

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

April 23, 2008

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

AGENDA

Call to Order

- | | | |
|---|-------------|-------|
| • Approval of February 13, 2008 minutes | ACTION | Tab 1 |
| • Report from the Chair <ul style="list-style-type: none">○ Legislative update | INFORMATION | |
| • Director's Report <ul style="list-style-type: none">○ Enrollment update○ Contract statistics format review | INFORMATION | Tab 2 |
| • GET investment update
Diana Will, Investment Officer
Washington State Investment Board | INFORMATION | Tab 3 |
| • Approval of changes to the GET Master Agreement | ACTION | Tab 4 |
| • Approval of FY09 administrative budget | ACTION | Tab 5 |
| • GET actuarial analysis and unit price setting
Bill Reimert, Principal & Consulting Actuary
Milliman | ACTION | Tab 6 |
| • Adjournment | | |

Next Regular GET Committee Meeting
August 13, 2008, 2:00 p.m. – 4:00 p.m.
State Investment Board
2100 Evergreen Park Drive SW
Olympia, WA

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Wednesday, February 13, 2008
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
Whitney DalBalcon, GET Associate Director
for Marketing and Communications
Heidi Auderer, GET Operations Manager
Betsy Hagen, Special Assistant to the
GET Director
Katie Freeby, GET Office Assistant
Kim Porter, GET Records Supervisor
Arika Nadeau, GET Records Assistant

Guests in attendance:

Diana Will, State Investment Board
Phil Paroian, State Investment Board
Shad Pruitt, Office of the State
Treasurer

WELCOME

Higher Education Coordinating Board (HECB) Deputy Director Don Bennett called the meeting to order at 2:00 p.m. Members of the GET Committee in attendance were Don Bennett, in the absence of Chair Ann Daley; Michael J. Murphy, State Treasurer; and by teleconference, Mooi Lien Wong, citizen member. Victor Moore, Director of the Office of Financial Management (OFM) and Beth Stecher Berendt, citizen member were absent.

APPROVAL OF NOVEMBER 2007 MEETING MINUTES

Committee members reviewed the minutes of the November 8, 2007 meeting. Bennett presented the minutes. Murphy made a motion to adopt the minutes as presented. The motion was approved unanimously as presented.

REPORT FROM THE CHAIR

Bennett discussed the recently completed 2008 Strategic Master Plan for Higher Education. The 10-year plan sets ambitious goals to increase the number of students in Washington who complete certificate and apprenticeship programs or earn associates, baccalaureate and graduate degrees. To meet the demographic and economic challenges of educating more people in Washington to higher levels than ever before, the connection between GET and HECB policy advocacy on tuition and higher education funding will be important to maintain affordability and access.

The 2008 legislative session is at the midway point. HECB staff will be tracking the resolution endorsing the 2008 Strategic Master Plan for Higher Education and the state supplemental budget.

DIRECTOR'S REPORT

Betty Lochner reported on this year's enrollment period. Enrollments to date total over 4,100, bringing the total number of accounts to 83,000 since inception. Lochner reported that a record number of parents with newborns are opening accounts. One out of every four accounts opened this enrollment period belongs to a child less than one year of age. Lochner directed the committee to review the "Age of Student Beneficiary at Time of Enrollment" chart.

End of enrollment media plans include TV, radio and print ads in various locations around the state.

Lochner introduced the new contract statistics format. Active discussion ensued. Bennett suggested the use of the word "accounts" instead of "contracts" for clarification. A final decision will be made at the April meeting.

NEW SCHOLARSHIP PROGRAMS

Larry Lee presented information on the proposal to remove the 5,000 unit limit on Master Scholarship accounts for programs approved by the Legislature that use GET for award distributions. Nonprofit programs and other programs not authorized by the Legislature would not be impacted by this change.

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

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

MOTION

Murphy moved to accept the recommendation to remove the limit on the number of units that a Master Scholarship account may contain for programs authorized by the Legislature. The motion was seconded by Wong. The motion was approved unanimously as presented.

GET INVESTMENT UPDATE/ASSET REALLOCATION

Diana Will, investment officer from the State Investment Board, presented the GET investment update. Total assets have grown to \$979 million, \$15 million in growth for the quarter with \$12 million from contributions and \$3 million from investment growth. Assets under management grew by \$919 million in 2007 with \$112 million coming from new contributions and \$79 million from the investment returns of the fund.

The program is currently within the target allocation ranges on all asset classes. The program outperformed for the quarter for the passive benchmark by three basis points.

