

Guaranteed Education Tuition (GET) Committee Meeting

Wednesday, September 13, 2017

John A. Cherberg Building, Capitol Campus
Senate Hearing Room 3
Olympia, WA 98504
2:00 p.m. – 4:00 p.m.

AGENDA

Call to Order: Welcome & Member Introductions

- Approval of the July 6, 2017 Minutes ACTION
- Chair's Report INFORMATION
Michael Meotti, GET Committee Chair/WSAC Director
- Director's Report INFORMATION
Betty Lochner, GET Director
- Savings Plan Development Update INFORMATION
Don Bennett, WSAC Deputy Director
Doug Magnolia, BNY Mellon
- GET Investment Update INFORMATION
Chris Phillips, Washington State Investment Board
- GET Reopening – Pricing, Policies, Marketing, FY18 Budget DISCUSSION/ACTION
Betty Lochner, GET Director
Luke Minor, AD for GET Marketing & Communications
Matt Smith, State Actuary
- Public Comment
- Adjournment

Next Meeting:
Wednesday, October 11, 2017
J.A. Cherberg Building, Capitol Campus
Senate Hearing Room 4
Olympia, WA 98504
2:00 p.m. – 3:00 p.m.

GUARANTEED EDUCATION TUITION (GET) PROGRAM
Committee Meeting Minutes
July 6, 2017
John A. Cherberg Building, Capitol Campus
Senate Hearing Room 1

WSAC Staff in Attendance:

Betty Lochner, GET Director
Betsy Hagen, GET Associate Director for Operations
Luke Minor, GET Associate Director for Marketing & Communications
Michael Bennion, GET Associate Director for Fiscal Planning
Don Bennett, WSAC Deputy Director
Maddy Thompson, WSAC Director of Policy & Government Relations
Dan Payne, GET Marketing and Communications Specialist
Jackie Ferrado, GET Community Relations Manager
Melissa Huster, GET Records Manager
Matthew Freeby, GET Finance Manager
Diana Hurley, GET Contact Center Manager
Heather Bertels, GET Lead Finance Coordinator
David Mitchell, WSAC Chief Technology Officer
Katie Gross, Special Assistant to the GET Director

Guests in Attendance:

Matt Smith, State Actuary
Rick Brady, Office of the Attorney General
Michael Harbour, Office of the State Actuary
Brad Hendrickson, Office of the State Treasurer
Allyson Tucker, Washington State Investment Board
Clint McCarthy, Senate Staff
Evan Klein, Senate Staff
Katherine Long, Seattle Times

WELCOME AND APPROVAL OF MINUTES

Mike Meotti, Executive Director of the Washington Student Achievement Council and Chair of the GET Committee, welcomed the GET Committee members and meeting participants. The GET Committee members in attendance were Treasurer Duane Davidson, David Schumacher, Director of the Office of Financial Management, Beth Berendt, citizen member, and Mooi Lien Wong, citizen member.

Betty Lochner, GET Director, gave a tribute to Mooi Lien Wong, who has served on the GET Committee for the last 17 years. This meeting was Wong's last official GET Committee meeting and Lochner thanked Wong for all of her contributions and leadership.

APPROVAL OF THE APRIL 26, 2017, MINUTES

Meotti called for a motion to approve the April 26, 2017, meeting minutes. Berendt motioned to approve the minutes and Davidson seconded the motion. The minutes were approved unanimously as presented.

CHAIR'S REPORT

Regarding the current legislative session, Meotti noted that the only item that had passed at this point in time was the extension of the GET reopening date. GET must reopen by July 1, 2018.

DIRECTOR'S REPORT

Lochner updated the Committee on the development of a new savings plan and presented the development timeline. The next step is to conduct contract negotiations.

Lochner provided an overview of BNY Mellon, who is the apparent successful bidder for the savings plan. BNY Mellon is a large global investments company with over 31 trillion dollars of assets under custody and/or administration. BNY Mellon currently provides services to Oregon's ABLE plan and will provide services to Washington's ABLE plan. BNY Mellon and/or its affiliates would provide all services requested in the RFP with the exception of marketing, which will be done in-house.

Lochner noted that BNY Mellon's proposal is in alignment with statute. This includes meeting the 50 bps cap on investment fees, offering age-based portfolios that self-adjust over time, and facilitating the expedited rollover process between GET and the savings plan.

Lochner provided an update on non-penalty refunds and rollovers. Since GET began offering non-penalty refunds in September of 2015, the program has processed around 21,000 refunds and around 1,600 rollovers to other state plans. Roughly \$400M has been refunded and about \$40M has been rolled over to other plans. These refunds and rollovers account for roughly 17% of all GET accounts. GET still manages around 99,000 active accounts which hold around 14.5 million purchased units.

Lochner provided account statistics for the 4-year cohort (2011-2015). She noted that roughly a third of all of the accounts opened since 2011 and/or that have units purchased since 2011, have been refunded or rolled to a different plan. Roughly 27,000 accounts with only cohort units remain. Program staff are learning from conversations with customers that they are still waiting to learn of all of their options around the reopening of GET and the development of the savings plan before making final decisions around their current accounts.

Lochner stated that the estimated total dollars distributed and used for qualified higher education expenses in the 2016-2017 academic year is \$129M. Since program inception, the program has distributed \$991M and for about 47,700 students. This represents roughly 30% of all accounts. Lochner stated that the program continues to pay out millions of dollars in distributions for current college students. The program will hit \$1 billion dollars in distributions to students in August 2017.

There were no questions from the Committee.

GET INVESTMENT UPDATE

Allyson Tucker, Senior Investment Officer with the Washington State Investment Board, provided the first quarter GET investment update which included total assets under management as of March 31, 2017. As of this date, the total market value of the fund was at \$2.136 billion. This is an increase of \$42M since December of 2016. This change was driven by investment earnings which increased \$90M.

Performance was stronger than what was reflected in the 2016 fourth quarter report (December). The program's total return was, as of March 31, 2017, currently up by 4.4% and is passing its current benchmark as well as its real return benchmark for all periods.

Tucker also noted that in 2014, WSIB did a full asset allocation study for the GET Committee (and worked with staff from GET and the actuary's office). WSIB will be doing that again in 2018 as this study is done every four years.

There were no questions from the Committee.

GET REOPENING – PROGRAM PAYOUT, POLICIES & PRICING

BACKGROUND

Lochner stated that in 2008, GET reached 100,000 accounts and \$1 billion in total contributions. Over the last decade, Washington has seen an average of 6.8% tuition increase per year and tuition has gone up nearly 106% over all. The GET unit price has increased 117% percent during this decade.

In 2009, the program began to see significant impacts due to the recession. In-state tuition began to spike and increased by double-digits for four straight years. In a four-year span, there was an average annual tuition increase of 15% and a total of 75% increase in tuition. GET enrollments peaked in 2010 and the average between 2009 and 2012 was 11,500 enrollments per year. After 2012, tuition began stabilizing and was flat for two years. In 2015, the legislature passed the College Affordability Program and tuition was lowered for two years (15-16 and 16-17).

The GET Committee responded with the following actions:

- \$51M in amortization charges were returned to owners of 43,000 accounts
- Suspended new enrollments and unit purchases on July 1, 2015.
- Froze the unit payout at \$117.82 so that it wouldn't decrease with tuition.
- Implemented a non-penalty refund policy that allowed customers to take a refund of contributions or payout (whichever is greater): \$400M to 20,000 accounts through May 2017.

GET's funded status, which is a snapshot in time, began improving with the tuition freeze after 2012. The Committee has applied a 15% reserve policy to help ensure that GET meets all future obligations, which is part of the unit pricing model.

Lochner reviewed the considerations around the reopening of GET as well as the typical price-setting process:

1. Legislature adopts the budget and sets tuition policy (by June 30).
2. Universities set the tuition and fees for the upcoming year (July).
3. State Actuary provides GET fund analysis as of June 30 and recommends unit price range (July – August).
4. GET Committee adopts new unit price, considering actuarial analysis and staff recommendations (September).
5. New enrollment year begins once unit price is set (since 2011, this typically November 1).

Lochner noted that the GET Committee must complete the College Affordability Program directives before the unit pricing can begin. The current academic year (16-17) is the last of the tuition decreases and tuition can increase in the fall by approximately 2.2%. It's at this point that statute directs the Committee to make any necessary adjustments to ensure existing accounts are 'not decreased or diluted.' The Committee initially addressed this by holding the payout value to \$117.82 until tuition and fees caught up. However, the Assistant Attorney General strongly advises that the Committee follow statutory direction that includes that '100 units should equal 1 year of tuition.' With recent tuition reductions, this would mean that the new payout value would be lower than \$117.82 if the Committee matches current tuition.

