteed Education Tuition (GET) Program defined under Chapter 28B.95 of the Revised Code of Washington. The primary purpose of this report is to update the annual financial status of the program through the calculation of the funded status for current contracts in combination with the projection of the expected funded status in future years. This report also provides information on the sensitivity of the valuation results to key assumptions and developments in the program since the last valuation. This report should not be used for other purposes. Please replace this report with a more recent report when available.

The results summarized in this report involve calculations that require assumptions about future economic and demographic events. Standards of practice for prepaid tuition programs have not been defined within the actuarial profession. We used the standards of practice for pension systems where possible to guide the valuation of GET. We believe that the assumptions, methods, and calculations used in the valuation are reasonable and appropriate for the primary purpose as stated above, and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this publication. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results.

The results of the valuation **exclude the impacts of differential tuition**. If differential tuition were implemented and included in the GET unit payout value, the results of this valuation could materially change. Significant differences between the actual and assumed future enrollments will impact the results. This analysis will need to be updated in the future if the Legislature enacts either major reform to current tuition policy or other changes to GET.

Since the valuation results are based on assumptions about future events, actual results will differ to the extent that future experience differs from those assumptions.

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The GET Program staff provided the participant, asset, and historical data to us. We checked the data for reasonableness as appropriate based on the purpose of this valuation. An audit of the data was not performed. We relied on all the information provided as complete and accurate. In our opinion, this information is adequate and substantially complete for the purposes of this valuation.

We intend this valuation to be used by the GET Committee during the 2013 fiscal year only. This valuation should be used in combination with separately provided price-setting analysis in order to set the unit price for the 2012-13 enrollment period. We advise readers of this valuation to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this valuation as a whole. Distribution of, or reliance on, only parts of this valuation could result in its misuse and may mislead others.

Consistent with the actuarial Code of Professional Conduct, I, Matthew Smith, must disclose any potential conflict of interest. I have purchased units in GET; however, this does not impair my ability to act fairly. I have performed all analysis without bias or influence. The GET Committee contracted with OSA to perform this valuation, and I supervised the actuarial analysis performed.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Sincerely,

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

Troy Dempsey, ASA, EA, MAAA
Actuary

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Appendices

Appendix A — Assumptions, Methods, and Data

The assumptions used in this report can be divided into three broad categories: economic, demographic, and behavioral. We discuss the assumptions used in this valuation throughout the next three subsections.

Economic Assumptions

The two key economic assumptions are expected investment returns and expected tuition growth. The table below shows what we have assumed for this valuation.

Key Economic Assumptions	
Investment Returns	5.98% per year
Tuition Growth *(Excludes Differential Tuition)*	
2013-14	**12.0%**
2014-15	**10.0%**
2015-16	**10.0%**
2016-17	**8.0%**
2017+	**5.5%**

Expected investment returns are based on the Washington State Investment Board's (WSIB) Capital Market Assumptions (CMA) and current asset allocation over a 15-year period. We relied on the CMA's provided by WSIB as accurate and have reviewed them for reasonability. We've implicitly assumed the current 60 percent global equity/20 percent fixed income/20 percent inflation-indexed bond portfolio will remain unchanged throughout the projection period. The expected investment returns are used as the discount rate for the liabilities as well as the investment returns in our best-estimate projections.

We assumed tuition would grow by 12, 10, 10, and 8 percent in years 2013-14 through 2016-17. In 2017 and beyond, we assumed tuition would grow by 5.5 percent per year.

The tables below show the structure of the tuition growth model we used to set the tuition growth assumption. Structurally, the model has the ability to add extra components such as a high tuition/high financial aid model or changing enrollment. However, since we've assumed these components are steady during this period we've left them out of the display.

The tuition growth model has three main structural components.

1. **Long-Term Inflationary Growth** – This represents the increase in total dollars spent on instruction. Over the last 20 years, this has increased by about 4 percent per year. We assume it will grow by 5.5 percent in the future.

2. **State Funding** – This represents the increase or decrease in the percent of total dollars assumed to come from the state versus tuition. Historically, it has decreased from approximately 80 percent (in 1990) to 31 percent (in 2013). This has put upward pressure on tuition since tuition increased to replace lost state funding. We assume state funding will continue to decline to about 24 percent and level out. As a result, we project tuition will increase above long-term inflationary levels over the six-year period where state funding is assumed to decrease.

