GUARANTEED EDUCATION TUITION
COMMITTEE MEETING

August 9, 2006
State Investment Board
2100 Evergreen Park Drive SW
Suite 100
Olympia, Washington
2:00 pm – 4:00 pm

AGENDA

Call to Order		
• Approval of April 19, 2006 minutes	ACTION	Tab 1
• Approval of proposed 2007 meeting calendar		
• Executive Director's report o Washington Learns update o Annual price increase update	INFORMATION	
• Director's report o GET annual statistics o Payout value 2006-2007 o National CSPN Conference report	INFORMATION	Tab 2
• GET investment update Joe Dear, Executive Director Washington State Investment Board	INFORMATION	Tab 3
• GET 2006-07 marketing plan Wendy Dore and Cathy Stevens The Marketing Partners	INFORMATION	
• Possible executive session May be held for any of the purposes set forth in RCW 42.30.110		
• Action items, if any, made necessary by executive session		
• Adjournment of regular meeting		

Next Regular GET Committee Meeting (pending Committee approval): November 8, 2006
State Investment Board, 2100 Evergreen Park Drive SW, Olympia, WA

GUARANTEED EDUCATION TUITION COMMITTEE MEETING
Wednesday, April 19, 2006
State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, WA

MINUTES

HECB Staff in attendance:
Larry Lee, GET Deputy Director
Denise Fry, GET Outreach Manager
Heidi Auderer, Finance Manager
Debra Blodgett, Special Assistant to the GET Director
Whitney DalBalcon, HECB Communications
Joann Wiszmann, HECB Deputy Director
Terrina Henslin, GET Customer Service
Kim Porter, GET Records
Elizabeth St. George, GET Records
Martha Gilbert, GET Records
Matthew Freeby, GET Finance
Vickey Mauerman, GET Finance

Guests in attendance:
Gary Bruebaker, State Investment Board
Diana Will, State Investment Board
Terry Ryan, Office of the Attorney General
Darrel Jensen, State Treasurer's Office
Bill Reimert, Milliman
Shad Pruitt, State Treasurer's Office

WELCOME
GET Committee chair, Jim Sulton called the meeting to order at 2:00 p.m. Members of the GET Committee in attendance were Jim Sulton, Chair, Victor Moore, Director of OFM, Mooi Lien Wong, citizen member, Darrel Jensen, State Treasurer's Office, representing Michael J. Murphy, State Treasurer and Beth Stecher Berendt, citizen member.

APPROVAL OF FEBRUARY 8, 2006 MEETING MINUTES
The minutes of the February 8, 2006 GET Committee Meeting were reviewed. A motion was made by Mooi Lien Wong to adopt the minutes as presented. The motion was seconded by Beth Stecher Berendt. The motion was approved unanimously as presented.

GET INVESTMENT UPDATE
Gary Bruebaker, Chief Investment Officer, presented the GET Investment Update. The SIB fund is now at $657 million. For the most recent quarter ending March 31, 2006, the fund outperformed for the quarter by 26 basis points and outperformed for the year by 32 basis points. Since inception, we outperform by 11 basis points. The equity return shows we have outperformed in every time period depicted in the report, and in TIPS we've outperformed for every period accept the 5-year and since inception periods.

DIRECTOR'S REPORT

Larry Lee, GET Deputy Director, presented the Director's Report in Betty Lochner's absence. One year ago GET had the second largest enrollment year in its history. This year we once again had the second largest enrollment year in our history, surpassing last year by roughly 200 accounts. GET received 11,221 new accounts, bringing the total accounts opened to 66,524. This year 76 percent of enrollments were completed online. Our enrollments were up 2 percent over last year. On average during the last week of March, we received $2.3 million a day coming into lockbox. Almost 7,000 of those enrollments came in the final month of March. GET's call volumes were down this year, however, enrollments were up. Last year Custom Monthly accounts were up, however this year we received more Lump Sum accounts. GET is now at a monthly draw of over $1 million in ACH payments. Total payments received for this enrollment period are $39.9 million. Payments will continue come in at the current unit price until the end of April.

In regards to federal legislation, first, President Bush signed the deficit reduction act bill on February 8, 2006. As of July 1, this changes how prepaid programs are handled in terms of financial aid treatment. The second issue is making the favorable tax treatment of 529 plans continue past the 2010 sunset. We continue to encourage our congressional delegates to support this legislation.

Sulton explained that at a recent Washington Learns meeting, there was discussion of putting a tuition setting policy in place. Prior to the meeting the HECB sent a letter to Denny Heck, chair of Washington Learns. This letter expressed concerns that GET needs to be considered as they are talking about tuition setting. Heck distributed the letter to all committees and asked that they consider GET when setting their own tuition. There were no recommendations in changing tuition policy at the meeting. However, we continue to keep legislators informed of GET to ensure tuition raises are kept reasonable.

Lee reported that the GEAR UP Scholarship account has been established and we have received the first installment of $600,000.

