GUARANTEED EDUCATION TUITION
COMMITTEE MEETING & WORK SESSION AGENDA
September 28, 2010

State Investment Board
2100 Evergreen Park Drive SW
Olympia, Washington 98502
2:00 p.m. – 4:00 p.m.

GET Committee Meeting
2:00 p.m. – 2:30 p.m.

• Call to Order		
• Report from the Chair	INFORMATION	
• Approval of April 26, 2010 minutes Approval of proposed 2011 meeting calendar	ACTION	Tab 1
• Director's report	INFORMATION	
• Adjourn Regular Meeting		

****

GET Work Session
2:30 p.m. – 4:00 p.m.
Elizabeth McManus, Facilitator

• Background Information		
GET investment update Diana Will, Investment Officer Washington State Investment Board	INFORMATION	Tab 2
GET actuary update Alan Perry, Principal & Consulting Actuary Milliman (via phone and webcast)	INFORMATION	Tab 3
GET and Tuition Setting report GET staff	INFORMATION	Tab 4
• Program Structure, Policy Changes & Alternative Strategies	DISCUSSION	

Next Regular GET Committee Meeting (pending approval of proposed calendar)
November 17, 2010 2:00 – 4:00 p.m.
Capitol Campus – Insurance Building
4th Floor Conference Room
Olympia, WA

09/22/10
9:45 AM

GUARANTEED EDUCATION TUITION COMMITTEE MEETING
Monday, April 26, 2010
Capitol Campus, Insurance Building,
4th Floor Conference Room
Olympia, WA 98501

MINUTES

HECB staff in attendance:
Betty Lochner, GET Director
Don Bennett, HECB Deputy Director
Larry Lee, GET Deputy Director
Heidi Auderer, GET Operations Manager
Susan Martensen, GET Communications and Marketing Manager
Diana Hurley, GET Customer Service Manager
Jackie Ferrado, GET Outreach Manager
Betsy Hagen, Special Assistant to the GET Director
Katie Gross, GET Administrative Assistant
Matthew Freeby, GET Lead Finance Coordinator
Ashley Davis, GET Customer Service Representative

Guests in attendance:
Alan Perry, Milliman
Diana Will, State Investment Board
Scott Copeland, State Board of Community and Technical Colleges

WELCOME
GET Committee Interim Chair Don Bennett called the meeting to order at 2:00 p.m. Members of the GET Committee in attendance were Don Bennett, Marty Brown, Director of Office of Financial Management, James L. McIntire, State Treasurer, Beth Stecher Berendt, citizen member, and Mooi Lien Wong, citizen member.

APPROVAL OF JANUARY 2010 MEETING MINUTES
Committee members reviewed the minutes of the January 6, 2010 meeting. Berendt moved to adopt the minutes as presented. Wong seconded the motion. The motion was approved unanimously as presented. Minutes adopted.

REPORT FROM THE ACTING CHAIR
GET Committee Acting Chair Don Bennett provided a recap of the 2010 legislative session.

DIRECTOR'S REPORT
Betty Lochner presented current enrollment status of the Program.

- 13,187 new enrollments, 2nd largest enrollment year
- 119,677 since inception, 26 newborn enrollments since 3/31/10
- Average units per account, dropped from 204 to 105 (as of 3/31/10)
- Demographic information was presented via Power Point Presentation
- GET survey – synopsis, executive summary & profile of customers
- Marketing update – summary with highlights

GET INVESTMENT UPDATE

Diana Will provided the GET Investment Update.

- We are recovering nicely from last year; within asset allocation targets
- Account balance: $1.3 billion
- Provided comparison history from last year
  - Increase of $57 million last quarter, $42 million coming from March
  - 3.08% – 9 basis points below benchmark in last quarter (happens each year at this time)
  - In March, International markets up 6.9%, lost a little bit – cash drag
  - Returns are up a bit – for the 1st Qtr outperformed benchmarks in equities and tips
    - Equities 4.79 vs 4.78 and TIPS .6 vs .56

Capital Market Assumption history:

- Review each year, assumptions do not move much; have a standard set
- Last two years more volatile due to the market
- Haven't completely rebounded looking at the 3, 5, 10 year returns

APPROVAL OF FY11 ADMINISTRATIVE BUDGET

Lee presented the FY11 GET Administrative Budget. Active discussion ensued.

McIntire requested clarification with regards to the 5% increase for administrative costs. He also asked for information about the revenue source for administrative costs. Alan Perry, Principal and Consulting Actuary, Milliman and Lee provided information:

- Much of the 5% increase is from the increase in insurance premiums
- Anything not spent, stays in the savings pool
- Current and projected
  - FY 10 – 9,5000 new accounts and 1.35 million unit sales
  - FY 11 – 10,000 new accounts and 1.5 million unit sales projected
- Revenue sources for administrative costs:
  - $50.00 enrollment fee per account
  - $3.17 per unit (FY10)
  - $2.98 per unit (FY11)

Berendt moved to adopt the FY11 GET Administrative Budget as presented. Wong seconded the motion. The motion was approved unanimously as presented.

GET ACTUARIAL ANALYSIS AND UNIT PRICING SETTING

Lee reviewed the GET Actuarial Analysis and Price Adjustment for the 2010-11 Enrollment Year.

Based on the assumptions provided by staff, Milliman recommended:

- $117 unit price with a 15% reserve and 7.5 percent long term funding, increase of 15.8%
- $124 unit price with a 15% reserve and 8.0 percent long term funding, increase of 22.8%

Perry facilitated the unit price setting discussion. Four different exhibits were provided:

- Actuarial Analysis and Price Adjustment for the 2010-11 Enrollment Year
- Preliminary Unit Prices for May 2010 through April 2011
- Comparison of Unit Prices for Fall 1998 through Spring 2011
- Pricing Projection Model – Estimated Surplus/Deficit in Future Years

Active discussion ensued.

Committee members requested future strategy and information sessions; and a one year work plan. Tasks include:

- Program design, policy changes, and alternative strategies
- Policy framework for future tuition prices; impact for GET
- Studies for tiered pricing by age for new contracts
    - Parameters laid out; send information to actuaries for pricing assumptions
    - Liability for current contract holders and new customers with regard to tiered pricing; research statutory responsibility
    - Transition plan – current to tiered
- Alternative investment strategy (defined benefit) or savings plan (defined contribution)
- Pricing/payout options – anticipating changes

Brown moved to adopt the price setting guidelines as presented: $117 unit price with a 15% reserve and 7.5 percent long term funding, increase of 15.8%. Berendt seconded the motion. The motion was approved unanimously as presented.

