

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

August 7, 2007

State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, Washington
1:00 pm – 5:00 pm

AGENDA

Call to Order

- Report from the Chair INFORMATION
 - GET Committee retreat summary
 - Follow-up discussion
- Approval of April 18, 2007 minutes ACTION Tab 1
 - Approval of proposed 2008 meeting calendar
- Director's report INFORMATION Tab 2
- GET investment update INFORMATION Tab 3
 - Diana Will, Investment Officer
 - Washington State Investment Board
- Marketing update INFORMATION
- Annual unit price update INFORMATION ACTION Tab 4
- Adjournment

Next Regular GET Committee Meeting (pending approval of proposed calendar)
February 13, 2008, 2:00 – 4:00 p.m.
State Investment Board
2100 Evergreen Park Drive SW
Olympia, WA

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Wednesday, April 18, 2007
State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, WA 98502

MINUTES

HECB staff in attendance:

Betty Everitt Lochner, GET Director
Larry Lee, GET Deputy Director
Denise Fry, GET Outreach Manager
Heidi Auderer, GET Finance Manager
Whitney DalBalcon, GET Associate Director for
Marketing and Communications
Diana Hurley, GET Lead Customer
Service Representative
Vickey Mauerman, GET Accountant
Heidi Jones, GET Records Manager
MyLinh Nguyen, GET Finance Assistant
Betsy Hagen, GET Special Assistant
Don Bennett, HECB Deputy Director

Guests in attendance:

Shad Pruitt, Office of the State Treasurer
Diana Will, State Investment Board
Terry Ryan, Office of the Attorney General
Bill Reimert, Milliman USA

WELCOME

GET Committee Chair Ann Daley called the meeting to order at 2:00 p.m. Ann had individuals introduce themselves. Members of the GET Committee in attendance were Ann Daley, Chair; Michael J. Murphy, State Treasurer; Marc Webster on behalf of Victor Moore, Director of the Office of Financial Management (OFM); Beth Stecher Berendt, citizen member; and Mooi Lien Wong, citizen member (by telephone conferencing.)

APPROVAL OF NOVEMBER 2006 MEETING MINUTES

Committee members reviewed the minutes of the November 8, 2006 meeting. Murphy made a motion to adopt the minutes as presented. Berendt seconded the motion. The motion was approved unanimously as presented.

REPORT FROM THE CHAIR

Ann Daley presented an update on legislation related to the GET program. Senate Bill 5806 puts into statute tuition limits of 7 percent per year. Senate Bill 5098, College Bound Scholarship, offers low-income middle school students an opportunity to attend college. GET units may be used for tuition, fees, and books for scholarship recipients. The bill is based on a recommendation from Washington Learns. House Bill 1779, GET Ready for Math and Science Scholarship, provides students who pass the math and science portion of the WASL an opportunity to attend college at no cost to them. The bill is funded by state and private funds. Recipients will be chosen by a non-profit panel. Graduates must agree to work in math- and

science-related fields in Washington. These bills have passed both the Senate and House and are on their way to the governor's desk for signature.

Berendt asked when these scholarships will be awarded to students. Daley responded that the first use of the actual award money is two years away. The HECB will establish the rules and guidelines for these bills. Daley added that these bills are a statement of confidence by the Legislature that they endorse the GET program.

DIRECTOR'S REPORT

Betty Everitt Lochner reported that we just completed our largest enrollment year ever with 12,735 new enrollments – up over 13 percent from last year. Additional highlights:

- Increase in participation in targeted counties: Yakima, Walla Walla, and Clark
- Over 30 radio and TV interviews
- Record amount of print articles – 60
- Increase in number of grandparents participating
- Increase in number of employers participating in payroll deduction
- Decrease in the age of enrollees

GET is enhancing customer service by expanding its email communication capabilities. Customers will receive an e-mail tomorrow announcing the new unit price and letting them know that they can view quarterly account statements online. This is a very efficient way to provide information to customers. In time it is expected that this technology will reduce our mailing costs while providing information to our account holders faster and more often than regular mail.

This fall will mark the beginning of the program's 10th enrollment year. We are in the planning process for 10-year anniversary events. Murphy has already agreed to help by participating in a media tour. A kick-off event will be planned for the fall.

GET INVESTMENT UPDATE

Diana Will, investment officer from the State Investment Board, presented the GET investment update. Total assets have grown \$58.5 million since Dec. 31, 2006, with \$40 million from new cash contributions. March 2007 contributions are 5.2 percent higher than March 2006's \$38.1 million. Total assets are at \$846 million. In the last year, GET has grown by \$189 million with \$76 million coming from earnings. Since inception, participant contributions have been \$605 million with \$241 million from earnings. As of this week, we have closed above the level set before the March 2000 stock market crash.

