

Guaranteed Education Tuition Committee Special Meeting
Monday, June 17, 2002
State Investment Board
2424 Heritage Court SW
Olympia, WA

MINUTES

CALL TO ORDER

Marc Gaspard, HECB Executive Director and Committee, Chair, called the meeting to order at 2:05 p.m. 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 (via conference call).

HECB staff in attendance:

Betty Lochner, GET Director
Larry Lee, GET Operations Manager
Lyle Jacobsen, HECB Special Assistant
Debra Blodgett, GET Administrative Assistant

Guests in attendance:

Howard Fischer, Office of the Attorney General
Nancy Calkins, State Investment Board
Gary Bruebaker, State Investment Board
Joe Dear, Frank Russell Company
Elaine Emans, Office of the State Treasurer

WELCOME

Marc opened the meeting with introductions of the committee members. Staff and guests were asked to introduce themselves for the record.

Betty gave an overview of the agenda and indicated there were no changes.

UPDATE ON GET ENROLLMENT YEAR

Betty reported that there are no official statistics yet, however, the hand count is currently at 10,669 new enrollment forms for the 2002-03 enrollment year that ended May 31. The number of on-line enrollments that were received is 2,300. On-line enrollment was only available during the last 3 weeks of the enrollment period. In addition, there are 1,200 incomplete on-line enrollments that were due to the over capacity of the system that was experienced in the last few days. Staff is working through sorting out which are duplications and which need to be completed with the customer. Total active accounts to date stands at approximately 24,000. The final numbers will be presented at the July GET Committee Meeting.

Mike asked if the on-line enrollment process saved time. Larry explained the process and indicated that entering on-line enrollments takes about half of the time as paper forms received.

Betty informed the committee that 5,400 calls were received in the month of May with over 2,000 of those received in the last 4 days of the month. In addition, the program received 80 walk-ins with enrollments on the last day. Seven additional temporary staff

have been hired to work to get all enrollment forms entered. To date 6,600 enrollment forms have been entered into the data system.

Marc commended the staff for their tremendous efforts and high level of customer service maintained. He reminded the committee that price setting for the next enrollment period will take place at the July 15 Committee meeting.

UPDATE ON DEVELOPMENT OF A COLLEGE SAVINGS PLAN

Betty directed the committee to the staff report on the development of a college savings plan. There were twelve proposals submitted for investment management, two for records administration and two for marketing services. The Washington State Investment Board (WSIB) reviewed the twelve proposals received for investment management. The records administration and marketing services proposals were reviewed by a work group of staff from the HECB and the Office of the State Treasurer. The review found that the cost to participants would be significantly higher than had been anticipated. A memo from Gary Bruebaker, WSIB to Betty Lochner expressed serious concerns about the level of fees and investing any more WSIB staff time in the selection process.

Betty indicated that Gary Bruebaker, Acting Executive Director of the WSIB, was here if the Committee had any questions for him. Marc asked Gary for his comments on the review process.

Gary responded with an overview of the RFP process from the WSIB standpoint. They reviewed the proposals and worked to narrow down to the finalists, which were discussed with the WSIB Public Markets Committee. The WSIB staff worked with the HECB review group on how the plan might work and came up with combined costs of up to 233 basis points. In reviewing what some of the other states were charging, they found that excluding the brokerage arrangements, it appeared that Washington would end up being one of the highest cost programs in the nation, if not the highest. The Public Markets Committee had serious concerns about taking on this project. Gary commented that most states have gone to bundled approaches or retail options to keep costs low.

Mooi Lien asked if the internal management fee was included in the basis point total. Gary indicated that it was. Mike asked about costs if we didn't do any marketing. Gary indicated the fee would be 51-83 basis points for just investment management and records administration.

Marc asked Betty to outline the options for the next step. Options discussed included going back to the legislature for authority to borrow additional money from GET and a longer repayment period, exploring partnerships with other states, and conducting a feasibility study to determine if further program development should continue. Based on other state's experience it is believed that a vendor can be found who can manage the entire program in a bundled approach and keep costs low.