ADJOURNMENT
The meeting adjourned at 3:30 p.m.

Respectfully Submitted,

Betsy Hagen
Special Assistant to the GET Director

Proposed Regular Meeting Schedule
2010 - 2011 Calendar Year

September 28, 2010

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 2010-2011 calendar year.

DATE	TIME	PLACE
Wednesday, November 17, 2010	2:00 – 4:00 p.m.	Insurance Building, 4th Floor Conference Room
Monday, February 7, 2011	2:00 – 4:00 p.m.	Insurance Building, 4th Floor Conference Room
TBA	2:00 – 4:00 p.m.	Insurance Building, 4th Floor Conference Room
Monday, August 8, 2011	2:00 – 4:00 p.m.	State Investment Board
Monday, November 7, 2011	2:00 – 4:00 p.m.	State Investment Board

Recommendation

Staff recommends adopting the proposed regular GET Committee Meeting schedule for the 2010-2011 calendar year.

GET Prepaid College Tuition Program

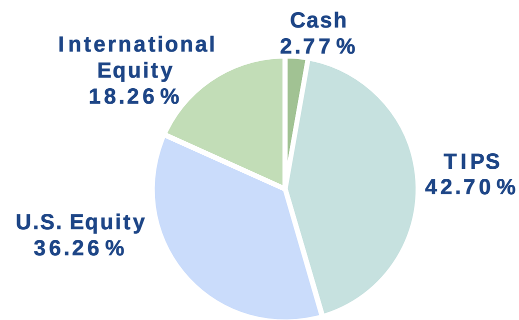
Quarterly Report – June 30, 2010

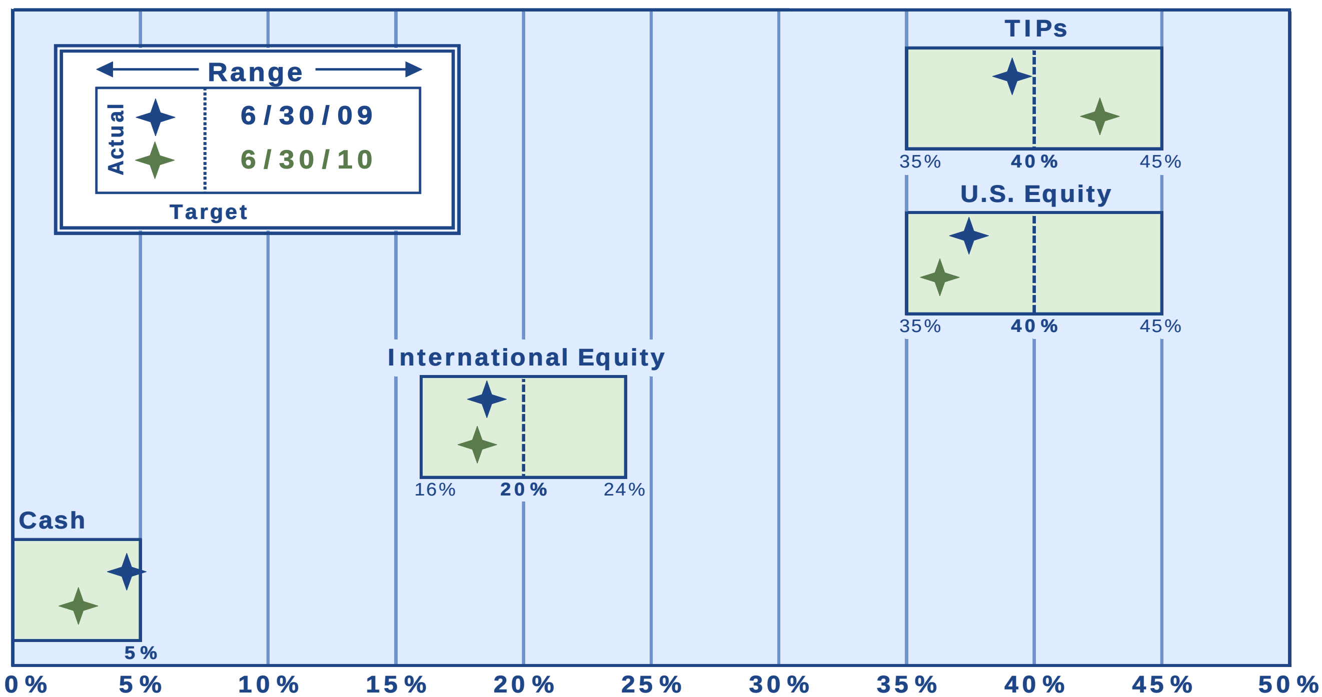
Dated: August 2, 2010

Portfolio Size

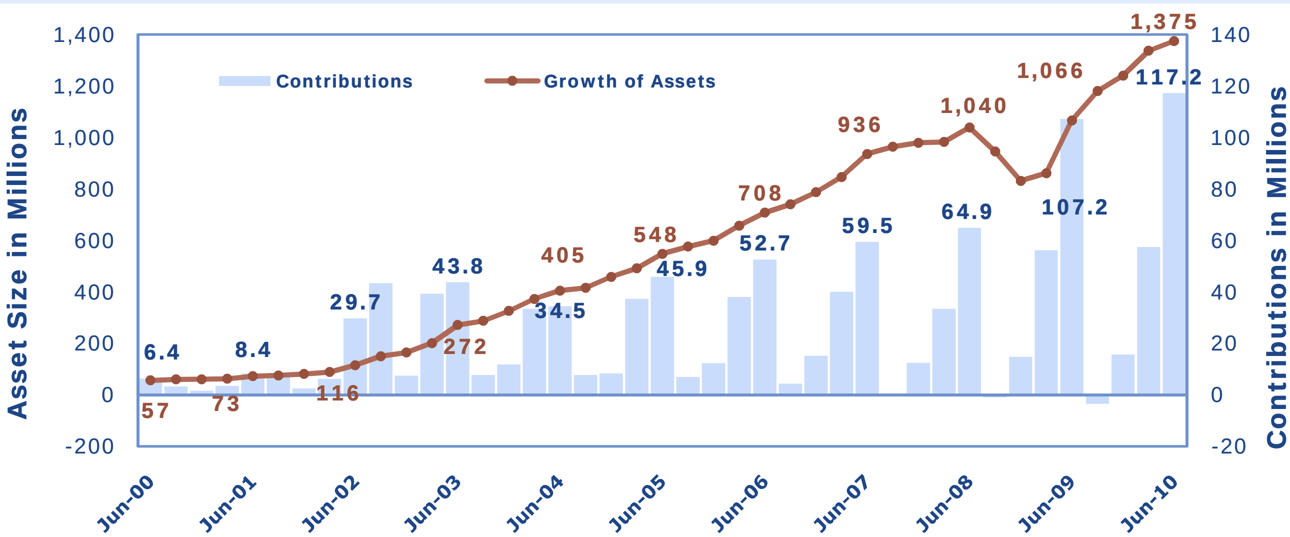
Total	**$1,374,962,707**
Cash	38,132,165
Treasury Inflation Index Note (TIPS)	587,176,597
U.S. Equity	498,573,695
International Equity	251,080,251

