GUARANTEED EDUCATION TUITION COMMITTEE MEETING
REGULAR MEETING

Tuesday, March 12, 2002
2:00 pm - 5:00 pm
State Investment Board
2424 Heritage Ct SW
Olympia, Washington

AGENDA

1. Call to Order

2. Approval of January 23, 2002 Minutes	ACTION	Tab 1
3. Proposed Policy Revisions	DISCUSSION	Tab 2
▪ Increase of annual unit usage	PUBLIC COMMENT	
▪ Policy for establishing scholarship accounts	ACTION	
4. College Savings Plan Update	DISCUSSION	
Approval of a joint request for proposals	ACTION	
5. Director's Report	INFORMATION	
Legislative update		

6. Possible Executive Session
   May be held for any of the purposes set forth in RCW 42.30.110

7. Action Items, if any, made necessary by Executive Session

8. Adjournment of Regular Meeting

Next Regular Meeting, July 16, 2:00 – 5:00 p.m.
State Investment Board, 2424 Heritage Court SW, Olympia, WA

03/07/02
4:13 PM

GUARANTEED EDUCATION TUITION COMMITTEE MEETING
Wednesday, January 23, 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 2:10 p.m. Committee members in attendance in addition to the Chair included Michael J. Murphy, State Treasurer; Wolfgang Opitz, Deputy Director of OFM; Beth Stecher Berendt, Citizen Member; and Mooi Lien Wong, Citizen Member.

<u>HECB staff in attendance:</u>

Betty Lochner, GET Director
Larry Lee, GET Operations Manager
Debra Blodgett, Administrative Assistant
Jackie Molique, Customer Service Manager
Denise Fry, Outreach Coordinator
Barbara Dunn, HECB Communications Dir.

<u>Guests in attendance:</u>

Keith Anderson, Safeco
Gary Bruebaker, State Investment Board
Monte Calvin, Washington Mutual
Wendy Dore, The Marketing Partners
Elaine Emans, State Treasurer's Office
Cynthia Flynn, Council of Presidents
Joe Dear, Frank Russell Company
Kristine Nelson, Clark Nuber
Bill Reimert, Milliman USA
Helen Small, State Investment Board
Rick Starkenberg, Clark Nuber
Cathy Stevens, The Marketing Partners
Cliff Webster, TIAA-CREF

WELCOME

Marc opened the meeting with introductions of the committee members. Betty Lochner, GET Director, introduced GET staff in attendance. Guests in attendance were asked to introduce themselves.

Betty noted no changes to the agenda but directed the committee to the revised operating budget handout, which replaces the handout in Tab 2, the SIB Investment Update for the Fourth Quarter 2001, and a GET Portfolio Analysis handout, to be discussed under agenda item #4.

APPROVAL OF MINUTES

Mike Murphy moved to approve the November 16, 2001 minutes, Beth Berendt seconded the motion. The motion carried unanimously.

APPROVAL OF REGULAR MEETING SCHEDULE

Betty presented the proposed regular meeting schedule for 2002. All meetings were cleared through committee member support staff. **Beth Berendt moved to accept the meeting schedule**

presented. Motion was seconded by Mooi Lien Wong. Mike Murphy indicated a possible conflict with the September meeting date. Beth reiterated the importance in keeping the meeting dates as presented. **The motion carried unanimously.**

MARKETING UPDATE
Betty introduced Wendy Dore from The Marketing Partners. Wendy distributed a handout on the spring 2002, television campaign. The committee viewed the 30-second TV commercial, which will begin airing February 11th and will run through May 31st. Wendy reported that coverage of the commercial will reach 80-90 percent of the targeted market. Contracts are signed and everything is ready to go. Most stations are giving GET bonus spots, and are putting a link on their web sites to the GET website. Morningside will be prepared to have extra coverage for the times the commercials will be running.

INVESTMENT UPDATE
Betty introduced Gary Bruebaker from the State Investment Board to give the fourth quarter, 2001 investment update.

Gary reported that the fund is currently at $81.5 million. He reviewed the GET Portfolio Analysis and explained that the SIB is developing a new asset allocation for GET, which does not include REITS. Gary explained the four proposed options. Option 1 is the most conservative with Option 4 being the most aggressive. The benchmark for the program remains at 7.5 percent. Gary indicated that the SIB would like some guidance from the committee on what option the committee would be comfortable with.