For the quarter, our return of 2.31 percent was slightly below the benchmark return of 2.38 percent. The equity benchmark underperformed slightly by 0.02 percent, while TIPS outperformed our benchmark by .03 percent. Will reviewed returns over the past one, three and five years as well as returns since inception. All are above benchmarks and have outperformed better than was first thought. We are currently at 7.31 percent since inception, which exceeds the expected return of 6.55 percent used in our annual return assumptions.

Murphy asked why the assumed rate of return is 6.55 percent but the benchmark is 7.31 percent. Will replied that the 7.31 percent is a passive allocation of actual investments in which we are investing. The passive benchmark is what we would earn with a passive investment with no management. The increased percentage is because markets have done much better than expected.

APPROVAL OF FY08 ADMINISTRATIVE BUDGET

Lee presented the FY08 administrative budget (Tab 4) to the committee. GET currently has over 78,000 accounts. Staff recommends:

- Addition of two staff members to address program growth (from 24 FTE to 26 FTE)
- Carryover of technology improvement (imaging enhancement services)
- \$3.95 million for the operating budget (includes HECB indirect costs)
- HECB indirect cost allocation (\$765,837.00)

FY07 Approved	FY07 Est. Actual	FY08 Proposed
\$3,478,591	\$3,300,000	\$3,950,337

Murphy questioned the increase of over \$200,000 in HECB indirect costs from FY07 to FY08. Active discussion ensued between Murphy and Don Bennett regarding the process of allocating overhead in state government. Bennett explained the HECB indirect costs. He stated he is working to unravel and understand the operating budgets of the HECB. Being new to the agency, both Bennett and Daley pledged to reduce the indirect costs in the future. They said they believe that for now these are fair and accurate numbers. Daley asked for the committee’s patience as they review current operational practices.

Murphy reminded the board that when the program was established in 1997 it was to be a self-sustaining program. He said that the indirect costs result in a sizeable jump in the budget and he expressed concerns. Murphy would like to see a direct cost rather than an indirect allocation of expenses. Daley said she recognizes this and will provide back up for the indirect costs at a future meeting.

MOTION

Berendt made a motion to adopt the FY08 administrative budget as presented. Webster seconded the motion. The motion was approved unanimously as presented.

ACTUARIAL ANALYSIS AND UNIT PRICE-SETTING

Lochner reviewed binder materials and went over the staff recommendation to increase the unit price increase from \$70.00 to \$74.00.

Bill Reimert, Principal and Consulting Actuary, from Milliman USA, directed the board to the following documents:

- Milliman letter dated April 16 to Betty Lochner
- Actuarial Analysis and Price Adjustment for Enrollment Year 2007-08
- Interim Estimate of Stabilization Reserve as of 2/28/07 and 3/31/07
- Preliminary Unit Prices for 5/07-4/08
- Comparison of Unit Prices for Fall 1998 through Spring 2007

Reimert reminded the committee that these figures are reasonable and accurate estimates. Active discussion on the stabilization rate ensued between Reimert and board members. There were different recollections of what was discussed at a committee retreat several years ago regarding whether the reserve used for pricing is based on all years or for the current year only.

Lochner reminded members that no written policy statement was ever adopted as a result of the retreat. Reimert noted that the methodology that has been used is based on the current year only.

Daley suggested the need to have a clear set of policies that guide staff and actuaries for the program.

Murphy asked that the group adopt a reserve policy first and then set the unit price. Daley said she would like a pricing decision to be made today. Lochner reminded the committee that there are two opportunities for price changes this year, May 1 and September 1. Daley asked for a motion to agree on a price.

MOTION

Murphy moved to maintain the unit price at \$70.00, have discussions, revisit price-setting on August 7, and meet this summer to reach an agreement regarding assumptions. The motion was seconded by Wong. The motion failed 2-3 with a majority of nay votes by Daley, Berendt, and Webster and affirmative votes by Murphy and Wong.

Active discussion continued among board members regarding the unit price. Concerns about historical cost assumption, tuition inflation, investment information, and cost overhead were shared. The group agreed that a meeting this summer regarding policy setting should be planned.

Daley expressed that she is more comfortable with the staff recommendation of \$74.00 and asked for a motion to be made.