3. **Peer Catch-Up** – This represents additional total funding growth above the 5.5 percent inflationary component intended to improve quality and catch up to peer institutions according to RCW 28B.15.068 (assumed to grow at 5.5 percent annually). We assume the University of Washington will close half of the current gap between it and its peer institutions by increasing total funding 1.5 percent more per year over the next five years.

Tuition Growth Assumption Structure

(Dollars in Thousands)	Step 1 – Inflation		Step 2 - State Funding		
School Year	Total Dollars	Inflationary Growth	Assumed State %	State Dollars	Tuition Dollars	Tuition Growth After State Funding
2011-12	$721,922		36.3%	$318,522	$403,400	
2012-13	686,000		30.9%	212,000	474,000	17.5%
2013-14	725,510	5.8%	28.9%	209,465	516,045	8.9%
2014-15	765,413	5.5%	26.9%	205,896	559,517	8.4%
2015-16	807,511	5.5%	24.9%	200,666	606,844	8.5%
2016-17	851,924	5.5%	24.2%	205,740	646,184	6.5%
2017-18	898,780	5.5%	24.2%	217,055	681,724	5.5%
2018-19	948,213	5.5%	24.2%	228,993	719,219	5.5%
2019-20	1,000,364	5.5%	24.2%	241,588	758,776	5.5%
2020-21	1,055,384	5.5%	24.2%	254,875	800,509	5.5%
2021-22	1,113,430	5.5%	24.2%	268,893	844,537	5.5%
2022-23	1,174,669	5.5%	24.2%	283,683	890,987	5.5%
2023-24	1,239,276	5.5%	24.2%	299,285	939,991	5.5%

**2012 through 2014 data provided by UW.*

Tuition Growth Assumption Structure						
Step 3 - Peer Catch Up						
School Year	Peer Funding (per FTE)	Peer Funding Growth	UW Funding (per FTE)	UW Funding Growth	UW Funding as % of Peer	Tuition Growth After State Funding & Peer Catch Up
2011-12	$28,537	5.50%	$24,902	7.00%	87%	
2012-13	30,106	5.50%	25,936	4.15%	86%	16.0%
2013-14	31,762	5.50%	28,140	8.50%	89%	12.0%
2014-15	33,509	5.50%	30,110	7.00%	90%	10.0%
2015-16	35,352	5.50%	32,218	7.00%	91%	10.0%
2016-17	37,296	5.50%	34,473	7.00%	92%	8.0%
2017-18						5.5%

The tuition growth assumption does not consider differential tuition. The impact from differential tuition could vary based on how it interacts with the current contracts. If the payout value is tied to the highest rate of differential tuition, the tuition growth assumption would likely increase. However, if the payout value were tied to the lowest rate of differential tuition, the tuition growth assumption could actually decrease as base tuition may not need to increase as fast with higher differential tuition making up the difference.

We assumed expenses would grow at an inflationary rate of 2.50 percent per year. Consistent with the most recent actuarial valuation, we assume:

- Maintenance expenses will be $19.57 per contract per year.
- Distribution expense will be $13.05 per contract in payment status per year.
- Monthly payment plan expense will be $1.54 per contract per month.

Demographic Assumptions

We based the new entrant (or future purchaser) cohort on the previous year's sales data provided by GET staff. We assumed each future cohort would have this same makeup.

The table below shows the percent of the population in each of the thirty-eight combinations. It also shows the number of units each combination purchases and the length of the monthly payment plan for those who select that payment option. For example, 4 percent of the people are assumed to purchase 248 lump sum units that are kept for six years before being used.

To illustrate how we use the table, for every 100 purchasers:

- Sixty-eight select the lump-sum payment option.
  - Each buys 84 units.
- Thirty-two select the monthly payment plan option.
  - Each buys 135 units.
  - They pay for it over 139 months.

Future Purchaser Cohort Assumption					
Length In Program	% Lump Sum	Lump Sum Units Purchased	% Monthly Payment Plan	Monthly Payment Plan Units Purchased	Length of Monthly Payment Plan
2	0.0%	177	0.0%	0	0
3	2.0%	82	0.2%	74	28
4	1.4%	79	0.4%	91	37
5	1.8%	76	0.7%	109	48
6	2.2%	82	1.2%	105	58
7	2.7%	89	1.1%	109	69
8	2.9%	112	1.5%	117	80
9	2.8%	105	1.4%	135	90
10	3.1%	93	1.6%	119	102
11	3.4%	96	2.0%	144	113
12	3.0%	92	1.7%	140	121
13	3.3%	94	1.9%	133	128
14	4.8%	79	2.5%	139	143
15	4.6%	75	2.4%	138	154
16	4.9%	78	2.4%	131	162
17	6.1%	69	2.7%	141	174
18	10.6%	72	4.1%	137	186
19	8.3%	89	4.1%	160	196
20	0.0%	7	0.0%	300	216
Total	**68.1%**	**84**	**31.9%**	**135**	**139**

Behavioral Assumptions

We've made the following assumptions for GET contract holders.

