

# GUARANTEED EDUCATION TUITION COMMITTEE MEETING

February 8, 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 August 3, 2005 minutes                      ACTION                      Tab 1
- Approval of updated Bylaws                                  ACTION
  
- Director's report    INFORMATION  
  Legislative update
- Budget update
  
- GET marketing update    INFORMATION  
  Wendy Dore  
  The Marketing Partners
  
- GET investment update    INFORMATION                      Tab 2  
  Gary Bruebaker, Investment Officer  
  Washington State Investment Board
  
- GET Scholarship Policy for the GEAR-UP                      ACTION                      Tab 3  
  Program
  
- 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, April 19, 2006, 2:00 – 4:00 p.m.  
State Investment Board, 2100 Evergreen Park Drive SW, Olympia, WA

## GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Tuesday, August 2, 2005

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  
Heidi Arneson, GET Finance Manager  
Heidi Jones, GET Process Analyst & Rules Manager  
Debra Blodgett, Special Assistant to the GET Director  
Samina Occhino, GET Receptionist

#### Guests in attendance:

Diana Will, State Investment Board  
Howard Fischer, Office of the Attorney General  
Bill Reimert, Milliman (via teleconference)  
Cathy Stevens, The Marketing Partners  
Wendy Dore, The Marketing Partners  
Heather Lewis-Lechner, Senate staff  
Michelle Stender, Senate Republican Caucus  
Jenny Fuller, State Investment Board

### WELCOME

GET Committee chair Jim Sulton called the meeting to order at 2:00 pm. Other committee members in attendance included Darrel Jensen, serving as a designee for Michael J. Murphy, State Treasurer, Victor Moore, Director of OFM, Beth Stecher Berendt, citizen member, Mooi Lien Wong, citizen member.

### APPROVAL OF MINUTES

**The minutes from the April 19, 2005 GET Committee Meeting were reviewed. A motion was made by Berendt to adopt the minutes as presented and was seconded by Wong. The motion was approved and passed unanimously.**

### APPROVAL OF 2006 MEETING CALENDAR

**The 2006 GET Committee Meeting calendar was presented to the committee for review. A motion was made by Berendt to approve the proposed meeting dates. The motion was seconded by Wong. The motion was approved and passed unanimously. Regular 2006 meeting dates are February 8, April 19 and August 9.**

### GET INVESTMENT UPDATE

Sulton introduced Diana Will, investment officer, from the State Investment Board to give the GET investment update. GET assets increased by \$56.2 million in the second quarter, compared to an increase of \$32 million in the first quarter. New assets consisted of new contributions of \$45.9 million and market returns of \$10.3 million. Participants added \$99.3 million in contributions during the fiscal year that ended June 30, 2005. Total returns for the GET Program for the quarter were 1.97 percent, a little lower than the benchmark of 2.02 percent. For the fiscal year, the return of 10.07 percent matched the benchmark and surpassed the absolute return needed based on actuarial assumptions. While since-inception returns of 6.40 percent last quarter exceeded both the benchmark 6.32 percent, and the return of 6.33 percent from the first quarter, they fell short of the absolute return of 7.5 percent needed by the program. Total returns for the month of July were 1.5 percent. Equity returns have matched or surpassed the benchmark in all five timeframes reported (quarter, one, three and five years, and since inception), with one

exception, TIPS have slightly trailed the benchmark across the same timeframes. With the current interest rate and economic environment, it is expected that returns will continue to fluctuate from the benchmark. TIPS have underperformed the benchmark by just one basis point since inception.

