

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

April 14, 2003
State Investment Board
2100 Evergreen Park Drive SW
Olympia, Washington
2:00 pm – 5:00 pm

AGENDA

Call to Order

- Approval of February 11, 2003 minutes ACTION Tab 1
- Director's report INFORMATION
- GET investment update INFORMATION
Gary Bruebaker
Washington State Investment Board
- Status of a college savings plan ACTION Tab 2
Girard Miller, President and CEO
ICMA-RC
- GET vendor selection recommendation ACTION Tab 3
Prospective call center and fulfillment services
- Approval of FY04 Budget ACTION Tab 4
- GET actuarial analysis and unit price setting ACTION Tab 5
Interim price adjustment
Bill Reimert, Principal & Consulting Actuary
Milliman USA
- 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, August 4, 2003, 2:00 – 5:00 p.m.
State Investment Board, 2100 Evergreen Park Drive SW, Olympia, WA

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Tuesday, February 11, 2003
State Investment Board
2424 Heritage Court SW
Olympia, WA

MINUTES

HECB staff in attendance:

Betty Lochner, GET Director
Larry Lee, GET Operations Manager
Debra Blodgett, Office Manager

Guests in attendance:

Joan McCallen, ICMA-RC
Kris Heurich, ICMA-RC

Howard Fischer, Office of the Attorney General
Gary Bruebaker, State Investment Board
Wendy Dore, The Marketing Partners
Cathy Stevens, The Marketing Partners
Elaine Emans, State Treasurer's Office
Gary Bruebaker, State Investment Board
Rob Wells, Seattle Times

WELCOME

Marc Gaspard, Chair of the GET Committee, called the meeting to order at 2:05 p.m. with introductions of the Committee Members, staff and guests in attendance. Committee members in attendance, in addition to the Chair, included Michael J. Murphy, State Treasurer, Marty Brown, Director of OFM, Beth Stecher Berendt, Citizen Member and Mooi Lien Wong, Citizen Member.

There were no changes to the agenda as presented.

APPROVAL OF MINUTES

The minutes from the December 3, 2003 GET Committee Meeting were reviewed and a motion was made to adopt the minutes by Mike Murphy and seconded by Marty Brown. The motion was approved and carried unanimously.

DIRECTOR'S REPORT

Betty Lochner directed the committee to the GET account information report. As of January 31, 2003, there were 2,429 applications received for the 2002-03 enrollment year. This number is almost double from what was received by this time last year. There are 26,485 total active accounts, with \$177.8 million in payments received; \$246.7 total value of all accounts (includes future payments expected). On-line account viewing is up and running and available for customers. Lochner and Gaspard made a presentation to the House Higher Education Committee. They expressed a lot of interest in the GET program and how tuition increases will impact GET in the future. The data package presented is included in the Committee packets for informational purposes. Lochner went over each item and explained the situation with the Colorado Program, which has raised a lot of concerns about prepaid programs nationally, and what makes the GET Program different. The guarantee offered by Washington is the essential difference between the programs.

Gaspard asked that Lochner direct the GET actuary to develop options for review regarding possible tuition increases, to be presented at the next meeting. Berendt questioned whether the Committee will be asked in April to consider a unit price increase. Lochner responded that based on the current information available, a recommendation to increase the unit price May 1, 2003 for current customers will be brought to the April meeting.

Berendt asked if we feel confident that we will have an indicator of what tuition will be doing by that time. Lochner indicated that the Committee would rely on the best available information. Currently the Governor's budget includes a 9% tuition increase for each of the next two years. The House and Senate budgets should also be released before the next meeting.

GET INVESTMENT UPDATE:

Lochner introduced Gary Bruebaker, Chief Investment Officer for the State Investment Board to give the fourth quarter 2002 investment update, which is included in the Committee packets. Bruebaker indicated that as of December 31, the fund at \$164.7 million, which is up \$14 million since last quarter; half is from earnings and half is from contributions. We are within the target range for each of the asset classes. The total quarterly return is +4.54% for the portfolio.

Murphy asked about total return of GET compared the to pension system. Bruebaker indicated that GET compares very well to the pension system, however the investments are done in entirely different areas.

GET MARKETING UPDATE

Lochner introduced Wendy Dore to give a marketing update. Dore indicated that the GET television commercial is running, which is generating lots of interest and steady requests for presentations at schools and community organizations across the state. The GET commercial was shown. Murphy commented that GET is now receiving name recognition due the marketing efforts. Lochner added that each county in the state now has participants in the program.