- **Rate of Redemption** – This shows what percent of a contract holder's total units will be used upon reaching college (or their "use year"). We used the following assumptions.

Redemption	
Year	Rate
0	20%
1	20%
2	20%
3	10%
4	10%
5	10%
6+	10%

- **Rate of Monthly Payment Default** – This shows the rate at which payments stop under monthly payment plan contracts. If default occurs, these contracts are converted to a lump sum plan. We used the following assumptions.

Payment Default	
Year	Rate
1	2.5%
2	2.0%
3	2.0%
4	2.0%
5+	1.5%

- **Rate of Refund** – This shows the rate at which people ask for payouts for any reason other than tuition payments. We used the following assumptions.

Refund	
Year	Rate
1	1.10%
2	0.40%
3	0.25%
4	0.25%
5+	0.10%

We relied on the expense and behavioral assumptions set by the prior actuary as accurate. We reviewed them for reasonableness and will perform an experience study next year to determine if they should be altered.

We assumed purchasers are made up of 70 percent "cash constrained" and 30 percent "investors":

- **Cash constrained** — Assumed to spend a certain amount on units each year. Currently assumed to equal $17,200 per contract and assumed to grow by 6 percent per year.

- **Investors** — Assumed to buy units based on the expected rate of return on the units over their expected holding length. Currently assumed to stop buying if the expected rate of return falls to 2 percent per year and buy the historical average amount at an expected rate of return of 5.5 percent per year.

We assumed the GET Committee would continue to follow their current price-setting guidelines throughout the projection period. Please see **Appendix D** for details on the current price-setting guidelines.

We assumed the GET Committee would price future units in line with the expected investment returns and tuition growth discussed in the Economic Assumptions subsection.

We assumed no Legislative changes will occur to the program over the projection period.

We further assumed no significant changes will be made to tuition policy over the projection period.

Methods

We valued the current contract and asset values in GET by estimating the future tuition payments (cash outflow), administrative expenses (cash outflow), and monthly contract payments (cash inflow). The estimation of future cash flows required assumptions about:

- When the contract holder will redeem their units.
- Whether they will stop making payments on their monthly payment plan.
- What tuition will be in future years.
- What administrative expenses will be over time.

We discounted these cash flows to today's value in order to calculate the plan's funded status at the valuation date. Discounting the cash flows to today's value requires an assumption regarding how fast invested money will grow over time. The idea is that $1 today is worth more next year ($1.06 in this case) due to investment earnings. Discounting moves the opposite way and states that $1.06 a year from now will be worth $1 today. Discounting all of the cash flows to one common year allows for an apples-to-apples comparison of all cash flows.

Unlike the current contract holders, we do not have data on who will purchase GET units in the future. So, the first step we took was to estimate the makeup of these future purchasers. We refer to the entire group of purchasers each year as a "cohort". The cohort for each purchase year is made up of 38 different types of people. The 38 types of people represent a mixture of the entire population. We expect each of the 38 types of people to remain in the program between 2-20 years before starting to use their units, and are either lump sum or monthly payment plan purchasers. The 38 combinations are made up of the 19 different contract lengths multiplied by the 2 different payment options. The percent of the population expected to be in each of the combinations is shown in the assumption section.

Next, we valued the 38 types of people in each cohort. We valued each cohort in the same way we valued the current contract holders in the actuarial valuation. We estimated the future tuition payments (cash outflow), administrative expenses (cash outflow), and monthly contract payments (cash inflow). The estimation of future cash flows required assumptions about when contract holders will redeem their units, whether they will stop making payments on their monthly payment plans, how tuition will change in future years, and what administrative expenses will be over time.

We then discounted these cash flows to the cohort's entry year. We repeated this process for each year in our 25-year projection, since we expect a new cohort to enter each year.

We then created a projection of the GET program that measures every key element during each future year.

For example, we start with the program's current status – present value of obligations, assets, funded status, and price. Throughout the next year, investment returns occur at our assumed rate, tuition grows at our assumed rate, people cash in tuition units at our assumed rate, and people buy new units at our assumed rate (discussed above in the assumption subsection). This particular projection moves the program forward assuming experience matches our assumptions exactly. We call this a deterministic projection because the current program and assumptions determine the future.

