

GUARANTEED EDUCATION TUITION COMMITTEE
SPECIAL MEETING

Monday, June 17, 2002
2:00 P.M. – 3:00 P.M.
State Investment Board
2424 Heritage Ct SW
Olympia, Washington

AGENDA

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| 1. Call to Order | |
| 2. Update on GET enrollment year | INFORMATION |
| 3. Update on development of a College Savings Plan | DISCUSSION
POSSIBLE ACTION |
| 4. Possible Executive Session
May be held for any of the purposes set forth in RCW 42.30.110 | |
| 5. Action Items, if any, made necessary by Executive Session | |
| 6. Adjournment | |

Next Regular Meeting:
July 15, 2002, 2:00 – 5:00 p.m.
State Investment Board, 2424 Heritage Ct SW, Olympia, Washington

Guaranteed Education Tuition Committee Special Meeting
Monday, June 17, 2002
State Investment Board
2424 Heritage Court SW
Olympia, WA

MINUTES

CALL TO ORDER

Marc Gaspard, HECB Executive Director and Committee, Chair, called the meeting to order at 2:05 p.m. Committee members in attendance in addition to the Chair included Michael J. Murphy, State Treasurer, Marty Brown, Director of OFM, Beth Stecher Berendt, Citizen Member and Mooi Lien Wong, Citizen Member (via conference call).

HECB staff in attendance:

Betty Lochner, GET Director
Larry Lee, GET Operations Manager
Lyle Jacobsen, HECB Special Assistant
Debra Blodgett, GET Administrative Assistant

Guests in attendance:

Howard Fischer, Office of the Attorney General
Nancy Calkins, State Investment Board
Gary Bruebaker, State Investment Board
Joe Dear, Frank Russell Company
Elaine Emans, Office of the State Treasurer

WELCOME

Marc opened the meeting with introductions of the committee members. Staff and guests were asked to introduce themselves for the record.

Betty gave an overview of the agenda and indicated there were no changes.

UPDATE ON GET ENROLLMENT YEAR

Betty reported that there are no official statistics yet, however, the hand count is currently at 10,669 new enrollment forms for the 2002-03 enrollment year that ended May 31. The number of on-line enrollments that were received is 2,300. On-line enrollment was only available during the last 3 weeks of the enrollment period. In addition, there are 1,200 incomplete on-line enrollments that were due to the over capacity of the system that was experienced in the last few days. Staff is working through sorting out which are duplications and which need to be completed with the customer. Total active accounts to date stands at approximately 24,000. The final numbers will be presented at the July GET Committee Meeting.

Mike asked if the on-line enrollment process saved time. Larry explained the process and indicated that entering on-line enrollments takes about half of the time as paper forms received.

Betty informed the committee that 5,400 calls were received in the month of May with over 2,000 of those received in the last 4 days of the month. In addition, the program received 80 walk-ins with enrollments on the last day. Seven additional temporary staff

have been hired to work to get all enrollment forms entered. To date 6,600 enrollment forms have been entered into the data system.

Marc commended the staff for their tremendous efforts and high level of customer service maintained. He reminded the committee that price setting for the next enrollment period will take place at the July 15 Committee meeting.

UPDATE ON DEVELOPMENT OF A COLLEGE SAVINGS PLAN

Betty directed the committee to the staff report on the development of a college savings plan. There were twelve proposals submitted for investment management, two for records administration and two for marketing services. The Washington State Investment Board (WSIB) reviewed the twelve proposals received for investment management. The records administration and marketing services proposals were reviewed by a work group of staff from the HECB and the Office of the State Treasurer. The review found that the cost to participants would be significantly higher than had been anticipated. A memo from Gary Bruebaker, WSIB to Betty Lochner expressed serious concerns about the level of fees and investing any more WSIB staff time in the selection process.

Betty indicated that Gary Bruebaker, Acting Executive Director of the WSIB, was here if the Committee had any questions for him. Marc asked Gary for his comments on the review process.

Gary responded with an overview of the RFP process from the WSIB standpoint. They reviewed the proposals and worked to narrow down to the finalists, which were discussed with the WSIB Public Markets Committee. The WSIB staff worked with the HECB review group on how the plan might work and came up with combined costs of up to 233 basis points. In reviewing what some of the other states were charging, they found that excluding the brokerage arrangements, it appeared that Washington would end up being one of the highest cost programs in the nation, if not the highest. The Public Markets Committee had serious concerns about taking on this project. Gary commented that most states have gone to bundled approaches or retail options to keep costs low.