ESTABLISHMENT OF A COLLEGE SAVINGS PLAN - UPDATE

Lochner introduced Joan McCallen and Kris Heurich from ICMA Retirement Corp to give the Committee an update on the college savings plan development. McCallen indicated that ICMA has been working hard to get a national distribution partner signed on. They have 6 firms that are very interested. They are hopeful that one will commit very soon. The current equity market is the primary reason for firms turning down the partnership opportunity. The economy has put pressure on the financial institutions. Many of the larger institutions are already legally bound to other state's 529 savings plans. The proposed legislation from President Bush has put a damper on firms signing on with 529 plans as well. McCallen indicated that they would be ready to present final information at the April 14, 2003 GET Committee Meeting.

Heurich explained that lockbox services for the proposed savings plan are being sought through a firm in Maryland. Account contribution maximums and minimums would be \$300,000; \$250 for in-state \$500 for out of state with \$50 for each after that and \$25 for direct debiting. They are still working on the final investment line up.

McCallen indicated that after a national distribution partner is chosen, the investments would be looked at and any on a watch list would be eliminated. The umbrella program name has been established as "GET SET for College", and the trademark is being established. The web address is being registered as well. The contract is being worked on and is almost ready for legal review. Fall is more likely a launch time than the original soft launch in the summer.

Lochner indicated that GET has retained some outside counsel with expertise in 529 plans to review the contract when it is ready.

GET VENDOR SELECTION PROCESS

Lochner referred the committee to the handout regarding the contracts we currently have in place including actuary services with Milliman USA, records administration and software with SCT Corp, marketing and public relations services with The Marketing Partners, and prospective call center and fulfillment services with Morningside. The contracts for both The Marketing Partners and Morningside are due to expire soon. Both contracts allow for 2-two-year contract extensions to be authorized at rates not to exceed 5% per annum of the current contract rates.

Marketing Partners - staff recommendation: GET has been very happy with the work they have done for us and recommends approval of a two-year extension of the existing contract. The amended contract would end 6-30-05.

Morningside – staff recommendation: Though GET has generally been satisfied with the performance of Morningside, there have been increasing concerns about whether their technology system has the ability to grow with the program and to provide increased services on demand. Staff recommends that we go out with a new Request for Proposals (RFP) to search for a new vendor for the customer call center and fulfillment. The RFP allows for submittals for either call center and/or fulfillment, so it would not need to be the same vendor. Morningside would be encouraged to submit a proposal that demonstrates they can meet the growing needs of the program.

Beth Berendt commented that she understands the concerns and supports the issue of going out for new bids. However, she would like to encourage GET to keep the contract in Thurston County or at least Washington State. Brown asked about what is involved in fulfillment. Lochner explained that it is mailing out requests for enrollment kits, brochures, etc. to individuals and for bulk requests.

There was a motion to approve a two-year contract extension to Marketing Partners by Murphy, which was seconded by Brown. The motion was approved and carried unanimously.

There was a motion to approve an RFP process for call center and/or fulfillment services for the GET Program, which was moved by Brown and seconded by Murphy. The motion was approved and carried unanimously.

Murphy indicated that he will be attending the upcoming NAST legislative conference in Washington D.C. There are a lot of 529 issues on the agenda. There is a plan to inform the congressional leaders that the 529 plans are working in all 50 states and that they would like to leave them as they are. They will also discuss the tax exemption, which is scheduled for sunset in 2010. They will be asking to remove the sunset.

NEXT MEETING

The next meeting of GET Committee is scheduled for April 14, 2003 at the State Investment Board (2100 Evergreen Park Drive SW, Olympia, WA 98502).

ADJOURNMENT

There being no other business, the meeting was adjourned at 2:55 p.m.

UPDATE AND RECOMMENDATION

Washington College Savings Plan

April 14, 2003

Background

At the last regular Committee Meeting on February 11, 2003, the Committee heard an update and status of the progress of contract negotiations with ICMA-RC to administer Washington's college saving plan, named Savings for Education Tomorrow (SET).

A letter was received dated March 25, 2003 from ICMA Retirement Corporation (ICMA-RC) indicating that they are unable to commit to establishing the SET program for a fall 2003 implementation (see attached letter from Girard Miller to Marc Gaspard). The reasons indicated include: proposed federal legislation that would impact 529 plans; the weakened condition of the stock market (leading to the inability to secure a national distribution partner); and the withdrawal of the record keeping partner, SCT Corporation, from the college savings market.

