

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Wednesday, November 8, 2006

State Investment Board

2100 Evergreen Park Drive SW, Suite 100

Olympia, WA

MINUTES

HECB staff in attendance:

Betty Lochner, GET Director

Larry Lee, GET Deputy Director

Denise Fry, GET Outreach Manager

Whitney DalBalcon, GET Associate Director for Marketing and Communications

Betsy Hagen, GET Special Assistant

Dawn Eychaner, GET Marketing Assistant

Guests in attendance:

Shad Pruitt, Office of the State Treasurer

Gary Bruebaker, State Investment Board

Terry Ryan, Office of the Attorney General

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; Darrel Jensen, on behalf of Michael J. Murphy, State Treasurer; Beth Stecher Berendt, citizen member, and Mooi Lien Wong, citizen member (by phone conferencing.) Victor Moore, Director of the Office of Financial Management (OFM) was absent.

APPROVAL OF AUGUST 9, 2006 MEETING MINUTES

The minutes of the August 9, 2006 GET Committee Meeting were reviewed. A motion was made by Beth Stecher Berendt to adopt the minutes as presented. The motion was seconded by Darrel Jensen. The motion was approved unanimously as presented.

WASHINGTON LEARNS UPDATE

Jim Sulton presented an update on the work of Washington Learns. The Washington Learns Steering Committee will present its final report on Monday, November 13, 2006. This is a culmination of over 18 months of work examining every aspect of the state education delivery network from preschool through graduate school. The draft of this report has recommendations for the HECB, which include: budget authority, membership, changing problematic issues and the HECB executive director appointment. The steering committee has received a memo from the governor asking that tuition be capped at 7 percent per year. The HECB master plan has recommended the same.

LEGISLATIVE OUTLOOK

Today is the day after elections and final results from all races are not yet tabulated. Much of the legislation regarding higher education this year will be driven by the final Washington Learns proposal. The governor's budget will be out soon.

DIRECTOR'S REPORT

Betty Lochner presented an updated GET Committee contact list and October statistics to the committee.

Lochner noted that this has been another incredible enrollment year as of October 31, 2006:

- There have been 1,800 new enrollments so far for this enrollment year. This is an increase of 28 percent from last year at this time.
- 84 percent of new participants have enrolled online. Online enrollment is up from last year and is more cost effective for the program.
- A total of 68,145 GET accounts have been opened since the Program began.
- Accounts values total over \$795 million.

Marketing:

Whitney is now on staff full-time and devoting her time to promoting GET, and the additional in-house marketing efforts are paying off. Stories have run in a number of newspapers around the state including: Spokane, Tri-Cities, Grays Harbor and Yakima. Many of these stories ran on the front page. Lochner has participated in over 30 radio and television interviews. GET began an outreach program to staff booths at state fairs and has reached over 4,000 individuals at these fairs. An additional Eastern Washington media tour is planned for February. Plans are underway for GET's 10-year anniversary next fall.

Marketing highlights include:

- Yakima County enrollments are up 400 percent from last year
- Walla Walla County enrollments are up 600 percent from last year
- Benton County enrollments are up 150 percent from last year
- PNNL (Richland's largest employer) has signed up to offer GET payroll deduction to its employees.

GET INVESTMENT UPDATE

Gary Bruebaker, Chief Investment Officer for the State Investment Board, presented the GET Performance Report for September 2006. The report is relatively brief but positive. Total assets are at \$740 million in comparison with last quarter's assets of \$708 million. We are within target ranges of all asset allocations. It was a very good quarter.

Wong inquired about the breakdown in the US equity portion of the portfolio between large cap vs. small cap stocks. Bruebaker explained that the US Equity portion is in an indexed fund that tracks the Wilshire 5000. Roughly 20 percent of the index consists of small cap stocks.

GET ANNUAL ACTUARIAL VALUATION REPORT

Alan Perry, Principal & Consulting Actuary of Milliman Associates, presented information via conference call. He stated that it has been an uneventful year but echoed Bruebaker's words that it has been a very good year.