Since inception, the program is outperforming both the passive benchmark and the long term absolute goal of 7.5 percent.

For the quarter TIPS outperformed the benchmark by 15 basis points. The equity portfolio lost 2.77 percent versus the benchmark which lost 2.85 percent. The outperformance was due to the overexposure to the international market versus the U.S. market.

Will presented asset allocation assumption information through a PowerPoint presentation. Ann Daley requested this information at the February 2008 meeting. Active discussion ensued. Will asked for direction concerning a future allocation plan. Murphy said he liked the current asset allocations and was not interested in making changes to the allocation at this time. Bennett suggested that we maintain the current asset allocation and revisit this at a later meeting.

GET PRELIMINARY ADMINISTRATIVE BUDGET FY09

Lee presented the program's preliminary budget for fiscal year 2009. Staff will present a final version of the budget at the next GET Committee meeting in April.

NEXT MEETING

The next regular meeting of the GET Committee will be held on Wednesday, April 23, 2008 from 2:00 p.m. to 4:00 p.m. at the State Investment Board, located at 2100 Evergreen Park Drive SW in Olympia.

ADJOURNMENT

The meeting was adjourned at 2:56 p.m.

Respectfully Submitted,

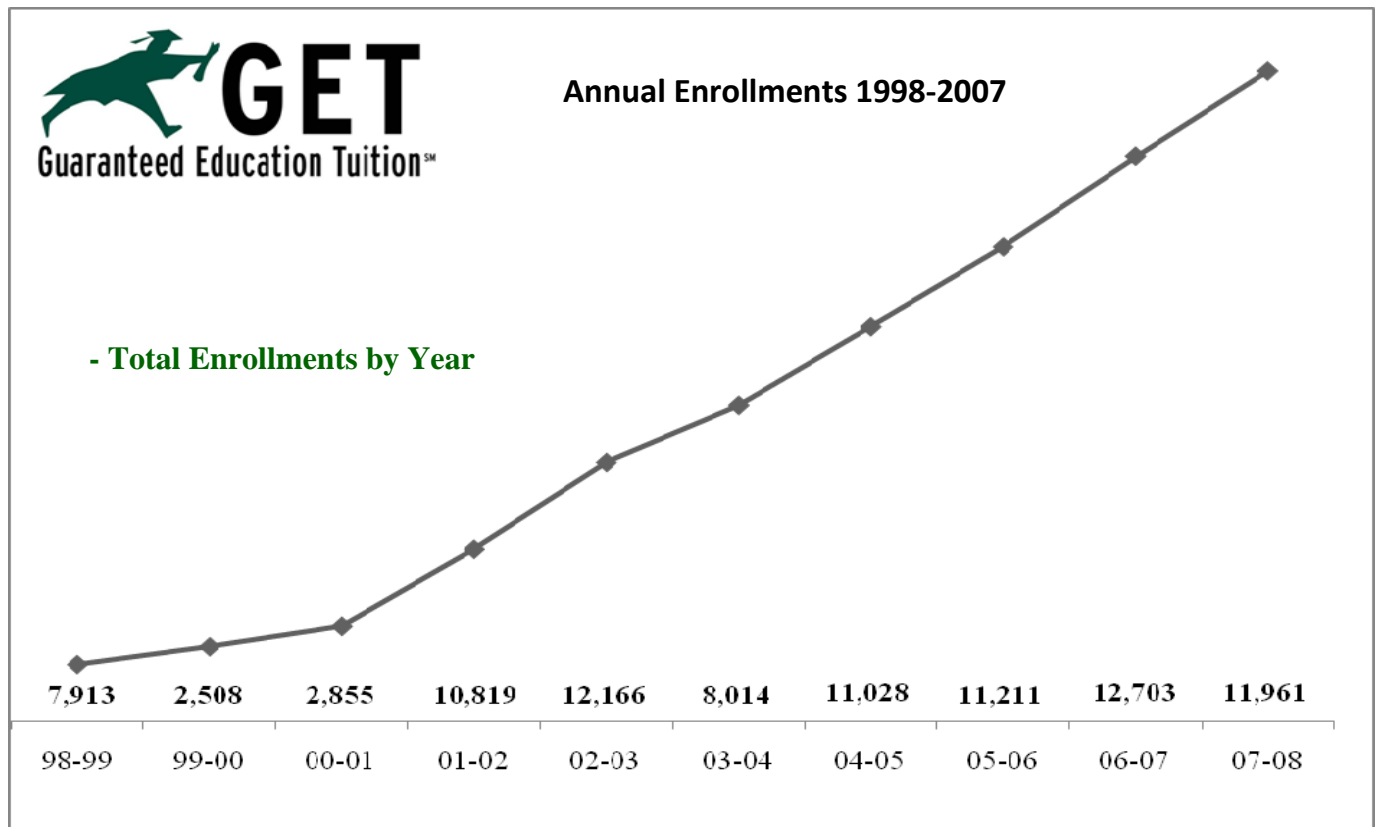
Betsy Hagen
Special Assistant to the GET Director

