

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

February 13, 2008
State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, Washington
2:00 p.m. – 4:00 p.m.

AGENDA

Call to Order

- Approval of November 8, 2007 minutes ACTION Tab 1
- Report from the Chair INFORMATION
- Director's Report INFORMATION
- New scholarship programs INFORMATION Tab 2
Larry Lee, GET Deputy Director ACTION
- GET investment update/asset reallocation INFORMATION Tab 3
Diana Will, Investment Officer
Washington State Investment Board
- GET preliminary operating budget FY09 INFORMATION Tab 4
HECB costs
Don Bennett, Deputy Director, HECB

Next Regular GET Committee Meeting
April 23, 2008, 2:00 – 4:00 p.m.
State Investment Board
2100 Evergreen Park Drive SW
Olympia, WA

GUARANTEED EDUCATION TUITION SPECIAL COMMITTEE MEETING

Wednesday, October 31, 2007
10:00 a.m. – 1:00 p.m.
Red Lion Hotel, Capitol Room
2300 Evergreen Park Drive SW
Olympia, WA 98502

MINUTES

HECB staff in attendance:

Betty Everitt Lochner, GET Director
Larry Lee, GET Deputy Director
Whitney DalBalcon, GET Associate Director for
Marketing and Communications
Jackie Ferrado, GET Communications Manager
Betsy Hagen, Special Assistant to the GET
Director
Don Bennett, HECB Deputy Director

Guests in attendance:

Diana Will, State Investment Board
Terry Ryan, Office of the Attorney
General
Dan Silver, Facilitator
Shad Pruitt, Office of the State
Treasurer
Darrell Jensen, Office of the State
Treasurer

WELCOME

GET Committee Chair Ann Daley called the meeting to order at 10:18 a.m. Members of the GET Committee in attendance were Ann Daley, Chair; Michael J. Murphy, State Treasurer; Victor Moore, Director of the Office of Financial Management (OFM); Beth Stecher Berendt, citizen member; and Mooi Lien Wong, citizen member.

APPROVAL OF AUGUST 2007 MEETING MINUTES

Committee members reviewed the minutes of the August 7, 2007 meeting. Moore moved to adopt the minutes as presented. Murphy seconded the motion. The motion was approved unanimously as presented.

REPORT FROM THE CHAIR

Daley discussed the Higher Education Coordinating Board's progress in creating a strategic master plan for higher education. The board has conducted a series of public forums, events and discussions around the state on the challenges facing education in Washington.

A key focus of the plan will be educating more people to achieve at higher levels. The 10-year plan is to be adopted by the board and sent to the 2008 session of the state Legislature for review and approval.

Daley referred the committee to the July retreat notes. Due to the nature of the retreat format, notes were taken to record the discussions. Those notes are attached to the August 7 meeting minutes. Murphy noted that each public meeting, including retreats, should have official meeting minutes.

DIRECTOR'S REPORT

Betty Lochner reported on the June 30 annual actuarial evaluation report. This report is an annual snapshot of the financial stability of the program.

As of this morning, Lochner said the program had received 1,574 new applications for the 2007-2008 enrollment period, bringing the total number of accounts to 80,551.

Lochner summarized key initiatives for the fall/winter:

- Media tour
- Payroll deduction information to employers
- E-newsletter to customers
- Giftor e-newsletter to people who have given GET as gifts
- Celebration of the 10-year anniversary of GET

INVESTMENT UPDATE

Diana Will, investment officer from the State Investment Board (SIB), presented the GET investment update. Total assets have grown to \$964 million, with \$29 million in growth since June 30. Will noted that in September, payments to colleges and new participant money almost cancelled each other out.

For the quarter ending September 30, 2007, the program's return on investment was 3 percent. The Treasury inflation notes earned 4.63 percent.

Will reported that the SIB will be changing its return benchmark in September to the MSCI XUS index structure. Changing the benchmark to a broader index will result in an increase in the number of securities and countries in our portfolio. The SIB believes diversification lowers risk. Will said the SIB believes that the rate of return will be higher in emerging markets in the next 10 to 20 years.

Daley inquired about asset allocation assumptions. Will said she will bring asset allocation study information to the February 2008 meeting

GET COMMITTEE RETREAT SUMMARY

Dan Silver recapped the discussion of pricing-setting guidelines from the two previous meetings:

- 1) The overall program stabilization reserve should be 8 percent.
- 2) The range for the overall program stabilization reserve, before adjustments are made, should be plus or minus 2 percent.
- 3) If the overall program stabilization reserve falls outside of the stabilization reserve range, the Committee may increase or decrease the reserve contribution for each new unit sold in order to keep the overall program stabilization reserve within the range (6%-10%).
- 4) Each new unit sold should include a contribution to the overall program stabilization reserve.

- 5) The Committee should make any pricing adjustments gradually over multiple enrollment years.

Silver reviewed the various financial scenarios and spreadsheets compiled by Milliman; active discussion ensued.

Daley made the following proposal to the Committee:

- If the overall program stabilization reserve is above 10 percent, the Committee would reduce the reserve contribution in each new unit sold to a minimum level until the overall program stabilization reserve is again within the range.
- If the overall program stabilization reserve is below 6 percent, the Committee would increase the reserve contribution in each new unit sold by 2 percent every enrollment year until the overall program stabilization reserve is again within the range.