APPROVAL OF ADJUSTED FY06 ADMINISTRATIVE BUDGET AND FY07 BUDGET

Lee reminded the committee of the information presented at the last meeting regarding a change in the overhead calculation in relation to HECB expenses that are being assessed to the GET Program. That estimated increased amount is $207,000 for this current fiscal year. We requested to increase the FY06 budget. Based on 11,221 new enrollments for this year, our projected revenue calculation is $7.29 million. Even after increasing expenses, there will still be an increase going towards the stabilization reserve of $4.2 million. Berendt asked Lee if he was reasonably confident that the charges being assessed by the HECB were fair to the program. Lee responded affirmatively.
Staff recommended increasing the current 2005-2006 budget (FY06) from $2,875,000 to $3,082,000 and approving the FY07 budget at $3,478,591.

There was a motion made to approve the adjusted FY06 budget and the FY07 budget as presented. The motion was accepted by Wong and seconded by Moore. The motion was approved unanimously.

GET ACTUARIAL ANALYSIS AND UNIT PRICE SETTING

Bill Reimert, with Milliman (our national actuary for the program), was introduced and gave an overview of the handouts presented to the committee. An update as to the actuarial status of the program was presented. The last actuarial valuation was done June 30, 2005. This interim estimate is based on the last valuation, with additions based on information in an actuarial file from GET that includes contracts and units sold through February 28th and a rough manual adjustment for all units and contracts that are sold in March. Milliman's best estimate is that at the end of March, the total stabilization reserve is slightly over \$80 million or about 11.5 percent of program obligations.

Reimert emphasized that the assumptions are estimates. Milliman also provided GET staff with alternative unit price calculations. They factor in a budget of \$3.5 million, an estimate of 6,000 new contracts, and \$1.2 million units sold. These price assumptions assume that the price will remain in effect through April 30, 2007. A unit price of \$70 would include an amount of 6.25 percent toward the stabilization reserve. At a price of \$71 that reserve would increase to 7.77 percent, and at \$72 it would be 9.29 percent. These prices would result in unit prices that are 118.8 percent, 120.5 percent and 122.2 percent respectively above current tuition.

Moore asked what the reserve would be if we sold 6,000 contracts, and 1.2 million units at a unit price of \$70. Reimert calculated that the overall reserved would be eroded to 10.9 or 11 percent from the current estimate of 11.5 percent.

Berendt reminded the committee that it is important to remember that these prices, even though we're at an 11.5 percent reserve, are needed to support the reserve for future unit sales and are necessary to cover future needs.

Daryl Jensen read an email from Treasurer Murphy. Murphy has reviewed the information and does not believe that it supports an increase to the current unit price. Murphy believes that the unit price should be set at a premium no greater than 110 percent over current tuition. Given this calculation the unit price should be approximately \$65, thus no increase should occur at this time. The full email is available upon request.

Staff recommendation, based on a 7 percent increase in tuition, leaving the SIB's long term investment return assumption of 6.55 percent unchanged, and increasing contract sales to 6,000 for 1.2 million units, is to increase the unit price from \$66 to \$70 per unit effective May 1, 2006, running through April 30, 2007. This recommendation of selling at \$70 per unit results in a premium of 18.8 percent above current tuition, a reduction from the 19.9 percent premium in place today.

Treasurer's Murphy memo was entered into the official record. Moore commented on the email. The email raised some issues about pricing and tuition. It appears he is questioning pricing and the estimate we are using for tuition. Lee explained that the estimate is taking the current $5,506 tuition at WSU and increasing it 7 percent.

Reimert believed the real question is how did we come up with $63.28 for tuition shown in the chart. That number represents a present value where an assumed average beneficiary is 11 years from matriculation which would mean the average purchaser is 8 or 9 years old. If we take tuition and forecast it to grow for 11 years at 7% for 11 years, and discount it back to a present value at 6.55 percent, we get a number higher than current tuition. Projecting out at 7 percent for 11 years, then discounting back at 6.55 percent, compounds out to 4.75 percent. The unit price must have a premium of 4.75 percent just to compensate for the difference between the rate of tuition increases and the expected return on investments over time.

Jensen indicated that in 2005 we had a $49 million stabilization reserve, or 8.1 percent. This year by increasing the premium from $61 to $66 we increased the reserve to $82 million or 11.5%. Reimert indicated that sales results were a factor on the increase, but that investment results and tuition growth were much bigger factors than the unit price that has been in effect for the last 9 months. Reimert did not feel that increasing the unit price from $66 to $70 would guarantee that the reserve would continue to grow. Much of the increase in the stabilization reserve over the last year have been the result of favorable investment returns and are subject to change at any time.

Moore stated that we have the same debate between balancing price and reserve levels. It looks like we could set the unit price for the coming year with a zero percent stabilization reserve built into it and still maintain the overall reserve at 10.35 percent. Reimert indicated that this would only be true if all assumptions were true.