2007-2008 Enrollment Year (as of March 31, 2008)		2006-2007 Enrollment Year (August 31, 2007)	
Total GET accounts opened: (Sept. 15-Mar.31, 2008)	11,961	Total GET accounts opened: (Sept. 15-August 31, 2007)	12,748
Total payments received:*	\$33.1 million	Total payments received:	\$79.6 million
Total units purchased:*	825 thousand	Total units purchased:	1.8 million
Total value of all contracts:*	\$96 million	Total value of all contracts:	\$156 million

GET Program Since Inception	
Total active GET accounts since inception:*	90,859
Total payments received:*	\$801 million
Total units purchased:*	16.2 million
Total value of all contracts:*	\$1.06 billion

* Dollar amounts and unit totals are estimates that include all processed and unprocessed 2007-08 enrollments.

GROWTH OF ACTIVE ACCOUNTS SINCE PROGRAM INCEPTION



INTERESTING 2007-08 ENROLLMENT YEAR GET FACTS

- Online enrollments were 84 percent of all new enrollments.
- We completed enrollment processing 8 days earlier than last year.
- Over 7,000 new enrollments came in during the last month of enrollment.
- We received over \$28 million in payments during March.

GET Account Information
As of 03/31/2008 prepared 04/10/2008

<u>Contract Statistics by Plan Year</u>	<u>2007</u>	<u>TOTAL</u>
# of Active Contracts		
Custom Monthly Contracts (CM)	3,397	23,507
	205 *	205 *
Lump Sum Contracts (LS)	7,878	60,820
	359 *	359 *
Subtotal # of Active Contracts - Including Unprocessed	11,839	84,891
# of Inactive Contracts	95	3,856
# of Depleted Contracts	27	2,112
Total # of Contracts - Including Unprocessed	11,961	90,859
<u>Unit Statistics (active contracts only)</u>		
Total # of Contracted Units (CM)	556,489	4,524,083
	28,250 *	28,250 *
Total # of Lump Sum Units Purchased (LS)	214,124	11,690,149
	26,146 *	26,146 *
Total # of Units - Both Plans - Including Unprocessed	825,009	16,268,628
<u>Account Value Statistics (active contracts only)</u>		
Total Payments Received (CM and LS)	\$33,100,893	\$ 801,025,612
Future Payments Due (CM)	\$62,580,489	\$ 260,614,681
Total Payments Received and Future Payments Due	\$95,681,382	\$ 1,061,640,293
Fees Paid	\$455,268	\$ 4,228,349
Grand Total	\$96,136,650	\$ 1,065,868,642

Benefit Statistics

Total amount paid out on contracts	\$ 90,425,235
Total # of students who have used benefits	9,933

GET Account Information

As of 03/31/2008

DRAFT as of 03-31-08 - includes processed and unprocessed numbers

CONTRACT STATISTICS: Number of Contracts

Contract Statistics by Plan Year	1998-2006	2007	TOTAL
# of Active Contracts			
Custom Monthly Contracts (CM)	20,110	3,397	23,507
<i>Unprocessed Custom Monthly Contracts</i>		205	205
Lump Sum Contracts (LS)	52,942	7,878	60,820
<i>Unprocessed Lump Sum Contracts</i>		359	359
Total # of Active Contracts	73,052	11,839	84,891
# of Inactive Contracts	3,761	95	3,856
# of Depleted Contracts	2,085	27	2,112
Total # of Contracts	78,898	11,961	90,859

UNIT STATISTICS: Number of Contracted Units and Purchased LS Units

	1998-2006	2007	TOTAL
Contracted Units (Active Accounts)	3,967,594	556,489	4,524,083
<i>Unprocessed Custom Monthly Units</i>		28,250	28,250
Lump Sum Units (Active Accounts)	11,476,025	214,124	11,690,149
<i>Unprocessed Lump Sum Units</i>		26,146	26,146
Total Active Accounts	15,443,619	825,009	16,268,628
Contracted Units (Inactive Accounts)			154,585
Lump Sum Units (Inactive Accounts)			463,545
Grand Total Contracted and LS Units Purchased			16,886,758

