

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

April 20, 2004
State Investment Board
2100 Evergreen Park Drive SW
Suite 100
Olympia, Washington
2:00 pm – 5:00 pm

AGENDA

Call to Order

- Approval of February 10, 2004 minutes ACTION Tab 1
- Director's report INFORMATION Tab 2
- GET investment update INFORMATION Tab 3
Diana Will, Investment Officer
Washington State Investment Board
- Approval of FY05 Administrative 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, 2004, 2:00 pm – 5:00 pm
State Investment Board, 2100 Evergreen Park Drive SW, Olympia, WA

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Tuesday, February 10, 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
Vickey Mauerman, Financial Accountant
Denise Fry, Outreach Coordinator

Guests in attendance:

Gary Bruebaker, State Investment Board
Wendy Dore, The Marketing Partners
Linda Tsubaki, Senate Intern
Diana Will, State Investment Board
Emily Wilson-Hoss, Senate Intern
Laura Wood, Senate Intern

CALL TO ORDER

The Chair, James Sulton, Jr., Ph.D., Executive Director of the Higher Education Coordinating Board called the meeting to order. 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.

APPROVAL OF MINUTES

The minutes from the November 3, 2003 GET Committee Meeting were reviewed. A motion was made to adopt the minutes by Berendt and seconded by Murphy. The motion was approved and carried unanimously.

DIRECTOR'S REPORT

Lochner began with introductions of the GET staff and audience members in attendance. Lochner directed the Committee to the copies of the GET newsletter sent out with annual statements along with the latest news release. As of January 31, 2004 there are a total of 38,569 contracts. New enrollments for this year are at 2,224 as of February 10th. Calls are beginning to pick up, with call volumes up 40% from this time last year. Brown asked Lochner for a comparison between last years enrollments received by this date and current contracts received. Enrollments are about the same in terms of actual enrollments received as of this time last year. However, 8,000 new enrollments were received in the last two weeks last year, so it is anticipated that most of the new enrollments will come in the last few weeks of the enrollment period.

Also included in the Committee packets was information on other pre-paid programs received from the College Savings Plan Network (CSPN). GET will be doing a pilot project for workshops for GET beneficiaries using their benefits this year. In addition, a 20-minute video was taped through DIS for use in presentations to save on travel costs and to alleviate the need for staff to be away during peak times. The video will be used on a trial basis to assess its effectiveness.

Lochner gave an update on the interstate agreement to form a consortium of states to manage maintenance of the SCT Banner software system, due to SCT's announcement that they will no longer support their product. In addition to joining the consortium, Shakib Kamal (former SCT employee) has been hired as a permanent employee. Shakib will work on module developments and enhancement while the consortium will primarily provide maintenance and upgrade support for the system.

Murphy questioned what other states were utilizing for their information systems. Lochner explained that there are very few options. Intuition, the company that GET contracted with prior to buying SCT Banner software, works with a limited number of pre-paid programs. Several states are still using SCT, and the

remaining states have developed their own systems. Murphy questioned continuing costs associated with the original contract and licensing through SCT. Lochner responded that GET will finish buying the license and will be buying some hours for maintenance from the consortium. The remaining programming and maintenance will be handled in-house. Costs for utilizing the consortium should not exceed what would have originally been spent (and may be significantly less) under the SCT contract.

Lochner indicated that a contact sheet for committee members was distributed as well as a memo from Milliman, USA, the actuarial firm that is under contract with GET. The memo was in response to a request from legislative staff on potential increases in tuition and what impacts they would have on GET. This is similar to the information that has been requested in previous years, and demonstrates what happens to the GET fund surplus or deficit based on several long-term tuition growth assumptions.

Lochner reported that the proposed GET legislation that was discussed at the last Committee meeting did not go forward. The proposed legislation included technical clean up and clarification and did not include anything critical or with a fiscal impact. After discussing the legislation with key legislators it was decided that this wasn't the best year to bring those changes forward due to the short session and the fact that the changes were not critical at this time. These statutory changes will be revisited at a later date.

