

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Monday, November 5, 2012

Office of the Insurance Commissioner

5000 Capitol Boulevard

Tumwater, WA 98501

MINUTES

Washington Student Achievement Council staff in attendance:

Don Bennett, Washington Student Achievement Council Executive Director

Betty Lochner, GET Director

Larry Lee, GET Associate Director for Policy & Planning

Susan Martensen, GET Associate Director for Marketing and Communications

Betsy Hagen, Associate Director for Administrative Services

Jackie Ferrado, GET Community Relations Manager

Diana Hurley, GET Customer Service Manager

Matthew Freeby, GET Finance Manager

Kim Porter, GET Records and Projects Manager

Luke Minor, GET Marketing and Communications Coordinator

Jane Olsen, GET Financial Accountant

Heather Bertels, GET Finance Coordinator

Katie Gross, Special Assistant to the GET Director

Guests in attendance:

Matt Smith, State Actuary

Scott Copeland, State Board for Community and Technical Colleges

Maria Hovde, Senate Ways and Means Staff

Kim Cushing, Senate Higher Education & Workforce Development Staff

Terry Ryan, Assistant Attorney General

Allyson Tucker, State Investment Board

Becca Kenna-Schenk, Senate Democratic Caucus Staff

Cody Eccles, Senate Republican Caucus Staff

David Schumacher, Executive Director of the Council of Presidents

WELCOME

Don Bennett, GET Committee Chair, called the meeting to order at 2:07 p.m. Members of the GET Committee in attendance were Don Bennett, Chair, Stan Marshburn, Office of Financial Management, James L. McIntire, State Treasurer, Beth Stecher Berendt, citizen member, and Mooi Lien Wong, citizen member. Wong attended via teleconference.

APPROVAL OF THE JULY 24, 2012 MINUTES

Berendt moved to approve the July 24, 2012 minutes. Marshburn seconded the motion. The minutes were approved unanimously as presented.

APPROVAL OF THE 2013 MEETING CALENDAR

Berendt moved to approve the 2013 meeting calendar. Marshburn seconded the motion. The 2013 meeting calendar was approved unanimously.

REPORT FROM THE CHAIR

The Washington Student Achievement Council was established on July 1, 2012. Bennett listed the new Council members. The Council has met to adopt by-laws, obtain information about all of the programs under the Student Achievement Council, and continues to work on updating and developing the strategic action plan. The Council hopes to have an action plan draft by the end of November. The Executive Director of the Council remains Chair of the GET Committee.

DIRECTOR'S REPORT

Betty Lochner, GET Director, informed the Committee that GET opened its 15th enrollment year on November 1. Lochner introduced Luke Minor, GET's new Marketing & Communications Coordinator, and informed the Committee that the program will be doing a soft marketing launch this year. Lochner also informed the Committee that a new online Giftor Epay feature will go live mid-November.

Lochner is the Vice-Chair of the College Savings Plan Network (CSPN). She gave a brief national update of other states' 529 plans and national legislation (HR 529).

UPDATE ON LEGISLATIVE ADVISORY COMMITTEE

Marie Hovde, Senate Ways and Means staff member, provided information about the Legislative Advisory Committee. The Legislative Advisory Committee was established in 2011 and it advises and makes recommendations to the GET Committee. The Legislative Advisory Committee met on October 2 to review current legislation, that allows differential tuition, and to analyze several options for implementation. The Office of the State Actuary and the state schools (primarily University of Washington and Washington State University) played a part in this analysis as well.

McIntire asked how certain options for differential tuition would be carried out; Hovde informed the Committee that options would be looked at in more depth at the next Legislative Advisory Committee meeting on December 11, 2012.

GET INVESTMENT UPDATE

Allyson Tucker, Senior Investment Officer with the State Investment Board, went over GET's third quarterly portfolio report. The program's account value is up to 2.1 billion. For the quarter, distributions exceeded earnings and new contributions by \$18 million. GET investments returned 5.15% for the quarter, and 16.3% for the one-year period. In looking at the ten year returns, GET's investment return of 8.1% exceeded its passive benchmark of 7.98%. The markets continue to be volatile.

ACTUARIAL VALUATION REVIEW

Matt Smith, State Actuary, went over the annual actuarial valuation of the program as of June 30, 2012. He presented the program's funded status and explained how the funded status would shift depending on changes to assumptions made to the program.

