



# GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Tuesday, April 20, 2004  
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  
Heidi Arneson, Benefits and Finance Manager  
Heidi Jones, Records Manager  
Adrienne West, Fulfillment Assistant  
Vickey Mauerman, Financial Accountant  
Denise Fry, Outreach Coordinator

### Guests in attendance:

Howard Fischer, Attorney General's Office  
Bill Reimert, Milliman USA  
Diana Will, State Investment Board

## CALL TO ORDER

The Chair, James Sulton, Jr., Ph.D., Executive Director of the Higher Education Coordinating Board called the meeting to order at 2:02 p.m. Members in attendance in addition to the chair included Michael J. Murphy, State Treasurer, Marty Brown, Director of the Office of Financial Management, Beth Stecher Berendt, citizen member and Mooi Lien Wong, citizen member.

Sulton gave a brief report on activities of the HECB. The statewide strategic master plan is in the process of being finalized. The goal of the HECB is to make the statewide strategic master plan the State's master plan as opposed to a HECB master plan. There will be a round of statewide public hearings in order to gather input from all sources. There were 12 proposals added to the master plan, which include the question of a tuition setting recommendation. There will be a retreat to review the proposals and discuss where to go on tuition. Sulton apprised the board in detail about GET and expressed ownership of the program. The master plan is currently in draft form for discussion only. There is an expectation that the master plan will have some language about GET and the resulting setting of tuition.

## APPROVAL OF MINUTES

**The minutes from the February 10, 2004 Meeting were reviewed. A motion was made to adopt the minutes as presented, by Murphy and seconded by Brown. The motion was approved and carried unanimously.**

## DIRECTOR'S REPORT

Betty Lochner began with introductions of GET staff and audience members in attendance. Lochner reported the tentative number of enrollments for this 2003-2004 year is 7,844 with a few more expected to be included in the final number. The goal for new enrollments was 5,000 and we have surpassed that number again. The contributions are up with a total value of over \$450 million dollars, which includes payments received as well as anticipated future payments. During the last five days of enrollment there was over \$2 million deposited into GET accounts each day. Sixty percent of the enrollments this year were accomplished through on-line enrollment (up from 40% last year). The program is getting a lot of interest in payroll deduction, especially from state employees. Over \$90,000 comes in monthly from State payroll deduction.

Lochner directed the committee to the updated materials from other states pre-paid programs and how GET compares to other states.

GET has received information regarding the Lifetime Savings Accounts (LSA's) that are being proposed and how those will affect pre-paid or savings plans. This is for the committee's information only and will probably not be taking place this year but possibly in the future. Murphy reported that the members of the National Association of State Treasurer's (NAST) had met recently and had discussed at length the issues surrounding LSA's. The members attempted to adopt a resolution, but weren't successful. The main issue with LSA's involved the rollover provisions. There were indications that LSA's only dealt with savings plans, however, it was discovered that they would apply to both pre-pays and savings plans. The LSA's would allow disbursements to anyone. The NAST will continue to pursue a resolution towards LSA's. Brown requested that GET staff prepare a letter for the Committee to review for next meeting that would be sent to the NAST in support of a resolution. Berendt suggested contacting Washington's state representatives regarding this matter. A letter will be drafted and the committee will approve the letter via teleconference if needed.

#### **GET INVESTMENT UPDATE**

Diana Will, Investment officer, at the Washington State Investment Board, was introduced to give the GET investment update. Will reported that the fund has grown to \$373 million. Growth for the quarter was at \$47 million, consisting of \$33.5 million in customer contributions and \$13.5 million investment earnings. The current asset allocation, which is 40% US Equities, 40% TIPS and 20% Non-US Equities, was on target at the end of March. The fund grew by \$172 million between March 31, 2003 and March 31, 2004, \$97 million from customer contributions and \$75 million from investment earnings.

There was a 4.04% total return for the quarter and a 30.13% total return for the year, surpassing both the passive benchmarks and the absolute returns. However, the return since inception was only 6.19%, still below the target rate of 7.5%. The 3.26% return on Equities for the quarter is a bit above the benchmark, and the Treasury Inflation Note return of 5.36% also exceeded its benchmark.

Wong asked about GET's US Equity allocations. Will reported that US Equity is in a Wilshire 5000 Index, which is 40% of GET's portfolio. The Wilshire 5000 Index has 6,000 stocks in it and includes most US stocks. Wong asked if GET has a target allocation in terms of a Small Cap or Large Cap. Will explained that the market weight is used so that in the Wilshire 5000 Small Cap is about 8% to 17% of the portfolio. Small Cap has done great over the past year so the percentage of Small Cap is actually growing in the portfolio but it is a market weight. Brown asked Will for an opinion on whether or not GET's allocation is proper right now. Will indicated that the allocations were reviewed two years ago and seem to be doing well. However, the SIB is keeping an eye on the percentage of Custom Monthly contracts. These contracts are similar to fixed income bonds in that they have a set return of 7.5%. If the percentage of these contracts continues to drop, the asset allocation model may need to be adjusted to take this into consideration. Will is very happy with the allocations as they stand now. Murphy clarified with Will that the contract assets are fixed at 7.5%.

## **APPROVAL OF GET BUDGET**

Larry Lee, GET Operations Manager, directed the committee to the revised budget handout. Lee reported that the assumptions are that GET will continue to sell 5,000 contracts with an average of 200 units in each. Staff has determined that GET will have enrollment fees of \$250,000 with administrative cost returns of approximately \$3 million dollars. The projected available funds are \$3,250,000 in order to cover the anticipated expenses of \$3,033,250. Lee reported that salaries and benefits are holding from last year, although we are increasing goods and services to accommodate growth in the program as well as providing in-house fulfillment services. Travel will remain the same. The Actuarial contract will go down a bit, while the marketing contract will be increasing due to the presidential election.

Lee reported that payouts to SCT will be ending and the budget has been reduced by \$500,000 with the anticipated elimination of the SCT Contract. Extra contract funds that come in due to extra contracts sold are placed into the trust fund as additional fees that won't be allocated towards expenses.

Brown initiated a discussion on increasing the goal for contracts sold to possibly 7,500, considering what affects it would have actuarially. Bill Reimert, Actuary from Milliman USA, explained that the more units you expect to sell, the more units you have to spread the cost of the total budget. Active discussion occurred regarding average contracts received over time and the variables that may affect whether an increase in contracts expected should be implemented. Murphy expressed concern about the premium and perception by customers who would be buying the units. Reimert explained the variables associated with tuition increases and market returns are so varied that it is very difficult to try to measure an expected enrollment number. Lochner explained that increasing the sales assumption in the current budget from 5,000 to 7,500 would change the unit price on the spreadsheet by less than \$1 per unit. Depending on rounding, it might have no impact on the final unit price.

## **MOTION TO APPROVE FY05 BUDGET**

**There was a motion by Murphy to adopt the FY05 budget as presented, which was seconded by Brown. The motion was approved and carried unanimously**

## **GET ACTUARIAL ANALYSIS AND PRICE SETTING**

Lochner presented a brief staff report, which gave some background on price setting. Staff is recommending an interim unit price increase to \$62. This price would be in effect until August 31. An error was pointed out in the hand out in the last paragraph, which should be a price premium of 19.8 percent up from 17.8 percent. A revised copy was presented to the committee with the correct calculation. The current price premium is at 17.87 percent. Lochner advised the committee of new information included by Milliman for their consideration.