Wolfgang asked if there are other publicly managed funds or pension funds that are invested in allocations similar to proposed options for GET. Gary indicated that some similar programs have asset allocations in these types of options, mostly similar to Option 4.

Marc asked which option reflects GET's current asset allocation. Gary indicated that none of these options included REITS, although GET currently would fall somewhere between Option 1 and 2.

Current GET investment balances as of September 20, 2001 are as follows:

Cash – $2.9 million	US Equity - $28.5 million
TIP's – $38.9 million	Non-U.S. Equity - $11 million

Total invested: $81.5 million

APPROVAL OF FY 2003 OPERATING BUDGET
Betty presented the approved operating budget for the current fiscal year and the proposed budget for the upcoming year. The proposed operating budget for fiscal year 2003 is $2,217,250. This is based on projected contract sales of 4,000. The increase in the budget allows for two new staff to meet the demands of the growing program. SCT software will have one more large payment then conversion costs will drop off dramatically in future years.

Mike Murphy moved to accept the fiscal year 2003 operating budget as presented, which was seconded by Wolfgang Opitz. The motion carried unanimously.

TUITION IMPACTS
Betty directed the committee to the Milliman USA memo in the packet and introduced Bill Reimert, actuary for the GET program. Bill has been attending meetings this week to brief legislators and staff on tuition impacts.

Bill explained the information found in the packet regarding tuition impacts on the GET program. Four scenarios regarding potential future tuition increases were explored with tuition increases of 6.1 percent (current authorization), 6.75 percent (historical average increase), 12 percent and 18 percent.

Bill explained that the program can withstand a one-year tuition increase. However, tuition increases greater than the average expected increase of 6.75 percent over time create significant liability to the program in future years.

Marc asked that if there were a one-year of spike in tuition, what the unit price increase might be expected to be. Bill responded that it would depend on how great the increase was and whether it was anticipated that future years would continue at the average expected increase. If tuition were to rise 10 percent over four years, for example, the unit price might have to go up 10, 15 or 20 percent, which could be a significant increase. He also noted that the GET program will be better able to handle the risk tolerance as it becomes more stable throughout the years.

Mike asked how many of the eligible matriculating students attended college. Betty responded that about half of those who were eligible to use benefits this fall drew funds from their GET accounts. The remaining deferred use to a later year.

There was further discussion on different potential scenarios. Marc asked Bill to continue to work with staff for future recommendations to the committee.

POLICY REVIEW – Refund Policy
Betty reviewed the current cancellation and refund policy adopted Jan. 23, 2001, and explained the need for a revision. The new federal tax law, effective January 2002 includes changes in how the IRS penalty is assessed and collected. Prior to 2002, the penalty was collected and kept by the state and used to offset administrative costs. The new law requires the federal government to assess and collect the penalty through the federal tax filing process. Because the program is no longer required to assess the IRS penalty, it is necessary to either eliminate it, or change the language in the policy. Due to costs associated with account maintenance and processing, it isn't feasible to eliminate a cancellation fee collected by the program that offsets those costs. Staff recommended changing the name of the penalty from "IRS Penalty" to "Cancellation Penalty" and to clarify that additional taxes or penalties may be assessed. The program penalty will remain at $100.00 or 10 percent of the increased value, which ever is greater.

After active discussion by the committee on the language in the policy, Marc opened the discussion up for public comment.

PUBLIC COMMENT

Christine Nelson, CPA for Clark Nubur, wondered if the wording might be misleading and asked when the 10 percent penalty is imposed. Larry responded that the cancellation penalty would apply to any account whether they had a gain or not.

Elaine Emans suggested a wording change to "funds so removed", to clarify that funds removed from the account may be subject to additional taxes and/or penalties by the IRS.

Marc noted that there were several suggestions for the policy and asked that staff rework the language and bring a new draft for review at the end of the meeting.

Action tabled to end of meeting.

COLLEGE SAVINGS PLAN UPDATE

Betty turned this item over to Larry Lee to give the update. Larry reported that the committee had approved a letter of agreement between the SIB and the HECB at the last meeting. The Interagency Agreement was signed by the two agencies on January 4, 2002. Tab 5 contains the approved agreement. We are working with SIB to develop and RFP for the committee's review. A special meeting may be called in February if the final RFP is ready to bring to the committee for approval before the next regular meeting.