Lochner went through the guiding principles for GET Committee policy discussions that the Committee has determined appropriate:

1. What is the optimal balance between customer flexibility, customer protections, and the GET fund's financial health?
2. What are the potential impacts of any proposed program modifications?
 - a. Fiscal/actuarial
 - b. Customer behavior
 - c. Operational/IT
 - d. Statutory compliance
3. Who will be impacted by possible program modifications (and how will they be impacted)?
 - a. New customers
 - b. Current customers/specific cohort(s) of current customers

LEGISLATIVE ACTIVITY

Maddy Thompson, WSAC Director of Policy & Government Relations, provided an overview of two bills relating to the reopening and pricing of the GET program.

SB 5923 was sponsored by Senator Mullet and was heard the week of June 26, but was not passed out of Committee. This bill would delay the reopening of GET until 60 days after the Washington College Saving Plan (WCSP) is open and would allow an incentive to GET purchasers to redeem units at the "unit cash value price" if they are immediately deposited in the WCSP within 6 months of opening.

HB 2205 was sponsored by Representative Bergquist and was introduced during the regular session but wasn't given a hearing. This bill specified the payout value through 2020 and increased the unit purchase cap to 800 units.

REBASING GET ACCOUNTS

Luke Minor, Associate Director for Marketing and Communications, reviewed the GET Committee's current payout policy. He spoke to three approaches that the Committee could choose to look at in regards to payout policy moving forward.

1. Maintain current policy: \$117.82 payout value until tuition and fees exceed \$11,782.
2. "Rebase" GET unit payout value to statutory formula; add units to existing customer accounts to ensure total account value is not initially "decreased or diluted."
3. Maintain \$117.82 payout value for existing units; new sales based on statutory payout.

Schumacher asked if there was a new proposed unit payout. Minor responded that current tuition at the highest price public university in Washington (UW Tacoma) for the 2017-18 academic year is \$10,171. If a 2.2% increase is added over current tuition and fees, the payout will be about \$103.95. The final payout will be determined when the final tuition is set.

Minor went over the terms 'rebasing' and 'total account value.' Rebasing is resetting the payout value to match the statutory formula (100 GET units = 1 year) and adding units to customer accounts to ensure the 'total account value' remains the same (i.e. is not "decreased or diluted").

The 'total account value' is the total number of purchased, unredeemed units in an account multiplied by the unit payout value.

Payout value would be changed to match tuition. Customers would get backfilled with additional units and the end result would be that a customer would have more units, but their account value would not change. Added units would be based on purchased, unredeemed units as of July 31, 2017. Program staff specifically use the term 'purchased and unredeemed units.' This means the program will not rebase units that have already been used to pay for school or refunded. The program will also not rebase units that are contracted for, but not yet paid for in Custom Monthly plans that are not paid-in-full. These adjustments would be made on August 1, 2017.

Minor provided examples for different account types.

1. 100 Lump Sum units purchased over time, with no distributions.
2. 200 Custom Monthly Plan paid in full with no distributions.
3. 200 Custom Monthly Plan, with 150 units purchased to date (contract not yet paid in full).
4. Combination plan: 100 unit Custom Monthly contract not yet paid in full (75 units purchased to date), with additional 50 Lump Sum units added to account.

Minor noted that there is a consistent factor that's applied to all accounts, but each account would look different.

Minor stated that if the Committee is interested in pursuing the rebasing approach, there are a few things to note:

- Rebasing would provide a consistent formula across all accounts.
- Minor administrative challenges may occur, as this large scale process would apply to all 99,000 active accounts.
 - Plans would be in place to address any issues as they arise.

- The program’s funded status would decrease as new units are added.
- If units were added to customer accounts, per student unit maximums would need to increase.
- Temporary non-penalty/contribution refund policy would need updating.
 - In order to ensure customers can still exercise the contribution refund option, any refunds would not include rebased units, but would payout at \$117.82 or original contributions, whichever is greater.
 - If a distribution is made after rebasing, contribution refunds cannot be accurately calculated.

Schumacher responded that this is a way to get back to the design of tying growth to tuition. He stated that he believes the Committee and staff have done a good job and a lot of work over the last three years and have maintained trust and equity of the system. Schumacher is hopeful that citizens won’t think the Committee is making this more complicated and will realize this is what it takes to put something together that will be simple and straight forward.

Minor noted that internal controls would be in place to ensure accuracy and traceability. A complete system backup would occur prior to rebasing and thorough testing and error checking would be conducted throughout the month of July prior to running the process on August 1.

Minor stated that even though the process is complicated, it will get the program back to where it should be and will meet the statutory directives. Program staff would ensure that there were multiple touchpoints with customers to communicate what is happening and what to expect.

The Committee discussed issues around rebasing and an email from legislators asking the committee to delay the opening of the GET program so that legislators could consider terms for creating incentives to customers who roll their funds out of the program into the WCSP, similar to terms identified in SB 5923.

Meotti summarized the Committees concerns about delaying the reopening of GET. He noted that GET has been managing risks of the market for years and currently, the stress is low. Also, for the first time, the state will be able to offer a parallel savings plan. Meotti stated that he believes the Committee can proceed to reestablish GET to its basic design as the state also prepares for the opening of a new plan. In the response to the request to delay, Meotti doesn’t think that the plan to reopen in the fall precludes the legislature considering other policy choices during the next legislative session.

Minor stated that the rebasing would go into effect on August 1, if approved. This is the proposed timeframe so that the new academic year isn’t disrupted.

Meotti went over the proposed actions regarding the following and the Committee discussed each item:

1. Effective August 1, 2017, rebase all purchased, unredeemed GET units so that the unit payout value again equals 1/100th of one-year of resident undergraduate tuition and state-mandated fees at Washington’s highest priced public university, and add units to all

existing customer accounts in a proportion equal to the difference between the \$117.82 payout value, and the new lower payout value.

2. Effective August 1, 2017, increase the total lifetime maximum amount of units that may be purchased for a beneficiary from 500 units to 600 units, and increase the annual unit maximum that may be redeemed in an academic year from 125 units to 150 units.
3. Effective August 1, 2017, update the temporary non-penalty refund policy as follows:
 - a. Allow current account owners to refund or rollover their entire GET account (no partial account refunds allowed) at the \$117.82 unit payout value OR their initial contributions (whichever is greater), excluding new units added through the rebasing process, without state refund fees, until September 1, 2017, or until 60 days after a 529 savings plan opens (whichever is later).
 - b. While this temporary policy is in effect, if a distribution is made from an account after August 1, 2017, that account is no longer eligible for a refund of initial contributions. All future refunds and distributions for that account would be based on the payout value.
4. Open GET to new enrollments and unit purchases no later than November 1, 2017, so that rebasing is complete, and so customers will know the 2017-18 unit purchase price and any potential details about the upcoming college savings plan prior to making a decision to enroll in GET.

Schumacher motioned to approve the first two proposed actions. Davidson seconded both motions.

PUBLIC COMMENT

Meotti asked if there was anyone signed up for public comment. There was no one signed-up.

Seeing that there was no public comment regarding the proposals on the table, the Committee voted and the first two proposals passed unanimously.

Wong motioned to approve the third proposed action presented to update the temporary non-penalty refund policy as presented. Berendt seconded the motion. The motion was approved unanimously.

Berendt motioned to approve the fourth proposed action regarding GET's opening date. Wong seconded the motion. The motion was approved unanimously.

Lochner stated that the next GET Committee meeting is scheduled for September 13.

ADJOURNMENT

Berendt motioned to adjourn the meeting. Wong seconded the motion. The meeting adjourned at 3:07 p.m.