### **DIRECTOR'S REPORT**

Betty Lochner, GET Director, gave the committee some annual statistics from the 2004-05 enrollment year, which ended March 31, 2005. A total of 11,028 new accounts were opened, bringing the total of GET accounts opened since inception to 55,184. The total number of students who have used their GET benefits is 3,611. Most GET students are using their GET units at Washington public colleges and universities. About 24% of those students attended the University of Washington; 15% attended WSU, 15% at WWU; 15% at Community and technical colleges statewide and the remaining at other regional universities, private universities and colleges and universities out of state (nationwide). There are more than 6,000 students who will be eligible to use benefits in fall 2006, which is about twice the number of students we had eligible last year. Enrollment in custom monthly contracts is up significantly from last year. The way in which customers hear about GET is overwhelmingly by word of mouth through our outreach efforts. GET has participants in every county in the state. As expected, the more populated counties carry the most contracts. Outreach participated in 66 separate activities this year. Next year, there are already 30 activities on the calendar including fairs and miscellaneous events. Payroll deduction continues to expand, making payment options easier for more families.

The national College Savings Plan Network (CSPN) Conference was attended by GET staff in conjunction with the NAST Northeast regional meeting. Much of the time was spent talking with other states' prepaid programs. Right now there are 20 prepaid states, two of which are closed, three are not open to new accounts, and one added a second entirely different plan. Federal updates were given on the Higher Education Act and the treatment of financial aid. Currently, money in a prepaid program is treated differently than if it is in a savings plan. There is a lot of effort being placed on the moving of the sunset for the tax exemption. A consortium meeting was also attended with other states regarding the maintenance of our software database system. GET continues to be on the cutting edge of technology to include on-line enrollment. GET is still the fastest growing prepaid program in the country.

Sulton asked why other state prepaid programs are shutting down or suspending enrollments. Lochner explained that most are hoping to reopen. New Mexico closed their prepaid program in 2005 and rolled participants into their savings plan. Other states are dealing with unlimited tuition setting authority being given to colleges, while others are dealing with unexpected tuition increases.

Moore asked if foundations and scholarship funds can buy GET units. Lochner explained that GET currently offers scholarship accounts to non-profit organizations, which allows the purchase of more units than individual accounts, and for a student to be named at the time of use instead of at the time of opening the account.

**MARKETING UPDATE:**

Wendy Dore of The Marketing Partners presented the GET marketing update. Dore began by showing a draft of the television commercial, which will be filmed in November. It will be focusing on a younger audience. The new commercial will be rotated with two-three existing commercials.

Cathy Stevens of The Marketing Partners, presented the remainder of the GET marketing update. The marketing campaign for this year is very similar to what we've done in the past. The television campaign will run January through March along with some radio and outdoor boards. Beginning September 15<sup>th</sup>, the radio schedule will be in all major markets in Washington State. The target market continues to be women ages 25-49 who have children that are infants through 14 years of age. The primary target household income is \$50,000 and above. The goal is to reach 60 percent of the market. The budget is \$142,000 for radio and print. We will be taking advantage of public service announcements, bonus spots, taking GET brochures to activities, etc. All radio stations will provide a link to the GET Program and interviews will be done through the kickoff.

Moore asked how we might expand our target marketing to include the low income and other ethnic populations. Stevens explained that they will be picking up some of the ethnic newspapers and radio stations to expand our current target market.

**REVIEW OF PROPOSED WAC CHANGES**

Larry Lee, GET Deputy Director, presented the committee with proposed changes to the Title 14 Washington Administrative Code (WAC) that covers the GET Program. Lee explained that the GET Program's WAC have remained unchanged since the inception of the GET Program. All proposed changes are technical in nature. They include: removal of the requirement for regular meetings to be "semi-annual"; a change in the regular meeting location (from the Capitol campus to WSIB); the new physical address of the GET Office; referencing the more commonly used "GET Committee" title (instead of Committee on Advanced Tuition Payment); clarification of purchaser that is defined by RCW and some minor grammatical changes. The proposed updates and changes to the current WAC will be filed with the expedited rule process pending approval from the committee.

Moore questioned the GET office hours listed and the term "legal holidays". He asked if the word "legal" should be taken out. Howard Fischer, from the Office of the Attorney General, explained that the word "legal" is statutory and should stay as is.