INVESTMENT REPORT

Diana Will, SIB Investment Officer, was introduced and asked to provide the Committee with the quarterly investment report (as of Dec. 31, 2003). Will reported that GET is experiencing its third straight quarter with positive returns. GET's portfolio is now valued at \$326 million. The asset allocation is currently at 60% equities, consisting of both U.S. and Non U.S. equities, and 40% fixed income securities and cash. The fund has doubled in assets over the last calendar year. Two-thirds of that growth has been from new contributions and the remainder from market returns. GET investments showed a total return of 23.12% for the year, slightly below the passive benchmark return of 23.60%. This time last year the total return since inception was at 1.86%, however GET funds have rebounded extremely well over the last calendar year and currently show a total return since inception of 5.7%.

GET MARKETING UPDATE

Wendy Dore of The Marketing Partners was introduced and asked to update the Committee on the marketing efforts for the GET Program. Dore reported that radio and television ads have been running and directed the Committee to the handout provided. Outdoor boards have been used in Southwest Washington where radio and television are not being used. The television spot that is running now spotlights GET families. Print media and outdoor boards will continue being used in Southwest Washington through the end of the enrollment period. King 5 broadcasting will be providing a GET link on their web site to supplement existing ads. During the final two weeks of enrollment there will be count down spots of the commercial to wrap up the ads as well as general radio and some newspaper ads.

NEXT MEETING

The next meeting of the GET Committee is scheduled for April 20, 2004, 2:00 p.m. – 5:00 p.m. at the State Investment Board (2100 Evergreen Park Drive SW, Olympia, WA 98502).

ADJOURNMENT

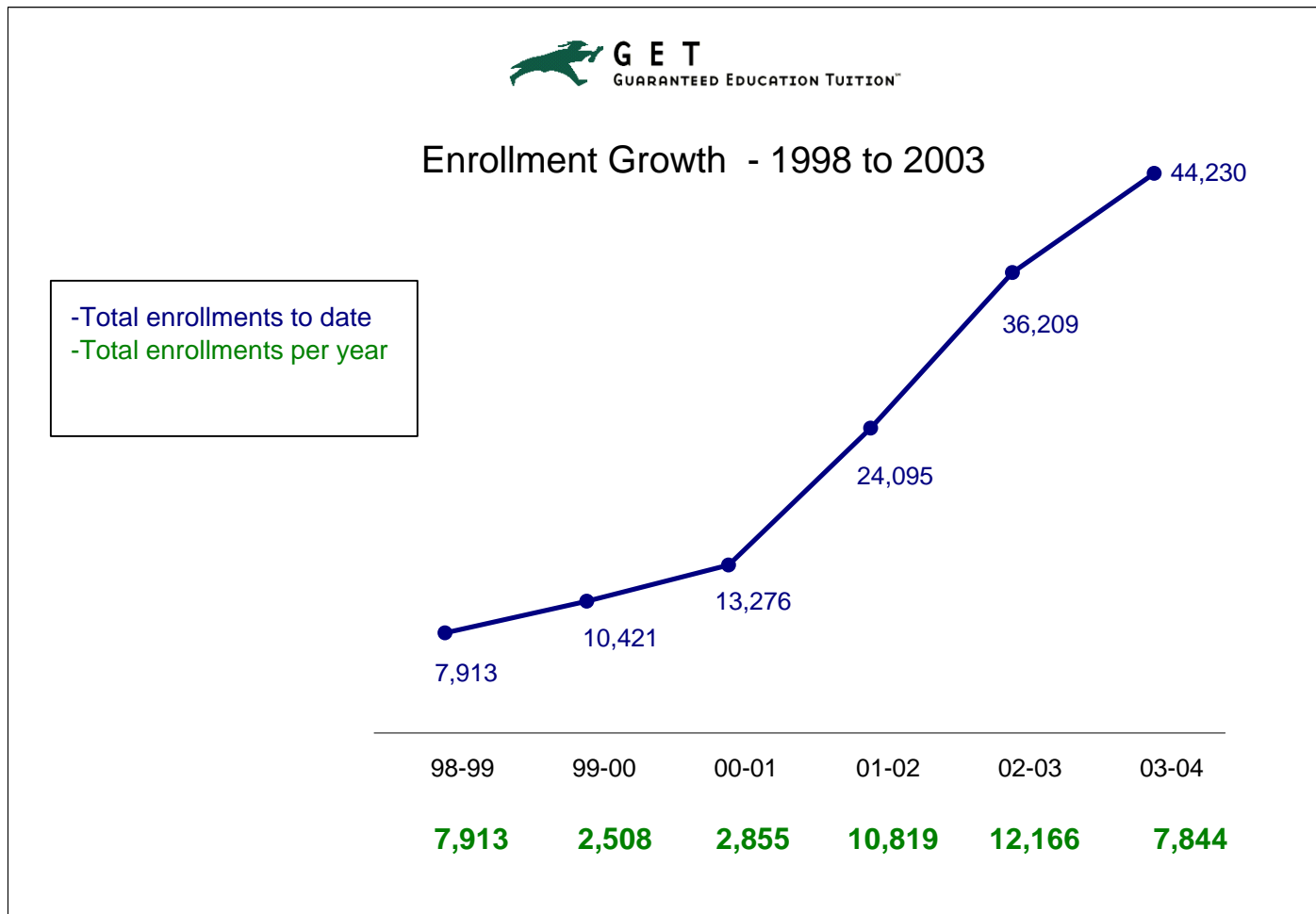
There being no other business, the meeting was adjourned at 2:30 p.m.