Reimert gave an overview and commented that the biggest factor in determining price is the future rate of tuition increases, followed by the rate of investment returns and then operating expenses. Tuition plays a bigger factor than investments because of the uncertainty associated with tuition increases. Murphy questioned the actuarial deficit, which had been substantial. As of June 30, 2002 the program was in a \$21.6 million deficit and then June 30, 2003 the deficit was at \$5.8 million. We now have a \$26.9 million surplus. Over the last two years we've

moved \$50 million. Murphy questioned raising the unit price based on the premium. Berendt expressed concern about a lack of strategy to build a surplus of funds.

Reimert explained that five years ago and six years ago we were assuming 6.75% annual tuition increases, which is what pricing and valuations were based on. Part of the extra premium went to cover unanticipated tuition increases. Liabilities are about 6.25% higher now than we were expecting five years ago. The total investment return since inception has been 6.2%, when the return assumptions have been at 7.5%. This is lagging roughly 1.3% in what we thought we would earn. This represents an additional 6.5% lag on what we expected would be happening. Those two numbers are a 12-13% lag on average over time. The reason for the premium is to make provision for the possibility of adverse experience.

Brown asked Reimert for an estimate of what other pre-paid programs are charging for a premium. Reimert explained that other states primarily reflect their own forecasts on what they think tuition will be doing over the next three to five years. Some states expect double-digit tuition increases for several years into the future. In some states, like Ohio, they closed down for future sales because of their forecasts. They are hoping state budgets will stabilize.

Wong commented that at the regular annual pricing meeting in August the Committee implemented the option to make an adjustment to the unit price in May if needed so that people buying the units now until August wouldn't be given more benefits over the people who bought prior. Based on the fact that people should be buying at the same level as those who have been buying for the past few months, Wong would support maintaining the current premium at a price of \$61.

Brown gave some background on the State budget in which a \$2.6 billion deficit for the 2003-2005 biennium resulted in tuition being raised 7% for two years. For the 2005-2007 biennium, they are expecting a \$700 million shortfall, which is significantly less. Brown believes that the Legislature will continue to hold the authority for setting tuition. He doesn't believe the legislature will set tuition at 16%, based on the known shortfalls and tuition already set.

#### **MOTION TO APPROVE PRICE SETTING**

**A motion was presented to the Committee by Wong to establish the interim unit price at \$61 per unit, up from the current price of \$57 per unit. Brown moved to accept the motion with a second by Murphy. The motion was approved and carried unanimously.**

#### **NEXT MEETING**

The next meeting of the GET Committee is scheduled for August 4, 2004, 2:00 p.m. to 5:00 p.m. at the State Investment Board (2100 Evergreen Park Drive SW, Olympia, WA 98502). **(NOTE: The meeting was rescheduled to August 3, 2004.)**

#### **ADJOURNMENT**

There being no other business, the meeting was adjourned at 3:15 p.m.

**REVISED**  
**Regular Meeting Schedule**  
**2004 Calendar Year**

**August 3, 2004**

**Background**

As outlined in RCW 28b.95.030, WAC 14-104-010, the GET Committee shall hold regular meetings as needed. Additional special meetings may be scheduled if needed. The following is the approved regular meeting schedule for the 2004 calendar year, with the addition of a November meeting date.

A calendar of meeting dates for 2005 will also be presented at the August 2004 meeting.

<b>DATE</b>	<b>TIME</b>	<b>PLACE</b>
February 10, 2004 Tuesday	2:00 – 5:00 p.m.	Olympia, State Investment Board (Board Room)
April 20, 2004 Tuesday	2:00 – 5:00 p.m.	Olympia, State Investment Board (Board Room)
August 3, 2004 Tuesday	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)
<b>November 1, 2004 Monday</b>	<b>2:00 – 4:00 p.m.</b>	<b>Olympia, State Investment Board (Board Room)</b>

**Recommendation**

Staff recommends adding the November meeting date to regular GET Committee Meeting schedule for 2004.

**Proposed Regular Meeting Schedule  
2005 Calendar Year**

**August 3, 2004**

**Background**

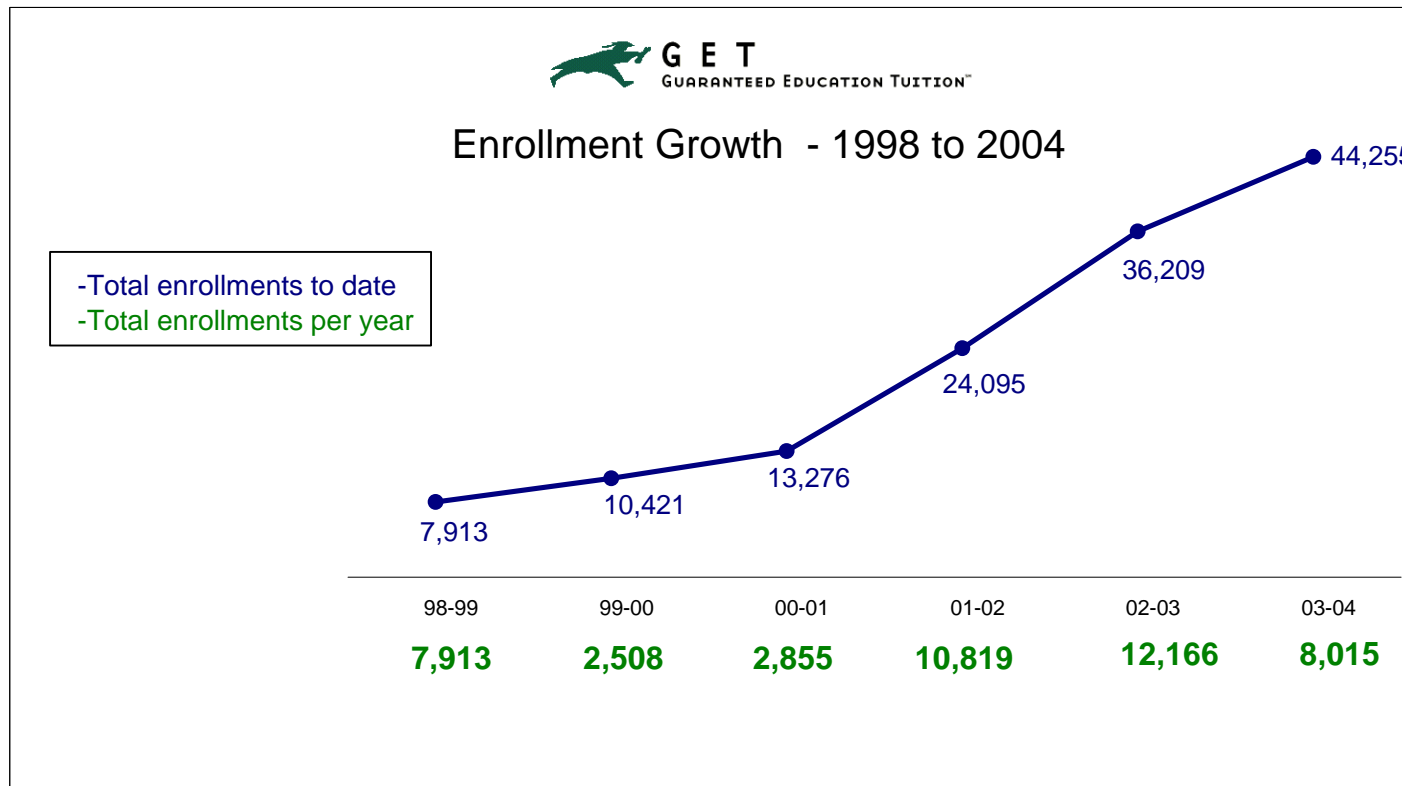
As outlined in RCW 28b.95.030, WAC 14-104-010, the GET Committee shall hold regular meetings as needed. Additional special meetings may be scheduled if needed. The following is a proposed regular meeting schedule for the 2005 calendar year.