Bennett and McIntire thanked Smith and his staff for their continued support and work with the GET Program and on this report.

GET PROGRAM HISTORY AND OPTIONS

Lochner shared that Washington State's 529 plan (GET) ranks twenty-third of 107 nationwide in assets, twenty-ninth in number of accounts overall, and ranks second in terms of assets and accounts in prepaid plans.

Lochner said that in spite of the volatility of recent markets, the program has remained open and has done well nationally. A lot of this has to do with the guarantee and the fact that our state allowed the program to stay open. Legislators, staff, and the Committee, should be proud of what GET has done in the last 15 years.

To aid in their discussion, Larry Lee, GET Associate Director for Program Policy and Planning, presented five options to the Committee in response to options under consideration by the Legislative Advisory Committee:

- Option 1: terminate the program
- Option 2: close GET to new participants
- Option 3: create a new program
- Option 4: continue administering the program without making changes
- Option 5: add a savings plan

Lee went over the pros and cons of each option. Discussion regarding options and liability ensued. The Committee indicated that they are not interested in having program staff research Option 5 at this time.

Hovde will be presenting an update of the work the Legislative Advisory Committee has done at the November 30 House Higher Education & Workforce Development Committee hearing. The

next Legislative Advisory Committee meeting will be held on December 11, 2012. The options may be presented and discussed. McIntire suggested there be testimonials at this meeting.

Marshburn moved to adjourn the meeting. McIntire seconded the motion. Meeting adjourned at 3:43 p.m.

Guaranteed Education Tuition

As of December 31, 2012

CONTRACT STATISTICS: Number of Contracts			
Contract Statistics by Plan Year	1998-2011	2012	TOTAL
# of Active Contracts			
Custom Monthly Contracts (CM)	33,452	375	33,827
Lump Sum Contracts (LS)	90,425	1,128	91,553
Total # of Active Contracts	123,877	1,503	125,380
# of Inactive Contracts	9,504	16	9,520
# of Depleted Contracts	11,031	4	11,035
Total # of Contracts	144,412	1,523	145,935

UNIT STATISTICS: Number of Contracted Units and Purchased LS Units			
	1998-2011	2012	TOTAL
Contracted Units (Active Accounts)	5,883,062	43,700	5,926,762
Lump Sum Units (Active Accounts)	18,702,121	48,443	18,750,564
Total Active Accounts	24,585,183	92,143	24,677,326
Contracted Units (Inactive Accounts)			585,656
Lump Sum Units (Inactive Accounts)			2,550,340
Grand Total Contracted and LS Units Purchased			27,813,322

Other Unit Facts

Unpaid Contracted Units (Active Accounts)	2,508,080
Total Paid Out Units Since Inception (Active and Inactive Accounts)	5,303,113

CONTRACT PAYMENTS SINCE INCEPTION			
	1998-2011	2012	TOTAL
Total Payments Received (All Accounts)	\$ 1,928,785,927	\$ 8,177,104	\$ 1,936,963,031
Total Fee Payments Received (All Accounts)	\$ 7,511,116	\$ 60,315	\$ 7,571,431
Total Contract-Related Payments Received	\$ 1,936,297,043	\$ 8,237,419	\$ 1,944,534,462

Future Custom Monthly Payments Due (Active Accounts)	\$ 366,473,452	\$11,863,677	\$ 378,337,129
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ITEMS OF INTEREST			
Since Inception			
Number of Students Accounts Used For Benefits			29,369
Benefits Paid		\$	394,348,767
Refunds Paid		\$	29,644,755
Total Paid Out In Benefits and Refunds		\$	423,993,523

Legislative Brief

Guaranteed Education Tuition (GET) program

January 14, 2013

The Legislature created the Advanced College Tuition Payment program in 1997 to encourage college savings, making higher education more affordable and accessible for all Washington families. Over 146,000 accounts for future college students have been opened in what's now better known as the Guaranteed Education Tuition (GET) program. Over 29,000 of these accounts have already been used to help students attend colleges, universities and technical schools in all fifty states.

Families who start early can save money on their child's future college costs by prepaying tuition with a GET account. Today, the GET program is the second largest prepaid tuition plan in the country, both in total number of accounts opened and in total assets under management.