The actuarial valuation report shows that if all obligations were paid today, there would be a \$68 million reserve after all distributions. The current reserve is 8.8 percent of obligations, still below the goal of 10 percent, but improved from last year's 8.1 percent. This year saw sales of 2.2 million new units. Each unit sold contributed \$4.00 on average to the stabilization reserve for a total of \$8.8 million. Investment returns and lower than expected tuition increases were both favorable to the Program. The budget was on target.

Based on the report, the actuaries believe that the GET Program is actuarially sound in that it has sufficient assets, including the value of future installment payments, to cover the actuarially estimated value of the tuition obligations under all contracts outstanding as of the June 30, 2006 valuation date.

MARKETING PROPOSAL AND RECOMMENDATION

Betty presented information regarding the current marketing plan for GET. The contract with Marketing Partners will expire June 30, 2007. Information has been gathered and GET has two proposals:

- 1) Adopt a new unbundled approach – Whitney DalBalcon would be in charge of all in-house marketing. Outsourcing would be as needed for ad buys, graphic arts, web design, and any other speciality services. This is expected to provide an annual savings of over \$100,000.
- 2) Continue to outsource and bundle like we do now (i.e. pay a marketing group that gets the commissions).

Staff recommends option 1 – Adopt a new unbundled approach.

Whitney DalBalcon, GET Associate Director Marketing and Communications added that increased outreach efforts include:

- Hirings-outreach specialists who speak Chinese and Spanish
- Translating GET brochures into Chinese and Spanish
- Statewide visits to editors of key publications
- Statewide mailings to all superintendents and principals

A motion was made by Sulton to approve the marketing proposal as recommended by the staff. Berendt seconded. The motion was approved unanimously as presented.

Sulton asked for a motion to adjourn. Berendt motioned and Jensen seconded.

NEXT MEETING

The next meeting of the GET Committee is scheduled for Wednesday, February 7, 2007 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 2:28 p.m.