Moore, Murphy, and Wong said they liked that approach.

Moore asked whether the Committee should more clearly define what the per unit reserve contribution should be when the overall program stabilization reserve is within the range. Committee members decided not to add a specific guideline to address that issue.

Silver then asked each committee member what minimum reserve contribution in each new unit sold would make them comfortable.

Daley, Moore, Murphy, and Wong agreed on a 0.5 percent minimum reserve contribution in each new unit sold. Berendt said she was more comfortable with a 1 percent minimum contribution.

Silver then summarized the price-setting guidelines as agreed to by a majority of the Committee members. Daley noted that the guidelines are designed to provide guidance in setting the future prices of GET units.

MOTION

The motion was moved and seconded to adopt the proposed guidelines as discussed. Committee members reviewed the proposed price-setting guidelines. Daley, Moore, Murphy, and Wong voted yes. Berendt voted no. The motion was approved.

The Price-Setting Guidelines as approved are attached.

Daley thanked everyone for all of their hard work. Silver also thanked everyone for their dedication to the process.

NEXT MEETING

The next regular meeting of the GET Committee will be held on Wednesday, February 13, 2008 from 2:00 p.m. to 4:00 p.m. at the State Investment Board, located at 2100 Evergreen Park Drive SW in Olympia.

ADJOURNMENT

The meeting was adjourned at 12:38 p.m.

Respectfully Submitted,

Betsy Hagen
Special Assistant to the GET Director

Price-Setting Guidelines

October 31, 2007

The GET Committee adopted the following price-setting guidelines at the October 31 meeting. These guidelines are designed to provide guidance to Committee members in setting future prices of a GET unit.

- The target for the overall program stabilization reserve is 8 percent.
- The range for the overall program stabilization reserve is plus or minus 2 percent of the target (i.e. 6 to 10 percent).
- If the overall program stabilization reserve is outside of this range (6 to 10 percent), the Committee may increase or decrease the reserve contribution in each new unit sold in order to keep the overall program stabilization reserve within the range.
 - **If the overall program stabilization reserve is above 10 percent**, the Committee should reduce the reserve contribution in each new unit sold to 0.5 percent (minimum level) until the overall program stabilization reserve is again within the range.
 - **If the overall program stabilization reserve is below 6 percent**, the Committee should increase the reserve contribution in each new unit sold by 2 percent every enrollment year until the overall program stabilization reserve is again within the range.
- The Committee should make pricing adjustments gradually over multiple enrollment years.

Proposed Increase in Size of Master Scholarship Accounts

February 1, 2008

Background

The 2007 Legislature authorized two new college scholarship programs: the GET Ready for Math and Science scholarship program (RCW 28B.105) and the College Bound scholarship program (RCW 28B.118). Both programs were created with the intent that Guaranteed Education Tuition (GET) units would be purchased and used to distribute scholarship awards. The Legislature appropriated \$5 million for GET Ready and \$8 million for College Bound.

Currently, non-profit and governmental organizations are allowed to open Master Scholarship accounts to award GET units as scholarships to future college students. These accounts allow for the purchase of up to 5,000 GET units for future awards. Based on the current \$74 unit price, the maximum value of a Master Scholarship account is \$370,000. A one-time set-up charge of \$100 is required at the time a Master Scholarship account is set up. A \$25 transfer fee is charged each time an award is made to a student.

The Higher Education Coordinating Board already has received funds for GET Ready and funds continue to come in for College Bound. It is anticipated that Master Scholarship accounts will be established for both programs by March 31, 2008 and that funds from both scholarship programs will purchase GET units in April 2008.

Proposal

GET staff propose the removal of the 5,000 unit limit on Master Scholarship accounts for programs approved by the Legislature that seek to use GET for award distributions. Nonprofit programs and other programs not authorized by the Legislature would not be impacted by this change.

Eliminating the 5,000 unit limit would reduce the number of Master Scholarship accounts needed in the initial year of the GET Ready and College Bound programs from 36 to 2. If the change is not allowed, additional accounts would need to be added each year as new appropriations are received to purchase units, resulting in administrative costs to the Program.

Staff Recommendation

GET staff recommend removing the limit on the number of units that a Master Scholarship account may contain for programs authorized by the Legislature.