<b>DATE</b>	<b>TIME</b>	<b>PLACE</b>
February 22, 2005 Tuesday	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)
April 19, 2005 Tuesday	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)
August 2, 2005 Wednesday	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)

**Recommendation**

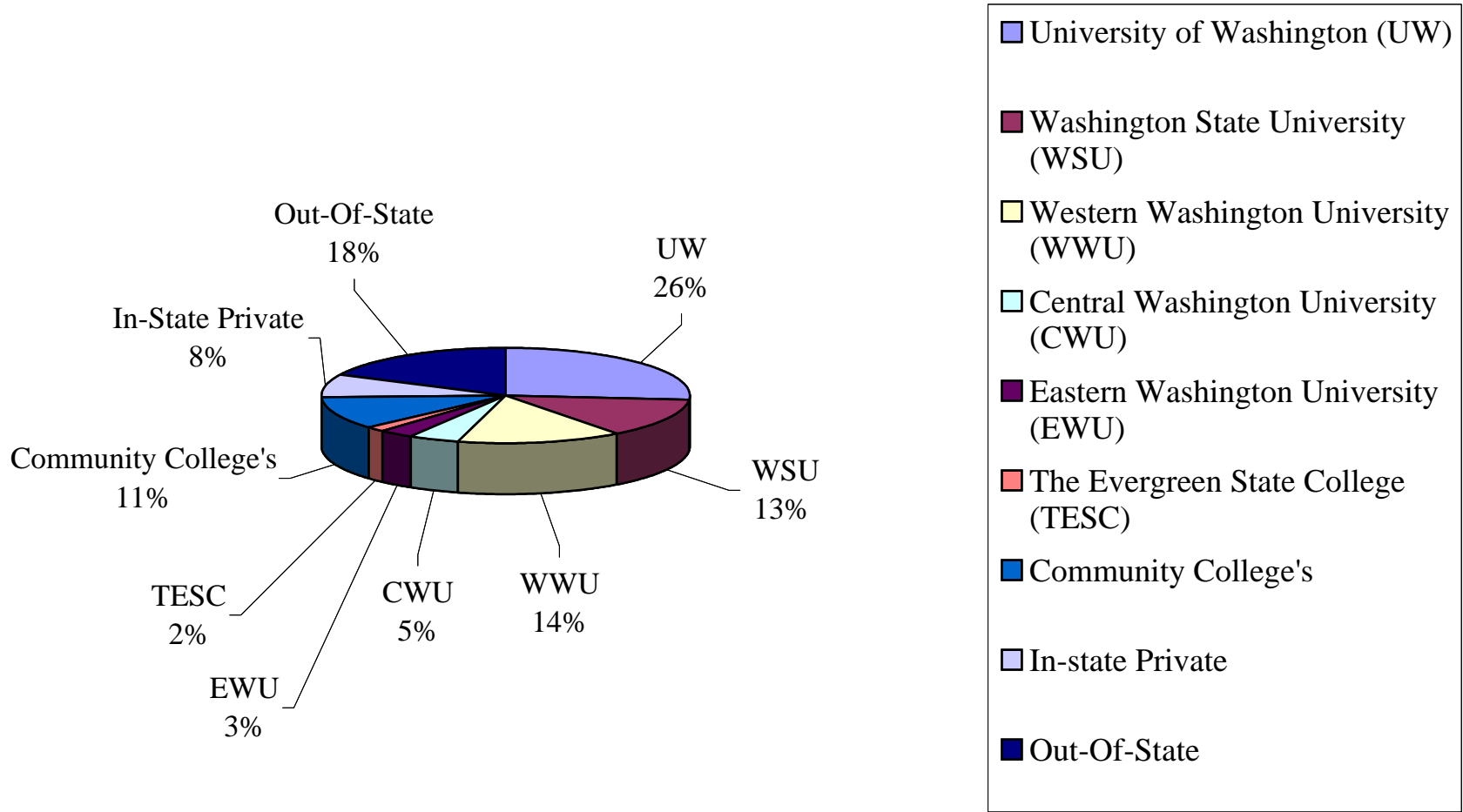
Staff recommends that the proposed regular GET Committee Meeting schedule for 2005 be approved.

<b>GET Program Since Inception (as of June 30, 2004)</b>	
Total GET accounts opened:	<b>44,255</b>
Total payments received:	<b>\$350.3 million</b>
Total units purchased:	<b>9.2 million</b>
Total value of all contracts:	<b>\$473 million</b>
Total benefits paid out to students:	<b>\$8.6 million</b>