**A motion was made by Moore to accept the changes to the Title 14 WAC as presented. The motion was seconded by Berendt. The motion was approved and passed unanimously.**

**GET VENDOR SELECTION PROCESS**

Lee reviewed the statutory requirement that the GET Program use a "nationally recognized actuarial firm" to provide an annual actuarial analysis and recommendations for setting the GET unit price. The Program has contracted for these services with Milliman since 1998, originally through a competitive RFP process. The current contract with Milliman runs from January 1, 2004 to December 31, 2005 and allows for two, 2-year extensions. The initial two-year portion

of the contract will end on December 31, 2005. Staff recommends continuing the contract for the next two years, which would begin January, 1 2006 and end December 31, 2007, with the possibility of one additional 2-year extension at the discretion of the committee.

**A motion was made by Wong to accept the staff recommendation to approve the two-year extension to the actuary contract with Milliman. The motion was seconded by Moore. The motion was approved and passed unanimously.**

### **ACTUARIAL ANALYSIS AND UNIT PRICE SETTING**

Bill Reimert, of Milliman, joined the meeting via teleconference to address annual unit pricing. Lochner reminded the committee of the proposal made at the April GET Committee Meeting of a two-tiered price increase based on Milliman's recommendation. Their recommendation was to increase the unit price from \$61 to \$66 for sales between May 1, 2005 and August 31, 2005, and then to increase the unit price for \$66 to \$68 for the enrollment period beginning September 15, 2005 and ending March 31, 2006. The committee voted to approve the \$66 unit price through August 31, but chose to delay a decision on an additional increase until the August meeting. This was to allow for review of any potential changes in the assumptions. Since no significant changes have taken place since the materials were presented in April, the staff recommendation remains the same. Staff is recommending an increase to \$68 per unit from September 1, 2005 through March 31, 2006.

Moore asked if the assumption on earnings had been lowered to 6 percent. Reimert confirmed that the assumption had been lowered for the prices set at the April GET Committee Meeting. He explained that the change was to reflect the State Investment Board's capital market assumptions. These assumptions were adopted in the spring and reflect the GET Program asset allocation policy.

Moore asked Reimert to explain the relationship between the earnings assumption and the size of the reserve, which is there to guard against changes in earnings assumptions and unexpected tuition increases. He is on record for supporting a 7.5 percent reserve and he's wondering if this position could be supported because the earnings assumption was lowered to 6 percent.

Reimert explained that the reserve is to buffer a shortfall that may occur in earnings assumptions and to buffer any tuition increases that may go above the 7 percent assumption.

Sulton explained that the HECB also has a policy issue as well because of the master plan stipulating that tuition should be held to 7 percent increases per year on average. This year it was held to that.

Jensen reminded the committee that we are currently sitting at a 20 percent premium with the \$66 unit price. Going up to \$68 per unit would bring the premium up to 23.5 percent. We also had a reserve of \$21 million, which represented 4.5 percent of assets as of June 30, 2004. That reserve has since increased and now stands at 7.8 percent. He feels we should keep the price as low as we possibly can. He would prefer not to increase the price to \$68.

Reimert explained numerous scenarios in which obligations would or would not be met based on the amount of the stabilization reserve. He indicated that the 7.9 percent current stabilization reserve is a significant improvement over last year. Jensen asked how other states compare in terms of stabilization reserve. Lochner explained that all three program actuaries across the country were shooting for a 10 percent stabilization reserve. Most state prepaid programs are funded below 100 percent and so are operating with a deficit. Two states are funded at 100 percent. There are only five states that are funded above 100 percent, meaning that they have a reserve. We are funded at 107.9 percent.

Berendt went on record as supporting a 10 percent reserve. She explained that while we have had a successful year, we need to be aware of the impacts of missing any of our targets as enrollment grows. She finds it unacceptable to not have adequate reserves. If those obligations are not met and state has to step in, other essential programs would suffer. She would not want to contribute to a potential budgetary crisis. Berendt reminded the committee of the instance where the program has been put into a deficit due to lack of adequate reserve. She feels it would be unwise to continue without a reserve of at least 10 percent and supports increasing the unit price to \$68 per unit.