MOTION

Berendt moved to accept the staff recommendation of \$74.00 per unit, hold a discussion on pricing principles and stabilization reserves, and revisit price-setting in August. Webster seconded the motion. Murphy asked for the record to reflect that he was leaving the meeting. The motion passed 3-1 with a majority of affirmative votes by Daley, Berendt, and Webster. Wong voted no. Murphy did not vote.

Daley asked the committee to meet this summer to discuss assumptions and future price-setting. She will have informal conversations with key legislators regarding the program prior to the summer event.

Berendt asked Terry Ryan, AG, to provide input at the meeting on the statutory meaning of “actuarially sound” per the GET statute.

NEXT MEETING

The next meeting of the GET Committee is scheduled for Tuesday, August 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 3:41 p.m.

Respectfully Submitted,

Betsy Hagen
GET Special Assistant

**Proposed Regular Meeting Schedule
2008 Calendar Year**

August 7, 2007

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 2007 - 2008 calendar year.

DATE	TIME	PLACE
Wednesday, February 13, 2008	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)
Wednesday, April 23, 2008	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)
Wednesday, August 13, 2008	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 2007 - 2008 calendar year.



GET Prepaid College Tuition Program

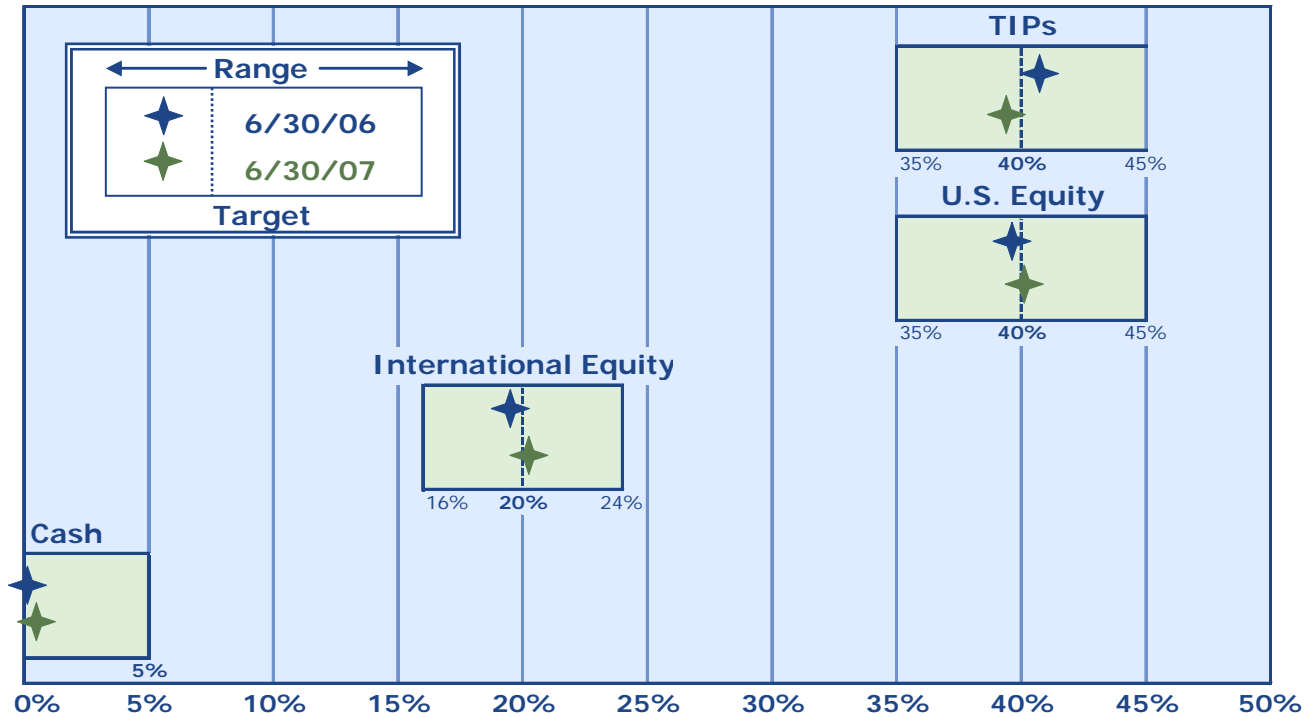
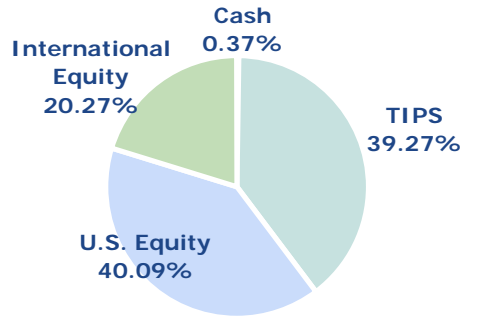
Quarterly Report – June 30, 2007