**GROWTH OF ACTIVE ACCOUNTS SINCE PROGRAM INCEPTION**




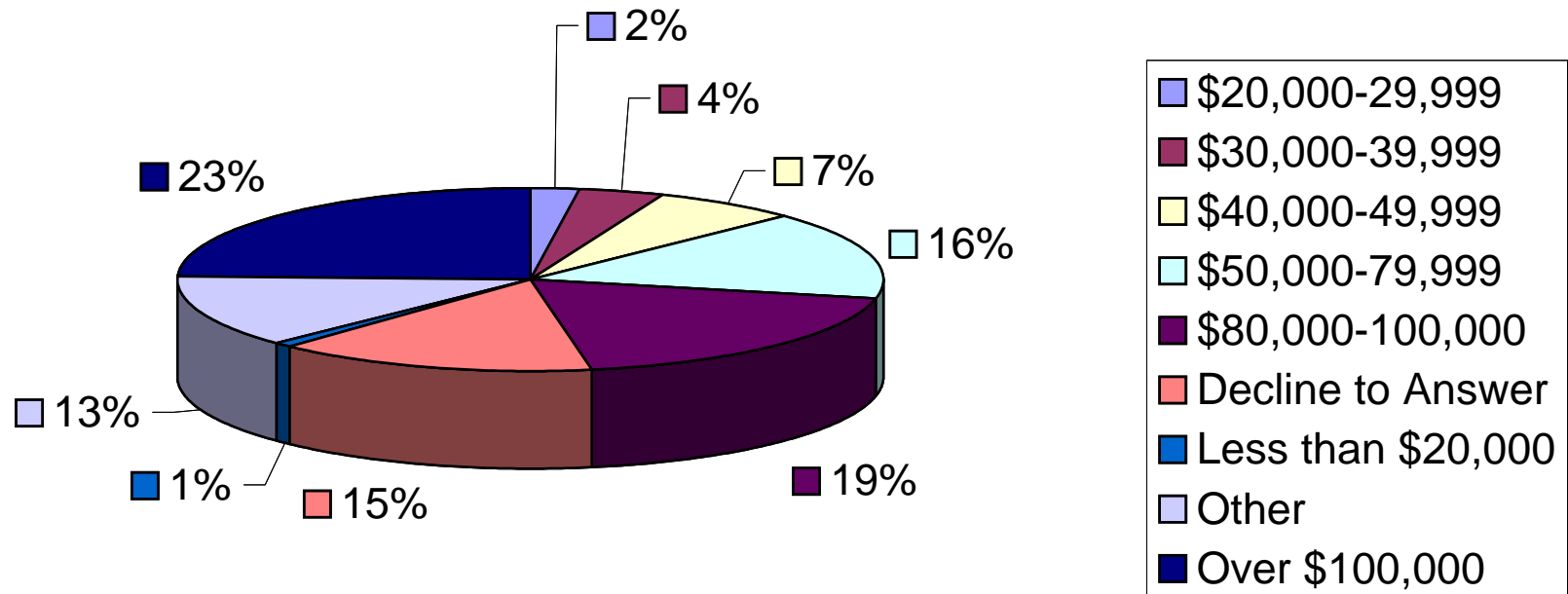
# Students Using Benefits 2004-2005



\* Note: 70% of eligible students have not yet notified GET where they are attending Fall 2004.  
The above percentages represent 1077 out of 3945 eligible students

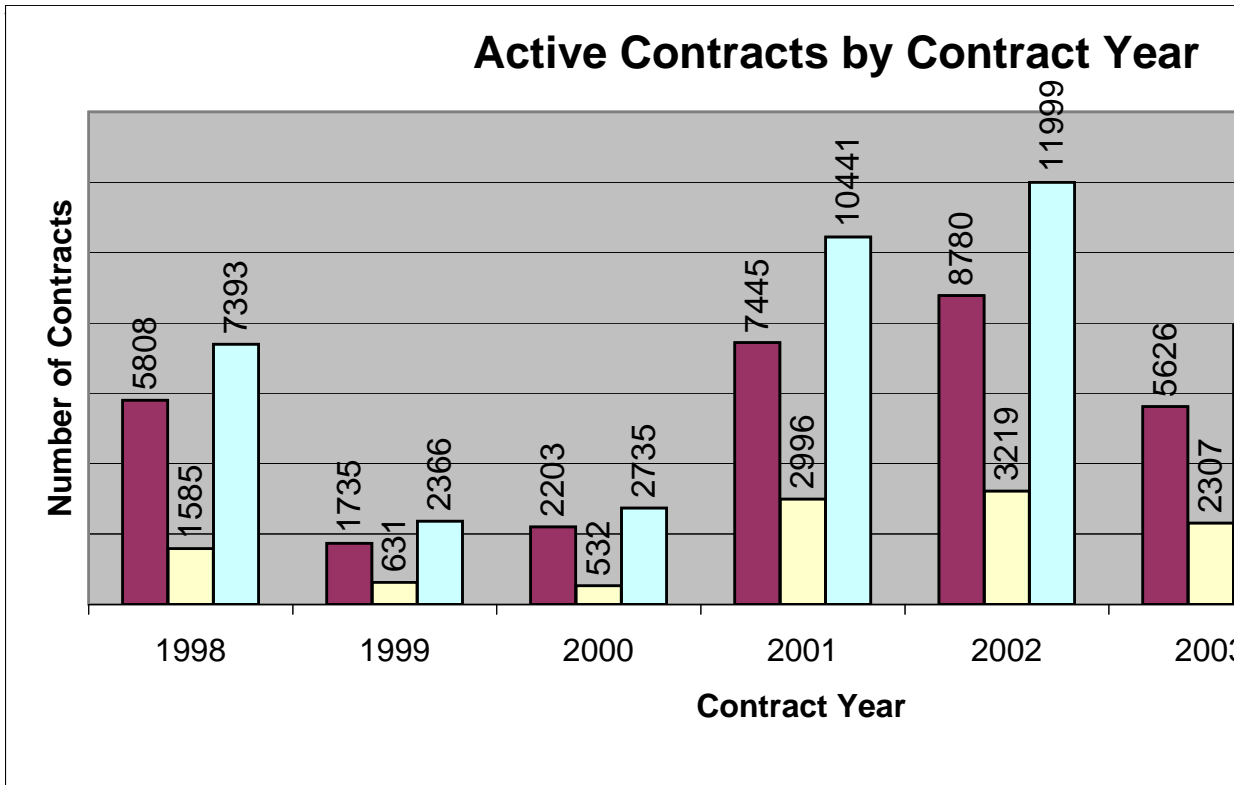
# Income of Purchaser at time of Enrollment