GET Prepaid College Tuition Program

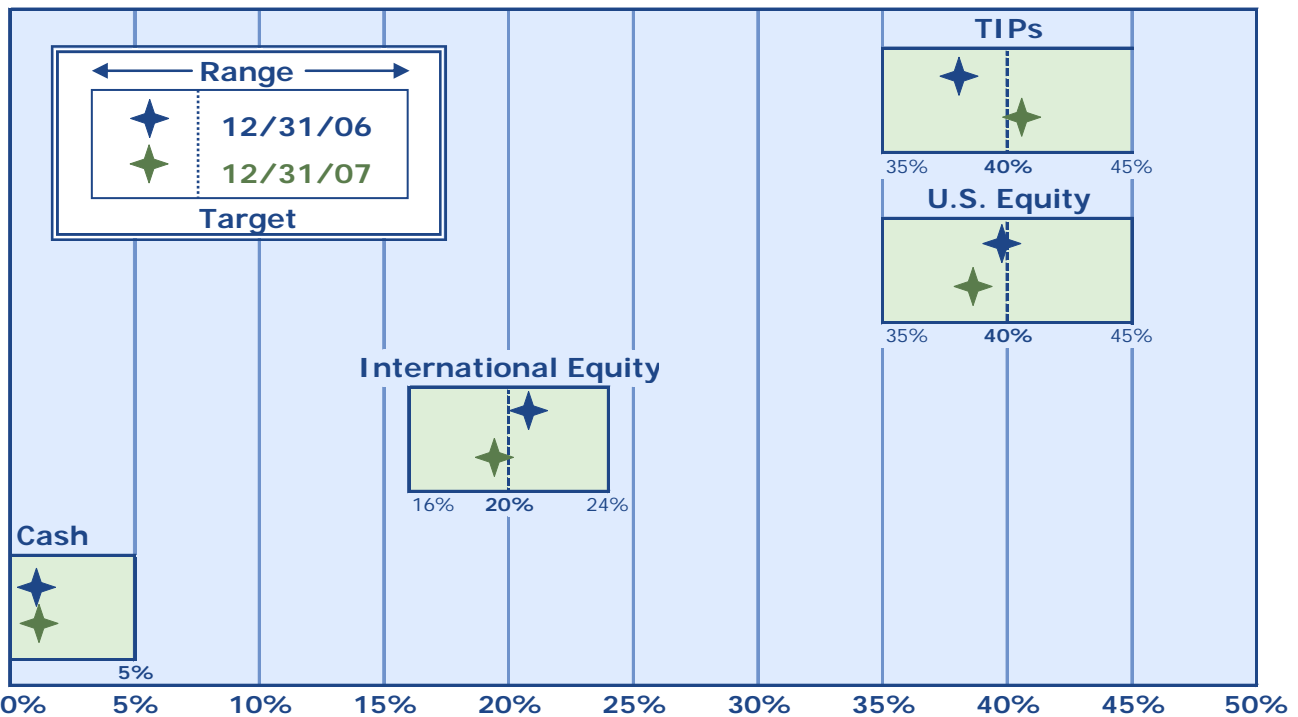
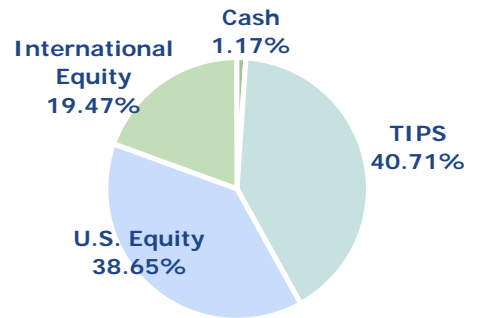
Quarterly Report – December 31, 2007