Recommendation

Staff recommends accepting the letter from ICMA-RC that indicates they are unable to perform the requirements of their proposal. Given the current market conditions, staff recommends that the Committee no longer continue the pursuit of a college savings plan at this time. The Committee could consider adding a savings plan at some future time, if feasible. At that time a new RFP process would be initiated, and ICMA-RC would be invited to submit a proposal.

GET VENDOR SELECTION RECOMMENDATION

Prospective customer call center and fulfillment services

April 14, 2003

Background

The current contract for prospective call center and fulfillment services for the GET program is with Morningside, located in Olympia, Washington. The contract ends July 31, 2003. At the February 11, 2003 GET Committee meeting, staff were directed to issue a Request for Proposals (RFP) to select a vendor for call center and fulfillment services.

Prospective call center services include answering calls from prospective GET customers, and processing telephone and e-mail requests for information. In addition to the prospective call center, the GET Program currently operates, in-house, a client services call center for current GET contract holders.

Fulfillment services include responding to all initial requests for program materials by compiling, sorting, and shipping program materials to individuals and groups within a 24 hour time period. Services also include providing mail house service for special projects as needed to support the marketing efforts of the program (special mailings, follow-up post cards, mailings to schools, libraries, etc.)

To maintain maximum flexibility, one RFP was developed to address services for a prospective call center and for fulfillment services. Offerors were invited to respond to one or both components.

Pre-proposal Conference

February 25, 2003

All potential vendors were invited to attend a pre-proposal conference to ask questions regarding the background, scope, and intent of the project. Two potential bidders (Morningside and ICMA-RC) attended the pre-proposal conference.

Proposals Received

March 21, 2003 – Bids were open at 2:00 p.m.

Prospective Call Center - Two proposals were received: Morningside (bid #1); Oregon Correction Enterprises (OCE) – (bid #2)

Fulfillment Services - One proposal was received from Oregon Correction Enterprises (OCE)

Review Process

Proposal Review Committee Members

GET staff: Betty Lochner, Larry Lee, Jackie Moliq
HECB staff: Joann Wiszmann, Associate Director for Administrative Services
Wendy Dore and Cathy Stevens, The Marketing Partners

Review of Proposals

Proposals were reviewed and the review committee determined that it is in the best interest of the program to reject all proposals submitted.

The option of bringing the prospective call center and fulfillment in-house was also fully reviewed. It was determined by the review committee that bringing the prospective call center services function in-house will allow GET staff to provide improved, direct service to both current and prospective customers. Information is then more readily available and easier to access, providing greater flexibility to the program. The total cost of bringing the call center and fulfillment services in-house is also comparable to both bids that were submitted.

It is proposed that an additional 2 FTEs will be added initially to bring the prospective call center and fulfillment in house. Additional costs would include occasional temporary help during peak enrollment times, increased space and equipment expenses.

Total costs for call center and fulfillment per month:

Bid #1		Bid #2		In-house	
Call center	Fulfillment	Call center	Fulfillment	Call center	Fulfillment
\$6,604.50	(no bid)	\$6,423.24	\$3,059.48	\$7,166.66	\$2,175.00

Recommendation

Prospective call center services

The review committee recommends bringing the prospective customer call center in-house to be managed jointly with the GET Program's current client services call center (for current account holders) that is already in place.

Fulfillment services

The RFP review committee recommends bringing fulfillment services in-house. Options to achieve that include contracting with a sheltered workshop as allowed in statute, entering into an interagency agreement with the Department of Printing or DSHS, or some combination of these elements, as circumstances require.

Guaranteed Education Tuition Program
Proposed FY 2004 Budget
July 1, 2003 - June 30, 2004

	<u>FY2003 Approved</u>	<u>FY2004 Proposed</u>
Estimated Contract Sales	4,000	5,000
Savings from Prior Year's Administrative Budget	\$ 206,941	\$ 369,691
Enrollment Fees per Contract	200,000	250,000
Administrative Fees in Unit Price	2,560,000	2,930,000
Projected Available Funds	2,966,941	3,549,691
Salaries & Benefits - 11.5 FTE FY 2003	714,000	
17.5 FTE FY 2004		950,000
Goods & Services	350,000	580,000
Travel	40,000	45,000
Actuarial Contract	68,250	100,000
Call Center Contract	140,000	-
Marketing Contract	760,000	630,000
Records Administration Software Contract (SCT)	525,000	844,485
Projected Expenses	2,597,250	3,149,485
Projected Available Funds less Projected Expenses	369,691	400,206
Unallocated Available Funds	<u><u>369,691</u></u>	<u><u>400,206</u></u>