GET Committee Meeting

September 13, 2017



Welcome

- Review July 6, 2017 Meeting Minutes
- Chair's Report



Director's Report

Betty Lochner GET Director

- **Updates**
 - GET Non-Penalty Refunds & Distributions



Director's Report

Non-Penalty Refund Update (September 2, 2015 – August 31, 2017)

Number of requests received and processed:

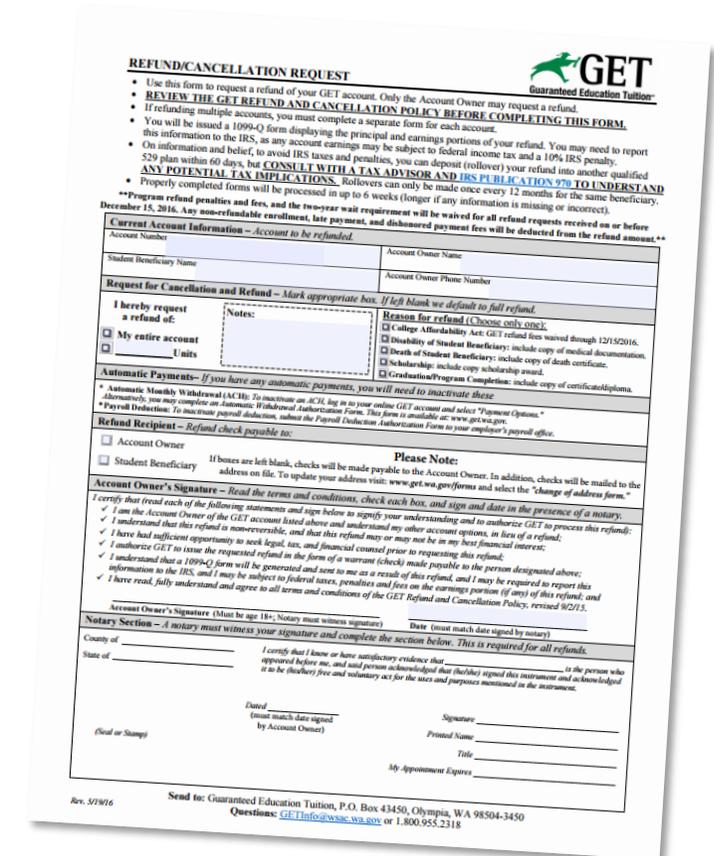
- Non-penalty refunds: **23,108**
- Outgoing rollovers: **1,956**

Estimated dollar value of processed requests:

- Non-penalty refunds: **\$413.3 Million**
- Outgoing rollovers: **\$47.6 Million**

Overall account statistics:

- Proportion of all accounts refunded or rolled over during non-penalty refund window: **19%**
- Remaining total active accounts: **96,900**
- Remaining purchased units: **15.1 million**



REFUND/CANCELLATION REQUEST

Use this form to request a refund of your GET account. Only the Account Owner may request a refund.

REVIEW THE GET REFUND AND CANCELLATION POLICY BEFORE COMPLETING THIS FORM.

If refunding multiple accounts, you must complete a separate form for each account.

You will be issued a 1099-Q form displaying the principal and earnings portions of your refund. You may need to report this information to the IRS, as any account earnings may be subject to federal income tax and a 10% IRS penalty.

On information and belief, to avoid IRS taxes and penalties, you can deposit (rollover) your refund into another qualified 529 plan within 60 days, but **CONSULT WITH A TAX ADVISOR AND IRS PUBLICATION 970 TO UNDERSTAND ANY POTENTIAL TAX IMPLICATIONS.** Rollovers can only be made once every 12 months for the same beneficiary.

Properly completed forms will be processed in up to 6 weeks (longer if any information is missing or incorrect).

****Program refund penalties and fees, and the two-year wait requirement will be waived for all refund requests received on or before December 15, 2016. Any non-refundable enrollment, late payment, and dishonored payment fees will be deducted from the refund amount.****

Current Account Information – Account to be refunded.

Account Number: _____ Account Owner Name: _____
 Student Beneficiary Name: _____ Account Owner Phone Number: _____

Request for Cancellation and Refund – Mark appropriate box. If left blank we default to full refund.

I hereby request a refund of: _____ (Notes: _____) Reason for refund (Choose only one):
 My entire account Units College Affordability Act (GET refund fees waived through 12/15/2016).
 Disability of Student Beneficiary: include copy of medical documentation.
 Death of Student Beneficiary: include copy of death certificate.
 Scholarship: include copy of scholarship award.
 Graduation/Program Completion: include copy of certificate/diploma.

Automatic Payments – If you have any automatic payments, you will need to deactivate these.
 Automatic Monthly Withdrawal (ACH): In maximum an ACH log in to your online GET account and select "Payment Options."
 Payroll Deduction: In maximum payroll deduction, submit the Payroll Deduction Authorization form to your employer's payroll office.

Refund Recipient – Refund check payable to:
 Account Owner **Please Note:** If boxes are left blank, checks will be made payable to the Account Owner. In addition, checks will be mailed to the address on file. To update your address visit: www.get.wa.gov/forms and select the "change of address form."
 Student Beneficiary

Account Owner's Signature – Read the terms and conditions, check each box, and sign and date in the presence of a notary.
 I certify that (read each of the following statements and sign below to signify your understanding and to authorize GET to process this refund):
 I am the Account Owner of the GET account listed above and understand my other account options, in lieu of a refund.
 I understand that this refund is non-reversible, and that this refund may or may not be in my best financial interest.
 I have had sufficient opportunity to seek legal, tax, and financial counsel prior to requesting this refund.
 I authorize GET to issue the requested refund in the form of a warrant (check) made payable to the person designated above.
 I understand that a 1099-Q form will be generated and sent to me as a result of this refund, and I may be required to report this information to the IRS, and I may be subject to federal taxes, penalties and fees on the earnings portion (if any) of this refund; and
 I have read, fully understand and agree to all terms and conditions of the GET Refund and Cancellation Policy, revised 9/2/15.

Account Owner's Signature (Must be age 18+, Notary must witness signature) _____ Date (must match date signed by notary) _____

Notary Section – A notary must witness your signature and complete the section below. This is required for all refunds.
 County of _____ I certify that I know or have satisfactory evidence that _____ of the person who appeared before me, and said person acknowledged that (he/she) signed this instrument and acknowledged it to be (his/her) free and voluntary act for the uses and purposes mentioned in the instrument.
 State of _____
 Dated _____ (must match date signed by Account Owner) Signature _____
 (Seal or Stamp) Printed Name _____
 Title _____
 My Appointment Expires _____

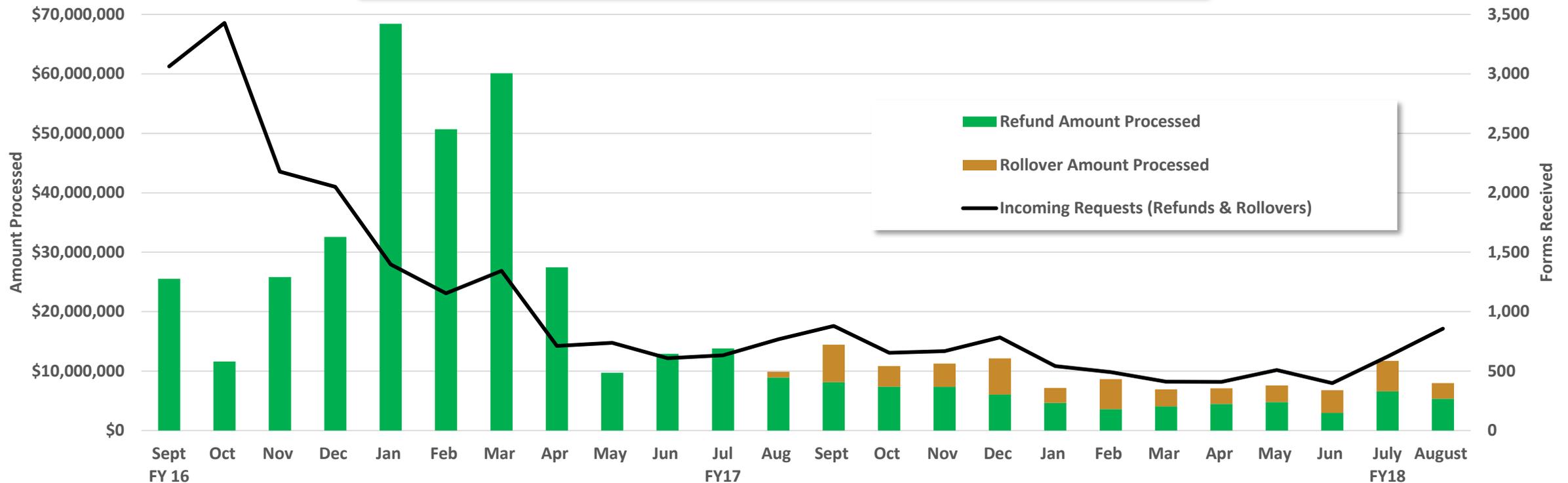
Rev. 5/10/16 Send to: Guaranteed Education Tuition, P.O. Box 43450, Olympia, WA 98504-3450
 Questions: GETInfo@wsac.wa.gov or 1.800.955.2318