Berendt reminded the committee that we need to be looking at this as a long-term pricing activity based on actuarial principles. She believes that the statutory requirement is that we apply actuarial principles to our pricing methodology. At Feb meeting last year, we said that our goal was a 7.5 to 10 percent stabilization reserve. She doesn't believe it is prudent or actuarially sound to hold at 10 percent, new units must support the ongoing preservation of the stabilization reserve. If we were to go forward and do a per unit price, without a stabilization reserve component built into the price we would not be sustaining our long-term goal.

Moore stated his understanding of the concept that previous purchasers would be subsidizing others. Jensen indicated that in the first four years, the unit price premium averaged 107.4 percent, in the last four years it has averaged 117.7 percent. Based on this history there is already subsidization going on. Berendt said absolutely, there is subsidization, so how do we impose discipline to this pricing process so that our program is at least sustaining itself, or that if we must turn to the state for support that we are not taking money away from other essential programs.

Jim Sulton inquired as to how to accomplish this when it is not possible to know or predict what tuition increases might be.

Jensen reiterated that we're still at a 118 percent premium with an $82 million stabilization reserve. If we continue to raise the premium, at some point we are going to have to look at holding tight. Maybe this is the time to try and keep it as low as possible.

Moore questioned, if we get extraordinary earnings, what our mechanism is to adjust this. Do we reduce the premium, lower or maintain the price?

Reimert, as an actuary, believes that there must be a surplus or stabilization reserve in a program of this type to buffer against shocks. Milliman's recommendation has been that this ought to be 10 percent or higher. One option is to give some form of termination or matriculation refund, kind of a dividend. A second possibility is that the surplus be used to offset less than favorable outcomes in other cohorts, as a cost of buying the guarantee. This is a difficult but important policy decision that the committee would have to make. Other than these sort of adjustments, the unit price setting is an alternative method for reducing the surplus. It is important to remember that this is an actuarial surplus, and is very subject to market volitility. The reserve is important to buffer those types of shocks. As this program has already experienced, program surpluses can quickly disappear when assumptions such as investment returns or tuition increases change dramatically. Neither 5, 10 nor 15 percent stabilization reserves are all that big.

Reimert reviewed the history of pricing and showed that in earlier years, investment return assumptions showed that investments were expected to grow at 7.5 percent, faster than the tuition rate increases at 6.75 percent. Today the reverse is true. Best estimates are that tuition will grow at 7 percent, but returns are only 6.55 percent. Based on these assumptions, it is impossible to keep pace with tuition increases, and we must charge a premium.

MOTION TO APPROVE UNIT PRICE

Sulton asked the committee to entertain a motion to approve the staff recommendation of setting the unit price at $70 per unit including with a stabilization reserve at 6.25 percent which would be in effect through April 30, 2007 unless circumstances warranted another review at the August 2006 meeting. Wong moved the recommendation which was seconded by Moore.

Jensen stated his belief that moving the price to $70 is too high and strongly recommended that the committee vote to hold the unit price at $66 per unit.

Berendt stated her inclination to move to the $71 unit but indicated she would vote in favor of increasing the price to $70 per unit.

Sulton stated his desire that policy strike a balance between predictability and affordability. When looking at the characteristics of those who subscribe to or enroll in

GET, we are missing very identifiable segments of the population, specifically low-income families and families of color. Any rise in price acts against increasing participation from these segments. He was very reluctant to raise the unit price although noted the concerns about the stabilization reserve which can't be ignored.

Berendt called the question on the motion to set the unit price at $70 with a stabilization reserve of 6.25 percent. Roll call indicated the following votes: Berendt voted yes, Jensen voted no, Moore voted yes, Sulton voted yes and Wong voted yes. The motion was approved by majority of 4 to 1.

NEXT MEETING
The next meeting of the GET Committee is scheduled for August 9, 2006 from 2:00 p.m. to 4:00 p.m. at the State Investment Board (2100 Evergreen Park Drive SW, Olympia, WA 98502).

ADJOURNMENT
The meeting was adjourned at 3:50 p.m.

Proposed Regular Meeting Schedule
2006-2007 Calendar Year

August 9, 2006

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 a proposed regular meeting schedule for the 2006-2007 calendar year.

DATE	TIME	PLACE
Wednesday, November 8, 2006	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)
Wednesday, February 7, 2007	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)
Wednesday, April 18, 2007	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)
Tuesday, August 7, 2007	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)