Moore explained that he felt it is important to keep a balance between the reserve and making units as affordable as possible. He also believed that part of our pricing strategy should be to address potential low income purchasers. The committee was being conservative by lowering the earnings assumptions. The fact that the legislature has gone on record with moderate tuition rate increases also kept the short-term risks of rising tuition fairly low. He was trying to strike a balance between price and risk.

Wong expressed her support of building the stabilization reserve to 10 percent. She also agreed with Berendt that even though the state is behind the program, we do need to keep this a self sustaining program. The people that we are trying to target are not really buying GET for investment purposes. The idea is to be able to help people to put aside money that they otherwise wouldn't accumulate on their own. People are getting used to the idea that prices are going up. Wong believed we would still get the sales even at \$68.

Sulton was reluctant to go against the advice of experts. However, he couldn't get past the significant support from the legislature to keep tuition low and the concern for low income students not being able to buy GET. There was much discussion regarding low income students and keeping a balance between affordability and reaching a 10 percent stabilization reserve.

**There was a motion made by Berendt to raise the unit price to \$68 per unit for the new enrollment year. The motion was seconded by Wong. The motion was opposed by Jensen, Moore and Sulton. The motion failed. Since the motion failed, the unit price will remain at \$66 through April 30, 2006.**

**Wong made a motion to adjourn, Moore seconded the motion.**

The meeting was adjourned at 3:09 p.m.

**Proposed Changes to the GET Committee Bylaws**

**February 8, 2006**

**Background**

In 1998, the Committee developed and approved the Bylaws for the Program. In 2001, the Committee updated the Bylaws to reflect certain program changes. The Bylaws are due for some technical clean-up.

**Current Information**

The Bylaws currently state that the program is located at 1603 Cooper Point Road, Olympia, WA 98504.

**Recommendation**

Staff recommends updating the bylaws to reflect the program's current address to 919 Lakeridge Way SW, Olympia WA 98502 and to correct other minor grammatical errors.

NOTE: Draft Bylaws are attached



## GET Prepaid College Tuition Program

Quarterly Report – December 31, 2005

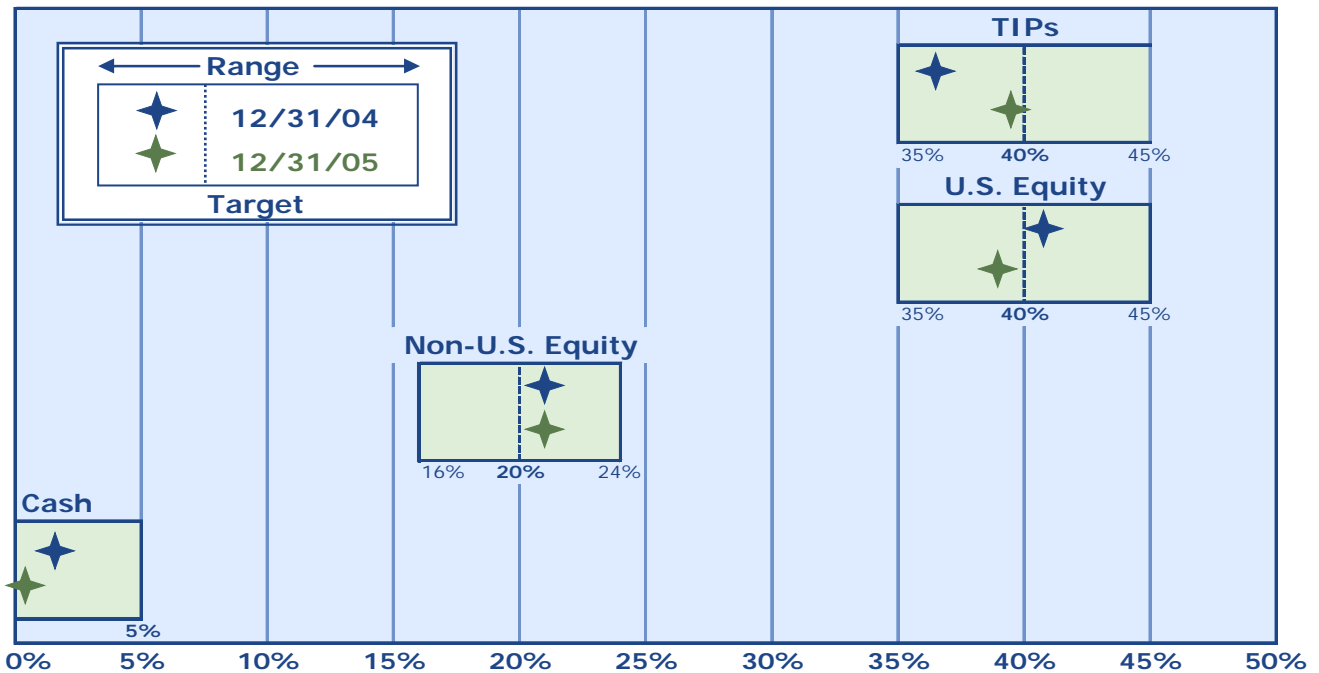
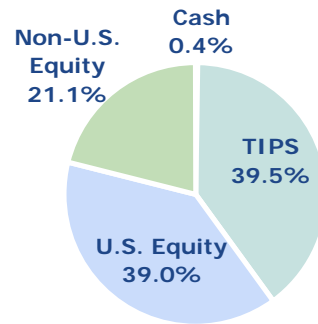
Portfolio Size, Allocation, and Assets Under Management .....	1
Performance .....	2