Portfolio Size, Allocation, and Assets Under Management	1
Performance	2

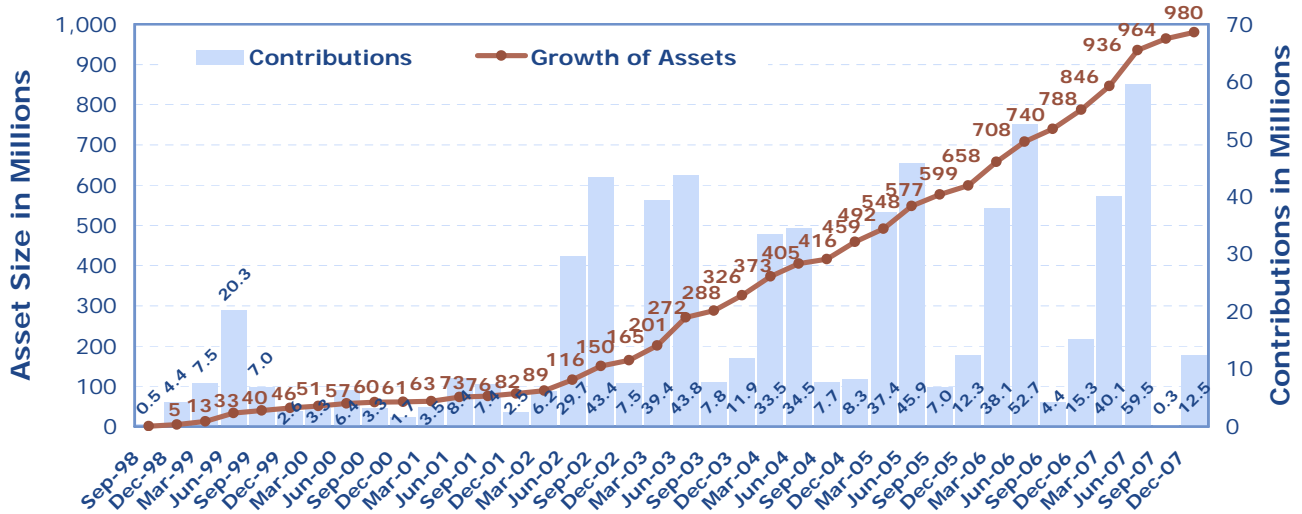
Dated: January 31, 2008

Portfolio Size **Actual Asset Allocation**

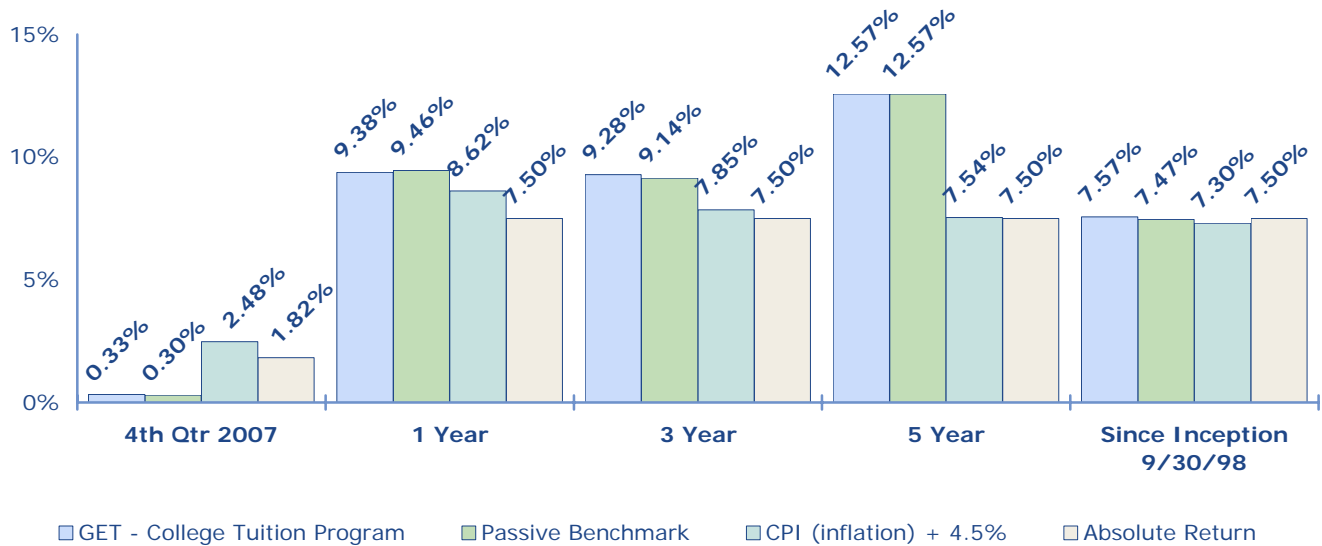
Total	\$979,909,130
Cash	11,471,194
Treasury Inflation Index Note (TIPS)	398,933,678
U.S. Equity	378,735,573
International Equity	190,768,686