Respectfully Submitted,

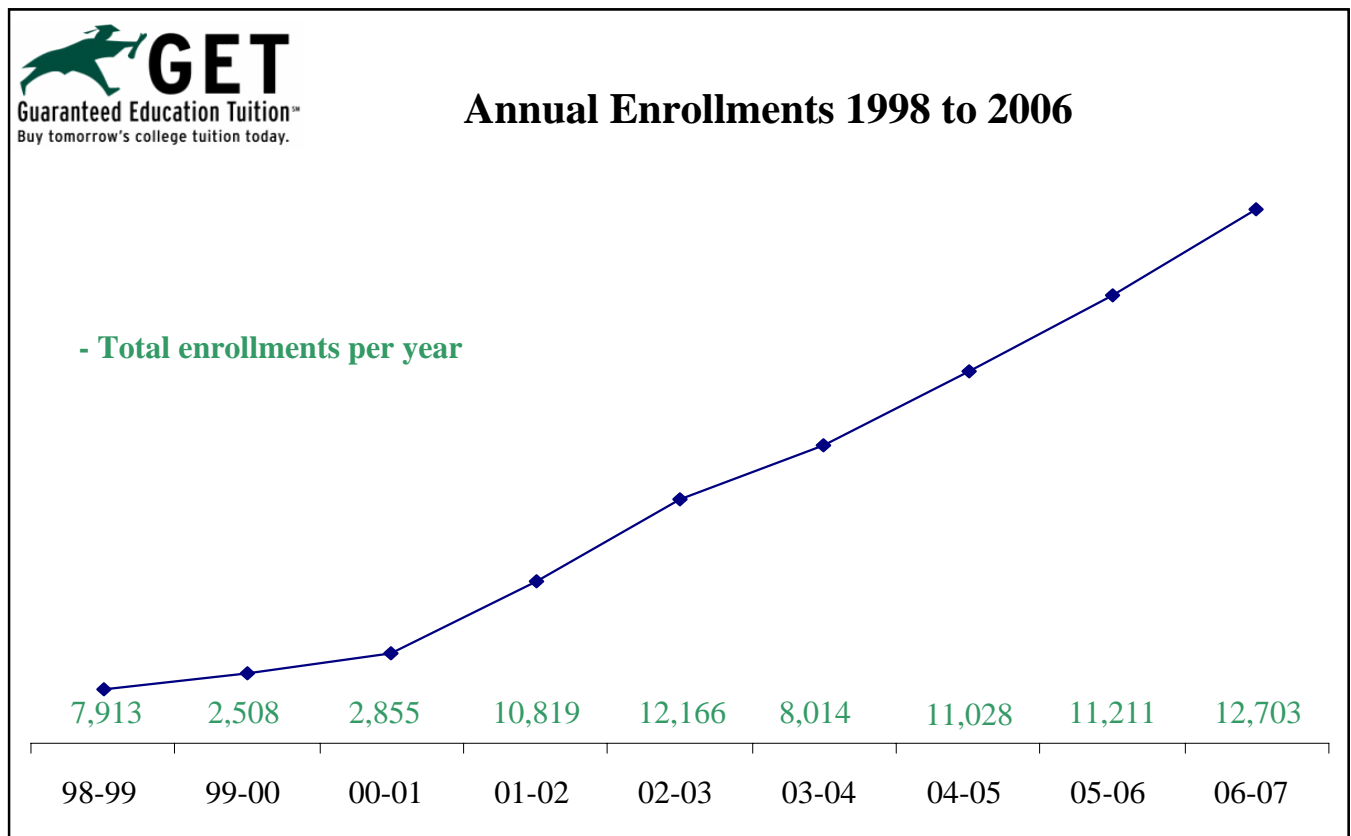
Betsy Hagen
GET Special Assistant

2006-2007 Enrollment Year (as of March 31, 2007)	2005-2006 Enrollment Year (August 31, 2006)
Total GET accounts opened: (Sept. 15-Mar.31, 2007)	Total GET accounts opened: (Sept. 15-August 31, 2006)
12,703	11,221
Total payments received:*	Total payments received:
\$42.6 million	\$39.9 million
Total units purchased:*	Total units purchased:
1.4 million	1.4 million
Total value of all contracts:*	Total value of all contracts:
\$114.1 million	\$86.4 million

GET Program Since Inception	
Total Active GET accounts since inception:*	78,967
Total payments received:*	\$666.1 million
Total units purchased:*	14.9 million
Total value of all contracts:*	\$903 million

* Dollar amounts and unit totals are estimates that include all unprocessed 2006-07 enrollments.

GROWTH OF ACTIVE ACCOUNTS SINCE PROGRAM INCEPTION



INTERESTING 2006-07 ENROLLMENT YEAR GET FACTS

- Enrollments are up 12 percent over last year.
- An additional \$2.4 million over last year was deposited into the GET fund during the month of March.
- On-line enrollments were 83 percent of all new enrollments (up from 76 percent last year).
- Over 7,200 new enrollments came in during the month of March.
- Both Lump Sum and Custom Monthly accounts are up over last year.

2007-08 Enrollment Year: September 15, 2007 – March 31, 2008

GET Account Information
As of 03/31/07

<u>Contract Statistics by Plan Year</u>	<u>2006</u>	<u>TOTAL</u>
# of Active Contracts		
Custom Monthly Contracts (CM)	3,823	20,693
<i>Unprocessed Custom Monthly Contracts</i>	646 *	646 *
Lump Sum Contracts (LS)	7,376	52,325
<i>Unprocessed Lump Sum Contracts</i>	768 *	768 *
Subtotal # of Active Contracts - Including Unprocessed	12,613	74,432
# of Inactive Contracts	88	3,078
# of Depleted Contracts	2	1,457
Total # of Contracts - Including Unprocessed	12,703	78,967
<u>Unit Statistics (active contracts only) - Including Unprocessed</u>		
Total # of Contracted Units (CM)	674,950	4,092,966
<i>Unprocessed # of Contracted Units (CM)</i>	99,500 *	99,500 *
Total # of Lump Sum Units Purchased (LS)	609,915	10,631,339
<i>Unprocessed # Lump Sum Units (LS)</i>	59,548 *	59,548 *
Total # of Units - Both Plans - Including Unprocessed	1,443,913	14,883,353
<u>Account Value Statistics (active contracts only)</u>		
Total Payments Received (CM and LS)	\$ 42,638,955	\$ 666,121,521
Future Payments Due (CM)	\$ 71,488,983	\$ 233,318,537
Total Payments Received and Future Payments Due	\$ 114,127,938	\$ 899,440,058
Fees Paid	\$ 465,270	\$ 3,616,571
Grand Total	\$ 114,593,208	\$ 903,056,629