Recommendation

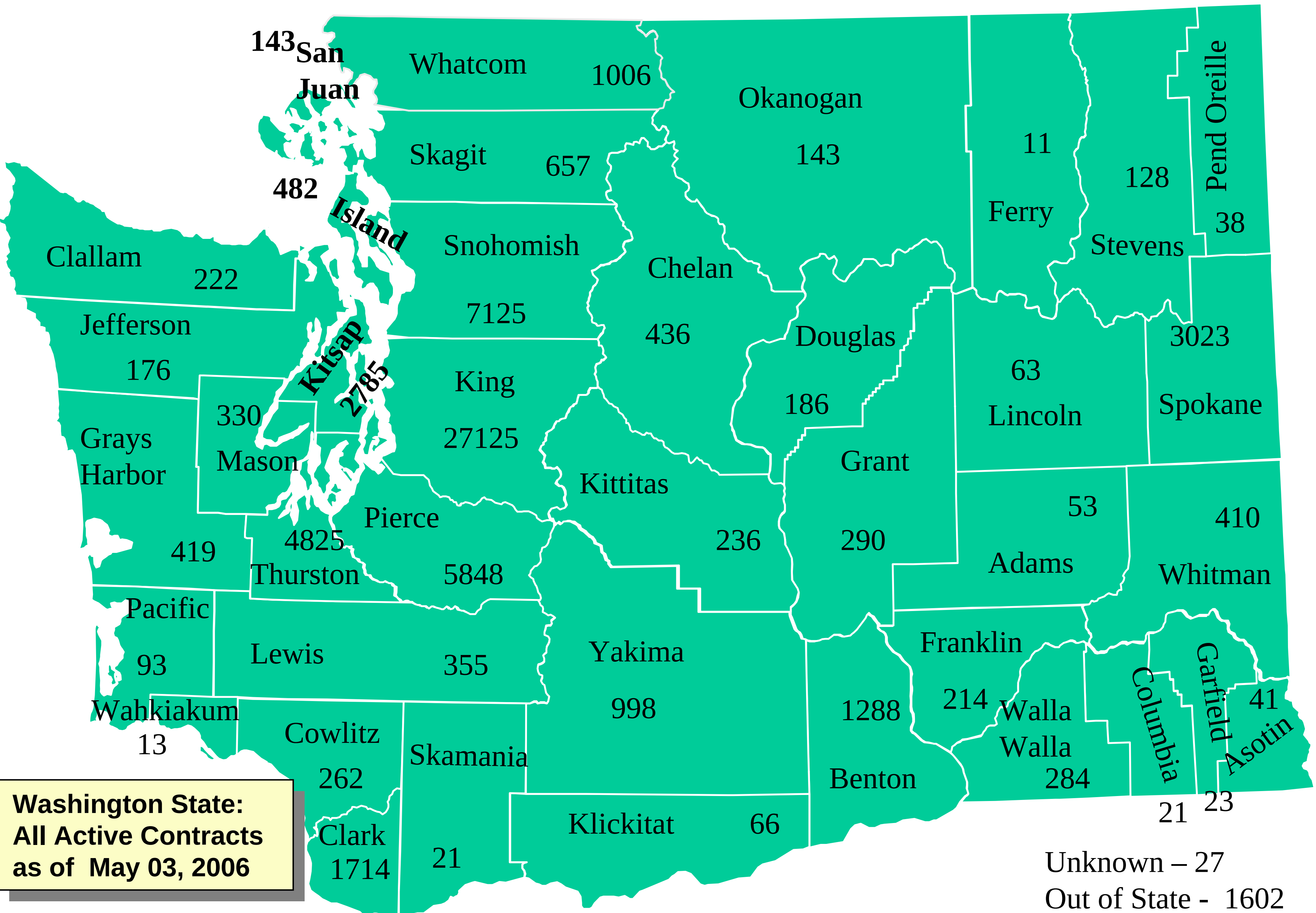
Staff recommends adopting the proposed regular GET Committee Meeting schedule for the 2006-2007 calendar year.