Key 2013 Dates

- Enrollment period closes – May 31
- Last day for Lump Sum purchase at \$172/ unit – July 1
- New unit price takes effect – July 2
- Payout value set to 2013-14 tuition rates – August 1
- New enrollment period begins – November 1

86% OF GET STUDENTS USE THEIR UNITS IN WASHINGTON

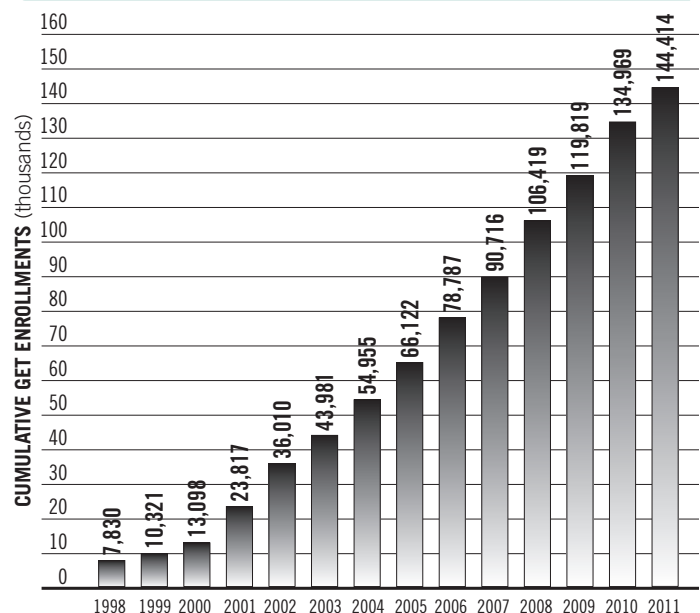
University of Washington	4,521	27%
Western Washington	2,646	16%
Community Colleges	2,484	15%
Washington State University	1,817	11%
WA Private Schools	1,208	7%
Central Washington University	954	6%
Eastern Washington University	511	3%
The Evergreen State College	313	2%
Out-of State Schools	2,385	14%

Figures are from the 2011-12 academic year, rounded to whole percentages.

Program Assets

As of December 31, 2012, GET assets totaled over \$2.2 billion. While contributions to GET accounts are considered participant funds, GET funds are invested by the State Investment Board (SIB). The investment portfolio is diversified across Global Equities, Fixed Income and Treasury Inflation-Protected Securities (TIPS). A small amount is also kept in cash for current program expenses.

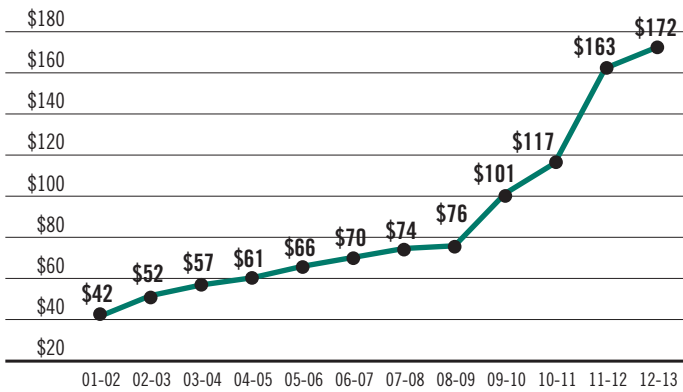
GET IS CELEBRATING ITS 15th ENROLLMENT YEAR



Funded Status

Though helpful in monitoring the health of the on-going program, reviewing GET's funded status compares assets to expected program costs at a singular point in time. This comparison continually changes, impacted by tuition forecasts, investment returns and buyer behavior. It is also impacted by changes in assumptions. For example, a recent decision to reduce expected long-term investment returns from 6.32% to 5.98%, while having no direct impact on current program assets, negatively impacts the funded status in the short run. The funded status has ranged from the current 78.5% (as of June 30, 2012) to 117.4% over the life of the program. Students will use their accounts to pay tuition over the next twenty or more years, giving the program time to recover.