Director's Report

Non-Penalty Refund Update

(September 2, 2015 – August 31, 2017)

Refund and Rollover Requests Received and Processed by Month



Director's Report

Distributions for Current College Students

(for payment of higher education expenses – as of August 31, 2017)

- **2017-18 academic year (first month):**
 - Total dollars distributed: **\$33.9 Million**
 - Total students using units: **5,154**
- **Since program inception:**
 - Total dollars distributed: **\$1.03 Billion**
 - Total students who have used units: **49,504**
 - Proportion of all accounts opened since inception that have requested distributions: **31%**



Savings Plan Development Update

Don Bennett
WSAC Deputy Director

Doug Magnolia
CEO, Sundry/BNY Mellon



- Review progress on developing a direct-sold 529 college savings plan

Savings Plan Development Update

Progress since July GET Committee Meeting

- **Project kickoff meeting with BNY Mellon**
 - Formed project team and developed detailed project timeline.
 - Began plan design – plan features, investment lineup, branding, and marketing materials.
- **Weekly meetings with BNY Mellon**
 - Discuss project status updates (utilizing agile project management).
 - Continuing plan design and contract negotiations.
- **Working with Office of the Chief Information Officer (OCIO)**
 - OCIO has project oversight due to large IT component.
 - Finalizing OCIO IT investment plan –must be approved before signing contract.

Savings Plan Development Update

Next Steps

- **Finalize agreement on plan design, investment lineup, and fees**
(September – October 2017)
- **Continue developing website, disclosures, and marketing materials**
(September – December 2017)
- **System customization/integration**
(October – December 2017)
- **User testing**
(January – February 2018)
- **Launch – begin offering savings plan to the public**
(Early 2018)

Special GET Committee Meeting
to review plan design.



