

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

February 22, 2005
State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, Washington
1:00 pm – 4:00 pm

AGENDA

Call to Order

Introduction of Victor Moore, new Committee member

Recognition of Marty Brown, outgoing Committee member

- Approval of November 1, 2004 minutes ACTION Tab 1

- Director's report INFORMATION Tab 2
 GET legislative update

- GET marketing update INFORMATION
 Wendy Dore
 The Marketing Partners

- GET investment update INFORMATION Tab 3
 Diana Will, Investment Officer
 Washington State Investment Board

- GET vendor selection process INFORMATION Tab 4
 Marketing DISCUSSION
 ACTION

10 min break – move to Mt. Rainier conference room

- Work session on GET unit price setting – (approximate start time 2:00 p.m.) Tab 5
 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, April 19, 2005, 2:00 – 4:00 p.m.
State Investment Board, 2100 Evergreen Park Drive SW, Olympia, WA

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Monday, November 1, 2004
State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, WA

MINUTES

HECB Staff in attendance:

Betty Lochner, GET Director
Larry Lee, GET Deputy Director
Debra Blodgett, Office Manager
Kimberly Freeby, Administrative Assistant

Guests in attendance:

Diana Will, State Investment Board
Elaine Emans, Office of the State Treasurer
Bill Reimert, Actuary (by teleconference)
Lloyd Peterson, GET Customer

WELCOME

GET Committee chair Jim Sulton called the meeting to order at 2:03 p.m. Other committee members in attendance included Michael J. Murphy, State Treasurer, Beth Stecher Berendt, citizen member, Mark Webster, OFM Budget Assistant in attendance for Marty Brown, OFM Director, and Mooi Lien Wong, citizen member, via teleconference. Sulton gave introductions of committee members, audience members and staff members in attendance.

APPROVAL OF MINUTES AND WEIGHTED AVERAGE TUITION

The minutes from the August 3, 2004 Committee Meeting were reviewed. A motion was made to adopt the minutes by Berendt and seconded by Webster. The motion was approved and carried unanimously. Sulton brought a motion to approve the Weighted Average Tuition recommendation of \$45.80 per unit for the 2004-05 academic year. The motion was moved by Berendt and seconded by Webster. The motion was approved and carried unanimously.

DIRECTOR'S REPORT

GET Director, Betty Lochner, directed the committee to current Program statistics. As of today, there are a total of 761 new enrollments for the current (2004-05) enrollment year. This brings the total accounts opened to just over 45,000. We are currently receiving 70 percent of the new applications on the web and 30 percent on paper, which is up significantly from last year.

The fall marketing campaign included 22 radio stations that carried interviews with GET. This campaign provided additional media support to Spokane, Yakima and Tri-Cities. Special newspaper advertising and billboard advertising was purchased for Vancouver to reach that market. Direct mail was sent statewide to elementary and middle schools. GET will be participating in most of the State benefits and employment fairs statewide. The January television campaign will start the 17th of January and will run through the end of the enrollment period. Three previous television ads have been re-edited and updated for use in this year's campaign. GET was highlighted in the October Payday FYI. We will again be featured in the March Payday FYI.

GET will be presenting twice as many student benefit workshops this year (up from 4 to 8). This is in preparation for the 7,000 students that will be eligible to use GET benefits next fall. A new on-line payment process for colleges will be available for the next academic year, which will streamline the payment process.

An updated GET staff roster has been included in the meeting materials. Five members of the GET leadership team will attend the College Savings Plan Network (CSPN) institute in Arizona. The conference will have specific workshops relating to pre-paid college savings programs. In addition, GET has been invited to give a presentation on our outreach and marketing strategies.

Larry Lee has been promoted to Deputy Director from Operations Manager. Sulton gave his congratulations to Lee and stated his appreciation for Lee's input with the HECB Master Plan and the upcoming tuition feasibility study he will be involved with.

GET INVESTMENT UPDATE:

Sulton introduced Diana Will, investment officer, from the State Investment Board (SIB) to give the GET investment update. GET assets are over \$416 million, which is a growth of \$11 million since the last quarterly report. For the year there has been \$128 million in asset growth, \$87 million from new contributions and \$41 million from investment returns. We are within our target ranges in all asset classes. The total return for the 3rd quarter is a bit lower than the benchmark but is still positive. We are above what we expected for both one and three-year total returns. One year numbers are up 13.45 percent surpassing both the absolute and passive benchmark. Three year numbers are up 8.98 percent, surpassing the absolute return, but trailing the passive benchmark by 23 percent. Five year and since inception numbers, while surpassing the passive benchmarks, are both below the absolute return needed.

GET's asset allocation two years and one month ago was at 50 percent TIPS and 50 percent equities. At that time SIB changed its recommended asset allocation to 60/40, in favor of equities. In retrospect, this change was made at a very good time. Since then, equities are up 22 percent, TIPS are up 17.3 percent.

