



**GUARANTEED EDUCATION TUITION COMMITTEE MEETING**

**Wednesday, April 23, 2008**

**State Investment Board**

**2100 Evergreen Park Drive SW, Suite 100**

**Olympia, WA 98502**

**MINUTES**

*HECB staff in attendance:*

Betty Everitt Lochner, GET Director  
Don Bennett, HECB Deputy Director  
Larry Lee, GET Deputy Director  
Whitney DalBalcon, GET Associate Director  
for Marketing and Communications  
Heidi Auderer, GET Operations Manager  
Betsy Hagen, Special Assistant to the  
GET Director  
Katie Gross, GET Office Assistant  
Christine Wilson, GET Customer Service  
Vickey Mauerman, GET Financial Accountant  
Denise Hamilton, GET Finance Coordinator

*Guests in attendance:*

Terry Ryan, Office of the Attorney  
General  
Shad Pruitt, Office of the State  
Treasurer  
Darrell Jensen, Office of the State  
Treasurer  
Chris Alejano, Office of the  
Governor  
Diana Will, State Investment Board

**WELCOME**

GET Committee Chair Ann Daley called the meeting to order at 2:00 p.m. Members of the GET Committee in attendance were Ann Daley, Chair; Michael J. Murphy, State Treasurer; Victor Moore, Director of the Office of Financial Management (OFM); Beth Stecher Berendt, citizen member; and by teleconference Mooi Lien Wong, citizen member.

**APPROVAL OF FEBRUARY 2007 MEETING MINUTES**

**Committee members reviewed the minutes of the February 13, 2007 meeting. Murphy made a motion to adopt the minutes as presented. Moore seconded the motion. The motion was approved unanimously as presented.**

**REPORT FROM THE CHAIR**

Ann Daley presented an update on the Higher Education Coordinating Board's work on the master plan. She expressed gratitude to agency employees for their hard work. The Legislature approved the plan in this year's legislative session.

**DIRECTOR'S REPORT**

Betty Lochner reported that the program had a strong enrollment year, with nearly 12,000 new enrollments. She added that of the 18 prepaid tuition programs in the nation, GET advanced from 8<sup>th</sup> to 6<sup>th</sup> in the total number of accounts. GET continues to be the fastest-growing prepaid tuition program in the country.

Lochner introduced a draft version of a new GET account information summary. Lochner reviewed the form and answered questions to clarify. At a previous meeting, Committee members had asked for changes to the GET account information summary.

### **GET INVESTMENT UPDATE**

Diana Will, investment officer from the State Investment Board, presented the GET investment update. Total assets have grown to \$983 million. While there were \$33.5 million in new contributions for the quarter, assets under management increased by only \$3 million reflecting the loss for the quarter. Markets have been very difficult.

The program remains within its target allocation ranges for all asset classes. The program outperformed the passive benchmark for the quarter by 52 basis points, but still had a loss of 3.09 percent, versus the 3.61 percent loss of the benchmark. Since inception, the program has outperformed the benchmark by 16 basis points, 7.01 percent compared to 6.85 percent. Last quarter the since inception return was at 7.57 percent.

For the quarter, TIPS outperformed the benchmark by 29 basis points, returning 5.47 percent. The equity portfolio lost 9.16 percent versus the benchmark which lost 9.3 percent.

Wong asked about the safety of the money market funds in which GET is invested. Will responded that GET invests in the Blackrock fund, one of the top rated funds. The SIB recently reviewed the fund; it remains strong and has not been impacted by the mortgage crisis in the same way as other money market funds.

### **APPROVAL OF CHANGES TO THE GET MASTER AGREEMENT**

Lochner presented proposed changes to the Master Agreement. Larry Lee facilitated discussion on the proposed changes. The changes are listed below.

The Program Master Agreement outlines the rules of the GET Program and is updated as needed before the beginning of each new enrollment year. Generally, these updates are technical corrections only. Staff are proposing one policy change and five technical corrections/ clarifications to the Master Agreement for the 2008-2009 enrollment year:

#### Running Start Policy Change

- Currently, the Master Agreement prevents account owners from using their GET units for any expenses incurred for a student enrolled in the Running Start Program as enacted in RCW 28A.600.300 through 28A.600.410. [Section IV. Distribution of Tuition Units, Subsection A, fifth bullet.]