GET Investment Report September 13, 2017

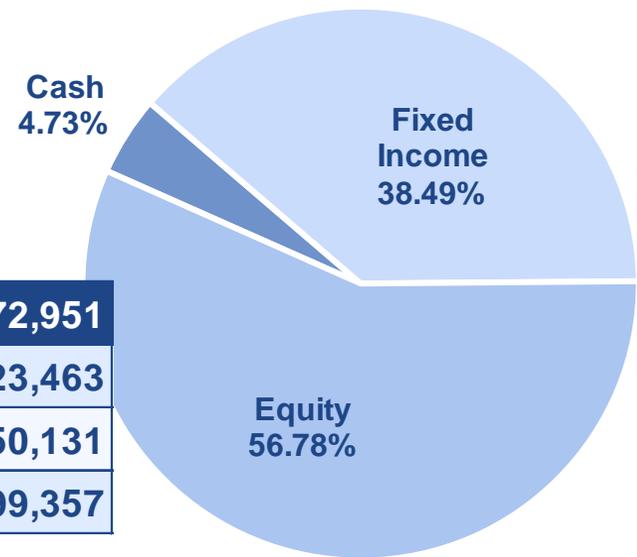


Chris Phillips, Institutional Relations Director

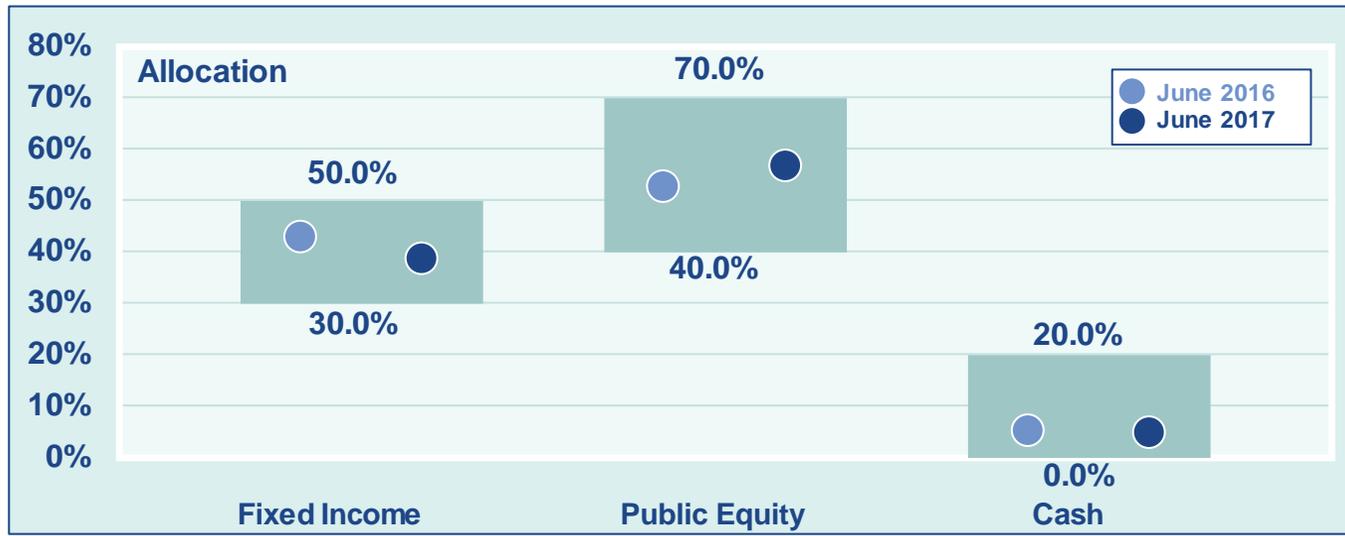


GET Market Values, Asset Allocation, Targets and Ranges

June 30, 2017

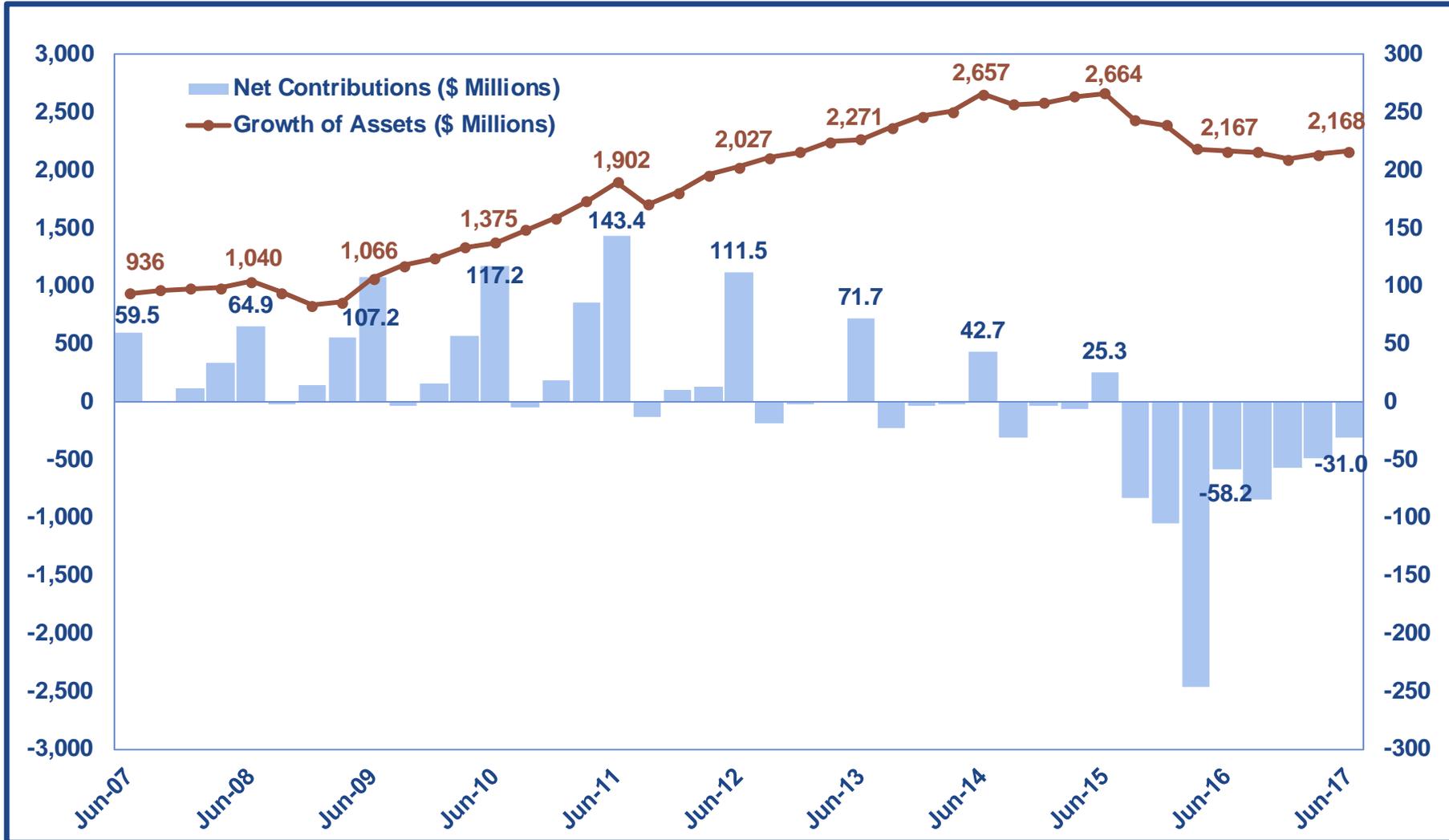


| | |
|--------------|------------------------|
| Total | \$2,167,872,951 |
| Cash | \$102,523,463 |
| Fixed Income | \$834,350,131 |
| Equity | \$1,230,999,357 |



GET Net Contributions and Growth of Assets

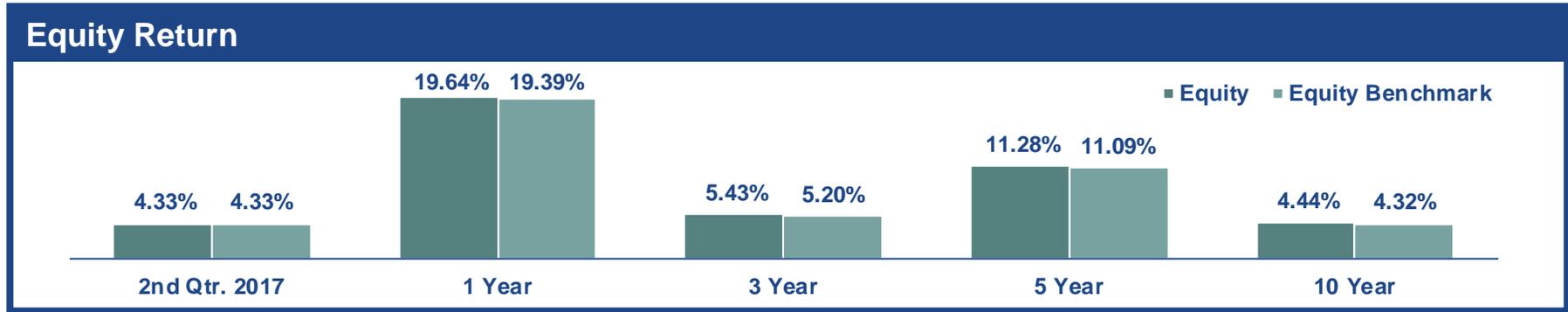
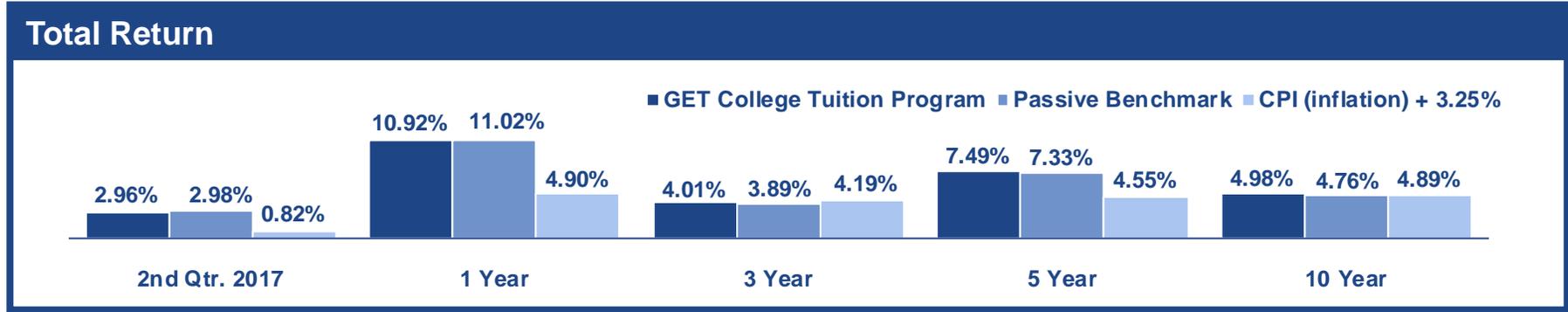
June 30, 2017





GET Performance

June 30, 2017

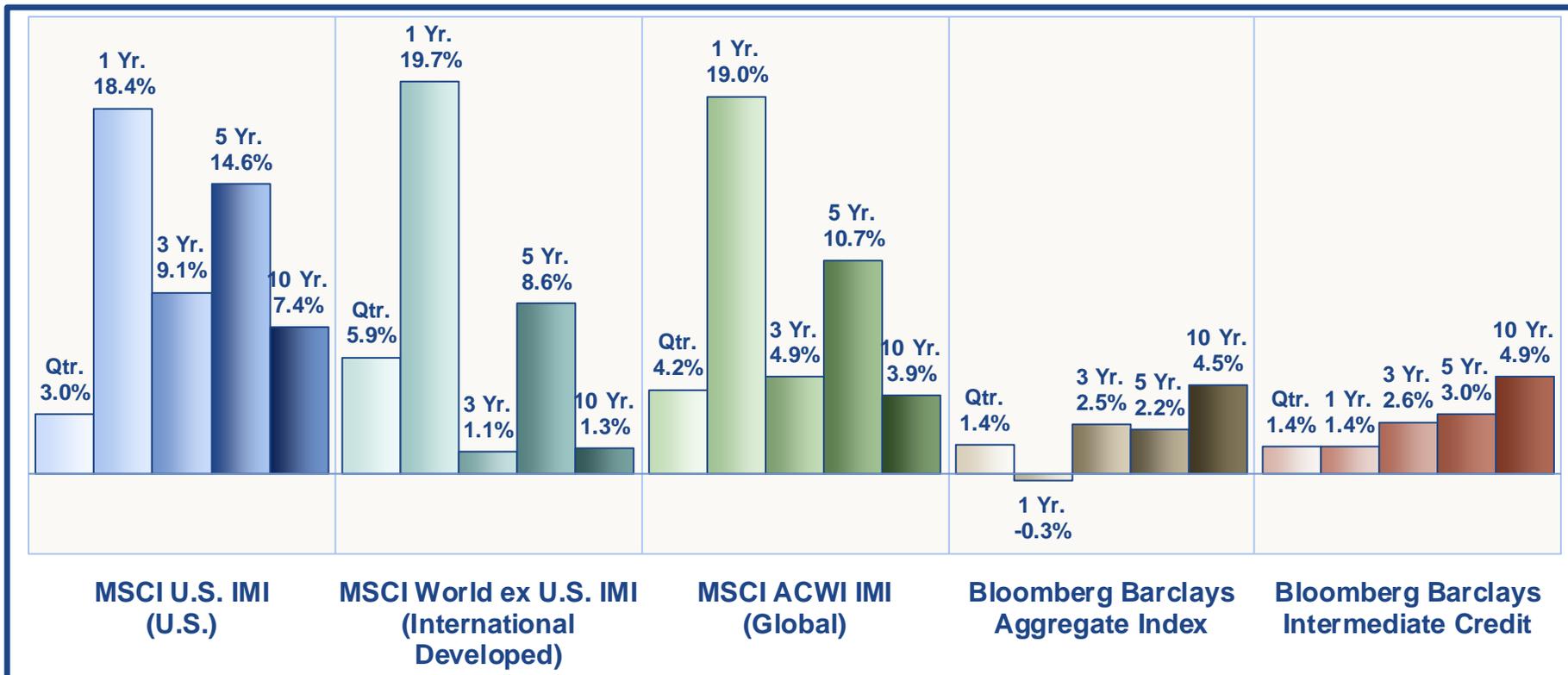


Fixed Income Benchmark: Bloomberg Barclays Intermediate Credit and a historical blended return
Equity Benchmark: MSCI ACWI IMI w/U.S. Gross and a historical blended return