Mooi Lin asked if the internal management fee was included in the basis point total. Gary indicated that it was. Mike asked about costs if we didn't do any marketing. Gary indicated the fee would be 51-83 basis points for just investment management and records administration.

Marc asked Betty to outline the options for the next step. Options discussed included going back to the legislature for authority to borrow additional money from GET and a longer repayment period, exploring partnerships with other states, and conducting a feasibility study to determine if further program development should continue. Based on other state's experience it is believed that a vendor can be found who can manage the entire program in a bundled approach and keep costs low.

The recommended option would require hiring a consultant to develop the RFP for a bundled approach, review and analyze proposals, and make recommendations of approx

three finalists to the GET Committee. The selected firm would be required to cover the costs of the procurement, estimated at between \$15,000 and \$20,000. The GET Program is already under contract with Milliman USA for actuary and investment consulting so further contracting for this process is not necessary. The proposed timeline would have a proposal ready for committee review by the end of July and a recommendation to the committee by October.

Marty asked when the program would open. Betty responded that we are still hopeful it would launch by the end of the calendar year.

There was active discussion about the approach and costs associated. Marc indicated that issue before us is what is the next step and reviewed the staff recommendation to proceed with RFP process through Milliman with a bundled RFP approach. Marty made motion to move forward with an RFP process for a bundled approach. Mike asked that the cost issue be reviewed with legal counsel before moving forward with the motion.

An executive session was held for the purposes of consulting with legal counsel about the college savings plan No action was taken.

Public meeting reconvened.

Marty Brown moved to not take any action on the current proposals received, and to develop a new bundled approach RFP using Milliman as the investment consultant. Recommendations would be presented to the committee as soon as possible. Mike Murphy seconded the motion.

Further discussion followed. Mike commented that the responses should include what net vs. gross costs are and that review of those costs should be reported to the GET committee on a regular basis. He also asked how state administration costs would be covered. Betty indicated that the proposed \$50 application fee would be for that purpose. Marty asked staff to make sure that the consultant gets the comments from the committee regarding these issues. Mooi Lin commented that the customer would be looking at the cost and the investment performance. Investment managers will not recommend the Washington program to their clients if it is not a good program.

The previous Motion carried unanimously.

Marc called for public comments by anyone in the audience. There were no public comments made.

ADJOURNMENT

There being no other business, the meeting was adjourned at 2:55 p.m.

NEXT MEETING

Next Regular scheduled meeting July 15, 2002, State Investment Board.

Washington College Savings Plan Update

June 17, 2002

Background

Proposals from bidders for three components of a savings plan including investment management, records administration, and marketing, were due on May 10, 2002. The Washington State Investment Board (WSIB) reviewed the twelve proposals that were submitted for investment management. Two proposals for records administration and two proposals for marketing services were reviewed by a work group of staff from the HECB and the Office of the State Treasurer.

Start-up costs for the first year (marketing and records administration) as indicated in the proposals were approximately \$2 million. The selected investment firm would recover these costs through participant fees. Review of all of the proposals found that a minimum number of viable proposals were received. The top-ranking proposal for investment management indicated that the program cost to participants would range from 201 basis points to 233 basis points (100 basis points equals 1%) of assets under management. Additionally, there would be an annual records management fee of \$48, in addition to the enrollment fee. This would make Washington's program one of the most expensive programs in the nation. A memo received from the WSIB expressed serious concerns about the level of fees and investing any more WSIB staff time in the selection process.

Staff Recommendation for moving forward with a Washington College Savings Plan

Staff recommends that the committee move forward to develop a request for proposals (RFP) for a bundled approach that would allow for one firm to manage all three components. Advantages to this approach include allowing for a longer contracting time period, which would potentially lower participant fees. This option would require hiring a consultant to develop an RFP, review and analyze proposals, and make recommendations to the GET Committee. The selected firm would be required to reimburse the costs for the procurement. The GET Program is already under contract with Milliman USA for actuary and investment consulting so further contracting for the RFP process is not necessary. The proposed timeline would have a proposal ready for approval by the Committee in late July. The process should conclude with a recommendation to the Committee by October.

In making the recommendation several other options were reviewed including, returning to the legislature to request additional funding for start-up and a longer repayment period for the loan from the GET Program, exploring a partnership with another state, and conducting a feasibility study to determine if further program development should continue at this time.