Actual Asset Allocation

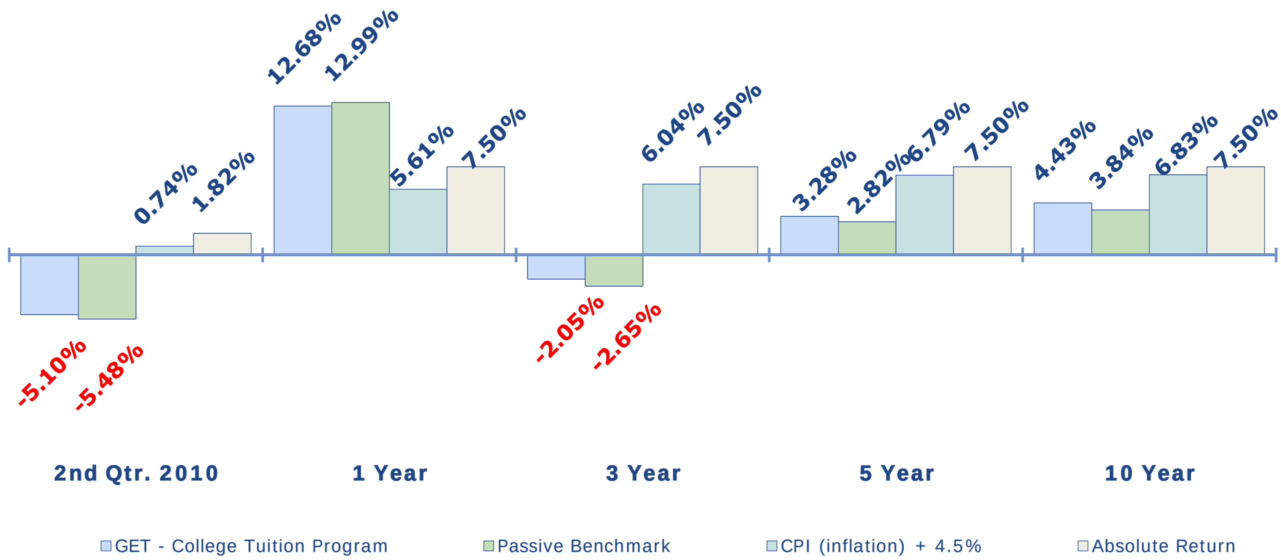




Assets Under Management

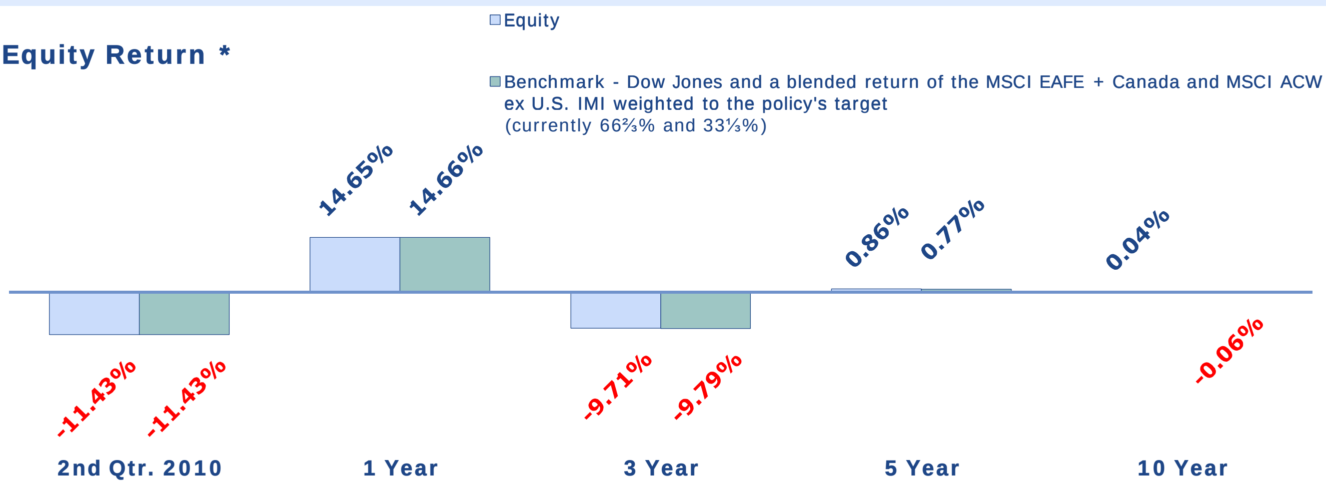


Total Return *

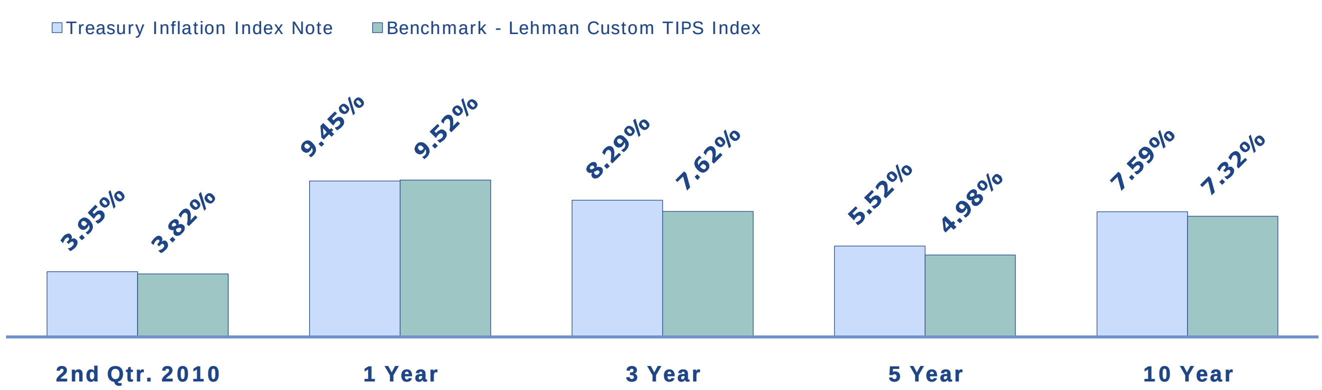


Return Breakdown

Equity Return *



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.

Washington Guaranteed Education Tuition Program

Analysis of $117 Unit Price for 2010-2011

Matric Year	(A) Expected Percentage of Sales*	(B) Present Value of Obligations	(C) 15.11% Stabilization Reserve $	(D) Full Actuarial Price	(E) Actual Price	(F) Full Stabilization Reserve $	(G) Full Stabilization Reserve %	(H) Expected Yield to Purchaser Based on: $117 Price	(I) Expected Yield to Purchaser Based on: Actuarial Price	Years to Maturity	(J) Municipal Bonds National Data 9/13/2010 Yields: AAA-Rated	(K) Municipal Bonds National Data 9/13/2010 Yields: AA-Rated
2012	3.75%	$94.19	$14.23	$108.43	$117.00	$22.81	24.21%	0.67%	2.53%	6	1.50%	1.67%
2013	6.06%	95.01	14.36	109.37	117.00	21.99	23.14%	1.96%	3.30%	7	1.80%	1.98%
2014	4.56%	95.83	14.48	110.31	117.00	21.17	22.09%	2.84%	3.83%	8	2.04%	2.23%
2015	5.26%	96.66	14.61	111.27	117.00	20.34	21.04%	3.47%	4.20%	9	2.25%	2.44%
2016	5.56%	97.49	14.73	112.22	117.00	19.51	20.01%	3.95%	4.48%	10	2.42%	2.61%
2017	5.68%	98.32	14.86	113.18	117.00	18.68	19.00%	4.33%	4.71%	11	2.54%	2.74%
2018	5.57%	99.16	14.98	114.14	117.00	17.84	17.99%	4.63%	4.88%	12	2.66%	2.86%
2019	5.54%	100.00	15.11	115.11	117.00	17.00	17.00%	4.88%	5.03%	13	2.74%	2.94%
2020	5.70%	100.85	15.24	116.08	117.00	16.15	16.02%	5.08%	5.15%	14	2.80%	3.00%
2021	5.03%	101.70	15.37	117.06	117.00	15.30	15.05%	5.26%	5.25%	15	2.87%	3.07%
2022	5.30%	102.55	15.50	118.05	117.00	14.45	14.09%	5.41%	5.34%	16	2.95%	3.15%
2023	5.61%	103.41	15.63	119.03	117.00	13.59	13.14%	5.54%	5.42%	17	3.04%	3.24%
2024	6.30%	104.27	15.76	120.03	117.00	12.73	12.21%	5.65%	5.49%	18	3.13%	3.33%
2025	5.07%	105.14	15.89	121.03	117.00	11.86	11.28%	5.75%	5.55%	19	3.23%	3.43%
2026	5.97%	106.01	16.02	122.03	117.00	10.99	10.36%	5.84%	5.60%	20	3.33%	3.52%
2027	6.16%	106.89	16.15	123.05	117.00	10.11	9.45%	5.92%	5.65%	21	3.42%	3.61%
2028	8.76%	107.78	16.29	124.06	117.00	9.22	8.56%	5.99%	5.69%	22	3.50%	3.69%
2029	4.09%	108.67	16.42	125.09	117.00	8.33	7.67%	6.06%	5.73%	23	3.58%	3.77%

Assumptions:

7.50% tuition growth per year
6.63% investment return per year
Units are paid out over 7 years starting in the year of matriculation
*Based on actual sales since 7/1/2008

