GUARANTEED EDUCATION TUITION
COMMITTEE MEETING

August 1, 2003
State Investment Board
2100 Evergreen Park Drive SW
Olympia, Washington
10:00 am – 12:00 pm

AGENDA

Call to Order

• Approval of April 14, 2003 minutes	ACTION	Tab 1
• Director's report	INFORMATION	Tab 2
• GET marketing update Wendy Dore and Cathy Stevens The Marketing Partners	INFORMATION	
• GET investment update Diana Will, Investment Officer Washington State Investment Board	INFORMATION	Tab 3
• GET vendor selection process Actuary services	ACTION	Tab 4
• GET annual unit price setting	ACTION	Tab 5

- 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, November 3, 2003, 3:00 – 5:00 p.m.
State Investment Board, 2100 Evergreen Park Drive SW, Olympia, WA

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Monday, April 14, 2003
State Investment Board
2100 Evergreen Park Drive
Olympia, WA

MINUTES

HECB staff in attendance:
Betty Lochner, GET Director
Larry Lee, GET Operations Manager
Debra Blodgett, Office Manager
Denise Fry, Outreach Coordinator
Heidi Arneson, Student Benefits Coordinator
Heidi Jones, Financial Manager

Guests in attendance:
Girard Miller, ICMA-RC
Karen Barrett, House Higher Education Committee
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

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, Theo Yu (designated representative for Marty Brown, Director of OFM), and Beth Stecher Berendt, Citizen Member. Mooi Lien Wong, Citizen Member, was not in attendance.

There were no changes to the agenda as presented.

APPROVAL OF MINUTES

The minutes from the February 11, 2003 GET Committee Meeting were reviewed and a motion was made to adopt the minutes by Yu and seconded by Berendt. The motion was approved and carried unanimously.

DIRECTOR'S REPORT

Lochner presented the GET Director's Report. She reported GET enrollment for the 2002-2003 enrollment year was the highest since the program began with 12,127 new enrollments received during this year, bringing the total active accounts to over 36,000. There were approximately 8,500 new enrollments received in the month of March alone, with 2,000 new enrollments received the last day through the on-line enrollment process. There were approximately 200 customers who sent emails or called to say they had tried to enroll on-line unsuccessfully on the last day. Staff is working with these customers to complete those enrollments. Final stats will be available by the end of the month.

GET has added the option of making payments on-line through US Bank to customers. The enrollment period next year will be September 15 through March 31, 2004, which is the same as last year.

GET INVESTMENT UPDATE

Lochner introduced Gary Bruebaker, Chief Investment Officer for the State Investment Board to give the investment update for GET. He distributed the quarterly investment report ending March 31, 2003. The first page of the report shows the portfolio size increased by $36.6 million because of new contributions. Within the asset allocation ranges, we are within the target allocations for each of the asset classes. For the quarter we are down 1.57% compared to 1.62%

looking at the indexes. The absolute return is 7.5% annually, which represents a desired 1.82% quarterly return, which was not met. There was a change for passive benchmark, REITS have been moved to domestic equity and the TIP index will now be compared to Leeman. The equity returns have under performed for 1 year, but outperformed for the quarter, the 3-year, as well as since inception. On the Treasury Inflation Index Note return performance is slightly under in each of the time periods. We performed quite well against the benchmark every other quarter. So far, we are up 4% in the current quarter and we are hoping to hold on to that.

STATUS OF A COLLEGE SAVINGS PLAN

Lochner gave a recap of the history of establishment of a Washington college savings plan, named Savings for Education Tomorrow (SET). The investment firm selected to run the program, ICMA-RC, has sent a letter to the Committee chair indicating that they are unable to commit to establishing the SET program for a fall 2003 implementation. Lochner introduced Girard Miller, President and Chief Executive Officer of ICMA-RC.