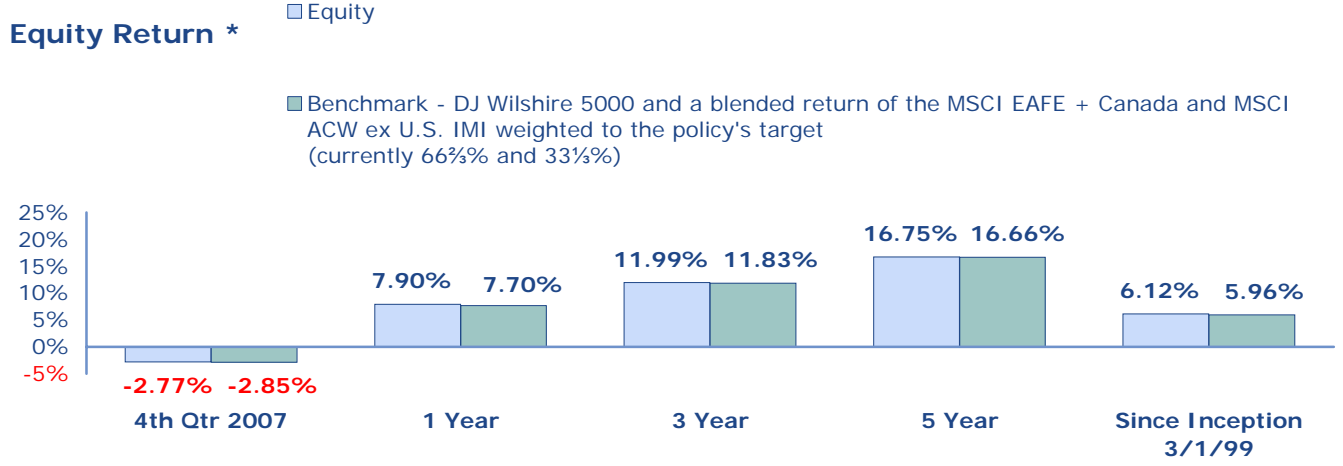
Assets Under Management



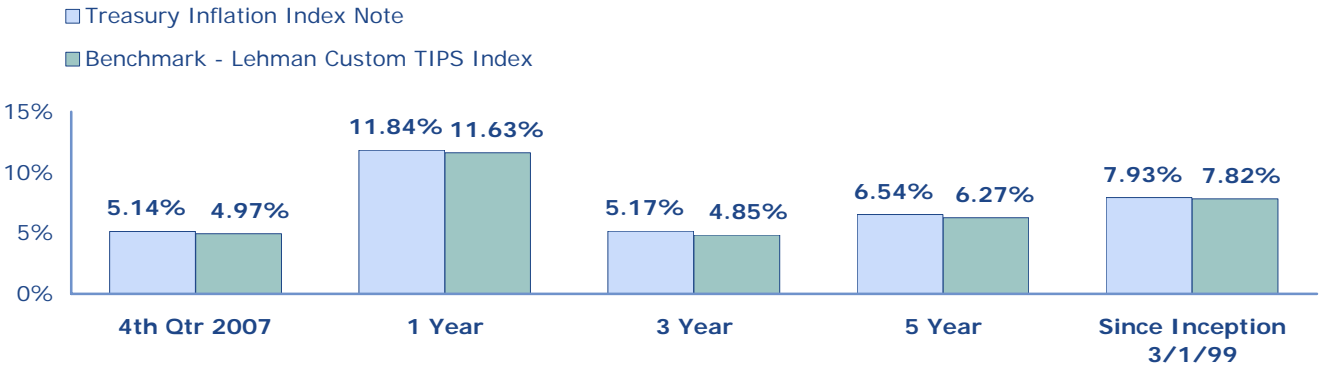
Total Return *



Return Breakdown



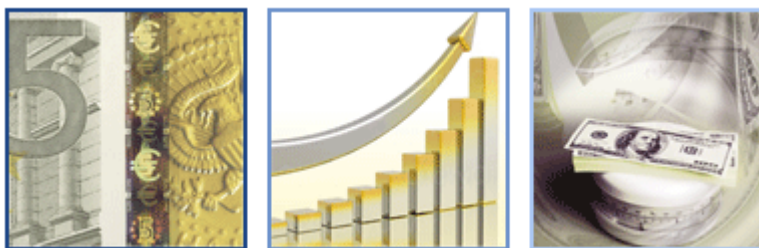
Treasury Inflation Index Note Return *



* 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. Inception date is when the WSIB first invested in the asset class.



Guaranteed Education Tuition Asset Allocation Discussion



Diana Will
Senior Investment Officer, Asset Allocation, WSIB

February 13, 2008

Current Investment Objectives for GET

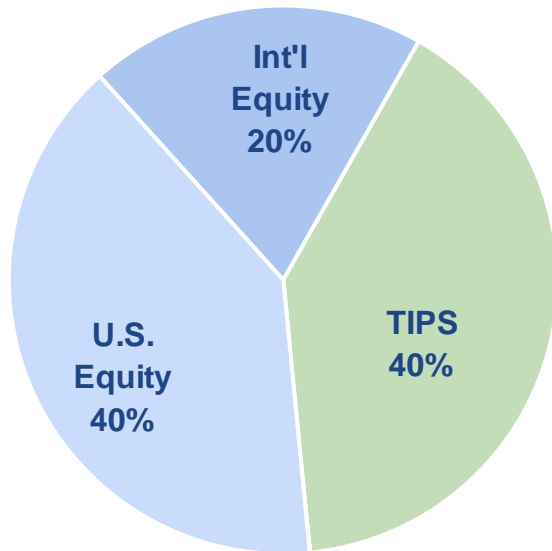


Chapter 43.33A.110 RCW, the portfolio is managed to achieve a maximum return at a prudent level of risk.

WSIB Policy 2.35.100:

- ◆ **Maintain the solvency of the fund and the financial stability of the program as measured by the external actuary.**
- ◆ **Ensure sufficient assets are available to fund the expected college tuition payments.**
- ◆ **Subject to one and two above, achieve a maximum return that will meet or exceed the rate of growth in college tuition costs over a 10 year period, at a prudent level of risk.**
- ◆ **Invest in a manner that will not compromise public confidence in the program.**

Current Portfolio Mix and Expected Return Range





Portfolio Theory

Information Needed to Develop an Asset Allocation



Investment Objectives:

- ◆ Return requirement
- ◆ Risk tolerance

Investment Constraints:

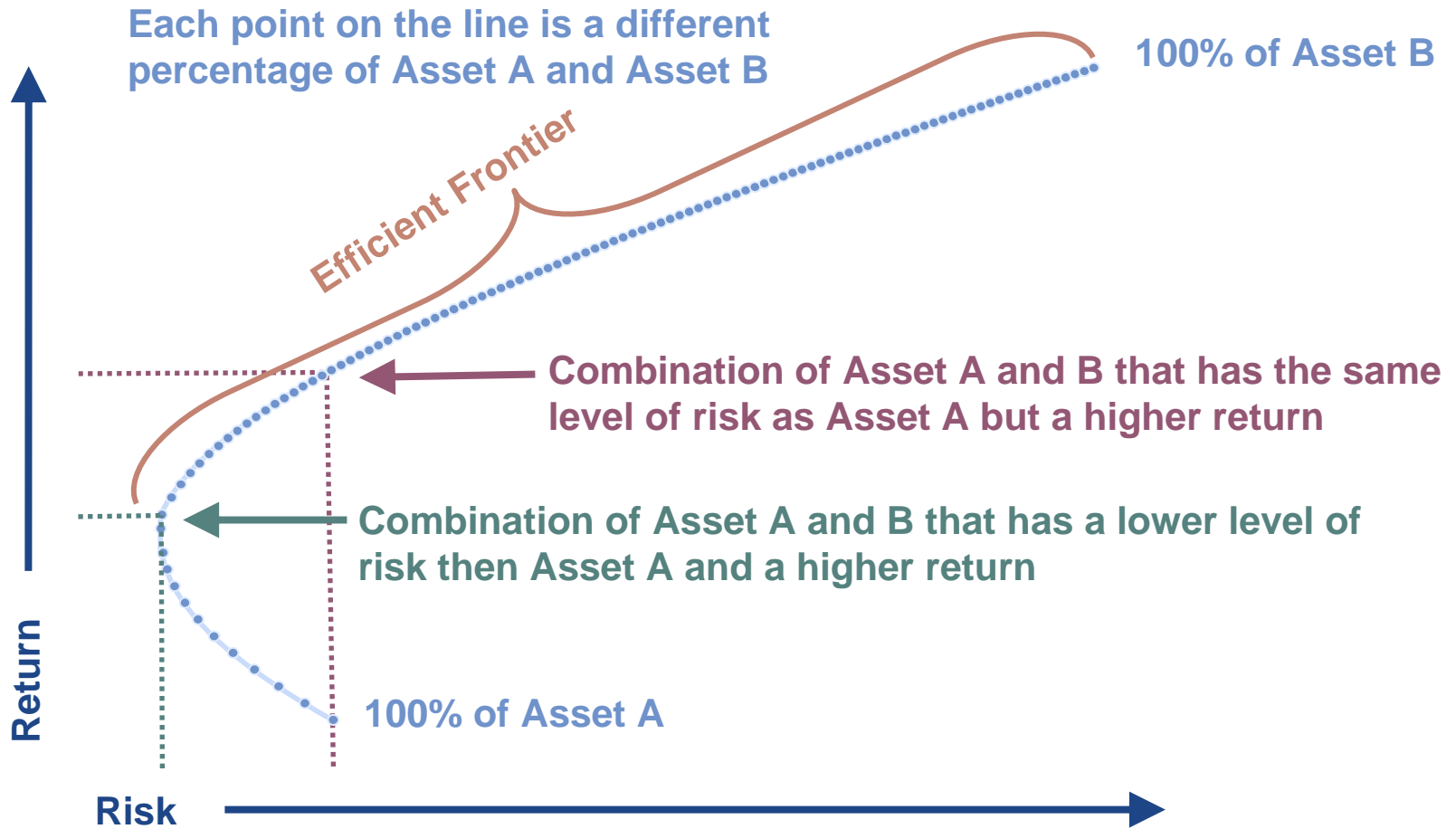
- ◆ Liquidity requirements
- ◆ Time horizon
- ◆ Tax considerations
- ◆ Legal and regulatory considerations
- ◆ Unique circumstances

WSIB 2007 Capital Market Assumptions

	Expected Return	Standard Deviation
U.S. Equity	8.50	17.00
International Equity	8.50	18.25
Fixed Income	5.25	5.00
Private Equity	12.50	31.00
Real Estate	8.50	14.50
Cash	3.75	1.50
TIPS	5.00	5.00
Global Equity	8.50	16.48

	U.S. Equity	Int'l Equity	Fixed Income	Private Equity	Real Estate	Cash	TIPS	Global Equity
U.S. Equity	1.00							
International Equity	0.70	1.00						
Fixed Income	0.25	0.15	1.00					
Private Equity	0.70	0.65	0.15	1.00				
Real Estate	0.45	0.40	0.20	0.40	1.00			
Cash	0.05	-0.10	0.15	0.00	0.15	1.00		
TIPS	0.00	0.00	0.40	0.10	0.15	0.25	1.00	
Global Equity	0.80	0.85	0.20	0.68	0.38	0.00	0.00	1.00