In performing this analysis, we relied on data and other information provided by the Washington Guaranteed Education Tuition Program. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Milliman's work product was prepared exclusively for Washington Guaranteed Education Tuition for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning actuarial projections and uses information from GET which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

Washington Guaranteed Education Tuition Program

Analysis of $117 Unit Price for 2010-2011 - Grouped Pricing Example 1

Matric Year	(A) Expected Percentage of Sales*	(B) Present Value of Obligations	(C) 15.11% Stabilization Reserve $	(D) Full Actuarial Price	(E) Grouped Price	(F) Full Stabilization Reserve $	(G) Full Stabilization Reserve %	(H) Expected Yield to Purchaser Based on: Grouped Price	(I) Expected Yield to Purchaser Based on: Actuarial Price	Years to Maturity	(J) Municipal Bonds National Data 9/13/2010 Yields: AAA-Rated	(K) Municipal Bonds National Data 9/13/2010 Yields: AA-Rated
2012	3.75%	$94.19	$14.23	$108.43	$111.00	$16.81	17.84%	1.96%	2.53%	6	1.50%	1.67%
2013	6.06%	95.01	14.36	109.37	111.00	15.99	16.83%	3.01%	3.30%	7	1.80%	1.98%
2014	4.56%	95.83	14.48	110.31	111.00	15.17	15.82%	3.72%	3.83%	8	2.04%	2.23%
2015	5.26%	96.66	14.61	111.27	111.00	14.34	14.84%	4.24%	4.20%	9	2.25%	2.44%
2016	5.56%	97.49	14.73	112.22	111.00	13.51	13.86%	4.62%	4.48%	10	2.42%	2.61%
2017	5.68%	98.32	14.86	113.18	111.00	12.68	12.89%	4.93%	4.71%	11	2.54%	2.74%
2018	5.57%	99.16	14.98	114.14	116.50	17.34	17.49%	4.67%	4.88%	12	2.66%	2.86%
2019	5.54%	100.00	15.11	115.11	116.50	16.50	16.50%	4.92%	5.03%	13	2.74%	2.94%
2020	5.70%	100.85	15.24	116.08	116.50	15.65	15.52%	5.12%	5.15%	14	2.80%	3.00%
2021	5.03%	101.70	15.37	117.06	116.50	14.80	14.56%	5.29%	5.25%	15	2.87%	3.07%
2022	5.30%	102.55	15.50	118.05	116.50	13.95	13.60%	5.44%	5.34%	16	2.95%	3.15%
2023	5.61%	103.41	15.63	119.03	116.50	13.09	12.66%	5.57%	5.42%	17	3.04%	3.24%
2024	6.30%	104.27	15.76	120.03	122.50	18.23	17.48%	5.36%	5.49%	18	3.13%	3.33%
2025	5.07%	105.14	15.89	121.03	122.50	17.36	16.51%	5.47%	5.55%	19	3.23%	3.43%
2026	5.97%	106.01	16.02	122.03	122.50	16.49	15.55%	5.58%	5.60%	20	3.33%	3.52%
2027	6.16%	106.89	16.15	123.05	122.50	15.61	14.60%	5.67%	5.65%	21	3.42%	3.61%
2028	8.76%	107.78	16.29	124.06	122.50	14.72	13.66%	5.76%	5.69%	22	3.50%	3.69%
2029	4.09%	108.67	16.42	125.09	122.50	13.83	12.73%	5.83%	5.73%	23	3.58%	3.77%
				Wtd-Avg	$116.98							