Benefit Statistics

Total amount paid out on contracts	\$ 57,511,074
Total # of students who have used benefits	7,143

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



SIB Report

The SIB Report (ending March 31, 2007)
will be distributed on April 18 at the
GET Committee Board Meeting.

Guaranteed Education Tuition Program
FY 2008 Proposed Budget
July 1, 2007 - June 30, 2008

	FY07 Approved	FY 07 Est. Actual	FY08 Proposed
Budgeted Contract Sales	6,000		8,000
Actual Contract Sales	-	12,000	
Total Contracts	72,524	77,367	85,367
Enrollment & Other Fees	300,000	360,000	400,000
Administrative Fees in Unit Price	3,600,000	4,680,000 ⁽¹⁾	3,552,000 ⁽¹⁾
Projected Available Funds	\$3,900,000	\$ 5,040,000	\$ 3,952,000
Expenditures:			
HECB Indirect Cost Allocation	\$ 437,634	\$ 535,500	\$ 765,837 ⁽²⁾
GET Administration:			
Salary & Benefits - 24.0 FTE	\$ 1,540,000	\$ 1,423,000	
Salary & Benefits - 26.0 FTE			\$ 1,650,000 ⁽³⁾
Goods & Services	358,230	320,500	384,900 ⁽⁴⁾
Travel	36,000	43,000	49,000
Actuarial Contract	82,687	50,000	60,000
Marketing	729,303	729,000	729,000
Records Admin Costs	294,737	199,000	311,600 ⁽⁵⁾
Total GET Administration	3,040,957	2,764,500	3,184,500
Total Expenditures	\$3,478,591	\$ 3,300,000	\$ 3,950,337

Notes:

- (1) Based on average expense component of \$2.96
- (2) Calculated indirect costs for FY08 are \$865,837. HECB provided \$100,000 credit.
- (3) COLA, increases in benefit costs, addition of 2 FTE
- (4) Includes call center phone system upgrades - \$15,000
 Server support & replacement, wiring upgrades, hardware - \$41,150
 Whiteboard for conference room - \$1,700
- (5) Includes scanning technology upgrades
 Includes purchase of program enhancements paid on an hourly basis
 Includes web site changes and enhancements
 Includes address software enhancements

Actuarial Analysis and Price Adjustment for Enrollment Year 2007-08

April 18, 2007

Background

By statute, the Committee may set an annual unit price and may adjust it annually, if necessary, for the actuarial soundness of the program. The Program has contracted with Milliman for actuarial services.

At the April 19, 2006 meeting, the Committee approved setting the unit price for May 1, 2006 through April 30, 2007 at \$70 unless there was an unexpected change in any of the assumptions used in the pricing model. The minutes of the August 6, 2006 Committee meeting note that there were no unexpected changes and that no additional price adjustment was needed at that time.

The current unit price of \$70 for the 2006-07 enrollment period was based on the following assumptions:

- *Tuition would go up no more than an average of 7.00 percent annually in future years.*
- *Expected long-term investment returns would be 6.55 percent annually.*

Current Information

A pricing model, prepared by Milliman and based on information available through February 28, 2007, will be provided at the meeting to assist the Committee in setting a price for units to be sold from May 1 through August 31, 2007. Unit sales for the month of March and those processed in April will only be considered based on their impact on the actuarial reserve of the program.

Milliman is working on a pricing model that will show unit price recommendations and their respective affects on building a stabilization reserve.

Recommendation

A staff recommendation will be provided at the Committee meeting after staff have had a chance to review actuary recommendations.