Efficient Frontier



Some Issues with Modern Portfolio Theory

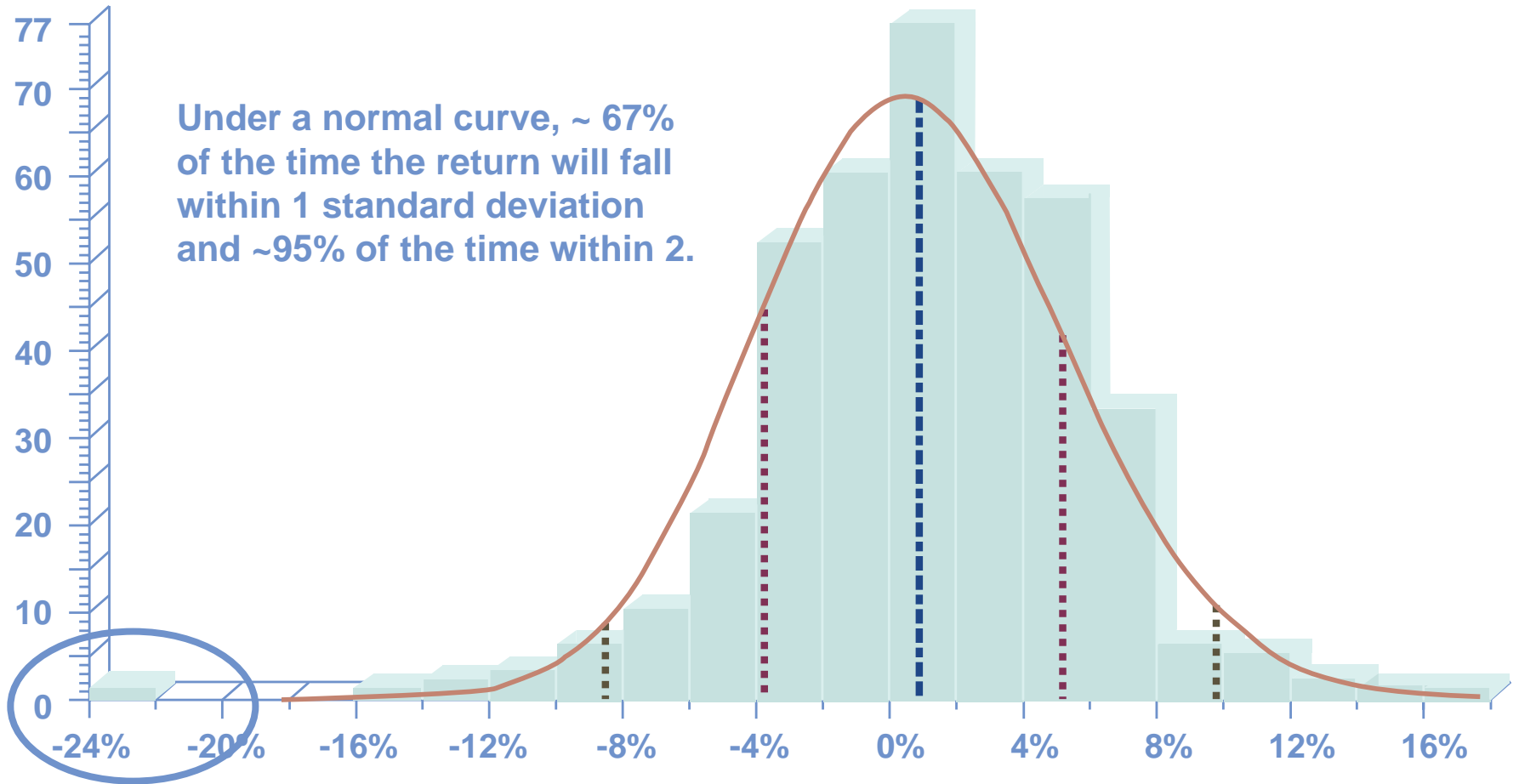


- ◆ Assumes the markets are efficient
- ◆ Assumes that all investors are rational
- ◆ Assumes that markets remain constant
- ◆ Needs numerous data points

The Asset Allocation decision is part science and part art – there is no single right answer

Return Volatility

DJ Wilshire 5000 Return Distribution January 1971 – December 2007 Using Monthly Returns





Discussion Points

What Risk Level?