Based on responses from 25,899 account holders

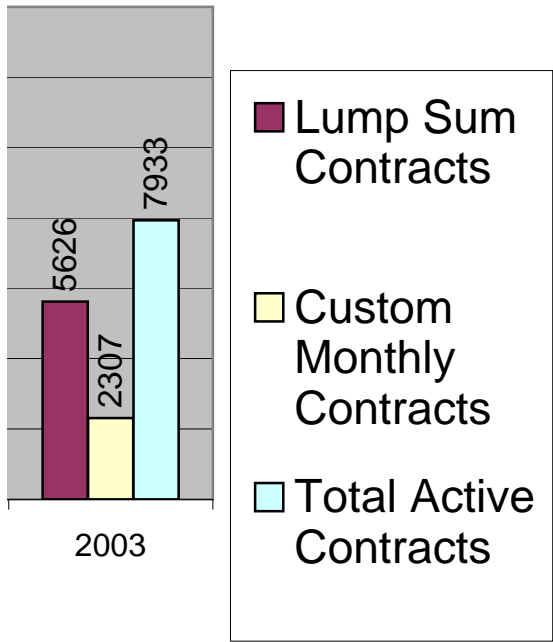


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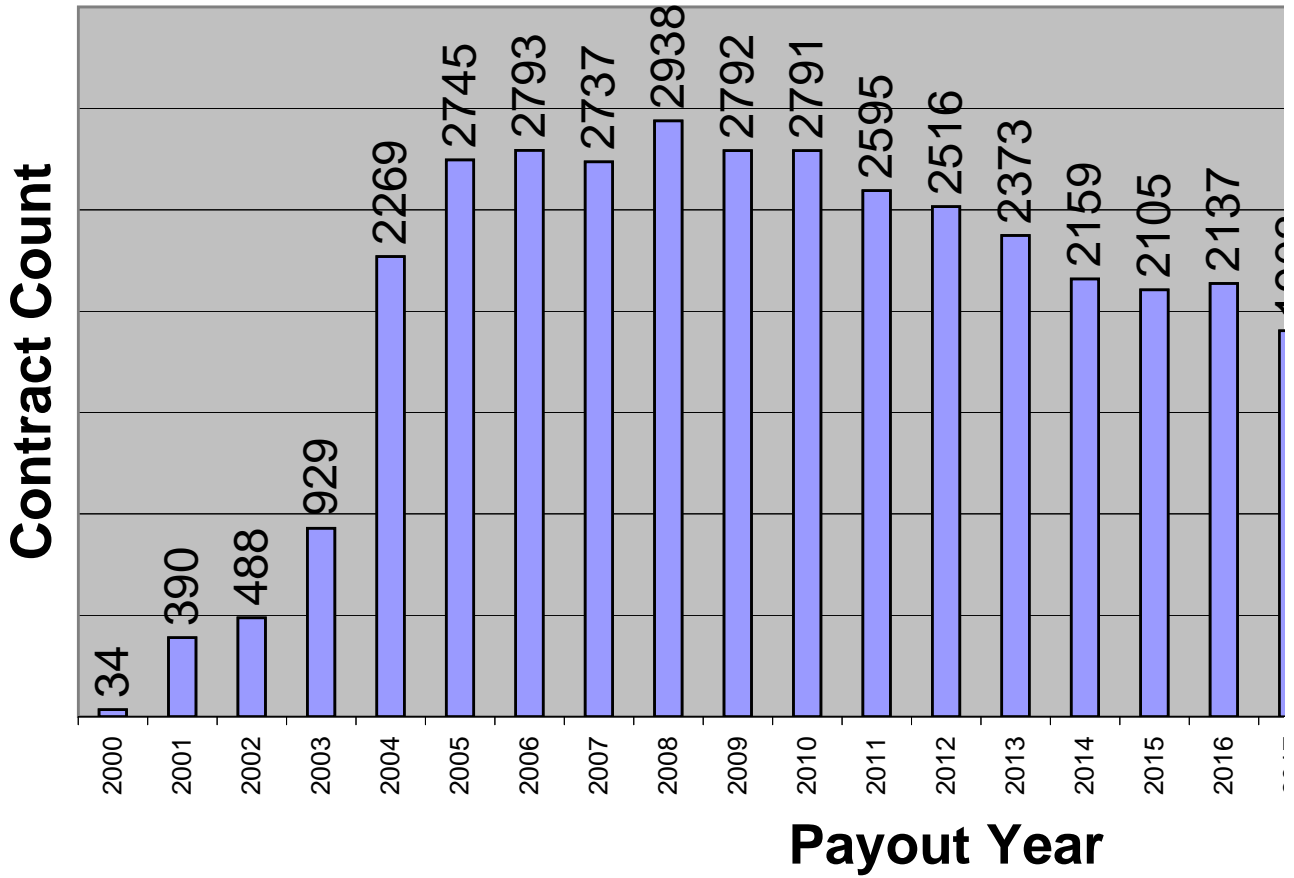
Contract