With the increasing cost of tuition, more students are taking advantage of Running Start type programs. Some of these programs are paid for by state funds, others by third party donors, and still others by families themselves. Under the current Master Agreement, account owners can use their GET units to pay the tuition, books and other eligible expenses for programs funded by third party

donors (e.g. The Bill & Melinda Gates Foundation) and the families themselves, but not for those under the Running Start designation.

Staff propose changing the language in the Master Agreement so that the limitation is on tuition payments only, thus freeing account owners to use their GET accounts to pay for other allowable expenses not subsidized by the state. The revised text would read:

“The Program will not pay for tuition expenses incurred for a Student enrolled in the Running Start Program as enacted in RCW 28A.600.300 through 28A.600.410. Reimbursement is allowed for all non-subsidized required eligible expenses.”

### Technical Corrections and Clarifications

- **Notarization of signatures on Change of Account Owner form.** To ensure that a new account owner who assumes ownership of a GET account from a prior account owner agrees to the Master Agreement and acknowledges all the terms, penalties and fees associated with an account, staff are proposing that the new account owner’s signature also be notarized on the Change of Account Owner form. The following sentence would be added to the Master Agreement, Section II. Establishing an Account, subsection B, 5. Voluntary Transfer of Ownership.

“The signatures of the new Account Owner and the original Account Owner must be notarized.”

- **Benefit Use Year.** To clarify that the Benefit Use Year determines when units become eligible and when they may be used, language would be revised in Section II. Establishing an Account, subsection D, 4. Designation of the Benefit Use Year. This change also documents that the Benefit Use Year may be changed under certain circumstances. The new text would add paragraph 4 [which will be added to Section II. Establishing an Account, subsection D. The Student] and will read as follows:

“The Account Owner must designate a Benefit Use Year for the Student. Units may not be used until this date or later. Changing this date affects the accumulation of eligible units and is allowed only in certain circumstances. Please contact the Program for more information.”

- **Custom Monthly Payment Plan.** To clarify the process and the parameters around making changes to a Custom Monthly Payment Plan, a paragraph would be added to Section III. Purchasing Tuition Units, Subsection C. Purchase Options, Paragraph 3. Custom Monthly Payment Plan. The new paragraph would explain that a plan may be refinanced only to a period greater than or equal to the number of years that the plan had been in effect, that the number of contracted

units may be reduced or that the plan may be converted to a Lump Sum account. It would read:

“Changes to a Custom Monthly Payment Plan. The Account Owner may request to modify his or her Custom Monthly Payment Plan by completing an Account Change Request. The aspects of the agreement that may be amended include reducing or increasing the total payment term of the contract, reducing the total number of units purchased over the life of the contract, and converting the Custom Monthly Payment Plan to a Lump Sum Account. When reducing the payment term of a Custom Monthly Payment Plan, the payment term must be equal to or greater than the number of years the Custom Monthly Payment Plan has been in effect. Increasing the number of units in a Custom Monthly Payment Plan may be done only during an open enrollment period. In addition, the new units are subject to the Custom Monthly Payment Plan pricing in effect at the time the Account Change Request is submitted.”

- **Benefit Use Year.** To clarify the existing policy that the Benefit Use Year may not be changed to a date prior to the student’s enrollment in an eligible institution, a sentence would be added at the end of Section IV. Distribution of Tuition Units, subsection A. Distribution of Tuition Units, paragraph 4 that reads:

“The Benefit Use Year may not be changed to a date prior to the student’s enrollment in an eligible institution.”

- **Refunds.** To match the refund policy to the same timeframe as that shown in the Distribution section IV. Distribution of Tuition Units, subsection D. Timing and Maximum Distributions, similar language would be added to explain the policy on refunding an account that meets the 10-year limitation for usage. The text would be a new paragraph 5 in Section V. Refunds, subsection A. General Refund Rules. The text also would clarify the existing policy on scholarship refunds. The new paragraph would read:

“Subject to any further restrictions imposed by state or federal law or regulations, or Program limitations as indicated below, all requests for a refund from an Account must be made within 10 years after the Benefit Use Year or the first distribution date for such Account, whichever is later, unless the Program approves the Account Owner’s written request for an extension before that time. Refunds for scholarships must be requested during the academic year in which the scholarships are awarded.”