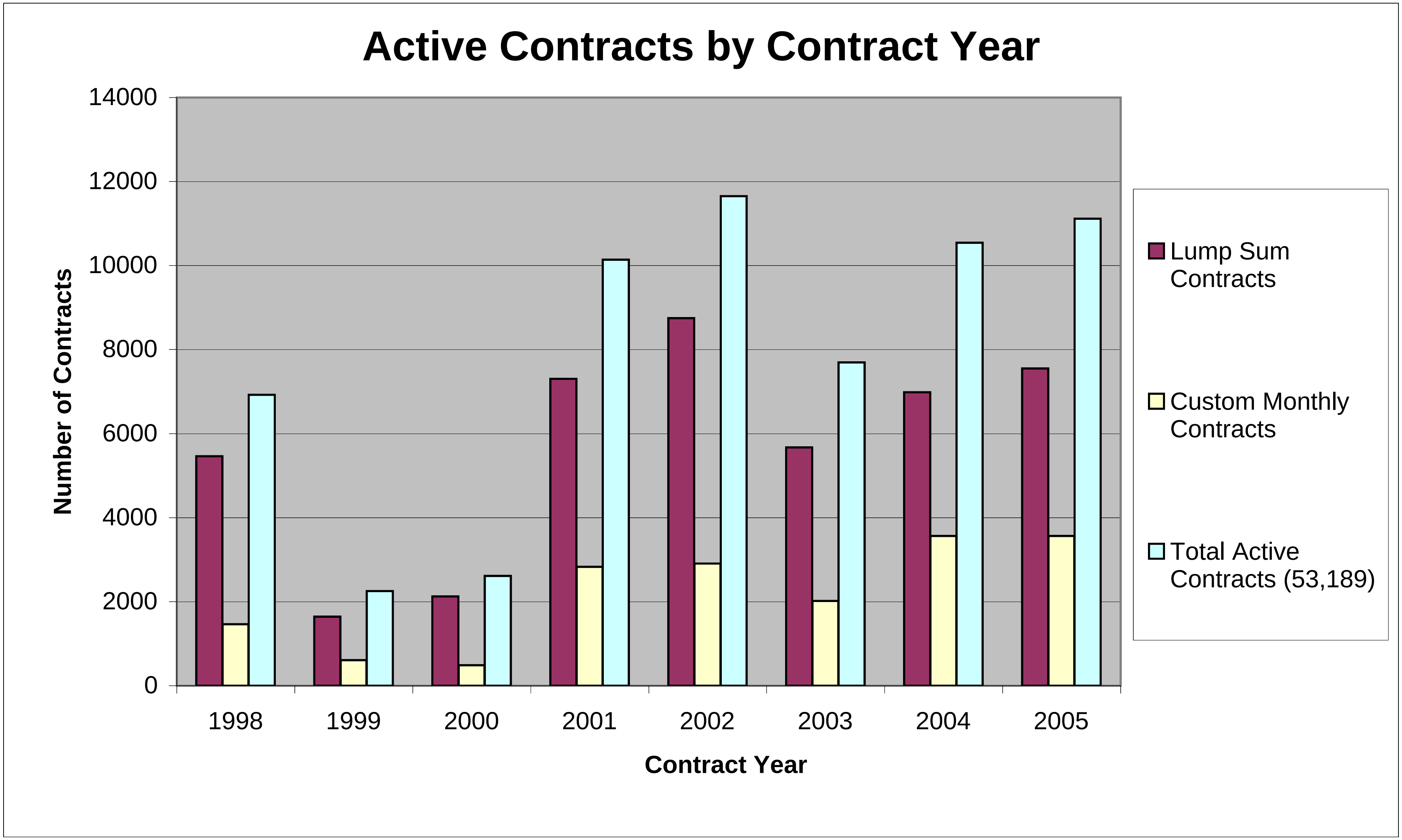
GET Account Information
As of 06/30/06

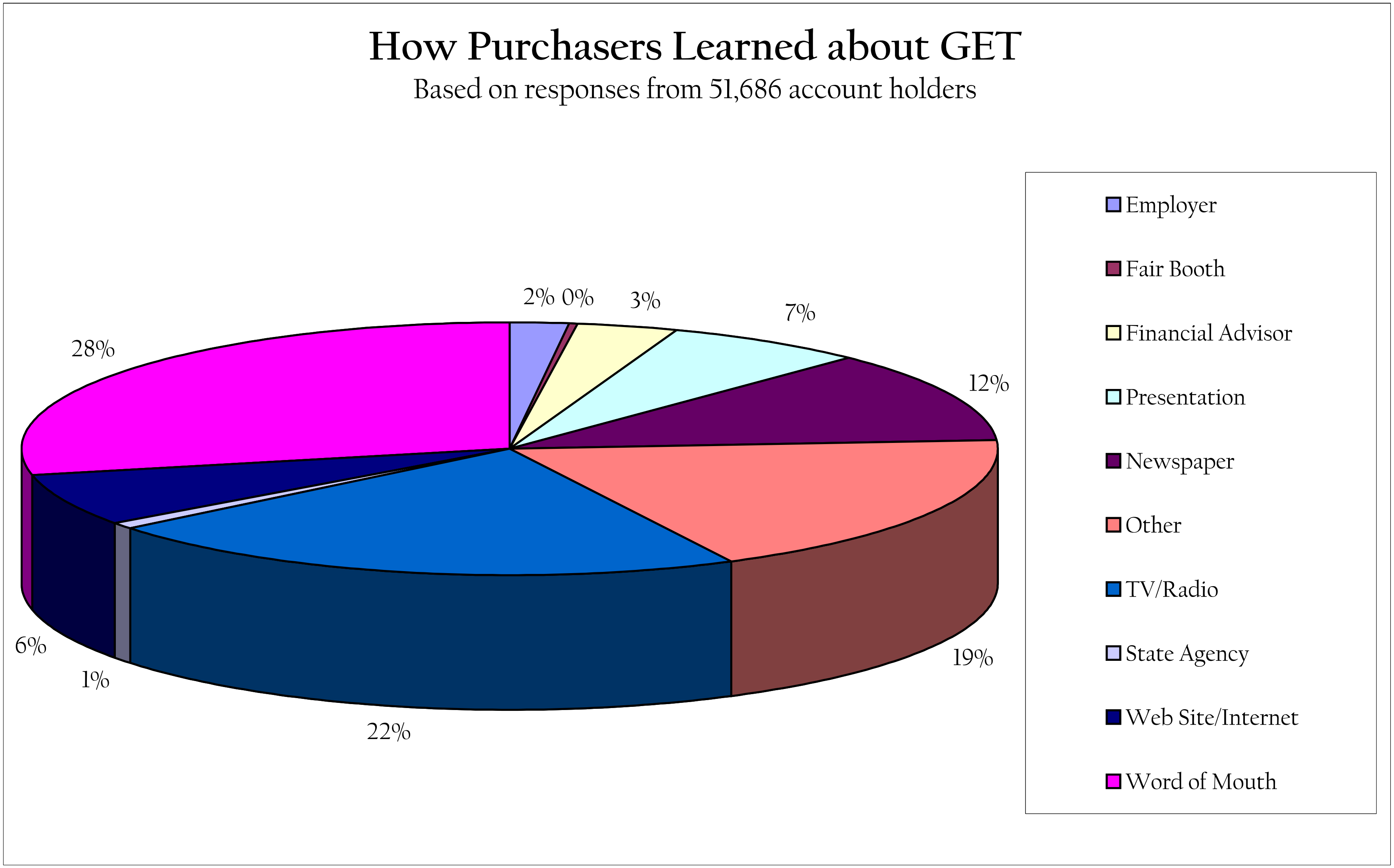
Contract Statistics by Plan Year	2005	TOTAL
# of Active Contracts		
Custom Monthly Contracts (CM)	3,565	17,446
Lump Sum Contracts (LS)	7,553	45,495
Subtotal # of Active Contracts - Including Unprocessed	11,118	62,941
# of Inactive Contracts	117	2,479
# of Depleted Contracts	0	947
Total # of Contracts - Including Unprocessed	**11,235**	**66,367**
Unit Statistics (active contracts only) - Including Unprocessed		
Total # of Contracted Units (CM)	613,150	3,530,179
Total # of Lump Sum Units Purchased (LS)	1,077,205	9,783,655
Total # of Units - Both Plans - Including Unprocessed	**1,690,355**	**13,313,835**
Account Value Statistics (active contracts only)		
Total Payments Received (CM and LS)	$ 72,062,100	$ 585,745,706
Future Payments Due (CM)	$ 59,325,287	$ 188,082,734
Total Payments Received and Future Payments Due	**$ 131,387,387**	**$ 773,828,440**
Fees Paid	**$ 507,731**	**$ 3,122,135**
Grand Total	**$ 131,895,118**	**$ 776,950,575**
Benefit Statistics		
Total amount paid out on contracts		$36,160,223
Total # of students who have used benefits		4988