Other Interesting Unit Facts

Unpaid Contracted Units (Active Accounts)	2,683,279
Paid Out Units to Date (Active Accounts)	1,058,271
Paid Out Units to Date (Inactive Accounts)	546,784

CONTRACT PAYMENTS: Payments Received and Future Payments Due

Total Payments Received All Active Contracts	\$ 767,924,719	\$ 33,100,893	\$ 801,025,612
Total Payments Received All Inactive Contracts	\$ 23,013,281	\$ 47,421	\$ 23,060,702
Total Fee Payments Received All Active Contracts	\$ 3,773,081	\$ 455,268	\$ 4,228,349
Total Fee Payments Received All Inactive Contracts	\$ 236,248	\$ 340	\$ 236,588
Total Contract-Related Payments Received	\$ 794,947,329	\$ 33,603,922	\$ 828,551,251
Future Custom Monthly Payments Due	\$ 198,034,193	\$ 62,580,489	\$ 260,614,682

ITEMS OF INTEREST

Students Using Benefits:

Total # of students who have used benefits	9,933
Total amount paid out	\$90,425,235
Refunds paid	\$ 5,578,564
Current SIB Assets	\$ 983,172,036



GET Prepaid College Tuition Program

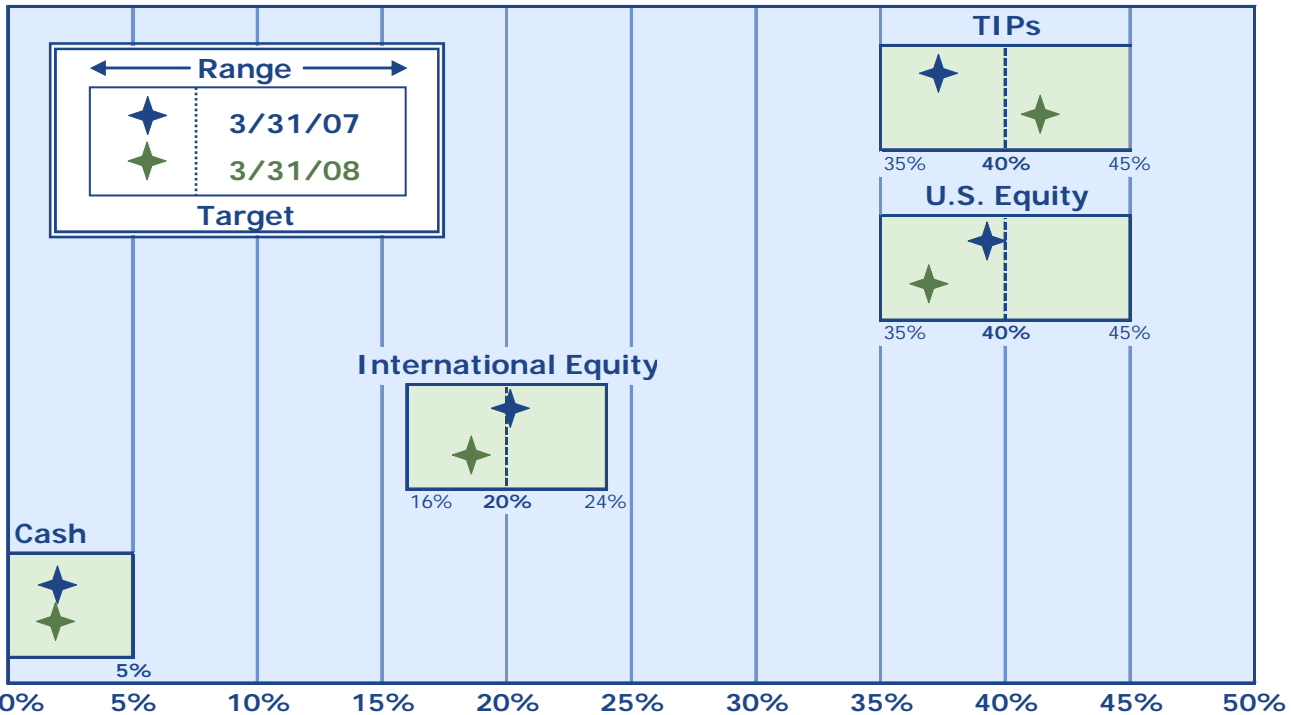
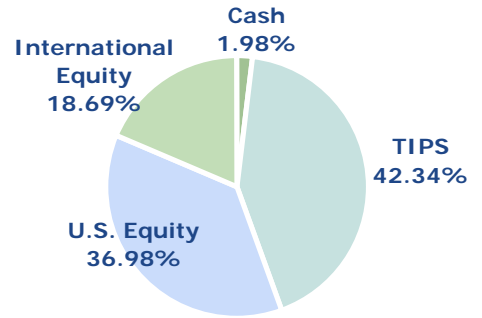
Quarterly Report – March 31, 2008