Miller expressed regrets in not being able to put together the coalition to make this program work. They have been attempting to find one or more national distribution partners in order to make this a viable program that meets the requirements established by the Committee. There were three things that hinder further development of the savings plan. First, the Bush administration has advanced a proposal, which make it possible for people to establish lifetime savings accounts (LSA), which would diminish the major portion of interest in 529 savings investment plans. This has introduced uncertainty in the industry, which has affected the interest of the firms with interest in being a national distribution partner. Second, there is continued market decline in interest in 529 savings plans. Most are currently interested in pre-paid plans due to the losses in the market. ICMA-RC met with 37 different companies in the context of being partners for distribution without success. Third, the proposed record keeper for the plan, SCT, made a decision to withdraw from the recordkeeping side of the savings plan. The combination of these challenges has led ICMA-RC to withdraw their proposal.

Gaspard expressed the Committee's disappointment in not moving forward with the savings plan and asked what would need to happen for the savings plan to work. Miller indicated that a resolution of the legislation in question would need to take place as well as an overall turn around with stabilization of investments.

Gaspard expressed appreciation for the efforts of ICMA-RC to try to make the program work over the past several months.

Miller thanked Lochner and the entire GET staff for their hard work on this project.

Gaspard commented that we have spent two years trying to put together the savings plan with the efforts of a lot of people including members of the legislature and staff. Unfortunately the timing is not right to begin the savings plan.

Lochner indicated that staff recommends accepting the letter from ICMA-RC. Given the current market conditions, it is recommended 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 time in the future, if feasible. At that time a new RFP process would be initiated, and ICMA-RC would be invited to submit a proposal.

MOTION
A motion was made to accept the staff recommendation to accept the letter from ICMA to withdraw from the process to develop a savings plan at this time. Development of a savings plan may be considered in the future when the market becomes more stable. The motion was moved by Berendt and seconded by Murphy. The motion passed unanimously.

Lochner added that every other state is having problems with shortfalls in their savings plans. Several states that have started up recently are now losing money.

Murphy asked that a letter be sent from the Chair of the Committee to House and Senate members regarding the withdrawal of the proposal for the savings plan.

GET VENDOR SELECTION PROCESS
Lochner gave an update on the call center and fulfillment vendor selection process. At the February GET Committee, staff was directed to issue a Request for Proposals (RFP) to select a vendor for call center and fulfillment services.

GET currently operates two call centers. One is in-house for customers that already own accounts, which is managed by staff at the GET Program. The second call center is managed by contract with Morningside to give general information to prospective customers. Morningside also provides fulfillment services (sending out program materials on request). The Morningside contract is due to expire the end of July.

To maintain flexibility, an 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.
A pre-proposal conference was held on February 25, 2003 and the bids were opened March 21, 2003. Two proposals were received. One was from Morningside, who bid on the call center component but not on fulfillment. The other proposal came from Oregon Correction Enterprises, who bid on both components (call center and fulfillment).

The RFP review committee determined that none of the proposals met the minimum qualifications we required. Morningside's technology has not been improved to accommodate the demands of the program. Oregon Correction Enterprises brings too many issues, including locating jobs out of state, security issues and the potential for public relations and logistical concerns.

It was determined by the review committee that it is in the best interest of the program to reject all proposals submitted.

Lochner explained that the option of bringing the prospective call center and fulfillment in-house was fully researched. It was determined that the cost for bringing the prospective call center in-house is about the same cost as outsourcing. New call center software is already being purchased for the existing in-house call center, which will give us the technology to handle a bigger call center operation in-house. Other advantages include having more control over the message and using staff more efficiently, including cross training for peak times and assigning other projects during non-peak times.

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 needs. The prospective call center would be run jointly with the call center for current customers that is already in place. Staff recommends that fulfillment be done in-house with the option for Morningside to be used if needed or a possible contract with another state agency with large mailing capabilities.

MOTION
There was a motion made by Murphy to move the prospective call center services in-house and to provide fulfillment services either in-house, or through a sheltered workshop or interagency contract, as determined most feasible by staff. Berendt seconded the motion. The motion carried unanimously.