Guaranteed Education Tuition Program
Proposed FY 2004 Budget
July 1, 2003 – June 30, 2004

Summary of Proposed Budget

- Total active contracts increased by more than 40% during the 2002-03 enrollment year.
- FY 2004 budgeted expenses are approximately 21% higher than FY 2003 budgeted expenses.
- The FY 2004 budget is based on in-house call center.
- Salaries and benefits include an increase of 6.0 FTE. This includes:
 - 2.0 FTE for additional customer service representatives
 - 2.0 FTE for increased contract maintenance and benefit payments
(due to program growth)
 - 1.0 FTE for a computer systems analyst
 - 1.0 FTE for temporary employees during peak periods
- The actuarial contract is anticipated to rise significantly as actuaries review unit pricing increases twice a year instead of once a year as was previously done.
- FY 2004 budgeted expenses for goods and services are increased from FY 2003 for computers, furniture and additional occupational costs associated with additional FTE and for additional costs of maintaining over 40% more contracts than previous year (including postage, printing, and banking fees). Other increases include potential computer equipment upgrades.
- In FY 2004, GET will make final payments to SCT for the records administration contract license.

Actuarial Analysis and Price Adjustment for Enrollment Year 2002-03

April 14, 2003

Background

At the July 30, 2002 Committee Meeting, the Committee approved setting the unit price for the 2002-03 enrollment year at \$52. They also agreed that the unit price would be adjusted, if necessary, on May 1, 2003. By statute, the Committee may set an annual unit price and adjust it annually, if necessary for the actuarial soundness of the program.

The \$52 price was based on the following assumptions:

- Tuition would go up no more than 8% each of the next two years, then return to a 6.60% average
- Investment returns would remain at 7.25%

Complete information regarding the projected actuarial analysis is attached and will be presented by Bill Reimert, Principal and Consulting Actuary with Milliman USA, at the committee meeting.

Recommendation

The attached actuarial analysis, based on expected increases in tuition of at least 9% each of the next two years, and a decrease in investment returns, supports a staff recommendation of adjusting the unit price to \$57. This price would be in effect from May 1, 2003 through August 31, 2003. The committee will meet on August 4, 2003 to set the annual price for the 2003-04 enrollment year.

Washington Guaranteed Education Tuition Program

Preliminary Recommended Unit Price for May through August, 2003

Investment Return	Assumed Tuition Increase for Fall 2003 and Fall 2004	Estimated Deficit at 3/31/03 (\$millions)	10% Reserve Price	Price to eliminate deficit in:		Price to build reserve to 5% in:		Price to build reserve to 10% in:	
				5 Years	10 Years	5 Years	10 Years	5 Years	10 Years
7.00%	8.0%	\$40.4	\$55.41	\$60.21	\$56.12	\$66.44	\$60.80	\$72.67	\$65.49
7.00%	9.0%	\$45.8	\$56.37	\$62.40	\$57.76	\$68.74	\$62.53	\$75.08	\$67.29
7.00%	13.7%*	\$72.4	\$61.04	\$73.14	\$65.80	\$80.02	\$70.96	\$86.90	\$76.13
7.25%	8.0%	\$35.0	\$54.02	\$57.71	\$54.16	\$63.84	\$58.76	\$69.96	\$63.37
7.25%	9.0%	\$40.3	\$54.96	\$59.86	\$55.77	\$66.09	\$60.46	\$72.32	\$65.15
7.25%	13.7%*	\$66.5	\$59.50	\$70.42	\$63.67	\$77.17	\$68.75	\$83.93	\$73.83

Assumptions:

Tuition Increases			
Fall 2005 and later	6.75%	GET 2002-2003 Budget	\$ 3,150,000
Inflation	2.50%	New Contracts	5,000
Highest Tuition: 2002-2003	\$ 4,520	Total Units	1,000,000
Annual Contract Expense	\$ 15.84	Avg Date of Unit Purchase	August 31
Payout Expense	\$ 10.56	Age Distribution	Actual
Purchase Expense	\$ 1.29		1998-2002
Enrollment Fee	\$ 50.00		

* Tuition increases of 13.7% for both 2003 and 2004, combined with last year's 16.0% increase, would result in a 50% increase over the three years.