The Master Agreement states that, “The Program reserves the right to amend any Agreement to the extent required by law or to the extent necessary or desirable in order to preserve favorable tax treatment under federal and state law or for reasons in the interest

of Account Owners and the Program and to make technical corrections.” [Section X. Miscellaneous, Subsection D. Amendments]

Berendt asked about the proposed change requiring a new account owner who assumes control of a GET account from a prior account owner to get his or her signature notarized on the Change of Account Owner form. Lee responded that it was critical that the new account owner understand the responsibilities of account ownership, specifically the responsibility of making future monthly payments if the account is a Custom Monthly Plan account. Ryan agreed that it was important from a legal standpoint and that the change was not unreasonable.

### **Recommendation**

Staff recommended approval of the Running Start policy change and five technical corrections/clarifications in the 2008-2009 Master Agreement, subject to approval by the Office of the Attorney General.

### **MOTION**

**Murphy moved to accept the recommendation of changes to the master agreement as presented. Wong seconded the motion. The motion was approved unanimously as presented.**

### **APPROVAL OF FY09 ADMINISTRATIVE BUDGET**

Lochner presented the fiscal year 2009 proposed budget to committee members. Active discussion ensued regarding the increase in HECB indirect costs.

Murphy distributed a copy of RCW 28B.95.060, the statute governing the advanced college tuition payment program account (GET), which authorizes administrative expenditures including staff salaries and general costs of the program. Murphy noted that HECB costs were not listed. Murphy said he would like the HECB to use a cost allocation methodology based on the actual cost of administering and housing the program rather than the current HECB methodology based on the program paying a proportional share of the agency’s indirect costs.

Moore responded that the current HECB methodology is used by many agencies. He said that both indirect and actual cost methods are acceptable by state accounting standards.

Bennett added that the line item for HECB Indirect Cost Allocation in the FY2009 proposed budget (\$962,673) includes the program’s rent and utilities which should not be designated as a HECB indirect cost. Rent and utilities expenses were not included in the HECB indirect cost line item in the FY2008 budget. Bennett said rent and utilities should be included in the goods and services line item.

Daley added that the HECB provided a \$100,000 credit to the program for indirect costs in the FY2008 budget.

#### **AMENDMENT**

Murphy moved that the FY2009 indirect costs be reduced to \$300,000 until the Committee received more detail about the HECB indirect cost allocation. Berendt seconded the motion.

Daley responded that Murphy was asking the agency to change its entire methodology of allocating central costs and called the current HECB methodology a standard way of allocating costs. She urged the Committee to reject the amendment.

The motion failed.

#### **AMENDMENT**

Berendt moved to amend the proposed budget to reduce the HECB indirect cost allocation to \$885,837 and reduce the program's total expenditures to \$4,241,164 for FY2009. The \$885,837 for HECB indirect costs would include the FY2008 indirect cost of \$765,837 and an additional \$120,000 to cover the cost of rent and utilities.

Wong seconded the motion. The amendment was approved.

#### **MOTION**

**Berendt moved to approve the FY2009 Proposed Budget as amended. The motion was seconded by Moore. The motion passed 4-1 with Daley, Moore, Berendt and Wong voting yes and Murphy voting no.**

Daley said she would provide additional indirect cost information to all Committee members.

Berendt requested to revisit this agenda item at the August meeting for further discussion.

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

Lee facilitated the conversation regarding the actuarial analysis and unit price-setting.

Reimert presented a pricing model, prepared by Milliman and based on information available through March 31, 2008, to assist the Committee in setting a price for units to be sold from May 1 through August 31, 2008.

The pricing model, based on the guidelines approved by the Committee, calculated a unit price recommendation that included a stabilization reserve at the rate of 0.5 percent. Based on this rate, the model projected a unit price of \$76.35. GET unit prices have always been shown in whole dollar amounts. Rounding down to \$76 would reduce the amount for the stabilization reserve to 0.04 percent. Rounding up to \$77 would increase the reserve piece to 1.36 percent. While the overall stabilization reserve declined to 11.9 percent during the quarter, it was still above the target range of 6 to 10 percent. Based on the current reserve exceeding the range, staff recommended rounding the unit price down to \$76.

**Recommendation**

The actuarial analysis, based on expected increases in tuition of 7.00 percent in future years and the Washington State Investment Board's expected investment return of 6.55 percent, supports a staff recommendation of adjusting the unit price to \$76 from May 1, 2008 through April 30, 2009. Each new unit sold would include a 0.04 percent contribution to the program's stabilization reserve.