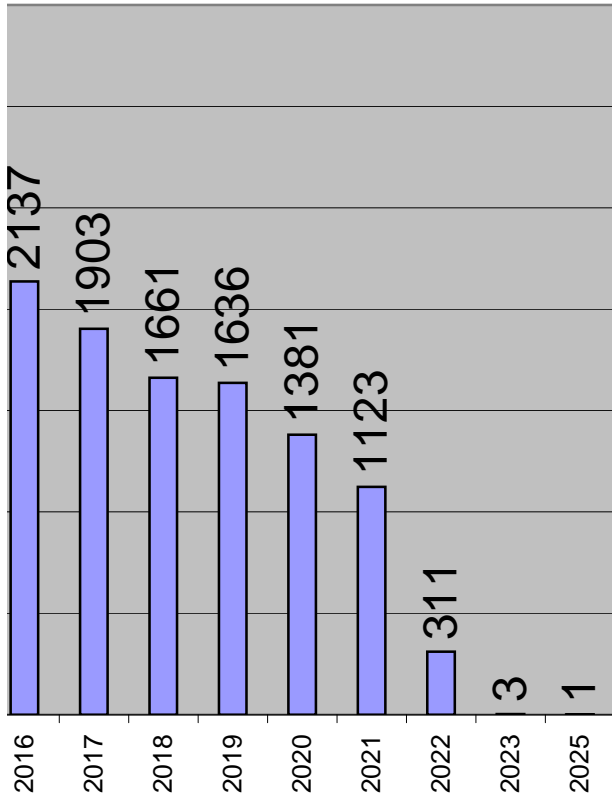
Year



### Expected Number of New Students Eligible to Use

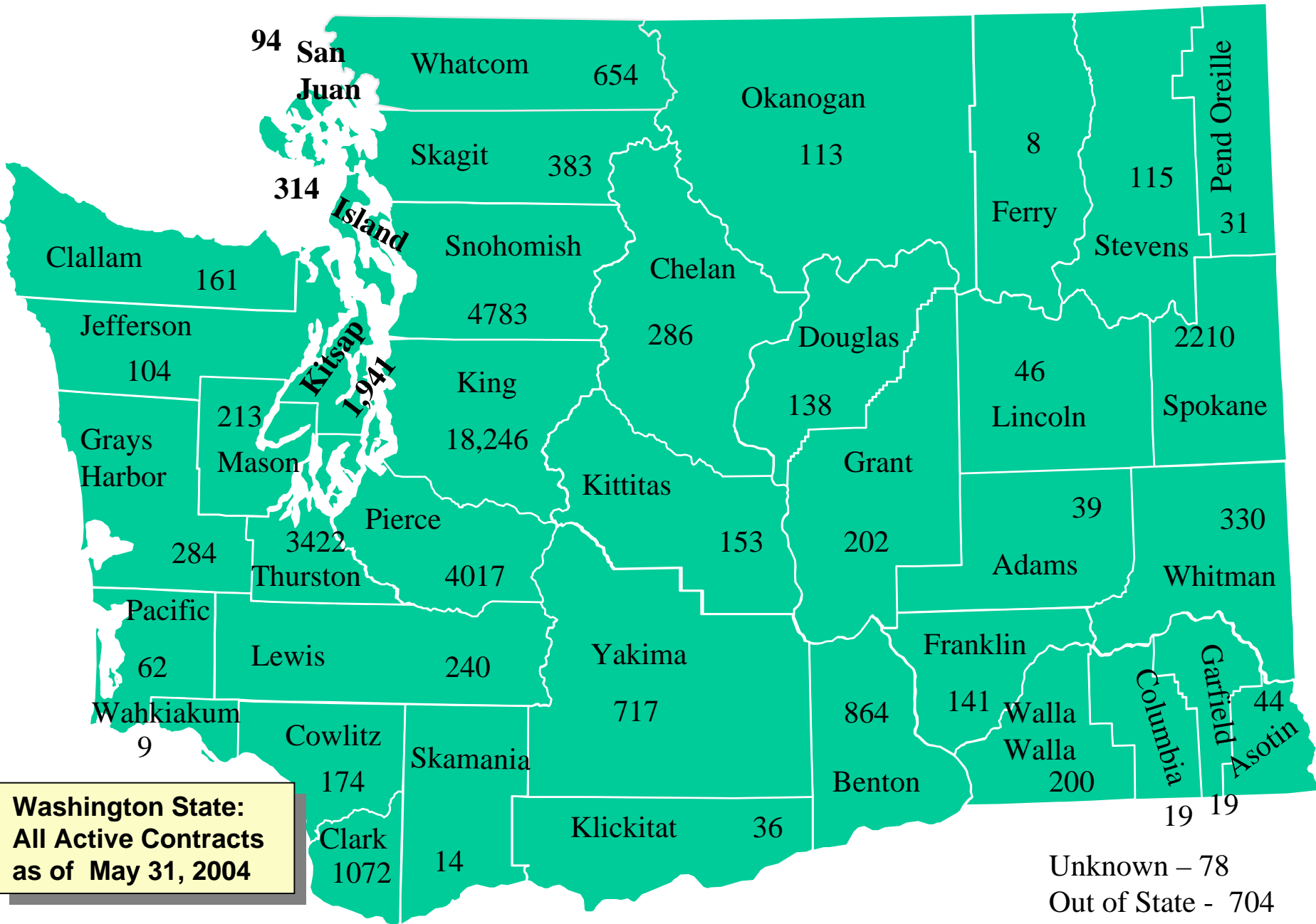


## Use Benefits



# Contracts by County

## Enrollment Years 1998-2004



**Washington State:  
All Active Contracts  
as of May 31, 2004**

Unknown – 78  
Out of State - 704



**GET OUTREACH ACTIVITY REPORT**  
**June 2003 – June 2004**

August 3, 2004

**Outreach Activities**

Between July 1, 2003 and June 30, 2004 GET outreach was involved in 68 outreach activities statewide. The breakdown of these activities is:

<b>Activity</b>	<b>Locations</b>	<b>Total Number of Days</b>
County & regional fairs	W. WA Fair, Central WA Fair, S.W. WA Fair, Kitsap Co., Grant Co.	26
Conferences	PTA, School Administrators, Assn. of Cities, Dollars for Scholars, WA Tax Consultants, Asst. Principals	13
Employee Benefit Fairs	17 locations statewide including: Bellingham, Tacoma, Seattle, King County, Spokane, Pullman, Clark County, Olympia, Marysville, University Place, Puyallup, Cheney, Bellevue, and more.	17
Other interest groups including investment groups, rotary and other service clubs, etc.	14 statewide	14
PTA meetings	26 statewide	26

**GET Video**

The GET video/CD became available February 27, 2004. Since that time, we have received requests for 13 videos to be used for presentations and as a reference tool. Videos and materials will be sent in lieu of a presenter when it is more economically efficient for the program and/or the presenters are not available. In addition, videos will be made available to all public libraries and schools statewide.

**Payroll Deduction**

Thirty-four (34) local governments and private businesses now offer GET as a payroll deduction benefit along with all Washington public technical schools, and all 2- and 4-year public universities and colleges, (except the University of Washington).

We are currently focusing on increasing the number of employers who offer GET payroll deduction to their employees. We are targeting 250 of the top employers in the State, and will also target remaining school districts.

**GET Legislative Issues  
2005 Legislative Session**

**August 3, 2004**

**Background**

The statute that governs the GET Program (RCW 28B.95) has not been revised for needed technical changes since the 2001 legislative session.

Last year, during the 2004 legislative session, changes were submitted in the form of a Z-bill. After discussions with legislative leaders and given the short session with other major issues needing resolution, it was determined that these changes could wait until the next session.

Therefore, it is proposed that the following changes be re-introduced in the 2005 session. There are no changes to the language since it was developed for last year.

**Proposed Changes to Statute**

The proposed legislation will seek four changes and to add one new section to the existing RCW 28B.95 statute which covers the GET Program; and would add one new section to RCW 6.15.010 and 2002 c 265 s 1 which cover personal property exemptions.

RCW 28B.95 changes:

1. The bill changes the definition of “academic year” in RCW 28B.95.020 so that it matches the academic year used by most educational institutions in the state. The section currently uses July 1<sup>st</sup> and June 30<sup>th</sup> as the beginning and ending dates of an academic year. The change would make the dates August 1<sup>st</sup> and July 31<sup>st</sup> respectively. This will allow the GET Program to make distributions for summer terms at the same rate as the previous academic year. Currently summer distributions fall into the next academic year. The payout rate is not determined until August, thus delaying summer distributions.
2. It removes the terms “weighted average” and “weighted average tuition and fees” from the four sections where they appear, eliminates the annual calculation of “weighted average tuition” as required in the statute, and removes the definitions of “Weighted average tuition” and “Weighted average tuition unit”.

These changes will make the statute consistent throughout, whereby; the governing body will set the payout value for all distributions instead of tying the payout value of some distributions to a weighted average tuition and others to the current payout rate as determined by the governing body.

3. The bill eliminates an inequity in RCW 28B.95.020 (7) by allowing Washington residents to purchase get units for their children regardless of where those children live. The current definition of an “eligible beneficiary” states “the beneficiary must reside in the state of Washington at the time the tuition unit contract is accepted by the governing body.” The change will require that either the purchaser or the beneficiary must be a resident at the time of enrollment. This will allow Washington taxpayers that are parents or grandparents that have children or grandchildren living out-of-state, to enjoy the benefits of the GET Program. This will not affect college residency requirements at the time of college enrollment.
4. An outdated reference to chapter [section] 529 of the Internal Revenue Code and the annual limit on refunded units are removed from RCW 28B.95.110(a), per changes in the federal law governing section 529 plans.

RCW 28B.95 addition:

A new section is added to chapter 28B.95 RCW that reads, “In regard to bankruptcy filings and enforcement of judgments under Title 6 RCW, tuition units purchased more than two years prior to the date of filing or judgment will be considered excluded personal assets.” This addition seeks to provide protection for families as they save for college education. This protects GET accounts from being seized by the courts while limiting the protection to assets that have been in GET accounts for at least two full years. This addition is similar to those added to state statutes across the country and to one proposed at the federal level this year.

RCW 6.15.010 and 2002 c 265 s 1 addition would be amended as follows to limit protection to assets held more than two years as:

- (5) Tuition units, under chapter 28B.95 RCW, purchased more than two years prior to the date of a bankruptcy filing or court judgment.

### **Staff Recommendation**

Staff recommends taking the proposed statutory changes forward during the 2005 legislative session.