APPROVAL OF FY04 BUDGET
Lochner reviewed highlights of the proposed budget for fiscal year 2004 (July 1, 2003-June 30, 2004). She commented that SCT, our contractor for record keeping software and maintenance, has notified us that they are getting out of savings plan business in terms of maintenance. We own the license, database and software, but have relied on SCT for maintenance and upgrades. Staff has researched our options and believe the most cost effective option for maintenance is to bring someone in-house or contract out with a consultant. We are hoping to hire someone recently laid off from SCT that has the expertise or someone in our geographic area who has the expertise to provide the services needed. There are still many deliverables that have not been completed before the program will be in maintenance mode. Virginia has floated a proposal of getting the eight states that are in the same situation together to develop a consortium for maintenance in long term. The short-term solution for GET will require hiring a programmer or consultant.

Lochner introduced Heidi Jones, the Financial Manager for the GET Program to present the proposed budget for FY04. Jones indicated that the budget is based on estimated contract sales of 5,000 this year, which is fairly conservative. Some funds will be carried over from the current fiscal year (2003) to be used next year (2004). Changes include a 21% increase in expenses being budgeted for this year due to program growth. The 2004 fiscal year budget is based on bringing the prospective call center in-house. This would bring a need for 2 additional FTE for customer service specialists. In addition, we will require 2 more FTE for additional contract maintenance due to program growth. We have included 1 FTE for a computer systems analyst, which will offset some costs with SCT who charges over and above for items outside the contract. There is 1 additional FTE budgeted for temporary help during peak seasons. This represents an increase of 6 FTE over last year. The actuarial contract budget was increased due to the extra time involved in adjusting prices twice per year. Finally, the budget includes increases for equipment, goods and services to accommodate the new staff being hired and for maintenance of more GET accounts. Staff recommends a budget of $3,149,485 million to run the program for the 2004 fiscal year.

Murphy asked about the hours of call center. Jackie Molique, Customer Service Manager, explained that the hours would be 8:00 am to 6:00 pm, Monday through Friday, except state holidays.

Murphy asked about the consortium between the eight states and how that would work. Lochner explained that the consortium would hire approximately 2 people to maintain the databases for all 8 states that had contracts with SCT for maintenance. Virginia is able to house programmers and the rest of the states would buy time and negotiate priorities. The consortium is still under development.

MOTION
Murphy moved to adopt the 2004 budget as prepared by staff. Berendt seconded the motion. The motion carried unanimously.

GET ACTUARIAL ANALYSIS AND UNIT PRICE SETTING
Lochner gave an update on price setting to date. 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 assumptions that tuition would go up no more than 8% each of the next two years, and then return to a 6.6% average and that investment returns would remain at 7.25%.

Lochner directed the Committee to the report included in the packets by Milliman, which supports the staff recommendation to increase the unit price to $57 beginning May 1 and continuing through August 31.

Lochner introduced Bill Reimert, Principal & Consulting Actuary from Milliman USA to address questions from the Committee regarding the actuary report and price setting. Reimert explained that GET is guaranteed by State, but it's also run on the assumption it is self-supporting. If there were a shortfall, prices would be increased to cover this type of scenario. Because we are in an actuarial deficit, the report addresses how to make up the shortfall.

Reimert went on to explain what has happened to the deficit, which is now at $35 million. All of the scenarios presented are based on returns of 7.25%, as well as tuition increases of 8 percent for the next 2 years and 6.75 percent thereafter. The cause of the deficit came from adverse investments and is also due to having units sold at $42 during July and August of last year (after a 16% tuition increase was announced). Reimert explained each of six scenarios with different assumptions about future investment returns, expected future tuition increases, eliminating the deficit in 5 or 10 years, and building a reserve of 5 or 10%.

After active discussion, Gaspard reminded the Committee that the current tuition information that is available in the Governor's budget indicates a tuition increase of 9 percent for each of the next two years. Gaspard asked for a motion to establish the GET unit price at $57 on May 1, 2003. This price assumes a 7% investment return, 9% tuition increase, 10% reserve and would pay off the deficit in approximately 10 years.

MOTION

The motion was presented to the Committee to establish the new unit price at $57 up from the current price of $52. Murphy moved to accept the motion. Yu seconded the motion. The motion carried unanimously. The price will be reviewed again at the August GET Committee Meeting.