The \$76 unit price would remain in effect through April 30, 2009 unless there was an unexpected change in any of the assumptions used in the pricing model. Should the assumptions change, the Committee would determine whether an adjustment to the price would be needed for the 2008-09 enrollment year at its next meeting scheduled for August 13, 2008.

**MOTION**

**Murphy moved to accept the staff recommendation of \$76.00 per unit. Moore seconded the motion. Berendt asked to second it. Moore withdrew his second. Berendt seconded the motion. The motion was unanimously approved as presented.**

**ADJOURNMENT**

The meeting was adjourned at 3:55 p.m.

Respectfully Submitted,

Betsy Hagen  
Special Assistant to the GET Director

**Proposed Regular Meeting Schedule - 2009**

November 17, 2008

**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 2009 calendar year.

<b>DATE</b>	<b>TIME</b>	<b>PLACE</b>
Wednesday, February 11, 2009	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)
Wednesday, April 22, 2009	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)
Wednesday, August 12, 2009	2:00 – 4:00 p.m.	Olympia, State Investment Board (Board Room)

**Recommendation**

Staff recommends adopting the proposed regular GET Committee Meeting schedule for the 2009 calendar year.

**GET Account Information**  
**As of 10/31/08**

**Contract Statistics by Plan Year**

	<b><u>2008</u></b>	<b><u>TOTAL</u></b>
# of Active Contracts		
Custom Monthly Contracts (CM)	392	23,336
Lump Sum Contracts (LS)	1,128	60,837
Subtotal # of Active Contracts	1,520	84,173
# of Inactive Contracts	14	4,667
# of Depleted Contracts	14	3,566
<b>Total # of Contracts</b>	<b>1,548</b>	<b>92,406</b>

**Unit Statistics (active contracts only)**

Total # of Contracted Units (CM)	74,500	4,488,033
Total # of Lump Sum Units Purchased (LS)	55,513	12,746,874
<b>Total # of Units - Both Plans</b>	<b>130,013</b>	<b>17,234,906</b>

**Account Value Statistics (active contracts only)**

Total Payments Received (CM and LS)	\$ 4,173,287	\$ 877,790,947
Future Payments Due (CM)	\$ 8,473,804	\$ 243,103,634
<b>Total Payments Received and Future Payments Due</b>	<b>\$ 12,647,091</b>	<b>\$ 1,120,894,581</b>
<b>Fees Paid</b>	<b>\$ 61,825</b>	<b>\$ 4,334,821</b>
<b>Grand Total</b>	<b>\$ 12,708,916</b>	<b>\$ 1,125,229,402</b>

**Benefit Statistics**

Total amount paid out on contracts	\$ 112,652,138
Total # of students who have used benefits	12,197