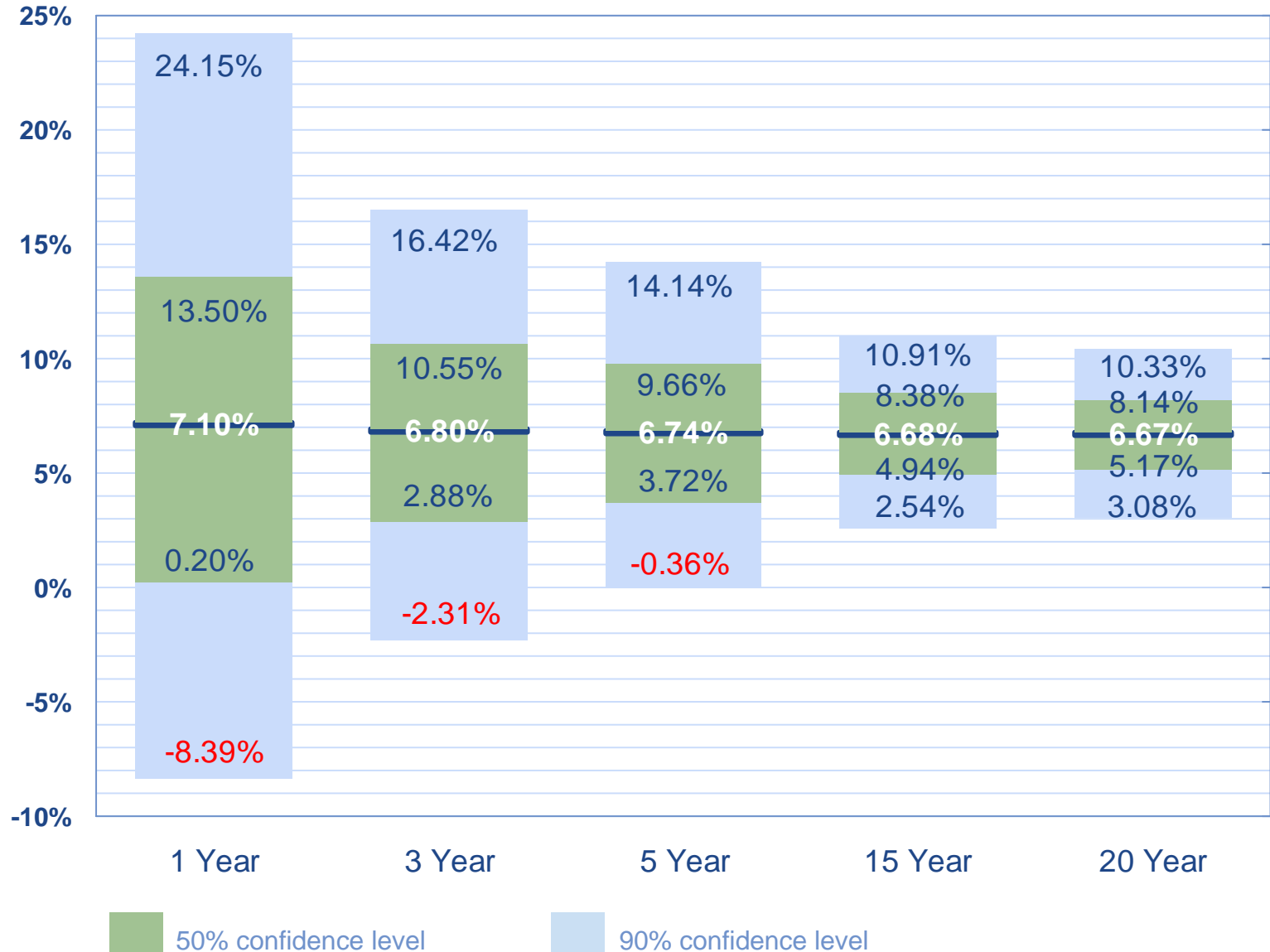


The only type of risk we are talking about in this context is expected annualized return volatility

- ◆ **Highest rate of return over the long run**
 - **More equity**

- ◆ **More consistent returns on a yearly basis**
 - **More fixed income**

GET Expected Returns Using Current Allocation





What Asset Classes to Include?

Cash
TIPS
Fixed Income
Real Estate
Global Equity
U.S. Equity
International Equity
Private Equity

Currently, the Portfolio only uses:

- ◆ Cash
- ◆ TIPS
- ◆ U.S. equity
- ◆ International equity

Consideration of adding additional asset classes

- ◆ Liquidity needs
- ◆ Time horizon
- ◆ Start up costs



How Much International Exposure?



Currently, the international equity exposure is capped at half of the U.S. equity exposure.

Considerations:

- ◆ **The U.S. is shrinking as a percentage of the world economy**
 - **U.S. World GDP**
 - **1990 23.0%**
 - **2006 19.6%**
 - **2008 19.0% (estimated)**

- ◆ **Higher allocation to international equity has the potential for more short term volatility due in part to currency risk**



Contact Information



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P.O. Box 40916
Olympia, WA 98504

Phone Number: (360) 956-4600

**Guaranteed Education Tuition Program
FY 2009 Proposed Budget
July 1, 2008 - June 30, 2009**

	FY08 <u>Approved</u>	Estimated FY08 <u>Expenditures</u> **	FY09 <u>Proposed</u> **
Budgeted Contract Sales	8,000		9,000
Estimated Total Contracts	85,367		94,367
Enrollment & Other Fees	400,000		450,000
Administrative Fees in Unit Price	<u>3,552,000</u>		<u>3,996,000</u>
Projected Available Funds	\$3,952,000		\$4,446,000
Expenditures:			
HECB Overhead:			
Salary & Benefits	\$631,599	\$631,599	\$887,400
Goods & Services	197,563	197,563	incl above
Travel	17,723	17,723	incl above
Contracts	481	481	incl above
Equipment	18,471	18,471	incl above
HECB Adjustment	-100,000	-100,000	
HECB Indirect Cost Allocation	<u>\$765,837</u>	<u>\$765,837</u>	<u>\$887,400</u> (2)
GET Administration:			
Salary & Benefits - 26.8 FTE	\$1,650,000	\$1,650,000	\$1,740,000 (3)
Goods & Services	384,900	428,848	564,000 (4)
Travel	49,000	30,000	40,000
Actuarial Contract	60,000	60,000	60,000
Marketing	729,000	729,000	772,000 (5)
Records Admin Costs	311,600	211,375 (7)	297,000 (6)
Total GET Administration	<u>\$3,184,500</u>	<u>\$3,109,223</u>	<u>\$3,473,000</u>
Total Expenditures	\$3,950,337	\$3,875,060 (1)	\$4,360,400

Notes:

** Preliminary numbers based on actual expenditures through Dec. 31, 2007, these will change by April 2008 GET Committee meeting.

- 1) Scanning system not purchased in FY08 - used funds to cover rent, utilities not in original budget
- 2) Per HECB prepared allotments to object T (intragency transfers)
- 3) Includes COLA's, merit raises and add'l benefit costs
- 4) Includes rent & utilities not included in HECB Overhead costs - \$120,000, additional printing, postage, equipment & supplies needed due to expected growth of program
- 5) \$38,000 for increase in media costs & \$5,000 increased contract for media purchasing
- 6) \$ 7,900 increase in Banner costs to \$197,000 and \$100,000 scanner
- 7) \$189,100 original budget for Banner + 22,275 add'l hours purchased for Banner maintenance
\$122,500 in original budget for scanning/paperless office system & other equipment not purchased in FY08