At the end of the first year, a valuation is performed and the new obligations, assets, and funded status are calculated. Based on the funded status from the valuation, we make an assumption for how the GET Committee will set a new price for the following year (according to their current price-setting guidelines).

Once the new price is set, we have projected 1 year. We repeat this process 25 times during our 25-year projection. At the end of the projection, we have developed our "expected" path that the GET program will follow. Of course, in reality, the future will be different than we assume. We believe there is a 50 percent chance the future will be better for the program, and a 50 percent chance the future will be worse for the program.

Please see the **Sensitivity of Best-Estimate Results** section for how the results could differ under different assumptions.

Data

We used the contract data file provided by GET staff. We relied on this data file as accurate and complete since we value each entry in the file. We did not perform an audit of this data, but believe it is reasonable for the purposes of our work. We used data entries such as:

- **Program Year** – The contract holder's entry year into the program.
- **Use Year** – When the contract holder expects to start using units for tuition.
- **Payment Amount** – The monthly amount the contract holder owes on their payment plan.
- **Payments Due** – The number of monthly payments left on their monthly payment plan.
- **Units Outstanding** – The number of units the contract holder currently owns (including units still being paid for in the monthly payment plan).

To set our tuition growth assumption we studied the historical tuition data in the table to the right. We also examined average tuition growth over different periods (see the second table in the following section).

Year	Tuition Growth	Year	Tuition Growth
1982-83	11.0%	1998-99	4.0%
1983-84	11.2%	1999-00	3.7%
1984-85	0.0%	2000-01	3.4%
1985-86	22.7%	2001-02	7.1%
1986-87	0.0%	2002-03	16.0%
1987-88	7.9%	2003-04	7.0%
1988-89	3.8%	2004-05	6.6%
1989-90	1.7%	2005-06	6.8%
1990-91	6.9%	2006-07	6.9%
1991-92	11.5%	2007-08	6.8%
1992-93	3.4%	2008-09	6.8%
1993-94	12.4%	2009-10	13.1%
1994-95	14.8%	2010-11	13.1%
1995-96	3.9%	2011-12	19.0%
1996-97	4.0%	2012-13	15.2%
1997-98	3.9%		
5-Year Average			13.4%
10-Year Average			10.1%
20-Year Average			8.7%
31-Year Average			8.2%
Standard Deviation			5.5%

Appendix B — Assets

The table below shows the GET Fund Value. The value of the fund includes the market value of assets held by the Washington State Investment Board (WSIB) along with the present value of the monthly contract receivables.

The target asset allocation is currently 60 percent global equity, 20 percent fixed income, and 20 percent inflation-indexed bonds.

Fund Value	
Market Value of Assets *(Dollars in Millions)*	
Global Equities	$1,207
Fixed Income	383
Inflation Indexed Bonds (TIPS)	380
Cash	$58
Total Market Value of Assets	$2,027
Present Value of Monthly Contracts	284
Total Fund Value	$2,311

The current WSIB Capital Market Assumptions are shown below. The average 6.60 percent portfolio return is a one-year arithmetic return. When compounded over a fifteen-year period, the arithmetic return decreases to a 5.98 percent geometric return. We use the geometric return in our modeling.

2012 Capital Market Assumptions			
Asset	**Return**	**Standard Deviation**	**Weight**
Global Equities	9.00%	18.50%	60.00%
Fixed Income	3.50%	5.75%	20.00%
TIPS	2.50%	5.50%	20.00%
Portfolio	6.60%	11.59%	100.00%
Correlation	**Global Equities**	**Fixed Income**	**TIPS**
Global Equities	1.00	0.30	0.00
Fixed Income		1.00	0.40
TIPS			1.00

Appendix C — Contract Data

Number of Units Sold By Unit Price		
Enrollment Year	Unit Price	Units Sold
1998-99	$35	1,374,095
1999-00	38	615,327
2000-01	41	523,702
2001-02	42	2,463,500
2002-03	52	2,099,531
2003-04	57	1,896,635
2004-05	61	2,108,360
2005-06	66	2,146,191
2006-07	70	2,339,431
2007-08	74	2,102,305
2008-09	76	3,177,699
2009-10	101	2,624,367
2010-11	117	2,697,696
2011-12	$163	943,718