Dated: January 24, 2006

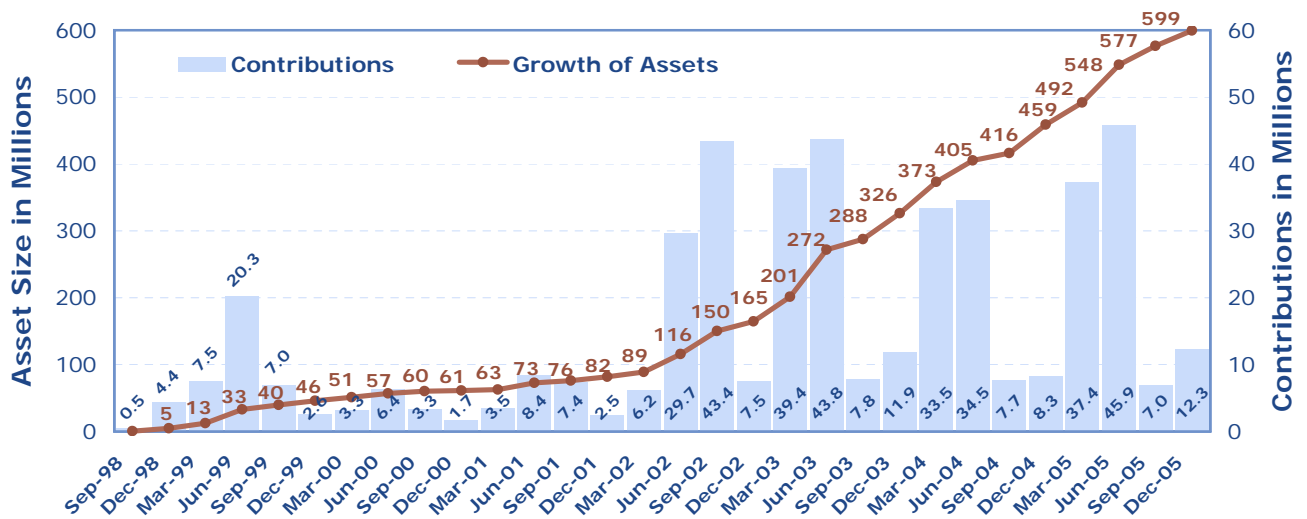


**Portfolio Size      Actual Asset Allocation**

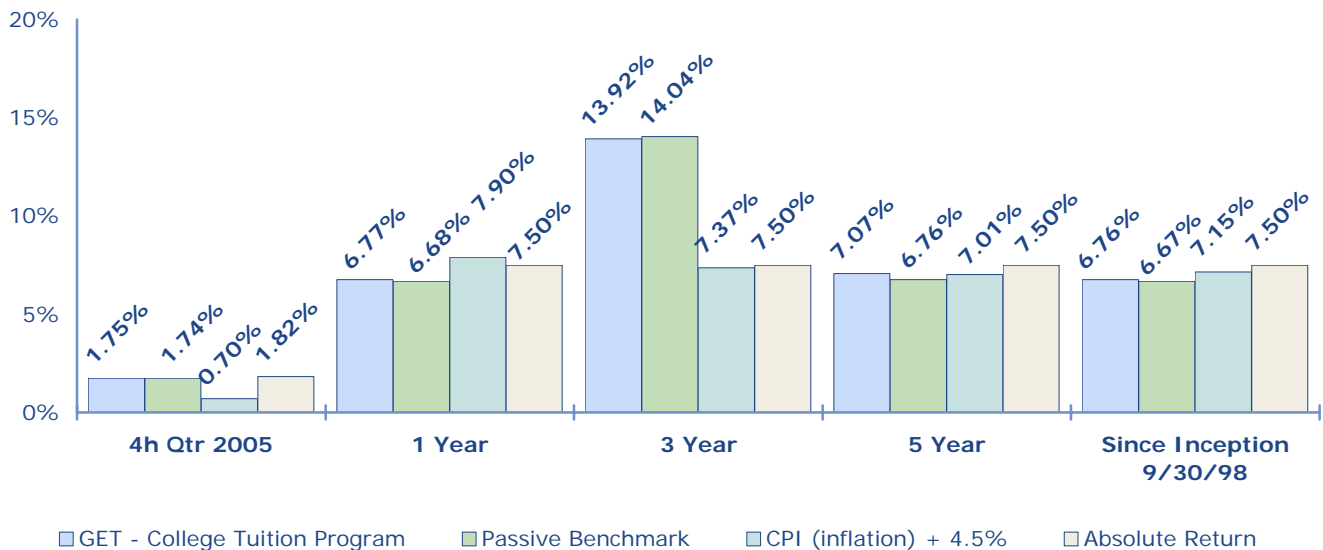
<b>Total</b>	<b>\$599,280,787</b>
Cash	2,218,417
Treasury Inflation Index Note (TIPS)	236,904,886
U.S. Equity	233,973,206
Non-U.S. Equity	126,184,278