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

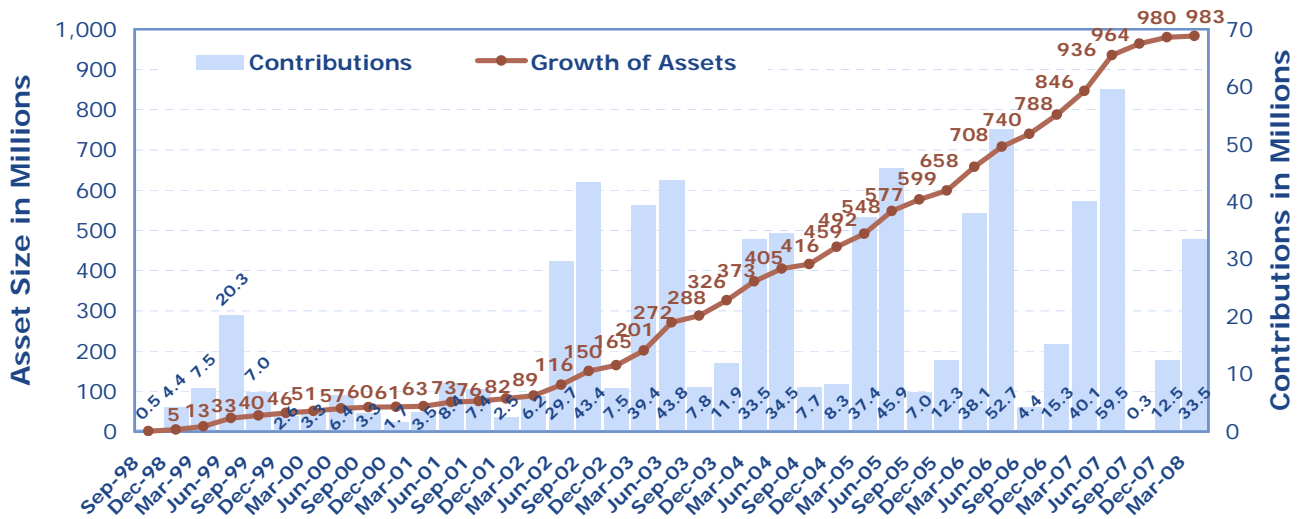
Dated: April 11, 2008

Portfolio Size **Actual Asset Allocation**

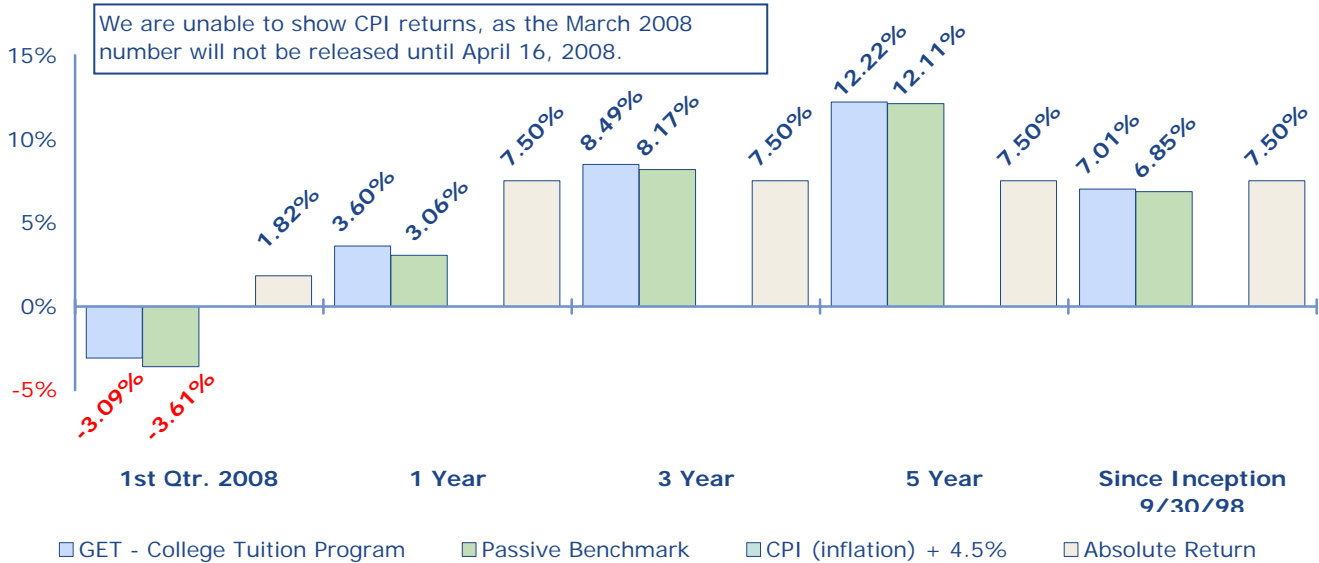
Total	\$983,153,998
Cash	19,495,352
Treasury Inflation Index Note (TIPS)	416,290,919
U.S. Equity	363,590,742
International Equity	183,776,985