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

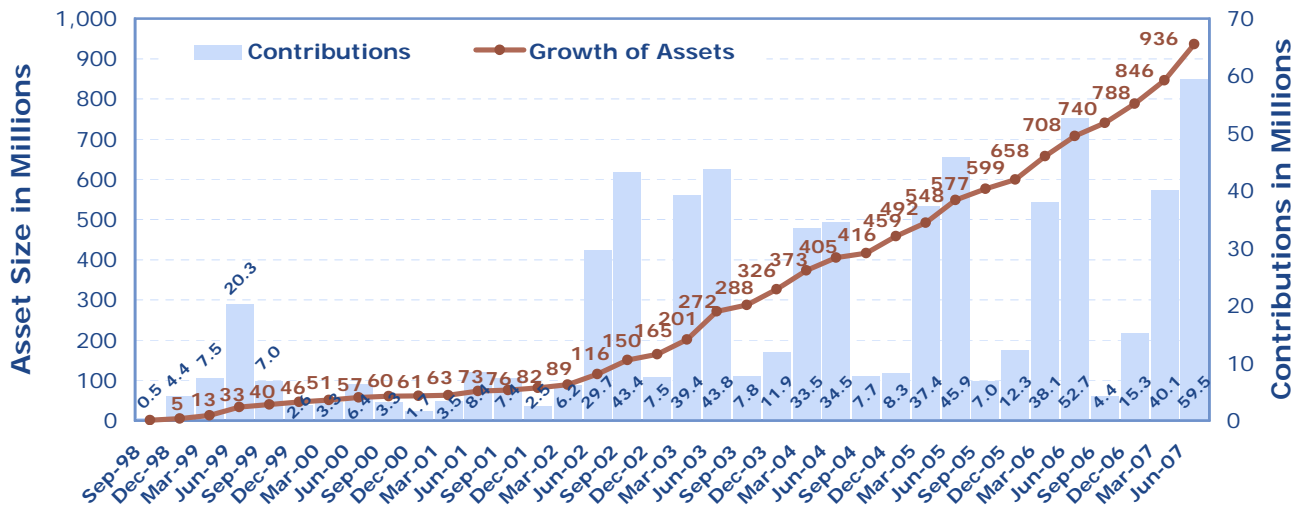
Dated: July 23, 2007

Portfolio Size **Actual Asset Allocation**

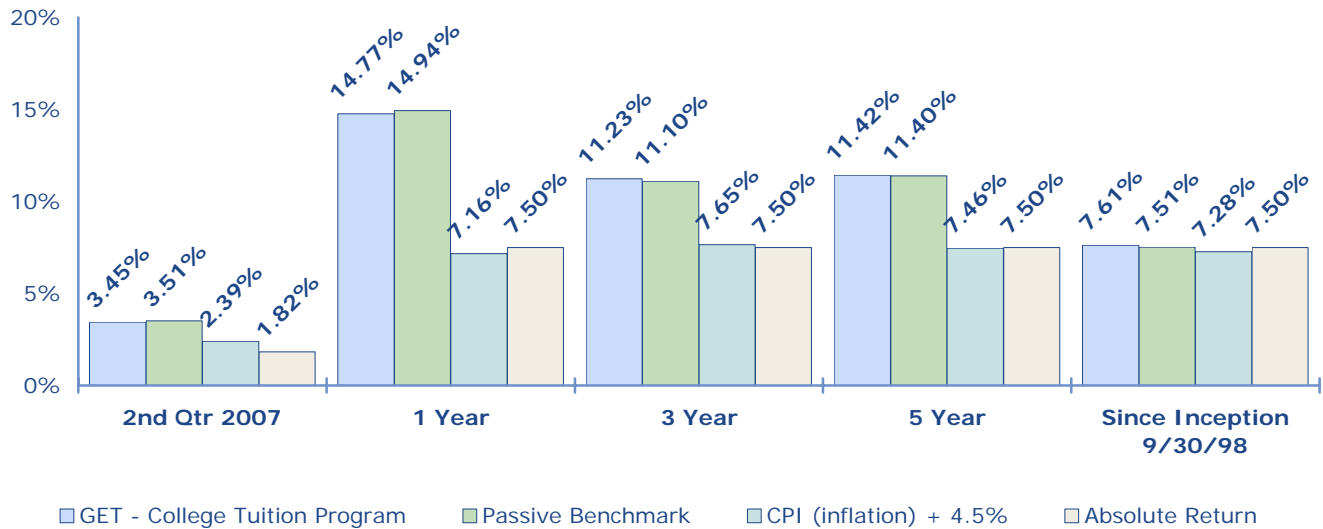
Total	\$935,928,476
Cash	3,501,694
Treasury Inflation Index Note (TIPS)	367,557,638
U.S. Equity	375,201,503
International Equity	189,667,640