Assumptions:
7.50% tuition growth per year
6.63% investment return per year
Units are paid out over 7 years starting in the year of matriculation
*Based on actual sales since 7/1/2008

In performing this analysis, we relied on data and other information provided by the Washington Guaranteed Education Tuition Program. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Milliman's work product was prepared exclusively for Washington Guaranteed Education Tuition for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning actuarial projections and uses information from GET which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

Washington Guaranteed Education Tuition Program

Analysis of $117 Unit Price for 2010-2011 - Grouped Pricing Example 2

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)		(J)	(K)
								Expected Yield to Purchaser Based on:			Municipal Bonds National Data 9/13/2010 Yields:	
Matric Year	Expected Percentage of Sales*	Present Value of Obligations	15.11% Stabilization Reserve $	Full Actuarial Price	Grouped Price	Full Stabilization Reserve $	Full Stabilization Reserve %	Grouped Price	Actuarial Price	Years to Maturity	AAA-Rated	AA-Rated
2012	3.75%	$94.19	$14.23	$108.43	$110.00	$15.81	16.78%	2.18%	2.53%	6	1.50%	1.67%
2013	6.06%	95.01	14.36	109.37	110.00	14.99	15.77%	3.19%	3.30%	7	1.80%	1.98%
2014	4.56%	95.83	14.48	110.31	110.00	14.17	14.78%	3.87%	3.83%	8	2.04%	2.23%
2015	5.26%	96.66	14.61	111.27	110.00	13.34	13.80%	4.37%	4.20%	9	2.25%	2.44%
2016	5.56%	97.49	14.73	112.22	113.50	16.01	16.42%	4.34%	4.48%	10	2.42%	2.61%
2017	5.68%	98.32	14.86	113.18	113.50	15.18	15.44%	4.67%	4.71%	11	2.54%	2.74%
2018	5.57%	99.16	14.98	114.14	113.50	14.34	14.46%	4.94%	4.88%	12	2.66%	2.86%
2019	5.54%	100.00	15.11	115.11	113.50	13.50	13.50%	5.16%	5.03%	13	2.74%	2.94%
2020	5.70%	100.85	15.24	116.08	118.00	17.15	17.01%	5.01%	5.15%	14	2.80%	3.00%
2021	5.03%	101.70	15.37	117.06	118.00	16.30	16.03%	5.19%	5.25%	15	2.87%	3.07%
2022	5.30%	102.55	15.50	118.05	118.00	15.45	15.07%	5.35%	5.34%	16	2.95%	3.15%
2023	5.61%	103.41	15.63	119.03	118.00	14.59	14.11%	5.48%	5.42%	17	3.04%	3.24%
2024	6.30%	104.27	15.76	120.03	118.00	13.73	13.16%	5.60%	5.49%	18	3.13%	3.33%
2025	5.07%	105.14	15.89	121.03	123.00	17.86	16.99%	5.45%	5.55%	19	3.23%	3.43%
2026	5.97%	106.01	16.02	122.03	123.00	16.99	16.02%	5.56%	5.60%	20	3.33%	3.52%
2027	6.16%	106.89	16.15	123.05	123.00	16.11	15.07%	5.65%	5.65%	21	3.42%	3.61%
2028	8.76%	107.78	16.29	124.06	123.00	15.22	14.12%	5.74%	5.69%	22	3.50%	3.69%
2029	4.09%	108.67	16.42	125.09	123.00	14.33	13.19%	5.81%	5.73%	23	3.58%	3.77%
				Wtd-Avg	$116.93							

Assumptions:

7.50% tuition growth per year

6.63% investment return per year

Units are paid out over 7 years starting in the year of matriculation

*Based on actual sales since 7/1/2008

In performing this analysis, we relied on data and other information provided by the Washington Guaranteed Education Tuition Program. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Milliman's work product was prepared exclusively for Washington Guaranteed Education Tuition for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning actuarial projections and uses information from GET which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