Berendt asked that a discussion regarding the elimination of the deficit and establishing a policy on it take place at the next meeting.

NEXT MEETING

The next meeting of the GET Committee is scheduled for August 1, 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 3:25 pm.

GET VENDOR SELECTION PROCESS
ACTUARY SERVICES

August 1, 2003

Background

The GET Program is required by statute to use a "nationally recognized actuarial firm" to provide an annual actuarial analysis and provide recommendations for setting the GET unit price up to twice annually (effective September 1 and May 1). Milliman USA was selected through a competitive process to provide actuarial services for the GET Program in June 1998. The original contract with Milliman USA ended December 31, 2001. The Committee then approved a sole source contract with Milliman USA for the period of January 1, 2002 through December 31, 2003, with the understanding that at the end of the contract, a full RFP process would commence.

Proposed RFP Timeline
RFP Issued: On or about August 4, 2003
Voluntary Pre-proposal Conference: August 20, 2003
Proposals Due: September 19, 2003, prior to 4:00 p.m.
Oral Presentations for Finalists: On or about October 9, 2003
Recommendation to GET Committee for Approval: November 3, 2003
Work commences: On or about January 1, 2004

Staff Recommendation

Staff recommends that the Committee approve issuing the proposed Request for Proposals (RFP) for a competitive bid for Actuary services. The contract period would begin approximately January 1, 2004 and end December 31, 2005, with the possibility of two 2-year extensions at the discretion of the Committee.

Actuarial Analysis and Price Setting for Enrollment Year 2003-04

August 1, 2003

Background

At the April 14, 2003 Committee Meeting, the Committee approved adjusting the unit price for the 2002-03 enrollment year to $57.

By statute, the Committee may set an annual unit price and adjust it annually, if necessary, for the actuarial soundness of the program.

An actuarial analysis, prepared by Bill Reimert, Principal and Consulting Actuary with Milliman USA, is attached showing projected outcomes of leaving the unit price at $57 and of increasing it to $58.

GET staff has also provided a chart that details the historical premium that customers have paid when purchasing GET units. This premium is the difference between the purchase price of a GET unit and the comparable tuition rate per unit at the time of purchase.

Actuary Recommendation

Based on the goal of reaching a 10% stabilization reserve as quickly as possible, the actuary is recommending a unit price increase to $58 per unit. The attached actuarial analysis is based on authorized increases in tuition of 7% each of the next two years. The unit price will remain in effect from September 1, 2003 through April 30, 2004. The unit price may be adjusted, if the actuarial assumptions change in any way, effective May 1, 2004.

Staff Recommendation

After reviewing the actuarial analysis and the premium charts provided, staff recommends that the unit price remain unchanged at $57 due to the high unit premium level already in place (see attached chart: Unit Price Premium Over Current Tuition). The unit price may be adjusted, if the actuarial assumptions change in any way, effective May 1, 2004.

A MILLIMAN GLOBAL FIRM
Milliman USA
Consultants and Actuaries

1550 Liberty Ridge Drive, Suite 200
Wayne, PA 19087-5572
Tel +1 610 687.5644
Fax +1 610.687.4236
www.milliman.com

July 23, 2003

Ms. Betty Lochner
Executive Director
Washington Guaranteed Education Tuition Program
919 Lakeridge Way, SW
Olympia, WA 98504-3450

Re: Recommended Unit price for September 2003 through March 2004

Dear Betty:

As you requested, we have summarized on the attached exhibits the possible effect of setting the unit price for September 2003 through March 2004 at $57 and also at $58. The attached exhibits provide the following information.

1. A preliminary estimate of the actuarial deficit at June 30, 2003.
2. The portion of the price available to reduce the deficit and/or accumulate a Program Reserve.
3. The number of years required to eliminate the deficit if pricing continued every year into the future on the same basis.
4. The number of years required to build to a 5% stabilization level for the total Program if pricing continued every year into the future on the same basis.
5. The number of years required to build to a 10% stabilization level for the total Program if pricing continued in the future on the same basis.
6. The corresponding monthly prices associated with the two unit prices.