WASHINGTON STATE  
**INVESTMENT BOARD**

# GET

## Prepaid College Tuition Program

Quarterly Investment Report  
June 30, 2004

### TABLE OF CONTENTS

Portfolio Size and Allocation	1
Performance	2

Dated: July 20, 2004

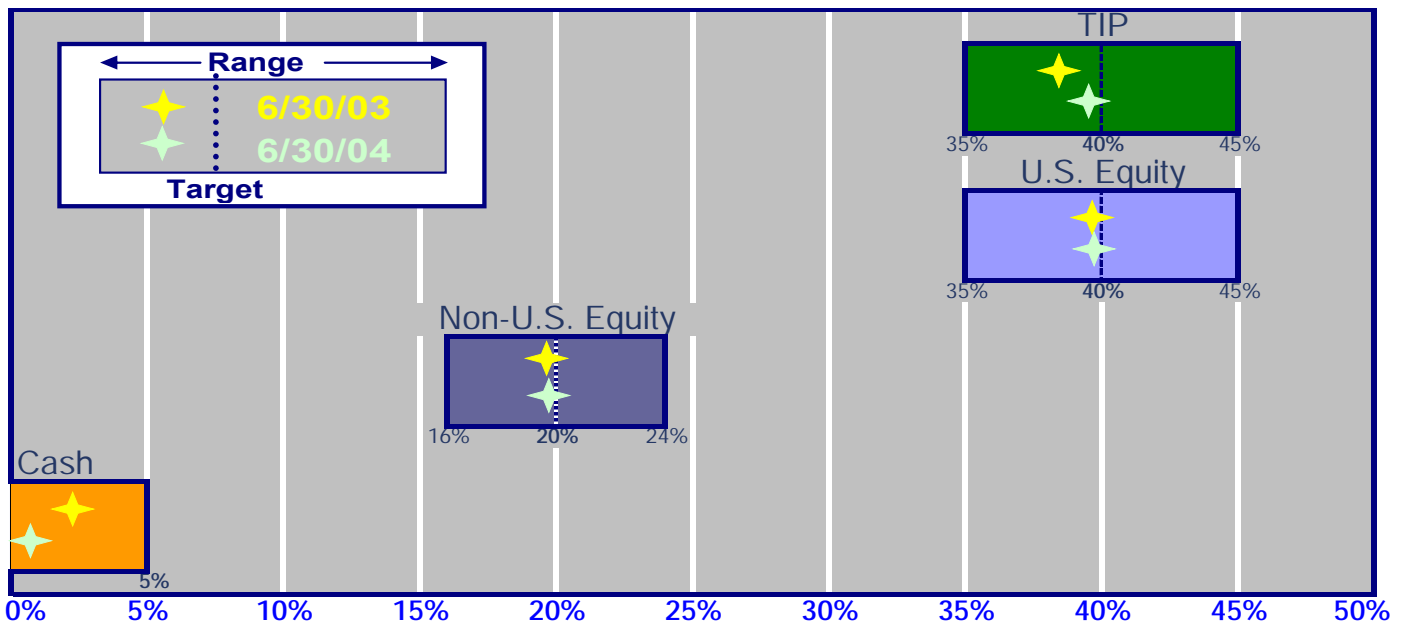
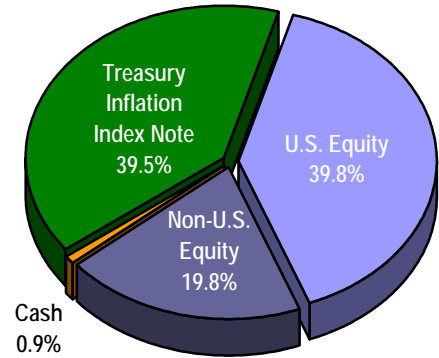
# GET - Prepaid College Tuition Program

June 30, 2004

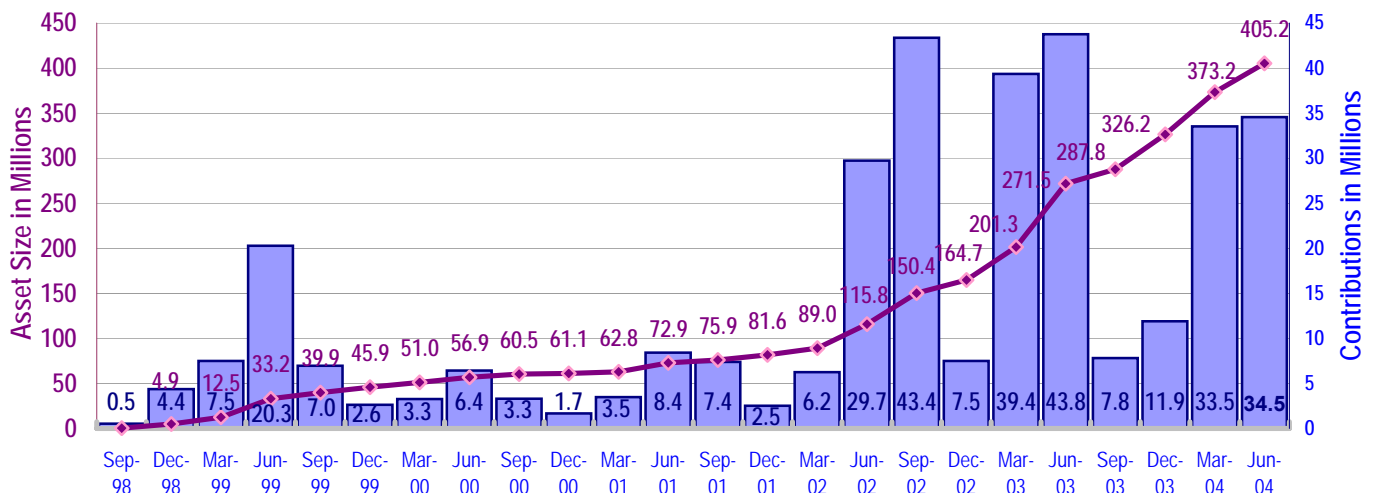
## Portfolio Size

<b>Total</b>	<b>\$405,219,240</b>
Cash	3,784,996
Treasury Inflation Index Note (TIP)	160,074,065
U.S. Equity	161,347,670
Non-U.S. Equity	80,012,509