The recommended option would require hiring a consultant to develop the RFP for a bundled approach, review and analyze proposals, and make recommendations of

approximately three finalists to the GET Committee. The selected firm would be required to cover the costs of the procurement, estimated at between \$15,000 and \$20,000. The GET Program is already under contract with Milliman USA for actuary and investment consulting to include development of an RFP for a college savings plan, so further contracting for this process is not necessary. The proposed timeline would have a proposal ready for committee review by the end of July and a recommendation to the committee by October.

Marty asked when the program would open. Betty responded that we are still hopeful it would launch by the end of the calendar year.

There was active discussion about the approach and costs associated. Marc indicated that issue before us is what is the next step and reviewed the staff recommendation to proceed with the RFP process through Milliman with a bundled RFP approach. Marty made a motion to move forward with an RFP process for a bundled approach. Mike asked that the cost issue be reviewed with legal counsel before moving forward with the motion.

An executive session was held for the purposes of consulting with legal counsel about the college savings plan. No action was taken.

Public meeting reconvened.

Marty Brown moved to not take any action on the current proposals received, and to develop a new bundled approach RFP using Milliman as the investment consultant. Recommendations would be presented to the committee as soon as possible. Mike Murphy seconded the motion.

Further discussion followed. Mike commented that the responses should include what net vs. gross costs are and that review of those costs should be reported to the GET committee on a regular basis. He also asked how state administration costs would be covered. Betty indicated that the proposed \$50 application fee would be for that purpose. Marty asked staff to make sure that the consultant gets the comments from the committee regarding these issues. Mooi Lien commented that the customer would be looking at the cost and the investment performance. Investment managers will not recommend the Washington program to their clients if it is not a good program.

The previous Motion carried unanimously.

Marc called for public comments by anyone in the audience. There were no public comments made.

ADJOURNMENT

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

NEXT MEETING

Next Regular scheduled meeting July 15, 2002, State Investment Board.

Proposed Change for 2002-03 Enrollment Dates

July 15, 2002

Background

For the first three years of the GET program, there were two annual enrollment periods for new GET participants:

Custom Monthly Plans: September 1 – January 15

Lump Sum Plans: September 1 – June 30

The GET 2001-02 enrollment year for both payment plans was:

September 15, 2001 to May 31, 2002*

*Current account holders are allowed to purchase additional units at the current unit price through August 31, 2002.

The end date of May 31, 2002, was chosen to allow the program to be open the maximum number of calendar months possible and still allow time for the end of enrollment process and price setting for the next year.

The unit price for the 2001-02 enrollment year was set at \$42 and was based on the assumption that the 2002-03 academic year would allow a 6.1% tuition increase, as approved by the legislature. During the 2002 legislative session, the 6.1% tuition increase authority was raised to 16%. Although institutions could decide whether or not to use the full 16% authority, it was clear at the end of the legislative session that the 6.1% tuition increase assumption was no longer accurate.

By virtue of the contract and promotional material language, the program is required to continue selling units at the previously established price for the remainder of the enrollment period, and through August 31st. A policy that allows the program enrollment to end after the legislative session, in which tuition increases are authorized, without an adjustment of the unit price, creates some actuarial concerns for the program.

To eliminate having a similar situation occur during the 2002-03 enrollment year, it has been recommended by our actuarial consultants, Milliman USA, that the unit price be adjusted at least twice per year, and preferably as often as needed, to ensure the actuarial soundness of the program. This would allow the adjusted unit price to more accurately reflect proposed or actual tuition increases and reduce potential liability for the program.

Proposed Options

Several options were explored including:

1. Adjust unit price as needed without notice – this is by far the best risk management tool, and the option recommended by Milliman USA.
2. Adjust the unit price quarterly, with notice – a practice that other states, including West Virginia and Ohio have adopted.
3. Set the price annually on September 1 and adjust it annually on April 1 or later as needed.