Number of Units Outstanding by Use Year		
Fiscal Year	Expected Unit Value	Units Starting to be Used
2013*	$118	5,819,607
2014	$132	1,352,447
2015	$145	1,369,096
2016	$160	1,400,803
2017	$172	1,341,523
2018	$182	1,334,494
2019	$192	1,281,332
2020	$202	1,191,999
2021	$214	1,261,076
2022	$225	1,169,194
2023	$238	1,052,976
2024	$251	992,821
2025	$265	906,301
2026	$279	843,793
2027	$295	680,525
2028	$311	530,253
2029	$328	289,635
2030	$346	135,546
2031	$365	322
2032	$385	101

**Includes contracts that already started using units.*

Appendix D — Price-Setting Guidelines

In 2011, the GET Committee adopted new price-setting guidelines (how we price future units) to address the new tuition-setting policy established by the Legislature and to return the program to a fully funded status. The current price-setting guidelines include the following four parts:

- **Expected Cost** – Covers the expected cost of future tuition and certain administrative expenses.
- **Expenses** – Covers the GET program's annual operating expenses.
- **Reserve** – Covers unexpected future costs such as above-expected tuition growth or below-expected investment returns. The current price-setting guidelines call for a 15 percent reserve. This component can be increased or decreased to alter the probability that a unit will ever create unfunded liability in the future.
- **Amortization** – An optional component that covers unexpected past costs from significant program or policy changes. In 2011, the committee established a one-time thirty-year amortization of the unfunded liability measured at June 30, 2011.

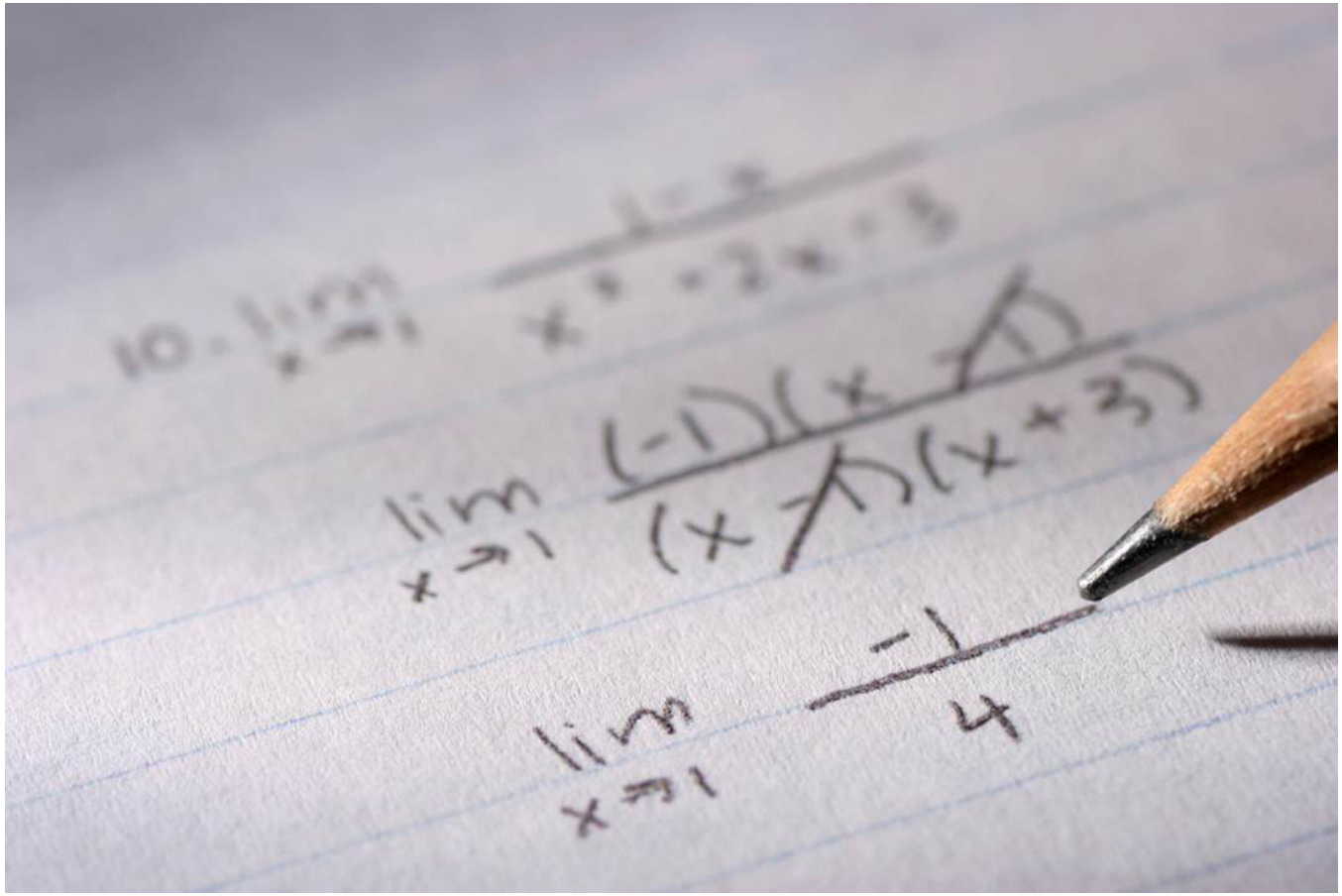
The inclusion of the Amortization component in the current unit price and the increase in the Expected Cost from the new tuition-setting policy resulted in the largest year-over-year price increase in the program's history (from $117 to $163 for the enrollment period ending June 30, 2012).