GET 2010-2011 TIMELINE

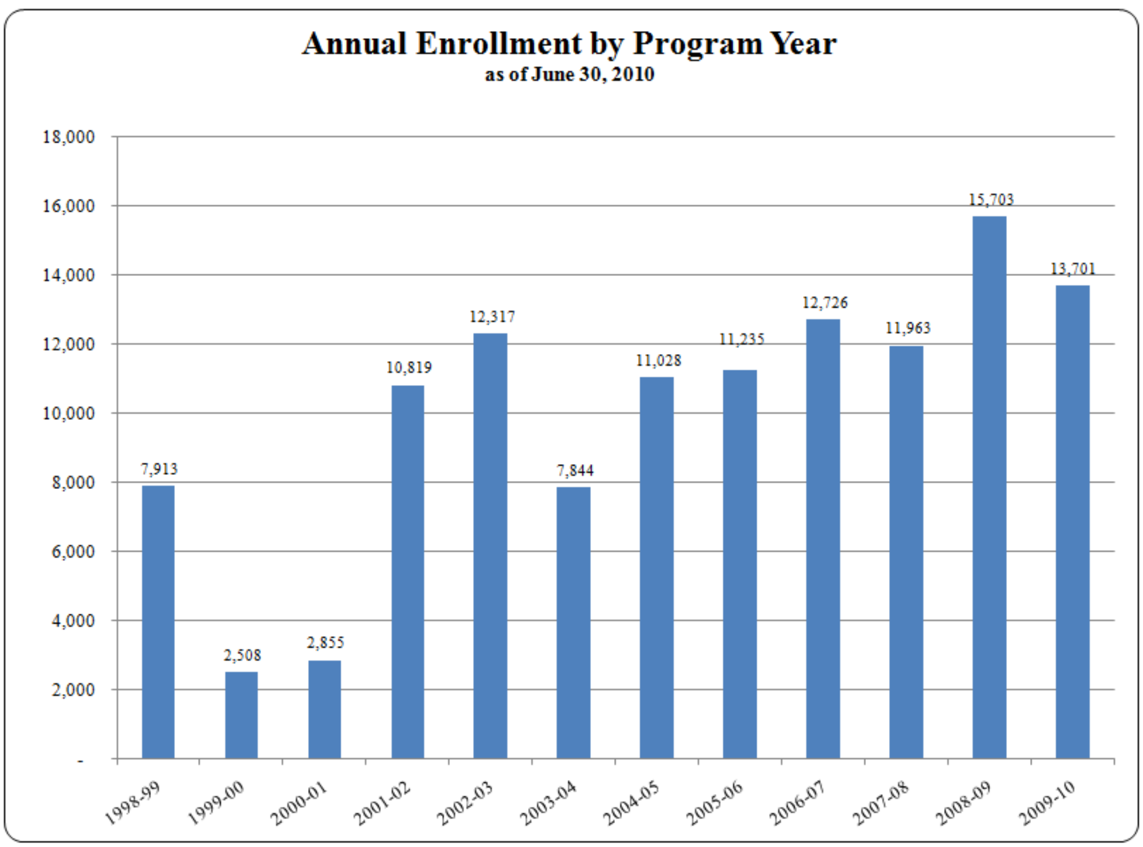
September 15, 2010	Enrollment Begins
September 28, 2010	GET Committee Workshop • Discuss Investment Policies & Options • Actuarial Valuation Review & Age Based Unit Prices • Pricing Guidelines
November 17, 2010	GET Committee Meeting • Follow up to Work Session • Legislative Preparation if Desired
January 10, 2011	Legislative Session begins
February 7, 2011	GET Committee Meeting • Set Assumptions for Price Setting • Look at Preliminary Budget • Update on Legislative Session • Reaction to Proposed Legislation if needed
April 2011 TBA	GET Committee Meeting • Select Unit Price • Approve Operating Budget • Approve/Request Changes in Program Materials & Master Agreement • Approve or Change Enrollment Dates • Approve or Change Price Setting Dates
April 26, 2011	Estimated End of Regular Legislative Session
August 8, 2011	GET Committee Meeting • Determine whether a Price Adjustment is Necessary • Evaluate/Review Prior Year
November 7, 2011	GET Committee Meeting • Legislative Preparation

GET and Tuition Setting

History of the GET Program

In 1997, the legislature established the Guaranteed Education Tuition Program (GET) to, "…help make higher education affordable and accessible to the citizens of the state of Washington by offering a savings incentive that will protect purchasers and beneficiaries against rising tuition costs." Their intent was that the availability of a guaranteed savings option would encourage savings as well as making higher education financially accessible, promoting a well-educated and financially secure population.

Account owners may purchase up to 5 years of tuition or 500 units per student (100 units currently equals one year of tuition at the highest priced public university). The state guarantee that contributions will keep pace with rising tuition remains the top reason why account owners participate in GET. Since inception, Washington residents have opened more than 119,000 accounts and contributed more than $1.35 billion. GET has helped over 16,000 students fund their education with distributions in excess of $172 million. The majority of our students choose to use their units in-state with the highest enrollments at the University of Washington (UW) and Washington State University (WSU).