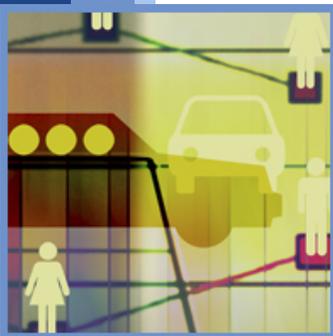
Global Capital Markets Performance

June 30, 2017

- Global equity markets up modestly in June; included pullback in Technology (-1%) and big gains in Financials (+4%)
- US and Canada currently leading world equity returns race; UK and France declined
- Emerging Markets seeing an uptick (+ nearly 1% in June); Greece and Mexico rebounded
- 10-year Treasuries ended June at 2.31%, up from 1.47% a year ago



Contact Information



Web Site: <http://www.sib.wa.gov>



Address:

2100 Evergreen Park Drive SW
P.O. Box 40916
Olympia, WA 98504-0916

Phone Number:

(360) 956-4600

GET Reopening

Betty Lochner

GET Director

Matt Smith

State Actuary

Office of the State Actuary

Luke Minor

Associate Director for GET

Marketing & Communications



- Discuss upcoming 2017-2018 enrollment period: unit pricing, policy considerations, budget, and marketing

GET Reopening

Guiding Principles for Committee Policy Discussions

- **What is the optimal balance between customer flexibility, customer protection, and the GET fund's financial health?**
- **What are the potential impacts of any proposed program modifications?**
 - Fiscal/actuarial
 - Customer behavior
 - Operational/IT
 - Statutory compliance
- **Who will be impacted by possible program modifications (and how will they be impacted)?**
 - New customers
 - Current customers/specific cohort(s) of current customers

GET Reopening

Unit Price for 2017-18 Enrollment Year

- **Unit Price Components**

| | |
|----------------------|--|
| Expected Cost | Covers the expected present value of the cost of future tuition. |
| Expenses | Covers the GET program's annual operating expenses: Annual budget minus expected enrollment fees to be collected, divided by estimated unit sales. |
| Reserve | Covers unexpected future costs such as above-expected tuition growth or below-expected investment returns. <ul style="list-style-type: none">• Current guidelines target a 15 percent reserve. |

GET Reopening

Unit Price for 2017-18 Enrollment Year

- **Discuss**
 - Actuary's price-setting letter
 - Best estimate unit price range
 - Best estimate unit price

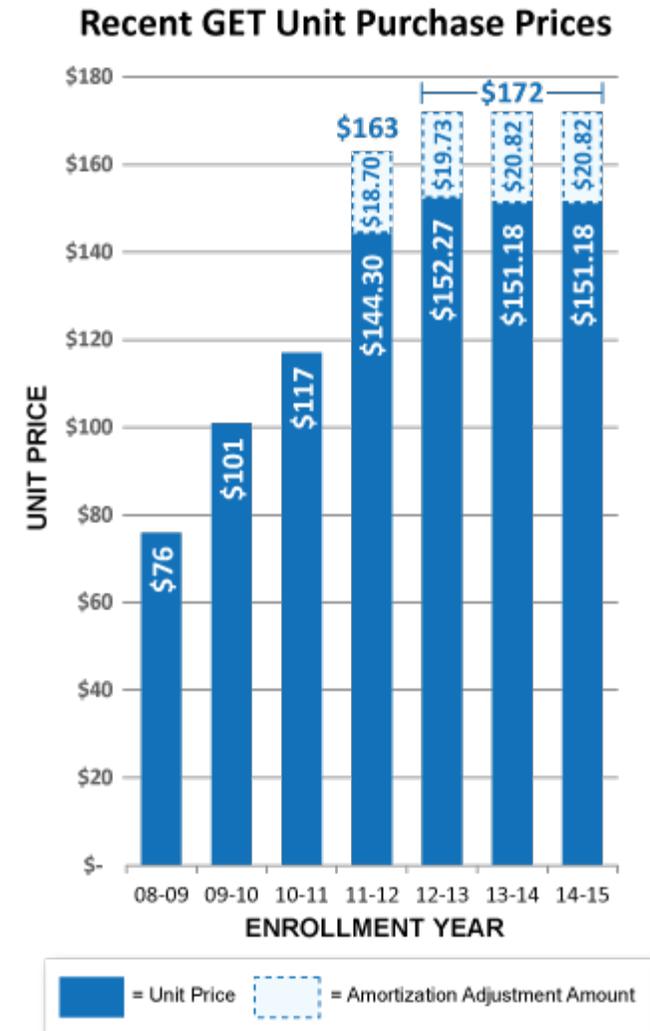


GET Reopening

Unit Price for 2017-18 Enrollment Year

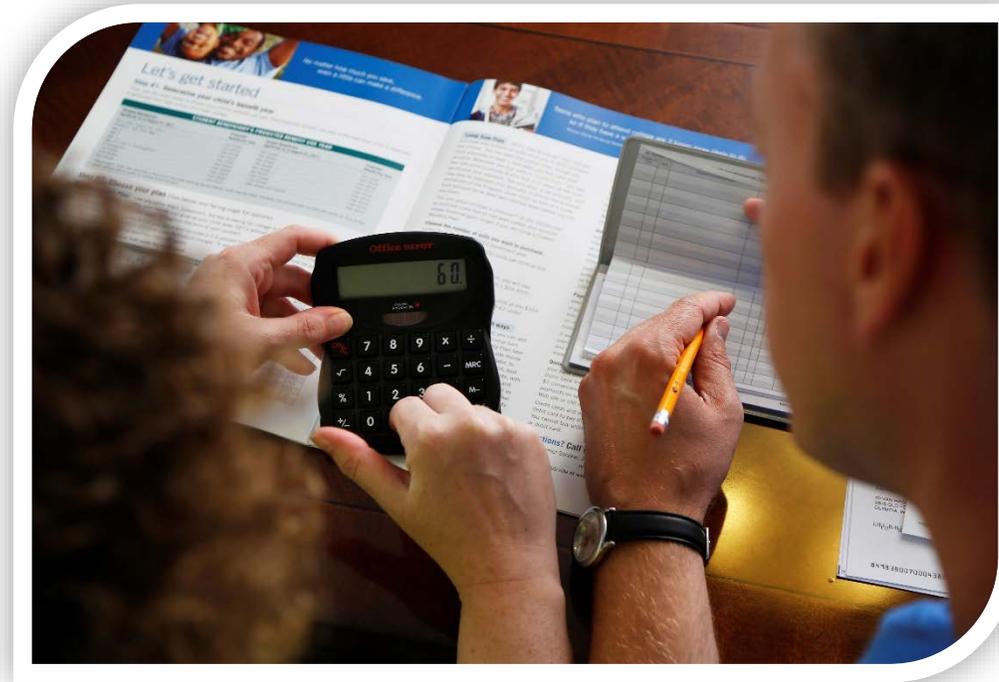
• Considerations

- A 2017-18 unit purchase price consistent with the actuary's best estimate will be lower than prices paid by recent cohorts.
 - There is currently a temporary refund policy in place that would allow a customer to refund contributions and purchase new units.
 - This may create a sharp increase in refund requests.



GET Reopening

Review and Approve GET FY18 Budget



GET Reopening

Next Steps

- **Begin marketing rollout**
- **Reopen GET on November 1**
- **Continue November 1 – May 31 enrollment period**

Life is full of **firsts**.

Take your **first step** in saving for college today.



GET Reopening

Marketing Plan - Objectives

- **Awareness**

- TV, Print, Digital & Radio Advertising

- **Education**

- Website, Blog, Social Media, Direct Mail/Email, Community Outreach/Partnerships, Media Relations, Contact Center

- **Action**

- Website, Community Outreach, Direct Mail/Email, Contact Center



GET Reopening

Marketing Plan – Awareness Building

- Continue “Life is Full of Firsts” campaign for one more year.
- Full media rollout beginning in November (TV/radio/print/web).
- Large push March-May leading into end of enrollment.

Life is full of **firsts**.
Take your **first step** in
saving for college today.



Public Comment

Share Your Thoughts

- **Process**

- Sign-up sheet
- Three minutes per individual
- If you would like to submit a written comment, please send your input to: GETInfo@wsac.wa.gov, and include the subject line: “GET Committee Statement.”