## Actual Asset Allocation



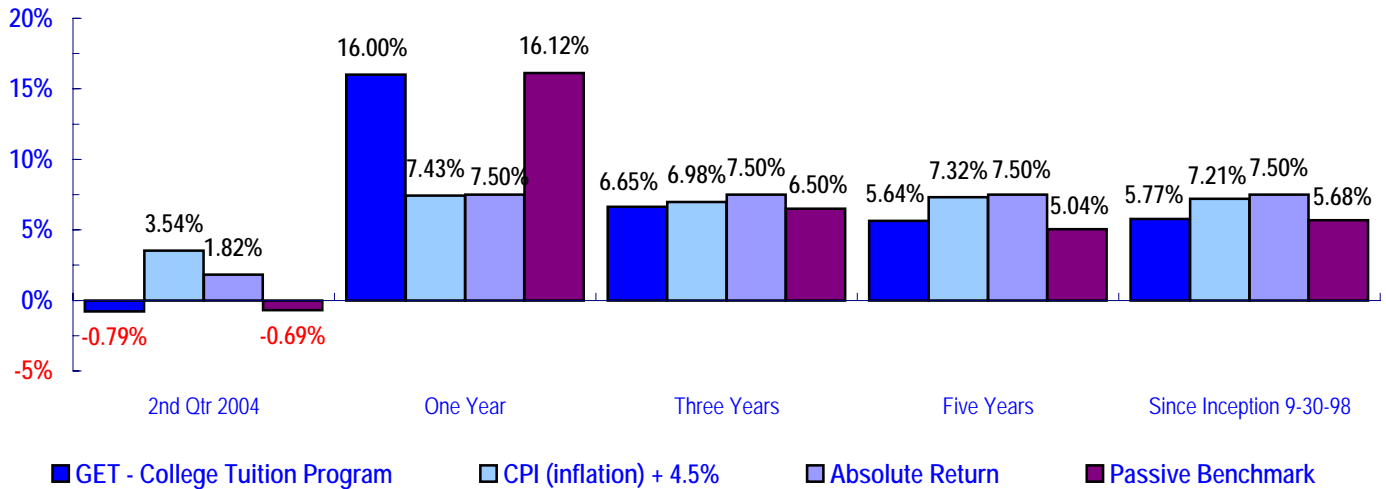
## Assets Under Management



# GET - Prepaid College Tuition Program Performance

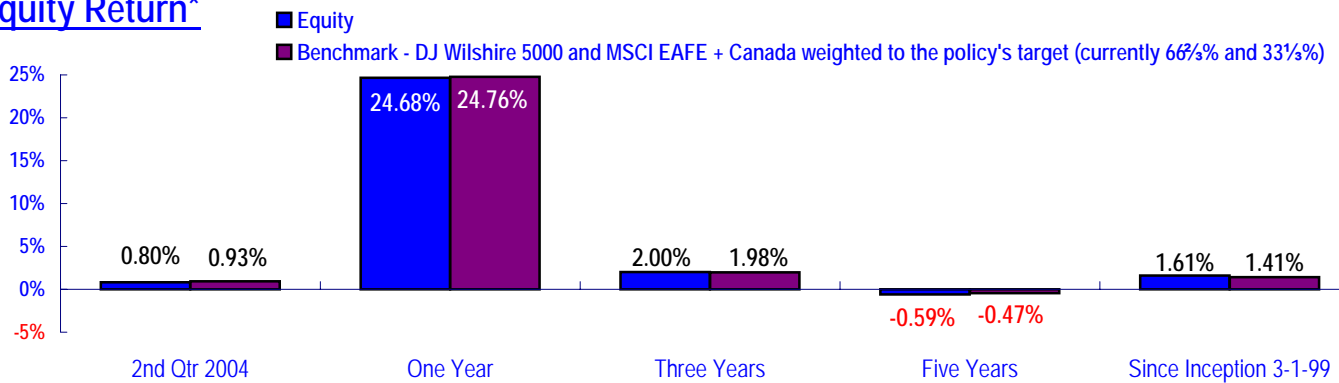
June 30, 2004

## Total Return\*

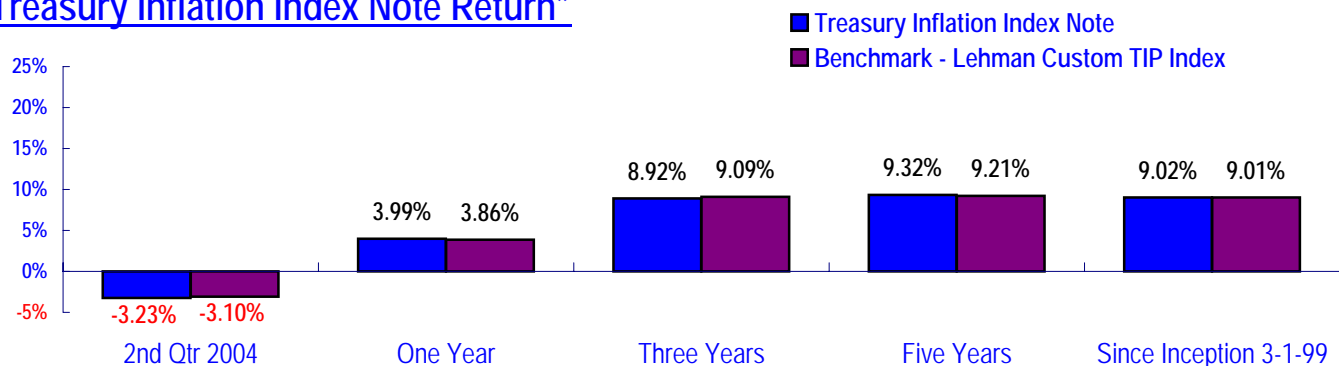


## Return Breakdown

### Equity Return\*



### Treasury Inflation Index Note Return\*



*Inception date is when the Board first invested in the asset class.*

\* 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.

**GET Actuarial Analysis and Price Setting for Enrollment Year 2004-05**

**August 3, 2004**

**Background**

At the April 20, 2004 GET Committee Meeting, the Committee approved adjusting the unit price from \$57 to \$61 for unit sales between May 1, 2004 and August 31, 2004. By statute, the Committee may set an annual unit price and may also adjust it annually, if necessary, for the actuarial soundness of the program.

The unit price approved in April assumed that a new price would take effect on September 1. The actuarial assumptions were not set up to compensate for keeping the current unit price unchanged for the 2004-05 enrollment period.

A proposed pricing exhibit, prepared by Bill Reimert, Principal and Consulting Actuary with Milliman, is attached showing projected outcomes of leaving the unit price at \$61 for the 2004-05 enrollment year and of increasing it to \$62, \$63 and \$64. Leaving the unit price unchanged would provide a 5.8% reserve on new units being sold but would not be sufficient to work toward a 10% stabilization reserve for the GET Program over a ten year period. Increasing the unit price to \$62, \$63 or \$64 would increase the reserves in the unit price on new unit sales to 7.5%, 9.3% and 11% respectively. But including a reserve level in future unit prices of less than approximately 16% would not result in a 10% stabilization reserve being achieved over the next ten years.

There has been one significant change to the actuarial assumptions presented to the Committee in April:

- 1) The expected return on investments of the program was reduced from 7.0% to 6.6% based on information from the Washington State Investment Board (WSIB).

Based on this new assumption, the program's stabilization reserves were reduced by roughly \$12 million. Based on the pricing models provided by the program's actuaries, allowing the unit price to remain unchanged for an additional eight months, while still providing a small contribution toward the Program's surplus, would not provide the 10% reserve recommended by Milliman for each new unit sold.

**Actuary Recommendation**

Based on the actuarial assumptions, the program will not reach a 10% stabilization reserve in the next ten years using a proposed unit price of less than \$67 and assuming that future unit prices were set with a comparable margin over current tuition. However, increasing the unit price significantly beyond the current \$61 could result in a reduction in both the number of new accounts opened during the next enrollment year, as well as a reduction in the number of units purchased in each account. Based on the analysis provided, the program actuary recommends the adoption of a unit price not less than \$64 per unit.

August 3, 2004

GET Actuarial Analysis and Price Setting for Enrollment Year 2004-05

Page 2

### **Staff Recommendation**

Staff recommends that the unit price increase by one dollar to \$62. Increasing the unit price by \$1 will provide income to compensate for lost revenue from the delay in receiving funds based on the fact that most new unit purchases will not occur until March 2005 just prior to the next expected price change. The announcement of even a small increase should have a huge impact on the sense of urgency to add money to GET accounts on a regular basis. An increase of more than \$1 could have an adverse effect on sales.

The unit price will remain in effect from September 1, 2004 through April 30, 2005. The unit price may be adjusted, if the actuarial assumptions change in any way, effective May 1, 2005.