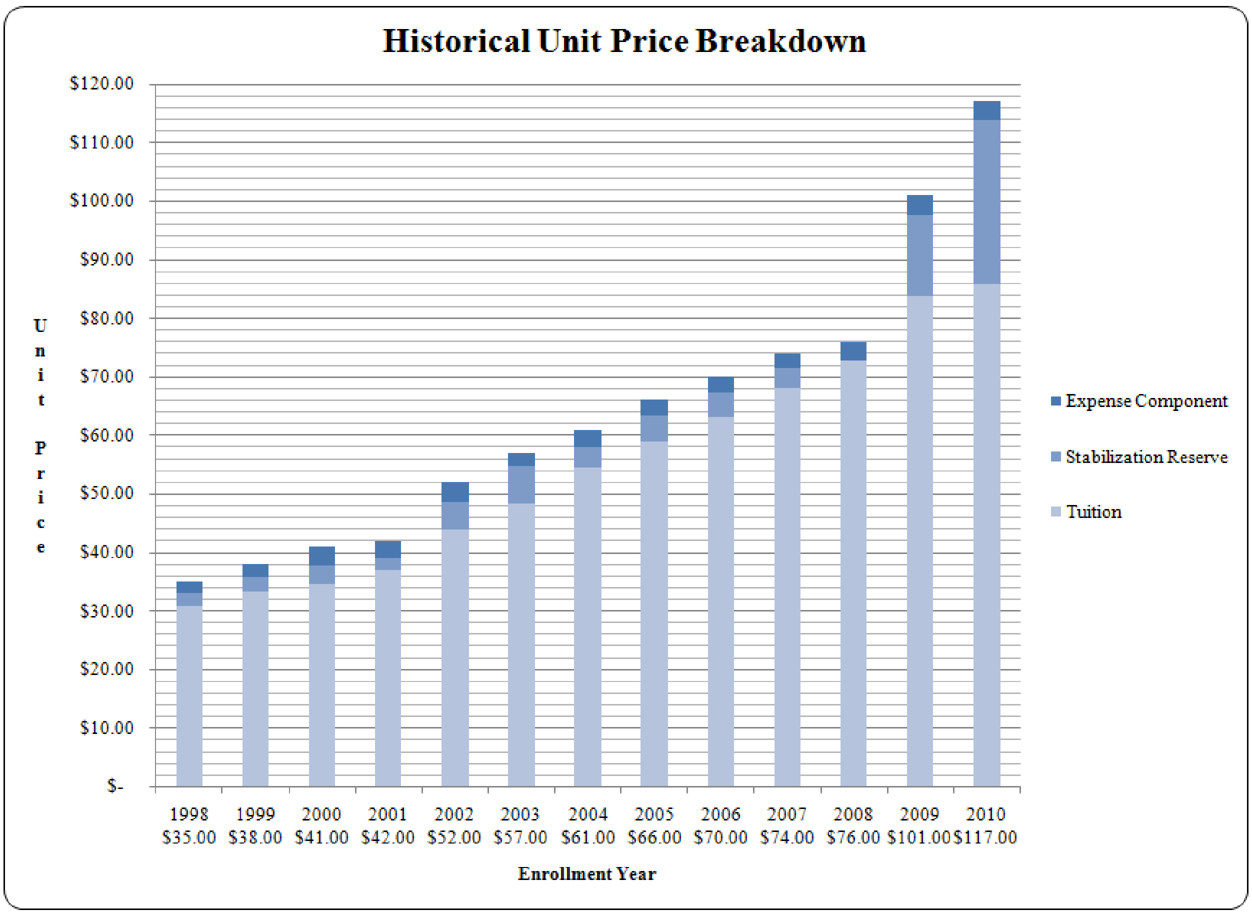


Unit Price Setting

The purchase price of a GET unit is based on an actuarial formula, which incorporates several factors, including the current cost of tuition, estimated future tuition, inflation, investment returns, administrative costs, and a reserve to assist in periods of lower-than-expected investment returns or higher-than-expected tuition increases. Pricing decisions are made with the expectation that each group of enrollees is self-sustaining – meaning the assumptions have resulted in a unit price that, once invested, will be sufficient to cover future tuition obligations.

When tuition is higher than the assumed rate for that cohort or market returns are less than expected, a gap is created between what the assumed payout would be and the actual payout for that group of participants. This gap is narrowed when investment returns are higher than anticipated or tuition increases at a slower than expected rate. The GET Committee also builds into each unit a percentage that contributes to the overall stabilization reserve of the program. The GET Committee may adjust the unit price on May 1 and September 1 of each year.

The Chart below details the history of the GET unit price over time, with the three primary components broken down: Tuition, Stabilization Reserve, and the Expense Component



In 2008, the GET fund reflected a surplus of 17%. Consequently, the committee voted to add only a small percentage to the reserve and increased the unit price by $2.00. Unfortunately, unprecedented negative market returns and higher than anticipated tuition increases of around 14% for the next two years, eliminated the surplus. The 2010 actuarial valuation shows the GET program at a funded status of 86.2%, an improvement of 2.00 percent over the previous year. Predictable tuition increases and stable market returns improve the GET committee's ability to set a fair unit price, reducing the necessity of making large adjustments to the stabilization reserve component when pricing future units.

Current Environment

Washington lawmakers face a challenging fiscal environment where they will be forced to make difficult decisions on budget appropriations. As fewer dollars are available to fund public higher education, some institutions are seeking alternative tuition setting models to assist in bridging the gap between apparent need and available state financial support. Alternative tuition models impact the GET program in a variety of ways; some changes may be manageable within the current program model and others necessitate significant structural changes going forward. While such changes may be made on a prospective basis for future accounts, they do not affect units that have already been sold and contracts already in place between the State and GET Account Owners. Should the current environment call for programmatic changes, all existing accounts are subject to the contract terms currently in effect, potentially locking in a long-term program liability.

There are many possible scenarios involving tuition setting as it relates to GET. The following five cover a broad range of possible outcomes.

1. Status Quo – no significant changes to the current tuition policy. Beginning with the 2011-2012 academic year, tuition increases will revert back to the existing policy which allows an annual increase of no more than 7%.

2. State maintains in-state undergraduate tuition setting authority – allows higher than average tuition increases. The state defines all the tuition setting parameters including the annual and long-term increases, but allows increases similar to those of the last two years.

3. Public institutions granted partial in-state undergraduate tuition setting authority – the state continues to set long-term increase maximums, but allows the schools freedom to set tuition annually without legislative input.

4. Unlimited tuition setting authority granted to all public institutions – The state relinquishes all control of tuition setting, allowing the public schools to price according to market demand.

5. Unlimited tuition setting authority granted to research universities only. The state allows the two research universities to set their own tuition outside the guidelines used for other public institutions.

The table on this and the next page provide possible courses of action of the GET Committee if presented with the above scenarios. It also considers possible implications on purchaser buying behavior, one of the key components to the program's success.

TUITION SETTING SCENARIOS

	Legislative action on tuition setting	Possible GET Committee Action	Potential Programmatic, State, and Participant Impacts	Probability of an Infusion from the State General Fund
Scenario #1	No changes in tuition setting policies	GET Committee to set the unit price higher based on current assumptions regarding annual tuition growth and expected investment returns	Account holders likely to continue purchasing, but may purchase fewer units as the unit price increases	**Low**
			The state guarantee likely to gain momentum as the primary driver for opening new accounts	
			Possible increases in the marketing budget in an attempt to attract new purchasers and to keep up with increases in advertising costs	
Scenario #2	Higher than average tuition increases for all public institutions	GET Committee likely to set the unit price significantly higher based on current assumptions regarding annual tuition growth and expected investment returns	Account holders likely to continue purchasing, but probably at a much slower pace due to increased unit prices. Average contribution rates may remain steady as units per account decrease	**Medium**
			Increased potential for long-term funding shortfall	
			Possible larger increase in the marketing budget in an attempt to attract new purchasers and to keep up with increases in advertising costs	
			Reduced revenue due to fewer enrollments and unit pruchases may negatively impact available resources to fund GET's operating budget	
Scenario #3	Long-term tuition increases set by legislature, annual tuition set by schools	GET Committee likely to set the unit price significantly higher based on new assumptions, adjusting the tuition growth as necessary	Higher unit price may decrease both the number of new accounts as well as the average account size resulting in decreased program revenues and potentially impacting GET's available resources	**Medium**
			Increasing the marketing budget may help, but may not offset declining sales due to the high cost of the unit price	
			Increased probability for long-term fund infusions from the state to compensate for the reduced revenues and the higher than anticipated payout value for all units sold in prior enrollment years	