Next Steps

- Discuss and make decisions on program payout, policies and pricing.
- Upcoming GET Committee meetings:

Special Meeting



Regularly Scheduled Meeting



Adjournment



Next Meeting (Special Meeting)

Wednesday, October 11, 2017 | 2:00 p.m. – 3:00 p.m.

J.A. Cherberg Building | Senate Hearing Room 4 | Capitol Campus, Olympia



Office of the State Actuary

“Supporting financial security for generations.”

September 11, 2017

Betty Lochner
Director
Guaranteed Education Tuition
PO Box 43430
Olympia, Washington 98504-3430

RE: 2017 PRICE-SETTING ANALYSIS

Dear Betty,

We prepared updated actuarial analysis to assist the Guaranteed Education Tuition (GET) Committee in setting a unit price for the next enrollment period (2017-18). If the GET Committee decides to retain the current 15 percent reserve, this pricing information may be used to adopt a unit price for the next enrollment period. This analysis may not be appropriate for other purposes and should be replaced with updated analysis for setting a unit price after the next enrollment period.

Analysis Summary

- ❖ **Current Program Status** – the Office of the State Actuary’s (OSA) most recent analysis for state financial reporting reflects a program funded status of 132 percent with a reserve of \$564 million as of June 30, 2017. These results reflect updated investment return and tuition assumptions, as well as other program changes.
- ❖ **Price Setting Information** – if the committee retains the current 15 percent reserve, we calculated a best estimate unit price range of \$107 to \$119 and a best estimate unit price of \$113 for the next enrollment period (2017-18).
- ❖ **Risk Analysis** – using the assumptions and methods outlined in the appendix, we found the 15 percent reserve protects units sold from 1 percent lower than assumed investment returns, 1 percent higher than assumed tuition growth rates, and a “Return of the Great Recession” scenario as defined in the appendix.

The body and appendices of this letter detail the updated program status, unit price analysis, and risk analysis. Please note the funded status reported in the *June 30, 2017, GET*



Actuarial Valuation Report (GAVR) may differ from the results presented in this letter. We anticipate the GET Committee will receive the *2017 GAVR* in November.

Current Program Status

We prepared the funded status for the *2017 Comprehensive Annual Financial Report* results by rolling forward the results from the *June 30, 2016, GAVR*, to June 30, 2017. The Present Value of Future Obligations includes assumption and method changes, and the estimated impact of the program’s recent rebase.

We updated two key economic assumptions — investment returns and tuition growth. We lowered the investment return assumption from 6 percent to 5.65 percent. We updated the tuition growth assumptions consistent with the recently enacted state budget for 2017-19 and revised our expectations for the future beyond 2017-19. Based on input from GET staff, we updated the method we use to determine the present value of administrative expenses. We now estimate the cost of shutting down the program over ten years should that contingency arise in the future using projected program expenses provided by GET staff. Previously, we estimated the cost of this contingency via an actuarial assumption.

We also estimated the impact of the August 1, 2017, unit rebase measured at June 30, 2017. See the **Appendix C** for further details on these changes.

The Present Value of Fund equals the Market Value of Assets as of June 30, 2017, as provided by the Washington State Investment Board (WSIB), along with an estimated Present Value of Monthly Contract Receivables.

| Funded Status Summary | | |
|--|--------------|----------------------|
| <i>(Dollars in Millions)</i> | 2017* | 2016 GAVR |
| Present Value of Future Obligations | \$1,740 | \$1,726 |
| Market Value of Assets at June 30, 2017 | \$2,168 | \$2,167 |
| Present Value of Receivables | \$136 | \$174 |
| Present Value of Fund | \$2,304 | \$2,341 |
| Funded Status | 132.4% | 135.6% |
| Reserve/(Deficit) | \$564 | \$615 |

**Estimated using roll-forward procedure starting with the 2016 GAVR.*

Price-Setting Information

To determine the best estimate unit price and range, we estimate the future value of a single unit based on assumptions for future tuition growth and holding periods for the unit (the duration between purchase and redemption). We then calculate the present value of this future unit using the expected rate of investment return and add a component to cover the expected annual operating expenses of the program. Finally, we include a reserve component in the unit price to account for adverse deviation from our assumptions (unexpected costs).



In 2011, the GET Committee adopted the current price-setting guidelines (how we price future units). These price-setting guidelines include the following four parts.

- ❖ **Expected Cost** – Covers the expected present value of the cost of future tuition.
- ❖ **Expenses** – Covers the GET program’s annual operating expenses. The amount of \$4.18 equals the program’s budget for fiscal year 2018, less new account enrollment fees, divided by the estimated number of unit sales during the next enrollment (or $\$5,728,134 \div 1,370,086$). GET staff determined the expense amount.
- ❖ **Reserve** – Covers unexpected future costs such as higher than expected tuition growth or lower than expected investment returns. The Committee included a 15 percent reserve when setting the last unit price. This component can be increased or decreased to alter the probability that a unit will ever create an unfunded liability in the future.
- ❖ **Amortization** – An optional component that covers unexpected past costs from significant program or policy changes. This component is not included in current unit pricing.

If the committee retains the current 15 percent reserve, we calculated a best estimate unit price range of \$107 to \$119 and a best estimate unit price of \$113, shown in the following table.

| GET Unit Price Information | | |
|----------------------------|-----------------|----------------------------|
| 2017-18 Enrollment | | |
| Unit Price | Best Estimate | Best Estimate Range |
| Expected Cost | \$94.34 | \$89.16 - \$99.75 |
| Expenses | 4.18 | 4.18 |
| Reserve | 14.78 | 14.00 - 15.59 |
| Amortization | N/A | N/A |
| Total Unit Price | \$113.00 | \$107.00 - \$119.00 |

Note: Totals are truncated and may not agree.

**Best estimate range recognizes new assumptions shown in this letter.*

To develop the best estimate range for the unit price, we varied the assumed level of future state funding for the cost of higher education. In selecting a unit price for the next enrollment period, the GET Committee will consider many policy issues; including, but not limited to, the management of program risks and affordability. The responsibility to adopt a unit price rests solely with the GET Committee. We provided a best estimate range for the unit price to assist the GET Committee in meeting this responsibility and consider any price within the best estimate range to be reasonable.



We have excluded the impacts of differential tuition from this analysis. Please see **Appendix A** for additional information.

Risk Analysis

The program's on-going success depends on maintaining a delicate balance between risk and affordability. In this case, "risk" represents the risk that the state will need to contribute to the program and "affordability" represents the affordability of future GET units. Improving one factor will typically increase the impact of the other.

The GET Committee manages risk through the reserve component of the unit price. The larger the reserve the lower the risk to the state, but the higher and less affordable the unit price and vice versa.

For the risk analysis in this letter, we demonstrate the level of protection the current 15 percent reserve provides against two select adverse scenarios and under a "Return of the Great Recession" scenario.

- ❖ **Lower than expected returns** – the current 15 percent reserve protects the units sold from investment returns that average 1 percent lower than the 5.65 percent assumption each year.
- ❖ **Higher than expected tuition growth** – similarly, the current 15 percent reserve protects the units sold from tuition growth rates that exceed the current assumption by 1 percent each year.
- ❖ **Return of the Great Recession** – we reviewed the level of protection the 15 percent reserve would provide against a return of the Great Recession. Specifically, we examined a return of the tuition growth rates and investment returns the program experienced from 2008 to 2017. Using a 15 percent reserve, we found a single unit would have adequate reserves at the end of a 15-year period under this scenario. In other words, the accumulated value of the assets collected from the purchaser would be sufficient to provide for the redemption of the unit 15 years later assuming asset and tuition growth consistent with this scenario.

The units sold would not have adequate reserves under this scenario if the tuition reductions of 2015 and 2016 did not repeat as they did in the past. If tuition reductions did not repeat under this scenario, the units sold would require a reserve of approximately 18 percent to remain protected by the end of the 15-year period.

Please see **Appendix B** for further details on the risk analysis.

As with any financial security program, risks can change over time. We recommend the GET Committee continue to monitor and evaluate the program's risks.



Actuarial Certification

We prepared this analysis to assist the GET Committee in setting a unit price for the next enrollment period (2017-18). This analysis may not be appropriate for other purposes.

This analysis involves calculations that require assumptions about future economic and demographic events. The Actuarial Standards Board has not defined Actuarial Standards of Practice (ASOP) specific to the measurement or evaluation of prepaid tuition programs. We used the ASOPs for pensions where possible to guide our analysis of GET. We believe that the assumptions, methods, and calculations used in this analysis are reasonable and appropriate for the primary purpose as stated above, and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this letter. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results.