** These applications have been received but not entered in the system, therefore they are not included in the account value statistics.*

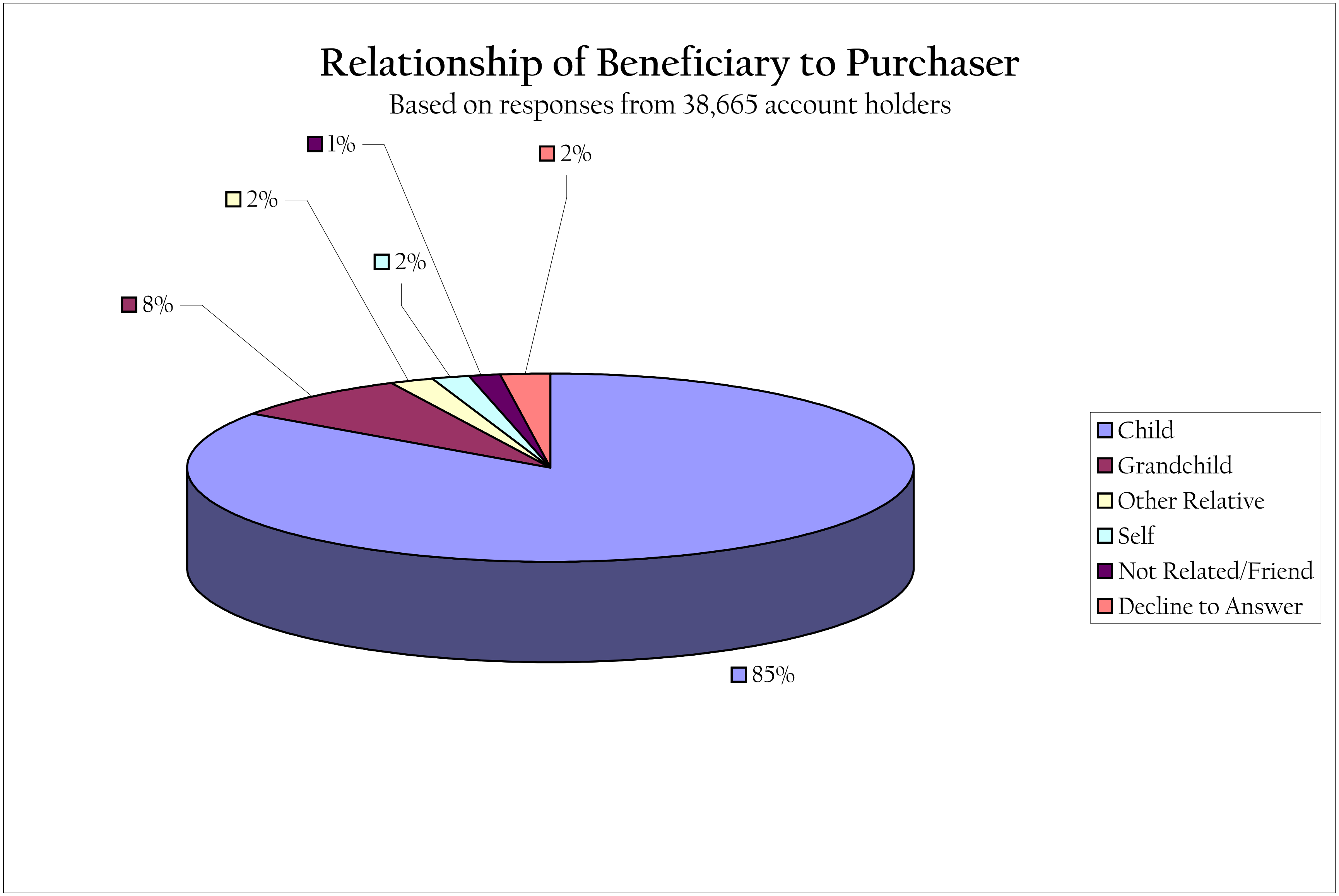
Contracts by County
Enrollment Years 1998-2005