Mooi Lien raised the question of whether we could be in the business of selling investments to the public and whether there are be any regulatory or licensing requirements. Larry indicated that it is not known what requirements would be at the staff level until the RFP process has been completed, but that GET staff would not be selling directly to the public, nor giving investment advice.

Beth asked how customer service works for the deferred compensation program works. Helen Small responded that DRS has representatives that answer questions, however, they don't provide financial advice. They also have a separate record keeper.

Marc opened the meeting up for public comment on the college savings plan item.

Christine Nelson and Rick Starkenberg, CPA's from Clark Nuber shared that they are delighted that the savings plan will be developed. They are both experts on 529 plans and belong to a 529 Task Force and have gathered information on various programs.

Marc asked if they could leave their findings and recommendations with the committee. Mike Murphy indicted that he would like a copy also.

Marc closed the public comment section.

DIRECTOR'S REPORT
As of Dec. 31, 2001, there were 14,051 active contracts valued at $111 million. We have received twice the enrollments as this time last year. Calls to the program are almost triple what we had last year.

GET program is being recognized by Morningside with the "Business of The Year" award.

LEGISLATIVE UPDATE
Betty referred to two bills (HB 2492 and SB 6486) that have been brought forward by request of the State Treasurer. The bill that passed last year authorized the GET Committee to establish and operate a savings plan and allowed for $200,000 to be borrowed from the GET program. Any money borrowed would be paid back by the end of the same biennium. The current proposed legislation changes the loan amount and loan terms to be at the discretion of the GET committee.

Beth asked for an opportunity to discuss the bills. Beth raised some concerns about the bills and indicated she would be more comfortable supporting the bills if limits were placed on loan amount and repayment term.

Mike walked everyone through the bills and explained the intent to provide the savings plan more flexibility and the urgency to drop the bills early in the session. He expressed that he would be open to making changes to the bills if the committee so desired. After active discussion of the bill language, the following changes were proposed:

- Loan limit be changed to a maximum of $500,000 for start-up.
- Any loan must be repaid with interest as determined by the committee in the appropriate time period not to exceed four years from the date of the draw.
- An emergency clause for immediate implementation would also added.

Motion to approve by Beth Berendt and seconded by Mooi Lien Wong. Motion carried unanimously.

Mike indicated that he would draft a substitute bill with the approved changes and thanked the committee for their support and endorsement of the legislation.

Marc recommended a statement from the committee expressing their support be sent to the legislature.

REFUND POLICY
Betty brought forward revised proposed language for the cancellation penalty section of the Cancellation and Refund policy to read "Similar to other federal and state tax advantaged investment programs, the GET Program assesses a penalty when funds are removed for purposes other than higher education expenses. The penalty amount is 10 percent of the increased value of the units held at the time of the refund, or $100, whichever is greater. In addition, funds so removed from your GET account may be subject to additional taxes and/or penalties by the

Internal Revenue Service.   Please talk to your tax advisor before requesting a refund to determine any tax ramifications."

Mike Murphy moved to adopt the revised cancellation language as presented to be included in the revised Refund and Cancellation Policy. Wolfgang Opitz seconded the motion. Motion carried unanimously.

Meeting adjourned at 5:05 p.m.

NEXT MEETING
The next meeting of the GET Committee is scheduled form March 12, 2002, 2:00 – 5:00 p.m. at the State Investment Board (Board Room).

Proposed Increase of Annual Unit Usage

March 12, 2002

Background

As outlined in RCW 28B.95.030 (2)(d), "The governing body may limit the number of tuition units purchased by any one purchaser or on behalf of any one beneficiary…" RCW 28B.95.030 (7)(a) further states that the governing body may "impose reasonable limits on the number of tuition units or units that may be used in any year."

At its May 26, 1998 GET Committee meeting, the committee set a cap of 500 units per beneficiary. The current master agreement states that, "Unless eligible units are available from a previous benefit use year, the student may not redeem more than one hundred units in a program year of August 1 to July 31."