Assets Under Management



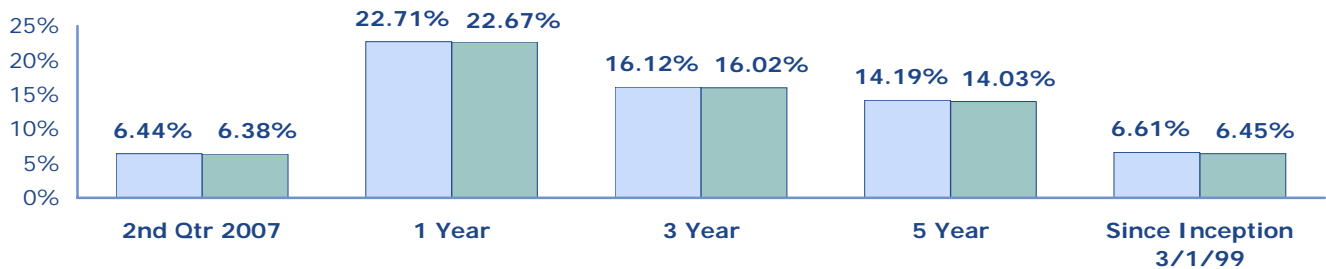
Total Return *



Return Breakdown

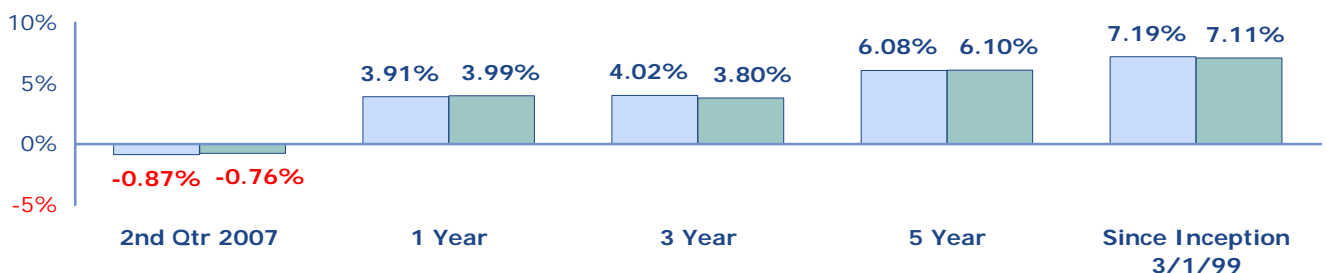
Equity Return *

- Equity
- Benchmark - DJ Wilshire 5000 and MSCI EAFE + Canada weighted to the policy's target (currently 66% and 33%)



Treasury Inflation Index Note Return *

- Treasury Inflation Index Note
- Benchmark - Lehman Custom TIPS Index



* 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.

GET Actuarial Analysis and Price-setting for 2007-08 Enrollment Year
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Background

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

At the April 18, 2007 GET Committee meeting, staff recommended a unit price increase from \$70 to \$74 for sales between May 1, 2007 and April 30, 2008. This price was to remain in effect through April 30, 2008 unless there was an unexpected change in any of the assumptions used in the pricing model. If the assumptions changed, the Committee was to determine whether an adjustment to the price would be needed for the 2007-08 enrollment year at its next meeting scheduled on August 7, 2007.

The Committee approved an increase from \$70 to \$74 and agreed to hold a discussion on pricing principles and stabilization reserves during the summer, and to revisit price-setting at the August 7, 2007 meeting.

The current unit price of \$74 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

Tuition increases at the University of Washington and Washington State University increased at the expected 7.00 percent annual rate used in program assumptions. Investment returns, while fluctuating on a daily basis, have met or exceeded the expected return of 6.55 percent.

Staff Recommendation

Staff recommends that the unit price remain at \$74 through April 30, 2008. The Committee will have an opportunity at the April 2008 Committee meeting to adjust the unit price.