RCW 28B.95.030 (6) provides, “The governing body shall annually determine the current value of a tuition unit,” and RCW 28B.95.080 provides, “If funds are not sufficient to ensure the actuarial soundness of the account, the governing body shall adjust the price of subsequent tuition credit purchases to ensure its soundness”.

After consulting legal counsel, it is recommended that the price be set annually and then adjusted annually, if necessary, to maintain the actuarial soundness of the program.

Staff Recommendation – 2002-03 Enrollment Year

It is recommended that the 2002-03 Enrollment Year be set from September 15, 2002 to March 31, 2003, to allow the program enrollment to end prior to adjournment of the legislative session.

Current account holders would be allowed to purchase additional units at the current price through March 31, 2003.

The price would be adjusted, if necessary, to ensure actuarial soundness of the Program on April 1, 2003, or such later date as the Committee determines. Existing account holders would be able to purchase units on a lump sum basis at the new adjusted price through August 31, 2002, when the price approved for the next enrollment period takes effect.

For the 2003-04 enrollment year, the new unit price would be set in the summer and effective September 1, 2003.

Actuarial Analysis and Price Setting for Enrollment Year 2001-02

August 15, 2002

Background

The following includes the history of GET unit prices and benefit payout since the inception of the GET program. Complete information regarding the actuarial analysis and recommendations for the 2002-03 unit price will be presented to the committee at the July 15, 2002 meeting by Bill Reimert, Principal and Actuary with the firm of Milliman, USA.

History of GET Unit Price Increases

1998-99	\$35
1999-01	\$38
2000-01	\$41
2001-02	\$42

History of GET Unit Payout*

2000-01	\$36.41
2001-02	\$38.98
2002-03	\$45.20

*The annual value of each GET unit purchased is based on one percent of the resident undergraduate tuition, plus state mandated fees, for the highest-priced Washington public university for the academic year.

Proposed Unit Price for the 2002-03 Enrollment Year

Due to the increased enrollment for the 2002-03 enrollment year, and a delay in receiving the final tuition benefit amount from institutions, it has taken longer than anticipated to complete the actuarial file used to develop and calculate the proposed unit price.

Complete information, including a recommendation for the new unit price, will be presented at the July 15, 2002 meeting. It is anticipated that preliminary information will be available a few days before the meeting. The information will be faxed to committee members as soon as it becomes available.

Guaranteed Education Tuition Program

Proposed Revised FY 2003 Budget

July 1, 2002 - June 30, 2003

	FY2003 Approved	FY2003 Revised	Difference
Estimated Contract Sales	4,000	4,000	0
Anticipated Savings from Prior Year's Budget			
Enrollment Fees Per Contract	\$ 46,941	\$ 206,941	\$ 160,000 See Note (2)
Administrative Fees in Unit Price	200,000	200,000	-
	2,560,000	2,560,000	-
Projected Revenues	2,806,941	2,966,941	160,000
Salaries & Benefits - Approved 9.5 FTE - Revised to 11.5 FTE	594,000	714,000	120,000 See Note (3)
Goods & Services	250,000	350,000	100,000 See Note (4)
Travel	40,000	40,000	-
Actuarial Contract	68,250	68,250	-
Call Center	140,000	140,000	-
Marketing Contract	600,000	760,000	160,000 See Note (2)
Records Administration Software Contract (SCT)	525,000	525,000	-
Projected Expenses	2,217,250	2,597,250	380,000
Projected Revenues less Projected Expenses	589,691	369,691	(220,000)
Potential Loan to Savings Plan	See Note (1)	See Note (1)	
Unallocated Revenues	589,691	369,691	(220,000)

Note (1) Any portion of the \$200,000 loan to the Savings Plan remaining at the end of FY 2002 may be carried forward to FY 2003.

Note (2) A revised budget is requested because approximately \$160,000 of the 2002 marketing campaign will be moved from spring 2002 to fall 2002.

Note (3) A revised budget is requested to hire two additional FTE.

Note (4) A revised budget is requested to purchase equipment for two additional FTE and for increased costs for printing and other goods and services anticipated to increase due to actual enrollment figures higher than originally estimated.