Director's Report
April 20, 2004

2003-2004 Enrollment Year (as of March 31, 2004)*	2002-2003 Enrollment Year (August 31, 2003)
Total GET accounts opened: (Sept. 15-Mar.31, 2004) 7,844	Total GET accounts opened: (Sept. 15-August 31, 2003) 12,317
Total payments received:* \$43.3 million	Total payments received: \$76.8 million
Total units purchased:* 1.2 million	Total units purchased: 2.1 million
Total value of all contracts:* \$80.7 million	Total value of all contracts: \$128.6 million

GET Program Since Inception	
Total Active GET accounts since inception:*	44,230
Total payments received:*	\$324.2 million
Total units purchased:*	8.8 million
Total value of all contracts:*	\$451.7 million

*Dollar amounts and unit totals are estimates that include all unprocessed 2003-2004 enrollments.

GROWTH OF ACTIVE ACCOUNTS SINCE PROGRAM INCEPTION

INTERESTING 2003-04 ENROLLMENT YEAR GET FACTS

- An average of \$2.5 million was deposited into the GET fund each day during the last five days of March.
- Over 60% of all new enrollments were on-line (up from 50% last year)
- Over 5,000 new enrollments came in during the month of March.
- The new in-house telephone and online systems were successful in meeting the demand.
- Sixty-nine organizations now participate in payroll deduction, including 49 state agencies representing 341 state employees. State employees contribute \$60,000 per month via payroll deduction. Total monthly payroll deduction equals \$91,000.

2004-05 Enrollment Year: September 15, 2004 – March 31, 2005

GET Account Information
As of 03/31/04

Contract Statistics by Plan Year

	<u>1998-2002</u>	<u>2003</u>	<u>TOTAL</u>
# of Active Contracts			
Custom Monthly Contracts (CM)	9,003	1,675	10,678
Lump Sum Contracts (LS)	25,962	4,517	30,479
Subtotal # of Active Contracts - Including Unprocessed	34,965	6,192	41,157
# of Inactive Contracts	1,092	46	1,138
# of Depleted Contracts	192	0	192
# of Incomplete Applications	0	1,743 *	1,743 *
Total # of Contracts	36,249	7,981	44,230

Unit Statistics (active contracts only)

Total # of Contracted Units (CM)	2,045,742	326,600	2,372,342
Total # of Lump Sum Units Purchased (LS)	5,571,236	614,889	6,186,125
Unprocessed - Total # of Contracted Units (CM)		108,100	108,100
Unprocessed - Total # of Lump Sum Units Purchased (LS)		142,798	142,798
Total # of Units - Both Plans	7,616,978	1,192,387	8,809,365

Account Value Statistics (active contracts only)

Payments Received (CM)	\$ 35,719,408	\$ 266,943	\$ 35,986,351
Payments Received (LS)	\$ 245,468,327	\$ 35,186,750	\$ 280,655,077
Total Payments Received (CM and LS)	\$ 281,187,735	\$ 35,453,693	\$ 316,641,428
Total Contract Value (CM)	\$ 125,465,024	\$ 28,347,792	\$ 153,812,816
Less Payments Received (CM) from above	\$ (35,719,408)	\$ (266,943)	\$ (35,986,351)
Future Payments Due (CM)	\$ 89,745,616	\$ 28,080,849	\$ 117,826,465
Total Payments Received and Future Payments Due	\$ 370,933,351	\$ 63,534,542	\$ 434,467,893
Fees Paid	\$ 1,657,811	\$ 264,619	\$ 1,922,430
Grand Total			\$ 436,390,323

Benefit Statistics

Total amount paid out on contracts \$7,539,469

* These applications have been received but not entered in the system, therefore they are not included in the unit and account statistics.