The GET Program is in its second year of benefit distributions and is receiving a growing number of requests seeking to use more than 100 units per year to cover institution-specific fees, books, room and board, and other eligible educational expenses. For those students attending the University of Washington and Washington State University, 100 GET units cover only tuition and state-mandated fees. No additional units are available for other eligible expenses, including other institutionally mandated fees.

Parents who purchased 500 units are asking to be able to use them over a four-year period, rather than stretching use over five years. Allowing students to use all their units over four years eliminates the penalties involved in seeking a refund of the final 100 units, as is the case with students who graduate in four years. For students who use their 100 units for the standard two-semester or three quarter-terms, no additional funding is available for summer school sessions under the current 100-unit limit.

Proposal

GET staff propose to increase the number of units that may be used each year from 100 to 125 units. This will allow students the flexibility to use additional units each year to cover expenses allowed by section 529 of the Internal Revenue Code, but not currently available under GET rules.

Such a proposal would allow all 500 units to be used in four years if desired, eliminating the concern of having to refund excess units with a penalty upon graduation.

Staff Recommendation

GET staff recommends the increase in allowable unit usage from 100 to 125 units per academic year. The 500 total unit limit per beneficiary will remain. The change should coincide with the new enrollment year, and should therefore take effect Sept. 1, 2002.

Revised Policy for Establishing Scholarship Accounts

March 12, 2002

Background

Under current policy, corporations may establish a scholarship account if they identify the student beneficiary at the time the account is opened. Qualified 501(c)(3) non-profit organizations and governmental entities may establish scholarships with the student to be named in the future. A $50 application fee is required for each account opened.

RCW 28B.95.040 states, "The governing body may, at its discretion, allow an organization to purchase tuition units for future use as scholarships. Such organizations electing to purchase tuition units for this purpose must enter into a contract with the governing body, which at a minimum, ensures that the scholarship shall be freely given by the purchaser to a scholarship recipient. For such purchases, the purchaser need not name a beneficiary until four months before the date when the tuition units are first expected to be used…"

Current policy makes it necessary for organizations to open individual accounts for each beneficiary, requiring a $50 enrollment fee for each account. In many cases, the amount in the accounts is not sufficient to cover the cost of annual administration. The cost to the organization can be prohibitive when a $50 enrollment fee per beneficiary is required.

Several organizations have contacted GET staff inquiring about using GET as part of their scholarship programs. All have been dissuaded for various reasons: 1) the enrollment fees are too costly for the organization; 2) the necessity of purchasing individual accounts for each recipient; 3) in some cases, having to name a recipient when the account is opened, and 4) the limit of 500 units per account.

Proposal

GET staff propose the present policy be changed to allow organizations to open a master account with a $100 enrollment fee, with a limit of 5,000 units for each master account. Once a beneficiary is named, an individual account would be opened in the student's name. The purchaser would remain as the scholarship organization. Any unused funds would be transferred back to the master enrollment with the organization. This policy change would make the GET program an easy vehicle for scholarship programs and would streamline the administration of these accounts for both the organization and GET.

Staff Recommendation

Staff recommends that the following proposed scholarship policy be adopted (see attached).

Guaranteed Education Tuition (GET)
Scholarship Policy

Current policy

- Corporations may establish a scholarship if they identify the student beneficiary at the time the account is opened.
- Qualified 501(c)(3) non-profit organizations and governmental entities may establish scholarships with the student to be named in the future.
- A $50 enrollment fee is required for each beneficiary.
- A 500-unit limit is required for each account.

Proposed policy

Effective September 1, 2002

Scholarships – General

- Corporations, qualified 501(c)(3) non-profit organizations and governmental entities may establish scholarships by opening a master account for future beneficiaries.
- Accounts are limited to a maximum of 5,000 lump sum units per master agreement. No more than 500 units may awarded in a scholarship to any one beneficiary. If a beneficiary is named under another GET contract, the aggregate of the contracts may not exceed 500 units.
- Once a student beneficiary is named, an individual account will be opened in the student's name. Any unused units will be transferred back to the organization's master account.
- All scholarships established through the GET program are subject to all GET program policies and procedures.
- Organizations may open more than one master agreement; however, all master agreements are subject to approval by the GET director.

Associated Fees

A $100 non-refundable enrollment fee is required for each organization that establishes a master agreement to administer scholarships through the GET program. A $25 benefit use fee for each individual account established is required at the time the beneficiary is named.