Assets Under Management



Total Return *

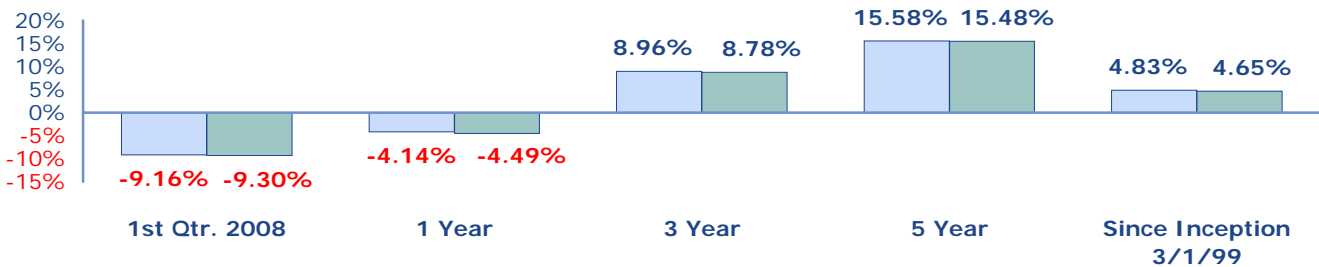


Return Breakdown

Equity Return *

Equity

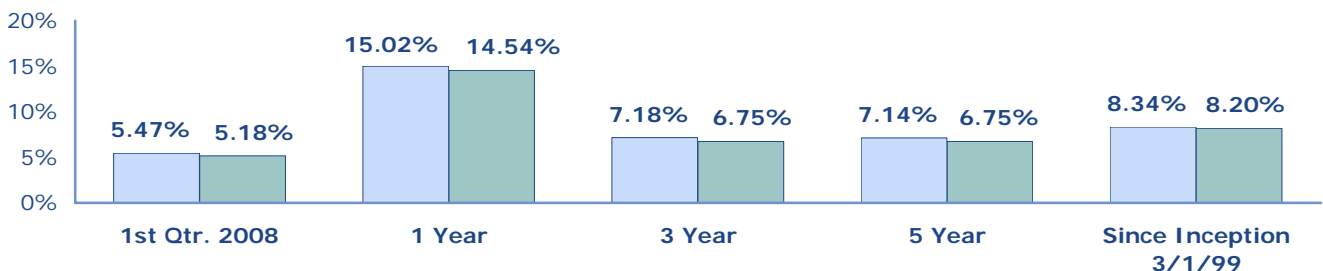
Benchmark - DJ Wilshire 5000 and a blended return of the MSCI EAFE + Canada and MSCI ACW ex U.S. IMI weighted to the policy's target (currently 66%% and 33%%)



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.

Proposed Changes to the Master Agreement

April 23, 2008

Background

The Program Master Agreement outlines the rules of the GET Program and is updated as needed before the beginning of each new enrollment year. Generally, these updates are technical corrections only. Staff are proposing one policy change and five technical corrections/clarifications to the Master Agreement for the 2008-2009 enrollment year:

Running Start Policy Change

- Currently, the Master Agreement prevents account owners from using their GET units for any expenses incurred for a student enrolled in the Running Start Program as enacted in RCW 28A.600.300 through 28A.600.410. [Section IV. Distribution of Tuition Units, Subsection A, fifth bullet.]