	Legislative action on tuition setting	Possible GET Committee Action	Potential Programmatic, State, and Participant Impacts	Probability of an Infusion from the State General Fund
Scenario #4	Full tuition setting authority given to all public institutions	GET Committee likely to set the unit price significantly higher based on current assumptions, adjusting the tuition growth assumption accordingly	Higher unit price may decrease both the number of new accounts as well as the average account size resulting in decreased program revenues and potentially impacting GET's available resources	**Medium**
			Increasing the marketing budget may help, but may not offset declining sales due to the high cost of the unit price	
			Increased probability for long-term fund infusions from the state to compensate for the reduced revenues and the higher than anticipated payout value for all units sold in prior enrollment years	
Scenario #5	Full tuition setting authority given to UW/WSU with no annual limit	GET Committee would estimate the highest possible tuition and price accordingly	The high units cost creates a high probability of declining revenues due to decreasing unit sales and new accounts	**High**
			Unable to clearly define account owners potential for account gain due to very high unit price premiums	
			To assist in offsetting the need for state funding assistance, request that UW/WSU fund the gap between assumed tuition and actual tuition	
			Guaranteed need for long-term fund infusions from the state general fund	
		Close the program to additional enrollments until tuition stabilizes	Possibly experience a loss of trust from current and future account owners - may result in increased refund requests	
			To assist in offsetting the need for state funding assistance, request that UW/WSU fund the gap between assumed tuition and actual tuition	
			Guaranteed need for long-term fund infusions from the state general fund	
		Remove UW/WSU from the unit purchase and payout value calculations	Locked in need for significant long-term fund infusions from the state general fund	
			Consider an additional savings options to cover the gap between the payout and the tuition at UW/WSU	
			To assist in offsetting the need for state funding assistance, request that UW/WSU fund the gap between assumed tuition and actual tuition	
			Possibly experience a loss of trust from current and future account owners - may result in increased refund requests and/or decreased account sales	

Experiences from Other States

Other states have worked through similar situations with their 529 prepaid programs. The final page of this report looks at the decisions they made in an effort to keep their prepaid programs open. Although there are some program differences, the basic scenario the state used is listed.

State	Year Opened	Number of Accounts	Initial Plan	Catalyst for Change	Current Plan	Deficit Management
Florida **(Scenario #5)**	1988	1,220,540	• Florida's community colleges now offer an array of 4-year degrees and have changed the name of the community college system to be known as the Florida college system. • As a result, this year (2010/11) will offer 4 plans that combine tuition fees, tuition differential fees and other mandatory fees. 1. 4-year university plan 2. 4-year Florida college plan 3. 2+2 plan (2 years at a university and 2 years at a Florida college 4. 2-year Florida college plan	• In 2007, Universities instituted a Tuition Differential Fee charged above and beyond the current tuition rates.	• In 2009 the legislature authorized universities to increase the sum of tuition and tuition differential fees 15% per year until the sum of all fees reach the national average. • For all prepaid college plans purchased prior to July 1, 2009, the universities will accept payments from the prepaid board based upon the level of the fund's actuarial reserve. New contracts will be priced based on our best estimates on tuition/inflation.	The financial soundness of the fund is due primarily to two important characteristics. • Economic reasons (ie: volatility in the markets) is mitigated due to the enhanced immunization investment strategy employed since 1990. Today this strategy is typically known as liability driven investing (ldi) and is being adopted by several large public and private pension plans. • Risks associated with tuition inflation have been mitigated by the agreement with the board of governors and subsequent codification of the payment conditions in statutes. • Current fund status: 105.1% as of June 30, 2010
Ohio **(Scenario #2)**	1989	91,792	• Unit based prepaid program with a payout based on Weighted Average Tuition (WAT).	• In 2003, Ohio colleges raised tuition mid-year necessitating increases in prepaid unit pricing. • Rapidly increasing tuition resulted in purchase price premiums over 40%.	• Closed to new enrollments in 2006, they conduct an annual review of the program to determine if they will reopen. Have not reopened. • In response to escalating tuition rates, tuition increases froze and account owners who purchased units in 2006 have yet to see any gain on their contributions due to the high premium	• At the time the program was suspended, Ohio's deficit in 2003 was $321 million. As of June 30, 2009, their fund was 91% funded, due to two years of frozen tuition increases. They are backed by the full faith and credit of the state and anticipate an infusion to make up any long-term shortfall.
Texas **(Scenario #5)**	1996	158,442	• Contract based prepaid plan where families purchase years of tuition at different levels (4-year, community college, or a combination of the two.)	• Texas college tuition was deregulated by the legislature in 2003 allowing colleges to set their own tuition rates. Significant increases occurred over the next several years. • The Texas Prepaid Higher Education Tuition Board closed the prepaid program to new enrollment in 2006, set the maximum payout rate for existing contracts to WAT, and required colleges and universities above the WAT to make up the difference holding current account owners harmless, at a cost of roughly $12 million of actual tuition per year.	• Texas' new prepaid plan, opened in 2008, is a unit based program that prices based on the actual cost of tuition. • The prepaid program has reached an agreement to pay the colleges the principle they receive on the contract plus the net earnings or 101% of the school's current tuition at the time of redemption, whichever is less.	• As of August 31, 2008, the deficit for the original program was $206 million. Texas is looking for new revenue sources to retire the deficit.
Virginia **(Scenario #3)**	1996	89,838	• Contract based prepaid plan where families purchase years of tuition at different levels (4-year, community college, or a combination of the two.) • Payout rates are based on either actual tuition charged or the payments made on the contract plus the actual rate of return, whichever is less.	• Although tuition is still controlled by the legislature, the three largest schools basically receive un-restricted tuition setting authority. • Beginning in 2004, on average, these schools increased tuition 9.6% annually as a result of their tuition setting freedom. (average for 2004-2007) • Consequently, the prepaid program closed to new enrollments for one year. They have since re-priced and are open to new enrollments.	• No changes to the program. Virginia continues to price their program based on WAT with a bias toward the higher priced colleges.	• As of June 30, 2009, Virginia's current funding level was 97.3%, assets to liabilities. Although the recent market drops have impacted this number negatively, they are hoping that the federal stimulus money will allow them to hold down tuition increases for this upcoming year, helping their funding level to rebound.