Estimate of Current Program Deficit

We have estimated, without performing a complete actuarial valuation, that the Program deficit is about $8 million as of June 30, 2003. This compares to a $21.6 million deficit on June 30, 2002.

Recommended Unit Price for 2003-2004

We recommend that the unit price for 2003-2004 be $58. As the exhibit shows, the $57 price level would not be sufficient to build to a 10% stabilization reserve over any time horizon if sales are in line with the first scenario. (This scenario is consistent with past GET sales forecasts.)

If sales are closer to the second scenario, it would take about 22 years to build to a 10% stabilization reserve if prices are set at the $57 level. At the $58 level, it is expected to take about 10 years.

Under the third sales scenario, which roughly represents a repeat of the very high sales experienced over the past year, the Program would reach a 10% stabilization reserve in about 11 years at the $57 price level and in about 6 years at the $58 level. While it is possible that the Program will see sales this high for the next decade or more, some of this year's high sales may have been in response to last year's 16% tuition increase and concerns that future increases would be large also. If tuition growth moderates to 7% or 6.75% in the future, other college savings vehicles may appear to be more attractive. This could reduce the level of GET unit sales.

We also think it is important for the Program to increase prices on a regular schedule to reinforce the understanding among purchasers that the value of a prepaid tuition unit increases every day as the payment of the future tuition benefit draws closer. If the unit price is left at the current $57 level, this reinforcement will be absent.

Recommended Assumption for the Rate of Return on Program Investments

Based on the drop in the general level of interest rates over the past year, we recommended that the assumption for the rate of return on investments be lowered from 7.25% to 7.00%. Our analysis of the unit prices on the attached exhibit reflects the 7.00% assumption.

We also recommend that the interest rate used to calculate payments under the monthly payment plans be lowered from 7.50% to 7.00%. The monthly payment prices in the attached exhibits have been calculated using a 7.00% interest rate.

Data Reliance

We relied on data and other information provided by GET. 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.

Variability of Results

The values shown above were based on assumptions set by GET which represent an estimate of anticipated experience under the Prepaid Tuition Fund that are reasonably related to past educational cost and investment data. Differences between those projections and actual amounts will 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.

We would be glad to respond to any questions you have regarding the above.

Sincerely,

Alan H. Perry

William A. Reimert

Jill M. Stanulis

AHP:WAR:JMS:ahp\WPT
g:\corr03\wpt\ltr0723_Price_Recomm.doc

Attachments

Washington Guaranteed Education Tuition Program

Preliminary Analysis of $57 and $58 Unit Prices for September, 2003 through March, 2004

Estimated Deficit at June 30, 2003 = $8.0 Million

		Sales Scenario		
New Contracts		5,000	7,500	10,000
Units Purchased by New Contracts		1,000,000	1,500,000	2,000,000
Units Purchased by Existing Contracts		500,000	750,000	1,000,000
	Price			
Portion of Price Available	$57	11.2%	11.9%	12.2%
to Reduce Deficit	$58	12.7%	13.4%	13.7%
Number of Years to	$57	0.9	0.6	0.4
Eliminate Deficit	$58	0.8	0.5	0.4
Number of Years to Build	$57	5.5	3.1	2.1
5% Program Reserve	$58	4.2	2.4	1.7
Number of Years to Build	$57	Infinite	21.7	10.6
10% Program Reserve	$58	30.1	9.9	6.1

Assumptions:

Investment Return	7.00%	GET 2003-2004 Budget	$ 3,149,485 *
Tuition Increases		Avg Date of Unit Purchase	March 31
Fall 2004	7.00%	Age Distribution	Actual
Fall 2005 and later	6.75%		1998-2002
Inflation	2.50%		
Highest Tuition: 2003-2004	$ 4,836		
Annual Contract Expense	$ 15.84		
Payout Expense	$ 10.56		
Purchase Expense	$ 1.29		
Enrollment Fee	$ 50.00		

* Each unit sold over 1 million is expected to increase the Budget by $0.70