With the increasing cost of tuition, more students are taking advantage of Running Start type programs. Some of these programs are paid for by state funds, others by third party donors, and still others by families themselves. Under the current Master Agreement, account owners can use their GET units to pay the tuition, books and other eligible expenses for programs funded by third party donors (e.g. The Bill & Melinda Gates Foundation) and the families themselves, but not for those under the Running Start designation.

Staff propose changing the language in the Master Agreement so that the limitation is on tuition payments only, thus freeing account owners to use their GET accounts to pay for other allowable expenses not subsidized by the state. The revised text would read:

“The Program will not pay for tuition expenses incurred for a Student enrolled in the Running Start Program as enacted in RCW 28A.600.300 through 28A.600.410. Reimbursement is allowed for all non-subsidized required eligible expenses.”

Technical Corrections and Clarifications

- **Notarization of signatures of new account owners on Change of Account Owner form.** To ensure that a new account owner who assumes ownership of a GET account from a prior account owner agrees to the Master Agreement and acknowledges all the terms, penalties and fees associated with an account, staff are proposing that the new account owner’s signature also be notarized on the Change of Account Owner form. The following sentence would be added to the Master Agreement, Section II. Establishing an Account, subsection B, 5. Voluntary Transfer of Ownership.

“The signatures of the new Account Owner and the original Account Owner must be notarized.”

- **Clarifications regarding the Benefit Use Year.** To clarify that the Benefit Use Year determines when units become eligible and when they may be used, language would be revised in Section II. Establishing an Account, subsection D, 4. Designation of the Benefit Use Year. This change also documents that the Benefit Use Year may be changed under certain circumstances. The new text would add paragraph 4 [which will be added to Section II. Establishing an Account, subsection D. The Student] and will read as follows:

“The Account Owner must designate a Benefit Use Year for the Student. Units may not be used until this date or later. Changing this date affects the accumulation of eligible units and is allowed only in certain circumstances. Please contact the Program for more information.”

- **Clarifications regarding the Custom Monthly Payment Plan.** To clarify the process and the parameters around making changes to a Custom Monthly Payment Plan, a paragraph would be added to Section III. Purchasing Tuition Units, Subsection C. Purchase Options, Paragraph 3. Custom Monthly Payment Plan. The new paragraph would explain that a plan may be refinanced only to a period greater than or equal to the number of years that the plan had been in effect, that the number of contracted units may be reduced or that the plan may be converted to a Lump Sum account. It would read:

“Changes to a Custom Monthly Payment Plan. The Account Owner may request to modify his or her Custom Monthly Payment Plan by completing an Account Change Request. The aspects of the agreement that may be amended include reducing or increasing the total payment term of the contract, reducing the total number of units purchased over the life of the contract, and converting the Custom Monthly Payment Plan to a Lump Sum Account. When reducing the payment term of a Custom Monthly Payment Plan, the payment term must be equal to or greater than the number of years the Custom Monthly Payment Plan has been in effect. Increasing the number of units in a Custom Monthly Payment Plan may be done only during an open enrollment period. In addition, the new units are subject to the Custom Monthly Payment Plan pricing in effect at the time the Account Change Request is submitted.”

- **Clarification regarding the Benefit Use Year.** To clarify the existing policy that the Benefit Use Year may not be changed to a date prior to the student’s enrollment in an eligible institution, a sentence would be added at the end of Section IV. Distribution of Tuition Units, subsection A. Distribution of Tuition Units, paragraph 4 that reads:

“The Benefit Use Year may not be changed to a date prior to the student’s enrollment in an eligible institution.”

- **Clarification regarding refunds.** To match the refund policy to the same timeframe as that shown in the Distribution section IV. Distribution of Tuition Units, subsection D. Timing and Maximum Distributions, similar language would be added to explain the policy on refunding an account that meets the 10-year limitation for usage. The text would be a new paragraph 5 in Section V. Refunds, subsection A. General Refund Rules. The text also would clarify the existing policy on scholarship refunds. The new paragraph would read:

“Subject to any further restrictions imposed by state or federal law or regulations, or Program limitations as indicated below, all requests for a refund from an Account must be made within 10 years after the Benefit Use Year or the first distribution date for such Account, whichever is later, unless the Program approves the Account Owner’s written request for an extension before that time. Refunds for scholarships must be requested during the academic year in which the scholarships are awarded.”