GET UNIT PRICE



Impact of 2008-2012 Great Recession on GET

- Asset values and investment returns have now recovered to pre-recession values.
- In response to reduced state funding, tuition and fees have nearly doubled in five years. Units sold prior to the recession were based upon much lower tuition expectations, which has had a negative impact on the funded status of the program.
- High tuition has caused GET's unit price to increase accordingly. The current \$172 unit price is based on current and projected tuition, operating expenses, an amount to build program reserves, and an additional amount to amortize losses from recent unexpected tuition increases over a thirty year period. While the premium in the price above current tuition is designed to keep the program solvent, it has also resulted in fewer new accounts being opened by prospective customers and fewer units being purchased for existing accounts.
- Public discussion about GET's funded status and potential program changes by the Legislature have reduced consumer confidence. Though the state guarantee ensures sufficient funds for current account holders, prospective customers have been nervous about changes.

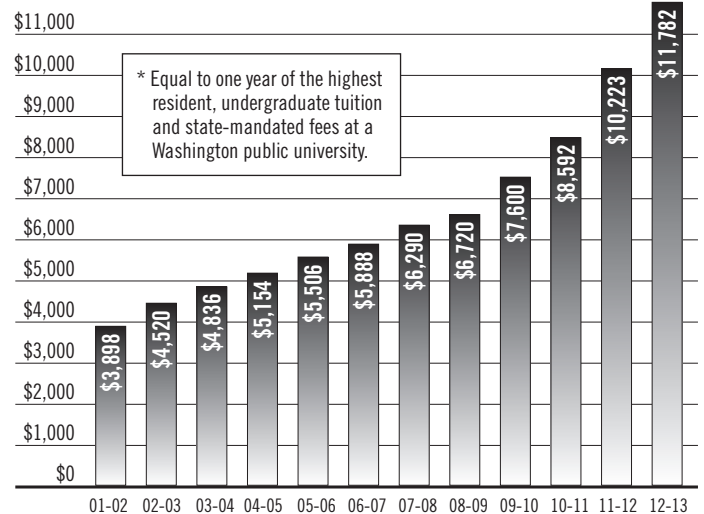
The GET Committee and the State Actuary have a recovery plan underway that is expected to return the GET program to its full funded status by 2032. The current actuarial shortfall of \$631 million does not require an immediate state contribution because not all program obligations are due in the near future. The current shortfall can be reduced or eliminated by continuing enrollment and carefully setting future unit prices. State Actuary projections over the next fifty years show that the chance of the program having insufficient assets (excluding state contributions) to pay all contractual obligations as they fall due is but 1.1%, excluding differential tuition. Closing the GET program to new enrollments would eliminate the program's only dedicated recovery source and increase the chance of future state contributions.

2013 Legislative Issues

The following information may be helpful in considering the impact of upcoming policy decisions on the GET program.

- **Differential Tuition Policy** – Actuarial projections returning the program to its full funded status do not incorporate differential tuition. Actuarial analysis has shown that if differential tuition is allowed to move forward, it could have a significant negative impact on the financial solvency of the GET program. The state has a contractual obligation with all current account holders to base GET's payout on the highest, residential undergraduate tuition and fees at a Washington public university. A higher tuition rate for one program would affect the payout value for all units held.
- **Undergraduate tuition rates** – With the expected shortfall in the upcoming budget, additional tuition increases are under discussion. High tuition increases will delay the program's return to a full funded status.

VALUE OF 100 GET UNITS*



Legislative Advisory Committee

Senator Rodney Tom, *Chair*
 Representative Ed Orcutt, *Vice Chair*
 Representative Gary Alexander
 Senator Mike Hewitt
 Senator Andy Hill
 Representative Chris Reykdal

*Two vacant positions on the Advisory Committee will be filled during the session.

GET Committee

Don Bennett, *Chair, Executive Director, Washington Student Achievement Council*
 James L. McIntire, *State Treasurer*
 David Schumacher, *Director, Office of Financial Management*
 Beth Stecher Berendt, *Citizen Representative*
 Mooi Lien Wong, *Citizen Representative*

The Legislative Advisory Committee advises the GET Committee and the State Actuary regarding program administration, including pricing guidelines, the unit price and the payout value. The Washington Student Achievement Council administers the GET Program. The GET Committee governs the program and is responsible for reviewing policies, pricing and investments.



Washington Student Achievement Council