## GET Prepaid College Tuition Program

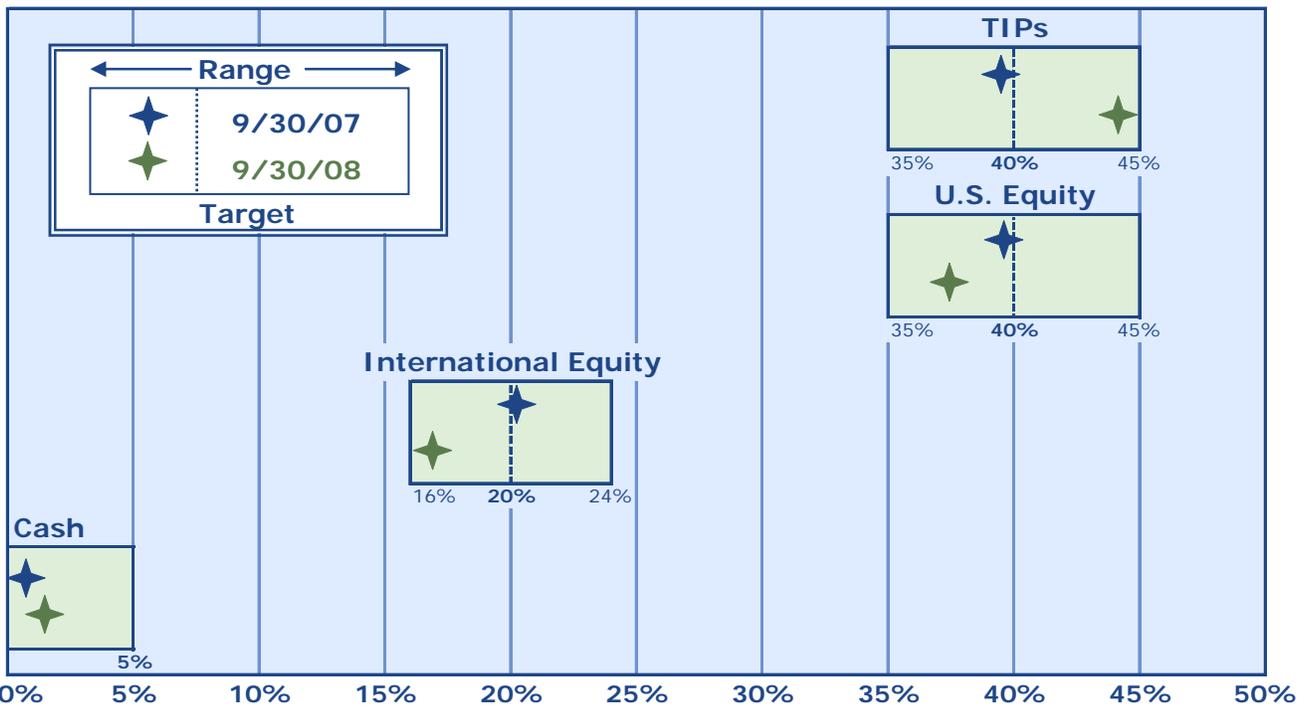
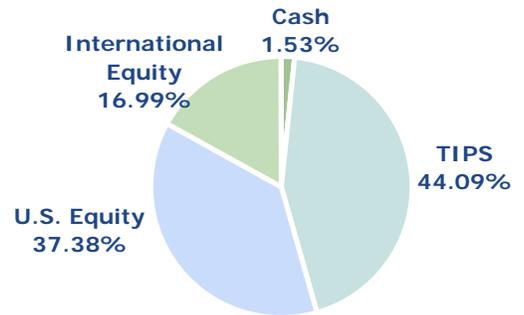
Quarterly Report – September 30, 2008

<b>Portfolio Size, Allocation, and Assets Under Management .....</b>	<b>1</b>
<b>Performance .....</b>	<b>2</b>