The Master Agreement states that, “The Program reserves the right to amend any Agreement to the extent required by law or to the extent necessary or desirable in order to preserve favorable tax treatment under federal and state law or for reasons in the interest of Account Owners and the Program and to make technical corrections.” [Section X. Miscellaneous, Subsection D. Amendments]

Recommendation

Staff recommend approval of the Running Start policy change and five technical corrections/clarifications in the 2008-2009 Master Agreement, subject to approval by the Office of the Attorney General.

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

	<u>FY08 Approved</u>	<u>Projected Actual FY08 Expenditures</u>	<u>FY09 Proposed</u>
Budgeted/Actual Contract Sales	8,000		9,000
Actual Contract Sales		11,839	
Estimated/Actual Total Contracts	85,367	90,858	99,858
Enrollment & Other Fees	400,000	591,950	450,000
Administrative Fees in Unit Price	<u>3,552,000</u>	<u>5,256,516</u>	<u>3,996,000</u>
Projected Available Funds	\$3,952,000	\$5,848,466	\$4,446,000
Expenditures:			
HECB Indirect Cost Allocation	\$765,837	\$765,837	\$962,673 (3)
GET Administration:			
Salary & Benefits - 26.8 FTE	\$1,650,000	\$1,650,000	\$1,721,000 (4)
Goods & Services	384,900	428,848	462,327 (5)
Travel	49,000	30,000	40,000
Actuarial Contract	60,000	60,000	63,000
Marketing	729,000	729,000	772,000 (6)
Records Admin Costs	<u>311,600</u>	<u>211,375 (1)</u>	<u>297,000 (7)</u>
Total GET Administration	\$3,184,500	\$3,109,223	\$3,355,327
Total Expenditures	\$3,950,337	\$3,875,060 (2)	\$4,318,000

Notes:

- 1) \$189,100 original budget for Banner + 22,275 add'l hours purchased for Banner maintenance
\$122,500 in original budget for scanner and other equipment not purchased in FY08
- 2) Scanner not purchased in FY08 - used funds to cover rent, utilities not in original budget
- 3) Per HECB prepared allotments to object T, includes \$120,000 rent and utilities
- 4) Includes COLA's, merit raises and add'l benefit costs, fills 2 existing vacancies, outreach specialists and part-time help
- 5) Additional printing, postage for add'l accounts, \$74,000 IT related purchases
- 6) Includes a 7 percent increase in media costs (television, radio, print and outdoor) and the production of new television and radio spots
- 7) \$7,900 increase in Banner costs to \$197,000 and \$100,000 scanning system

Actuarial Analysis and Price Adjustment for the 2008-09 Enrollment Year

April 23, 2008

Background

By statute, the GET Committee may set an annual unit price and may 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 meeting, the Committee approved setting the unit price at \$74 for May 1, 2007 through April 30, 2008 unless there was an unexpected change in any of the assumptions used in the pricing model. At the August 7, 2007 meeting, the Committee unanimously approved the staff recommendation to keep the current unit price of \$74 in effect through April 30, 2008.

The current unit price of \$74 for the 2007-08 enrollment period was based on the following assumptions:

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

The price-setting guidelines (guidelines are attached) adopted at the October 31, 2007 meeting set a target of 8 percent for the program stabilization reserve. The policy states that if the overall program stabilization reserve is above 10 percent, as it is now, the Committee should reduce the reserve contribution in each new unit sold to 0.5 percent until the overall program stabilization reserve is again within the target range.

Current Information

A pricing model, prepared by Milliman and based on information available through March 31, 2008, 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, 2008.

The pricing model will show a unit price recommendation based on building a stabilization reserve at the rate of 0.5 percent. Based on this rate, the model will show a projected unit price of \$75.50. GET unit prices have always been shown in whole dollar amounts. Based on the current economy, Milliman recommends rounding up the unit price to \$76.

Recommendation

The actuarial analysis, based on expected increases in tuition of 7.00 percent in future years and the Washington State Investment Board's expected investment returns at 6.55 percent, supports a staff recommendation of adjusting the unit price to \$76 from May 1, 2008 through April 30, 2009. Each new unit sold would include a 0.5 percent contribution to the program's stabilization reserve.

The \$76 unit price would remain in effect through April 30, 2009 unless there was an unexpected change in any of the assumptions used in the pricing model. Should the assumptions change, the Committee would determine whether an adjustment to the price would be needed for the 2008-09 enrollment year at its next meeting scheduled for August 13, 2008.

Price-Setting Guidelines

October 31, 2007

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

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