Guaranteed Education Tuition Program
Proposed FY 2005 Administrative Budget
July 1, 2004 - June 30, 2005

	<u>FY04 Approved</u>	<u>FY05 Revised</u>
Estimated Contract Sales	5,000	5,000
Savings From Prior Year's Administrative Budget	369,691	0
Enrollment Fees per Contract	250,000	250,000
Administrative Fees in Unit Price	<u>2,930,000</u>	<u>3,000,000</u> (1)
Projected Available Funds	3,549,691	3,255,000
Salaries & Benefits - 19.5 FTE	1,100,000	1,100,000
Goods & Services	795,006	862,500 (2)
Travel	45,000	45,000
Fulfillment Contract	30,000	2,500 (3)
Actuarial Contract	100,000	78,750 (4)
Call Center Contract	5,200	0 (3)
Marketing Contract	630,000	694,500 (5)
Records Administration Software Contract	844,485	250,000 (6)
Projected Expenses	3,549,691	3,033,250
<i>Net Unallocated Available Funds</i>		221,750

Notes:

- (1) Using average expense component - \$3.00
- (2) Increased printing and postage for in-house fulfillment, additional costs for new accounts
- (3) Adjust to actual contract terms
- (4) All call center/fulfillment operations brought in-house
- (5) Adjust to actual contract amount of \$661,500. Additional 5% allowance (\$33,000) for increased costs due to high demand for certain time slots
- (6) Software contract with SCT/Banner terminated. Maintenance agreement with multiple-state consortium - \$100,000 and program enhancements/changes paid on an hourly basis - \$150,000

Actuarial Analysis and Price Adjustment for Enrollment Year 2004-05

April 20, 2004

Background

By statute, the Committee may set an annual unit price and adjust it annually, if necessary, for the actuarial soundness of the program. The Program has contracted with Milliman USA, for actuarial services.

At the April 14, 2003 Committee Meeting, the Committee approved setting the interim unit price for May 1 – August 31, 2003 at \$57. At the August 1, 2003 Committee Meeting, the Committee approved leaving the unit price unchanged at \$57 for the 2003-04 enrollment period. They also agreed that the unit price would be adjusted, if necessary, on May 1, 2004.

The current unit price for the 2003-04 enrollment period was set at \$57 and was based on the following assumptions:

- Tuition would go up no more than 9% each of the next two years, then return to a 6.75% long-term average.
- Expected investment returns would decrease from 7.25% to 7.00%.

Current Information

The 2003 Legislature authorized a maximum tuition rate increase of 7% for the 2004-05 academic year. Since inception, the Program has used an average long-term annual tuition increase of 6.75% in our assumptions. However, with the increases of the last few years, that long-term average has increased to almost 7%. To address the recent increase in the long-term average for units already sold, and to factor the increase into future unit pricing decisions, the actuaries were directed to use 7% in its assumptions for future long-term tuition rate increases for price setting purposes.

The Program's actuaries are currently factoring in sales for the just closed enrollment period and investment returns since the last evaluation. A preliminary pricing model based on information available through February 29, 2004, is attached to assist the Committee in setting an interim price for units to be sold from May 1 – August 30, 2004. An updated model, based upon information through March 31, 2004, will be presented at the Committee meeting on April 20, 2004, by Bill Reimert, Principal and Consulting Actuary with Milliman USA.

Adding 7% to the current unit price would result in a price of \$61. The pricing model shows that a unit price of roughly \$62 will provide a 10% stabilization reserve for the Program in approximately 5 years. This rate results in a price premium of 16.5%, slightly above the current 15.1%. Prices of \$63 or \$64 per unit increase the premium to 17.85% and 19.1%, respectively.

Recommendation

The attached actuarial analysis, based on expected increases in tuition of 7% in future years, and keeping expected investment returns at 7%, supports a staff recommendation of adjusting the unit price to **\$62**. This price would be in effect from May 1, 2004 through August 31, 2004. The Committee will meet on August 4, 2004 to determine whether an adjustment to the price will be needed for the 2004-05 enrollment year.