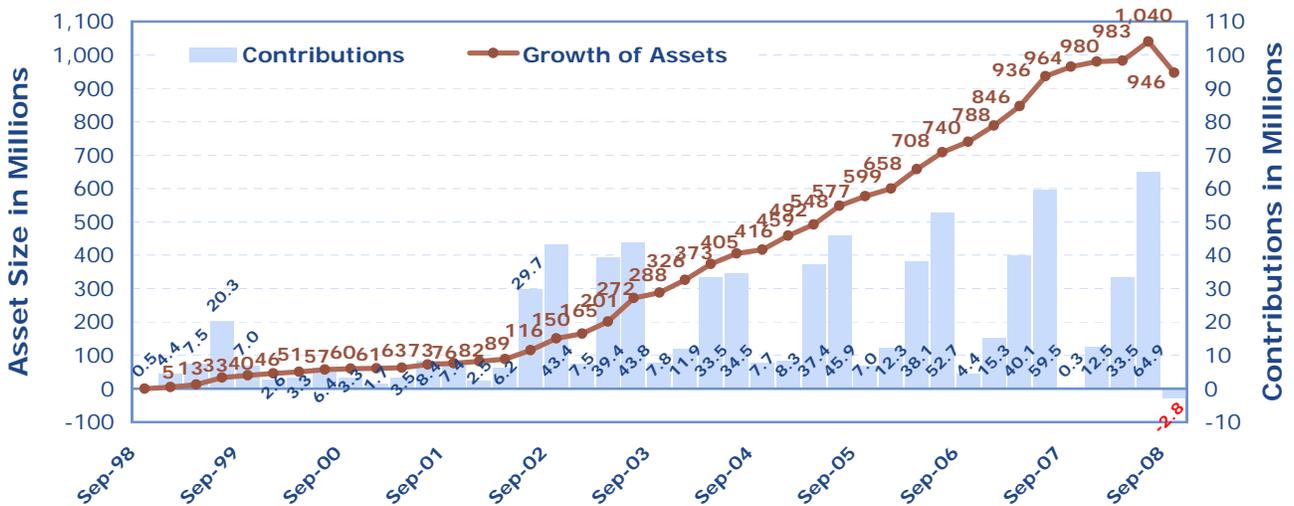
**Dated: October 14, 2008**

**Portfolio Size** **Actual Asset Allocation**

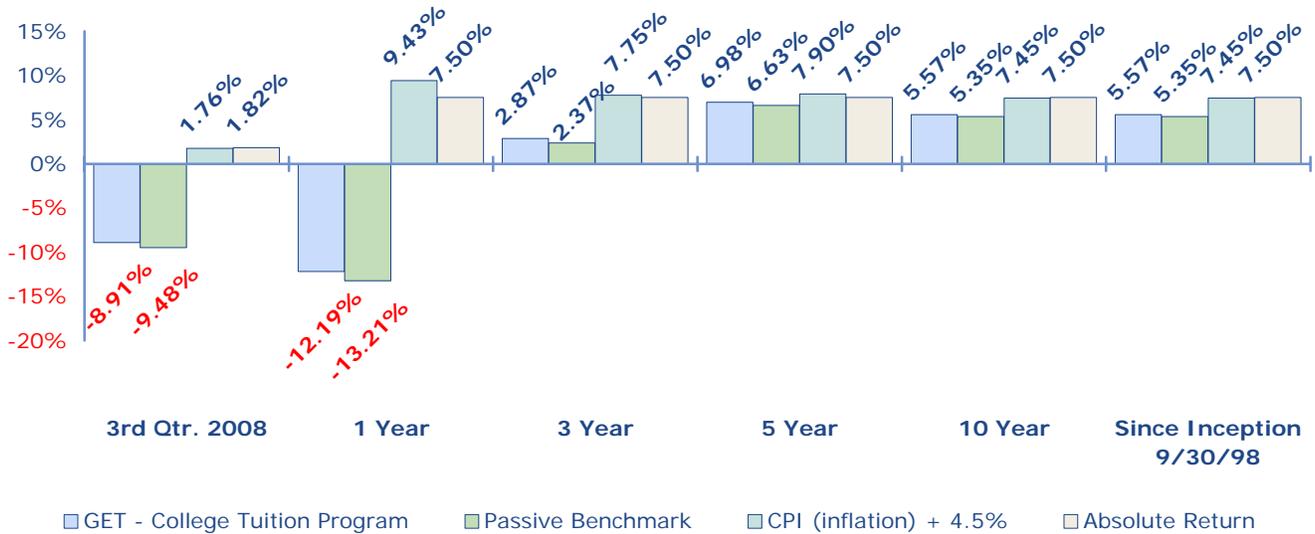
<b>Total</b>	<b>\$946,177,795</b>
Cash	14,490,143
Treasury Inflation Index Note (TIPS)	417,207,910
U.S. Equity	353,701,607
International Equity	160,778,135



**Assets Under Management**



**Total Return \***



**Return Breakdown**

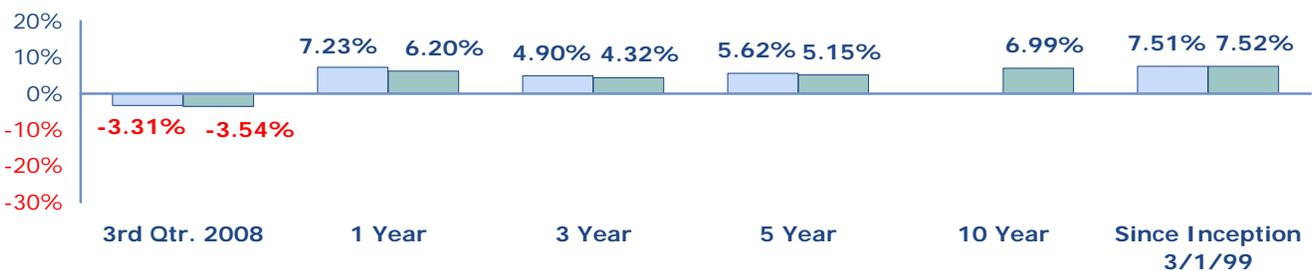
**Equity Return \***

Equity  
 Benchmark - DJ Wilshire 5000 and a blended return of the MSCI EAFE + Canada and MSCI ACW ex U.S. IMI weighted to the policy's target (currently 66% and 33%)



**Treasury Inflation Index Note Return \***

Treasury Inflation Index Note  
 Benchmark - Lehman Custom TIPS Index



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