Earlier in the year, SIB spoke with a variety of individuals from the investment community for their forecasts for different asset classes as SIB determined an appropriate asset allocation. Some didn't think that fixed income would do well this year, however, year-to-date fixed income has performed better than equities. This quarter the federal government raised rates 25 basis points, the third increase this year. SIB recommends continuing to proceed cautiously and keeping a diversified portfolio.

Wong asked how much GET has invested in Small Cap. Will explained that we are invested in the Wilshire 5000 which is market weighted with about 10 percent of the total equity portfolio being in Small Cap investments.

GET ACTUARIAL VALUATION REPORT

Bill Reimert, Principal and Consulting Actuary with Milliman, presented the annual GET actuarial valuation, (as of June 30, 2004). He began by highlighting the economic assumptions used for this valuation. The investment return and tuition growth assumptions have been changed from the prior year's valuation. The investment return assumption was dropped from 7 percent to 6.60 percent as a result of SIB's capital market assumptions. The tuition growth assumptions were moved from 6.75 percent up to 7 percent, which was in response to the report issued by the HECB regarding the strategic master plan for higher education. These two assumptions are really the two most important assumptions that go into the valuation for GET. Two other assumptions that affect the valuation also changed. They are: (1) probability factors

associated with contract holders that are making installment payments and whether or not they will stop making payments and (2) the probability that contract holders will request refunds before their contract is paid in full. The actuaries fine-tuned the valuation based upon changes in these assumptions.

This year we have a positive stabilization reserve. Comparisons of experience from prior year's reports regarding how many new accounts were opened and how many units were sold assisted in the valuation process. GET generated \$14.2 million towards the stabilization reserve because of the unit price from units sold during the 2003-04 enrollment period. There was a gain of \$2.6 million because more new contracts were sold after the unit price was set in 2003 than expected. Investment returns, chiefly those from the last half of 2003, increased the reserve by \$25 million for the fiscal year ending June 2004. Tuition grew by 6.6 percent, which was below the estimated 7 percent. This created an additional gain of \$2.0 million.

The tuition increase change decreased the reserve value by \$7.8 million. Reducing the expected investment return from 7 percent down to 6.6%, increased obligations by \$12.5 million reducing the reserve by the same amount. Reimert summarized all the various factors that caused the deficit from last year to be eliminated and which produced a positive stabilization reserve.

Reimert estimates that based on program assumptions; there is a 57 percent chance that there will be enough money on hand for future payments to cover all of the obligations associated with all current contracts. Reimert explained the information contained on the final page in appendix E. The chart shows projected growth of assets in the fund and how they would gradually diminish as money is paid out over the next twenty years. If all current assumptions hold true over that 20 year period, the analysis projects a final surplus of \$99.3 million after payment of all liabilities. The schedule gives a sense of when funds will be received and when payments are expected to be paid out.

Murphy gave his affirmation of confidence in the GET program. He attributes making up the deficit and creating the reserve of \$24.5 million to the great work of the administration of the program. He feels good about the long-term gain and is comfortable with assumptions as they are now. Over time he sees GET outperforming interest rate assumptions.

Murphy recognized Elaine Emans publicly for her years of service as Deputy State Treasurer and commended her work with the GET Committee. Emans will be retiring at the end of December. Emans thanked those with GET for their work and expressed that she enjoyed her work with the Program.

NEXT MEETING

The next meeting of GET Committee is scheduled for February 22, 2005 from 2:00 p.m. to 4:00 p.m., at the State Investment Board (2100 Evergreen Park Drive SW, Olympia, WA 98502).

ADJOURNMENT

The meeting was adjourned at 2:40 p.m.

**GET Account Information
As of 01/31/05**

Contract Statistics by Plan Year

	<u>2004</u>	<u>TOTAL</u>
# of Active Contracts		
Custom Monthly Contracts (CM)	668	11,555
Lump Sum Contracts (LS)	1,611	33,256
Subtotal # of Active Contracts	2,279	44,811
# of Inactive Contracts	17	1,387
# of Depleted Contracts	0	338
Total # of Contracts	2,296	46,536

Unit Statistics (active contracts only)

Total # of Contracted Units (CM)	139,500	2,520,791
Total # of Lump Sum Units Purchased (LS)	163,020	7,001,039
Total # of Units - Both Plans	302,520	9,521,831

Account Value Statistics (active contracts only)

Total Payments Received (CM and LS)	\$ 9,979,530	\$ 378,008,547
Future Payments Due (CM)	\$ 12,490,150	\$ 119,006,790
Total Payments Received and Future Payments Due	\$ 22,469,680	\$ 497,015,336
Fees Paid	\$ 97,415	\$ 2,169,216
Grand Total		\$ 499,184,552

Benefit Statistics

Total amount paid out on contracts	\$14,052,873
Total # of students who have used benefits	2914



Guaranteed Education Tuition (GET) Program Background – January 2005

Overview

The Guaranteed Education Tuition (GET) program was created in 1998 as Washington state's prepaid college tuition program, operated under the rules of Chapter 529 of the U.S. Internal Revenue Code. The program is codified within Chapter 28B.95 of the Revised Code of Washington.