**Assets Under Management**



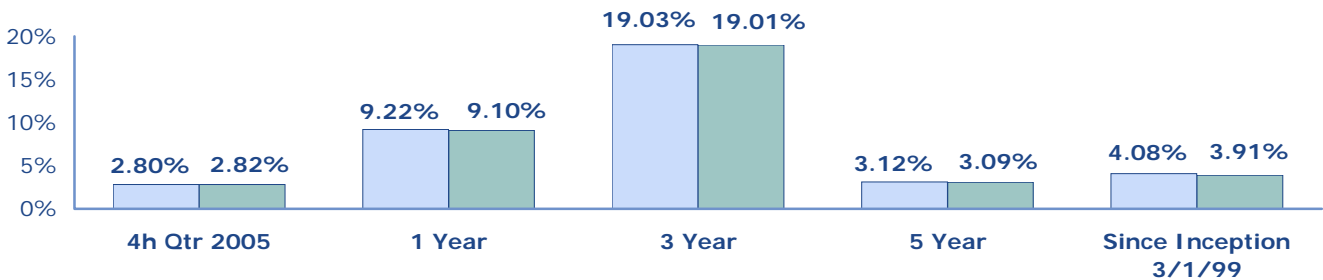
**Total Return \***



**Return Breakdown**

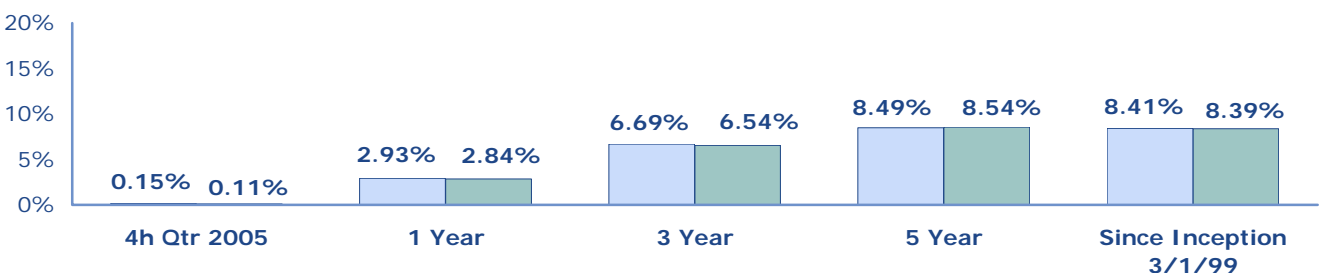
**Equity Return \***

- 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.

**GEAR UP Scholars Project Master Scholarship Account Policy**

**February 8, 2006**

**Background**

The Washington State GEAR UP Program is a partnership of the Office of the Governor, the Washington Higher Education Coordinating Board (HECB), University of Washington, and the Washington Education Foundation. The goal of the Scholars Project is to significantly increase the number of low-income students who are prepared to enter and succeed in postsecondary education.

HECB administers the GEAR UP Scholars Project, which provides comprehensive academic services and support to 1,000 low-income seventh graders following them through high school graduation. Priority students are selected from communities across the state with high free/reduced lunch rates or who attend Title I schools, with priority given to schools not meeting the “No Child Left Behind” standards. The project will increase the students’ academic performance, prepare them for college and increase students’ and their families’ knowledge of college options, preparation, and financing. Scholars Project students will be eligible to earn a scholarship.

The Scholars Project sets aside \$600,000 of its federal funding each year for scholarships. At the end of the six year project, GEAR UP will have \$3,600,000 to award students and to cover administrative fees for the ongoing management of the scholarship funds for as long as a student is accessing the scholarship. Students receive the GEAR UP scholarship for meeting benchmarks during their six years of participation.

GEAR UP requests the federal funds for scholarships between March 1-May 31 each year and is required to transfer the scholarship funds to another entity within three days of receiving them. An entity other than GEAR UP must administer the scholarship funds.

GEAR UP has determined that approximately 600-800 students will be named at the end of the six year project, to receive a scholarship.

GEAR UP believes the Guaranteed Education Tuition (GET) Program offers the most efficient administrative structure to best serve their students. GET guarantees that the units purchased will keep pace with rising college tuition at the highest priced Washington public college.

**Current Information**

The GET Program allows for Qualified 501(c) (3) non-profit organizations and state or local government entities to establish a Master Scholarship Account, in which a student beneficiary is not named at the time of enrollment.

The current Master Scholarship Account Policy allows an Organization to purchase up to 5,000 lump sum units per Master Scholarship Account. The Organization pays a one-time, \$100 non-refundable enrollment fee, plus a \$25 transfer fee per student, once a student beneficiary is identified. The one-time \$100 non-refundable enrollment fee and subsequent \$25 transfer fee per individual student account is to cover the initial set up of the account and ongoing account administration for as long as the student is using the units.

Once a student beneficiary is named the Authorized Representative of the Organization completes a **Transfer Request Form**, which notifies the Program to establish an individual student account for the named beneficiary including the amount of funds to transfer from the Master Scholarship Account to the individual student account. The Organization can also choose to retain ownership of the individual student account or to transfer ownership to the student or the student's parent/guardian.

### **Recommendation**

Staff recommends the GET Program establish a special Master Scholarship Account Policy for the GEAR UP Scholars Project that allows for special considerations as follows: A proposed GEAR UP Scholars Project Master Scholarship Account Policy is attached (*Attachment A*).