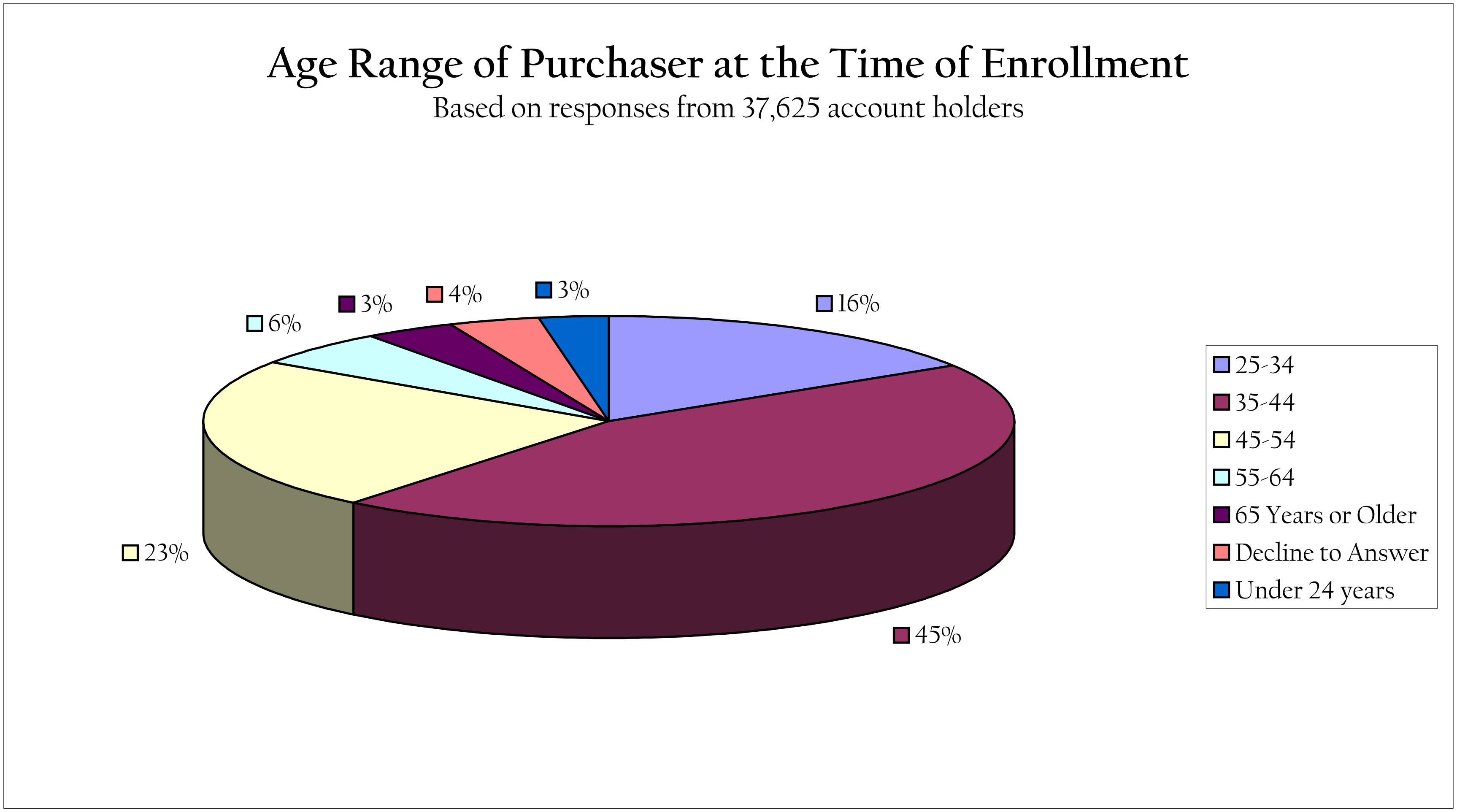


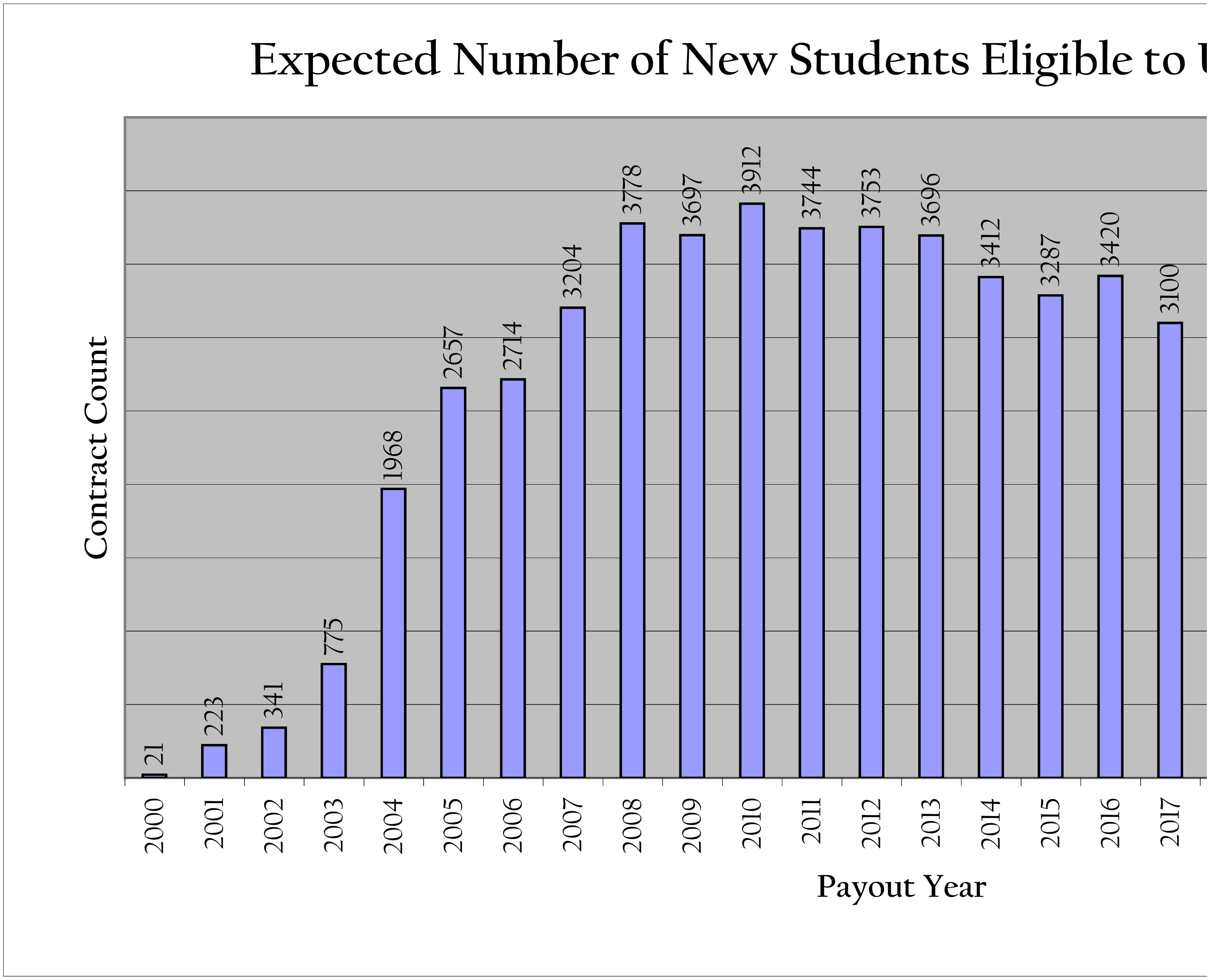

Active Contracts by Contract Year
14000
12000
10000
8000
6000
4000
2000
0
Number of Contracts
1998
1999
2000
2001
2002
2003
2004
2005
Contract Year
Lump Sum Contracts
Custom Monthly Contracts
Total Active Contracts (53,189)



How Purchasers Learned about GET
Based on responses from 51,686 account holders
2%
0%
3%
7%
12%
19%
22%
1%
6%
28%
Employer
Fair Booth
Financial Advisor
Presentation
Newspaper
Other
TV/Radio
State Agency
Web Site/Internet
Word of Mouth


Relationship of Beneficiary to Purchaser
Based on responses from 38,665 account holders
1%
2%
2%
2%
8%
85%
Child
Grandchild
Other Relative
Self
Not Related/Friend
Decline to Answer


Age Range of Purchaser at the Time of Enrollment
Based on responses from 37,625 account holders
6%
3%
4%
3%
16%
23%
45%
25-34
35-44
45-54
55-64
65 Years or Older
Decline to Answer
Under 24 years



Expected Number of New Students Eligible to U
Contract Count
Payout Year
21
223
341
775
1968
2657
2714
3204
3778
3697
3912
3744
3753
3696
3412
3287
3420
3100
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017

to Use Benefits