After one year of experience, the full funding plan adopted last year is on track. Unit sales fell during the latest enrollment period, but exceeded the amount required under the amortization schedule (about 940,000 units sold versus 883,000 required for the year under the 30-year amortization schedule).

GET Unit Price Information

Category	2011-12 Enrollment	2012-13 Enrollment
Unit Price		
Expected Cost	$121.60	$127.66
Expenses	4.61	5.33
Reserve	18.93	19.95
Amortization	18.70	19.73
Total Unit Price	**$163.00**	**$172.00**

Note: Totals may not agree due to rounding.



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FISCAL IMPACT OF OPTIONS FOR ADDRESSING DIFFERENTIAL TUITION IMPACTS ON THE GET PROGRAM

Current Unfunded Liability (as of June 30, 2012): $631 million
Current Tuition Unit Price (for academic year 2012-13): $172

OPTION		FISCAL IMPACT			
		5% above base tuition	**10% above base tuition**	**20% above base tuition**	**50% above base tuition**
A	Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013 without changes.	Unfunded liability increases by $139 million Unit price increases by $14	Unfunded liability increases by $279 million Unit price increases by $29	Unfunded liability increases by $558 million Unit price increases by $76	Unfunded liability increases by $1,395 million Unit price increases by $314
B	Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but exempt charges above base tuition at state colleges and universities for all GET participants.	Unfunded liability increases by $36 million Unit price increases by $3	Unfunded liability increases by $73 million Unit price increases by $6	Unfunded liability increases by $147 million Unit price increases by $14	Unfunded liability increases by $368 million Unit price increases by $39
C	Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but add a cap.	If a cap is established at some level that is less than those noted above, then the impact to the GET program will be smaller than those noted in Option A above.			
D	Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but only for those institutions that are not the basis for the value of a GET unit.	No impact provided the differential tuition rate does not become the basis for valuing GET units.			
E	Clarify in statute that differential tuition is not to be considered part of tuition for the purposes of calculating the GET payout value.	Most recent legal analysis indicates that impacts to the GET program will be the same as for Option A above.			
F	Disallow differential tuition for resident undergraduate students and allow unique program fees that are separate from tuition. (SSB 6399)	Most recent legal analysis indicates that impacts to the GET program will be the same as for Option A above.			
G	Disallow the implementation of differential tuition for resident undergraduate students only (repeal the effects of E2SHB 1795 on differential tuition).	No impact			

OPTION		FISCAL IMPACT			
		5% above base tuition	**10% above base tuition**	**20% above base tuition**	**50% above base tuition**
H	Disallow all authority to charge differential tuition rates.	No impact			
I	Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but require institutions that charge differential rates to remit a portion of the revenue collected to the GET Account.	Impact to the GET Program is as described in Option A above. There is a possibility that if enough tuition revenue is remitted to the GET Account that the impact could be lower.			

FISCAL IMPACT TO THE GET PROGRAM OF INCREASING STATE SUPPORT

Current Unfunded Liability (as of June 30, 2012): $631 million
Current Tuition Unit Price (for academic year 2012-13): $172

OPTION		FISCAL IMPACT	
		State funding as a share of state funds + tuition remains constant	**State funding as a share of state funds + tuition increases to 40% over 6 years**
J	Increase state support	Unfunded liability decreases by $158 million Unit price decreases by $9	Unfunded liability decreases by $493 million Unit price decreases by $30