Since the analysis is based on assumptions about future events, actual results will differ to the extent that future experience differs from those assumptions. Significant differences between the actual and assumed future enrollments will impact the results. This analysis will need to be updated in the future if changes are made to the GET program or the Legislature reforms current tuition policy.

The GET Program staff provided the participant, asset, and historical data to us. The WSIB also provided recent asset data to us. We checked the data for reasonableness as appropriate based on the purpose of this analysis. An audit of the data was not performed. GET Program staff also provided the expense component for the unit price. We relied on all the information provided as complete and accurate. In our opinion, this information is adequate and substantially complete for the purposes of this analysis.

We advise readers of this analysis to seek professional guidance as to its content and interpretation and not to rely upon this communication without such guidance. Please read the analysis shown in this communication as a whole. Distribution of, or reliance on, only parts of this analysis could result in its misuse and may mislead others.

The analysis in this letter will quickly become outdated. Please replace this analysis with next year's price-setting analysis when available.

Consistent with the Code of Professional Conduct that applies to actuaries, I (Matthew Smith) must disclose any potential conflict of interest. I purchased units in GET; however, this does not impair my ability to act fairly. I performed all analysis without bias or influence. The Legislature mandated OSA to perform actuarial services for GET and I supervised the actuarial analysis performed.



The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein and are available to provide extra guidance and explanations as needed.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA
State Actuary

Lisa Won, ASA, FCA, MAAA
Deputy State Actuary

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Appendix A – Best Estimate Range

To develop the best estimate range for the unit price, we varied the ultimate assumed level of future state funding for the cost of higher education from our best estimate of 28.5 percent as follows:

- ❖ **Low Estimate** – The assumed percentage of state funding in our tuition growth model will increase slightly to 37.5 percent.
- ❖ **High Estimate** – The assumed percentage of state funding in our tuition growth model will fall from a high of 37.5 to 23 percent over the next five years, including a funding increase for 2017-19.



Appendix B – Risk Analysis

To illustrate the potential risk mitigation of a 15 percent reserve on the unit price, we compare, under three select scenarios, the projected unit payout value to the expected growth in assets attributable to the purchase of a single unit (accumulated assets). We make this comparison at the end of a 15-year accumulation period. We chose a 15-year period because it approximates the average holding period of new contracts (from purchase to redemption) and represents the simulation period associated with our expected rate of investment returns.

For the purposes of this analysis, we calculate a hypothetical unit price as the present value (using a 5.65 percent discount rate) of the projected unit payout value under our best-estimate tuition growth rates, and with a 15 percent reserve. We exclude the expense component in the unit price. The hypothetical unit price includes simplified assumptions and methods, and will not match our best estimate analysis in the body of this letter.

If we made no change to our best estimate assumptions, the accumulated assets from a single unit would exceed the projected unit payout for that unit by precisely 15 percent. The following table shows the results of our risk analysis under the select scenarios presented in the body of this letter.

| Scenario Risk Analysis - Values Per Unit Sold | | |
|---|--------------------|------------------------|
| Scenario | Accumulated Assets | Projected Payout Value |
| Lower than expected returns | \$221.35 | \$221.99 |
| Higher than expected tuition growth | \$255.29 | \$253.36 |
| Return of the Great Recession | \$239.48 | \$209.53 |

For each scenario, we varied our assumptions from expected to produce different accumulated assets and projected payout values from our best estimate. The following bullets and table outline these assumptions.

- ❖ **Lower than expected returns** – we assumed investment returns of 4.65 percent each year (1 percent lower each year than our best estimate) and tuition growth rates that match our best-estimate growth rates outlined in **Appendix C**.
- ❖ **Higher than expected tuition growth** – we assumed investment returns consistent with our best estimate assumption of 5.65 percent, and tuition growth rates 1 percent higher than our best estimate growth rates for each future year after the next two years of known tuition growth rates.
- ❖ **Return of the Great Recession** – as displayed in the following table, we assumed actual tuition growth rates and investment returns the program experienced from 2008 to 2017, and expected rates thereafter.



| Return of the Great Recession Assumptions | | |
|--|--------------------------|-----------------------|
| | Investment Return | Tuition Growth |
| 2018-19 | (0.70%) | 2.00% |
| 2019-20 | (16.02%) | 6.84% |
| 2020-21 | 12.68% | 13.10% |
| 2021-22 | 20.46% | 13.05% |
| 2022-23 | 0.07% | 18.98% |
| 2023-24 | 9.59% | 15.25% |
| 2024-25 | 16.36% | 0.00% |
| 2025-26 | 0.83% | 0.00% |
| 2026-27 | 0.61% | (5.00%) |
| 2027-28 | 10.92% | (10.53%) |
| 2028-29 | 5.65% | 2.20% |
| 2029-30 | 5.65% | 5.00% |
| 2030-31 | 5.65% | 5.00% |
| 2031-32 | 5.65% | 5.00% |
| 2032-33+ | 5.65% | 5.00% |



Appendix C – Data, Assumptions, And Methods

Data We Used

We relied on participant and asset data provided by GET program staff and relied on asset data provided by WSIB to perform our roll-forward analysis for the funded status. The participant data reflects contract information through June 30, 2017. The asset data reflects actual investment returns through June 30, 2017. We checked the data for reasonableness as appropriate based on the purpose of this analysis. We did not audit this data and have relied on the data as complete and accurate for purposes of this analysis.

Assumptions We Made

Most of the assumptions we made remain unchanged from those disclosed in our *2016 GAVR*. Unless noted otherwise in this letter, we made the following assumption changes to complete this analysis.

We updated the two key economic assumptions — expected investment returns and expected tuition growth. We updated the assumed long-term rate of investment return from 6.00 percent to 5.65 percent based on WSIB's most recent capital market assumptions and the program's long-term asset allocation targets. We've implicitly assumed the current long-term asset allocation targets of 60 percent global equity / 40 percent fixed income portfolio will remain unchanged throughout the projection period. We use this assumption in the price-setting analysis to determine the present value of future unit payouts and in the roll-forward of the funded status.

We also changed our tuition growth assumptions in response to the tuition-setting policy enacted in the 2017-19 Budget (see the **Tuition Growth Assumption** table, on the next page for details). This assumption helps us model the growth in future unit payout values.

The table on the next page shows the tuition assumptions we used for this analysis. We relied on the tuition growth model disclosed in the *2016 GAVR* to develop the tuition growth assumptions. These assumptions do not consider potential impacts of differential tuition. The impact from differential tuition could vary based on how it interacts with the current contracts.



| Tuition Growth Assumptions Best Estimate Range | | | |
|---|-------|----------|-------|
| | Best | | |
| | Low | Estimate | High |
| 2017-18 | 2.20% | 2.20% | 2.20% |
| 2018-19 | 2.00% | 2.00% | 2.00% |
| 2019-20 | 5.00% | 6.50% | 8.00% |
| 2020-21 | 5.00% | 6.50% | 8.00% |
| 2021-22 | 5.00% | 6.50% | 8.00% |
| 2022-23 | 5.00% | 6.50% | 8.00% |
| 2023-24 | 5.00% | 5.00% | 5.00% |
| 2024-25 | 5.00% | 5.00% | 5.00% |
| 2025-26 | 5.00% | 5.00% | 5.00% |
| 2026-27+ | 5.00% | 5.00% | 5.00% |

Methods We Used (How We Applied The Assumptions)

Based on input from GET staff, we updated the method we use to determine the present value of the cost of shutting down the program over ten years should that contingency arise in the future. Under this new method, GET staff now provide the next ten years of projected expenses for this contingency, and we discount those expenses to the valuation date using the long-term assumed rate of return. Previously, we estimated this expense via an actuarial assumption tied to each unredeemed unit. Please see the *2015 GET Experience Study* letter dated December 9, 2015, for further background.

To estimate the impact of the August 1, 2017, unit rebase, we multiplied the number of purchased and unredeemed units at June 30, 2017, by 1.134412 (consisting of the minimum unit payout value for the 2016-17 school year divided by the payout value for the 2017-18 school year or $\$117.82 \div \103.86). We applied this factor only to purchased and unredeemed units as of June 30, 2017. As part of this process, we also removed the minimum payout value of \$117.82 for future unit payouts.

Otherwise, the methods we used are consistent with the methods disclosed in the *2016 GAVR* or the *2015 GET Experience Study*.