- Waive the one-time \$100 non-refundable enrollment fee per Master Scholarship Account and \$25 transfer fee per individual student account and charge an annual non-refundable administrative fee of three percent of the yearly contributions (\$18,000 per year).
  - The administrative fee is a standard calculation charged by state organizations in Washington.
  - The fee would cover the cost of administering future distributions for each scholarship recipient for as long as they have units.
  - Allows for the management of administrative fees in a more efficient manner.
- Allow a total of 50,000 units in the one Master Scholarship Account.
  - GEAR UP will deposit \$600,000 in March 2006 and each year from March 2007-March 2011. Each year, \$18,000 will be allocated for administrative fees and the remaining \$582,000 will purchase lump sum units at the cost per unit applicable to the specific purchase year.
- Extend the enrollment deadline to April 30, 2006 for GEAR UP to open the Master Scholarship Account.
  - GEAR UP is required to request the federal funds from March 1-May 31 annually and deposit the funds within three days of receipt of the funds. Due to timing of the receipt of funds, there is a possibility the opening of the account may occur after the standard March 31 enrollment deadline but before the April 30 price deadline.



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**Correspondence**

P.O. Box 43450  
Olympia, WA 98504-3450  
1-877-438-8848  
fax (360) 704-6200  
www.get.wa.gov

**Applications & Payments**

Guaranteed Education Tuition  
P.O. Box 84824  
Seattle, WA 98124-6124

## Attachment A

### PROPOSED GEAR UP Master Scholarship Account Policy

The GEAR UP Scholars Project receives \$600,000 annually in federal funds to be allocated for scholarships to students who have met specific benchmarks. The scholarships will be awarded to approximately 600-800 students during the six year project. The GEAR UP Scholars Project will make deposits of \$600,000 annually for six years and purchase lump sum units at the price in effect at the time of the purchase.

#### Criteria:

- GEAR UP Scholars Project may open one Lump Sum Master Scholarship Account beginning with the 2005-2006 enrollment period. The Master Scholarship account will be subject to approval by the GET Director and is subject to all policies and procedures as outlined in RCW 28B.95 and the GET Master Agreement, except as outlined in this policy.
- No more than 50,000 lump sum units may be purchased and distributed in total from the Master Scholarship Account.
- A non-refundable administration fee of three percent will be required of each annual contribution at the time of the deposit of funds into the Master Scholarship Account.
- No more than 500 units may be awarded in a scholarship to any one beneficiary. If a beneficiary is named under another GET account, the aggregate of the accounts cannot exceed 500 units.
- Student Beneficiaries do not need to be identified until GEAR UP is prepared to award a scholarship and no later than four months before the date the student will begin using units. (RCW 28B.95.040).

#### Designating a Beneficiary:

- After a Student Beneficiary is identified, the Authorized Representative of GEAR UP completes a **Master Scholarship Transfer Form** to move funds into an individual account for the Student Beneficiary.
- Lump Sum units must be held in the GEAR UP Master Scholarship Account a minimum of two calendar years before any transfers are allowed.

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#### Committee Members

**James E. Sulton, Jr., Ph.D.**  
Executive Director, Higher Education Coordinating Board

**Michael J. Murphy**  
State Treasurer

**Victor Moore**  
Director, Office of Financial Management

**Elizabeth Stecher Berendt**  
Citizen Member



**Mooi Lien Wong**  
Citizen Member

The GET Program is administered by the Higher Education Coordinating Board

- GEAR UP must remain the account owner of the individual student accounts. In the event GEAR UP is no longer an active project, account ownership will be administered by the Higher Education Coordinating Board (HECB).

**Managing Payment Requests:**

- The Authorized Representative of GEAR UP or the HECB must ensure the benefit use forms for any awarded students are completed each term throughout an academic year, before any distribution may be made to a school.
- Distributions will be allowed for qualified education expenses paid to an eligible institution of higher education: tuition, fees, room and board.
- At the request of the Authorized Representative of GEAR UP or the HECB, any unused units will be transferred back to the GEAR UP Master Scholarship Account.

**For More Information or Assistance:**

Contact Customer Service at 1-877-438-8848 or email [GETInfo@hecb.wa.gov](mailto:GETInfo@hecb.wa.gov).