GET allows families to purchase tuition units at current prices for use at a later date. These funds are invested and the purchaser is guaranteed that the units will maintain their value in the future.

Customers may purchase up to 500 units – equivalent to five years tuition at the state's most expensive public university – and may redeem them at any accredited, public or private college, university or career college in the country. Units must be held for at least two years before they can be redeemed.

The 2004-05 unit price of \$61 includes an allowance for an actuarially directed program reserve, and for program administration. The current enrollment period began September 15, 2004, and runs through March 15, 2005.

GET Facts

- GET is currently the fastest growing prepaid college tuition program in the country. During the 2003-04 enrollment year, nearly 8,000 Washington families opened GET accounts – a 22-percent increase over the previous year.
- Since the program was established seven years ago, customers have opened more than 45,000 accounts with a value of more than \$490 million.
- Customers began redeeming benefits in September 2000. Since then, nearly 3,000 students have used their GET benefits. In fall 2005, more than 6,800 students will be eligible to use their GET benefits.
- GET accounts may be used at about 35,000 accredited colleges, universities, and trade/technical schools – public or private – in the United States.
- As a “Section 529” prepaid tuition plan, GET accounts grow tax-free. All withdrawals are tax-exempt when used for tuition, room and board or other qualified education expenses.

- The GET Program was started with a one-time appropriation from the legislature of \$1.2 million. In July 1999, the program became self-supporting from an administrative fee included in the price of each unit. The program no longer receives appropriations from the state general fund.

Program Administration

GET program policies are governed by the five-member Committee on Advanced Tuition Payment, commonly referred to as the GET Committee. Members include two private citizens, the state Treasurer, the director of the Office of Financial Management, and the executive director of the Higher Education Coordinating Board. Day-to-day program administration is the responsibility of the HECB. Investment of GET funds is handled by the State Investment Board.

Customer Service: 1-877-GET-TUIT (1-877-438-8848)

Or Visit our Web site at: www.get.wa.gov

For more information:

Betty Lochner, 360-753-7871

Bruce Botka, 360-753-7811

College Savings Plans Network

Program Statistics

Reporting date: September 30, 2004

	State or other territory	Value of Actual Funds	Number of Unduplicated Beneficiaries	Total Number of Accounts	Total Distributions	Beneficiaries / Accounts with Distributions	Date of Inception
1	Florida Prepaid	\$4,482,249,093	690,592	974,441	\$590,027,157	132,992	1988
2	Texas Prepaid	\$1,377,638,126	151,137	158,438	\$116,939,913	16,460	1996
3	Michigan Prepaid	\$973,628,198	70,753	79,178	\$494,340,081	13,401	1988
4	PA Guaranteed Savings Plan	\$899,000,000	92,778	111,240	\$108,100,000	10,577	1993
5	Ohio Guaranteed Fund	\$830,363,040	126,550	131,185	\$206,763,296	30,580	1989
6	Virginia Prepaid	\$815,204,742	54,337	67,907	\$23,180,680	...	1996
7	Alabama Prepaid	\$615,979,288	71,039	71,039	\$166,202,795	17,970	1990
8	Illinois Prepaid	\$512,726,169	40,224	42,703	\$8,657,286	1,308	Oct-98
9	Washington Prepaid	\$416,213,117	41,638	44,614	\$9,949,309	1,810	1998
10	Maryland Prepaid	\$294,990,787	21,040	25,023	\$7,339,181	1,377	Apr-98
11	Mississippi Prepaid	\$136,612,626	19,166	19,686	\$13,416,744	2,165	1997
12	Massachusetts Prepaid	\$98,146,663	26,011	36,125	\$29,415,641	6,450	1995
13	South Carolina Prepaid	\$89,186,659	6,470	6,548	\$2,202,609	314	Sept-98
14	West Virginia Prepaid	\$82,585,457	8,104	9,737	\$5,312,502	889	Oct-98
15	Nevada Prepaid	\$65,154,833	9,143	10,595	\$579,083	653	Oct-98
16	Kentucky Prepaid	\$64,948,300	6,999	7,179	\$242,591	82	Oct-01
17	Tennessee Prepaid	\$51,098,530	8,281	8,367	\$5,148,344	911	1997
18	Colorado Prepaid	\$39,700,000	4,671	14,491	\$61,297,116	1,228	Sept-97
19	New Mexico Prepaid	\$572,832	105	113	\$40,013	13	Sept-00
		<u>\$11,845,998,460</u>	<u>1,449,038</u>	<u>1,818,609</u>	<u>\$1,849,154,341</u>	<u>239,180</u>	

Guaranteed Education Tuition (GET) Committee Members and Staff Contacts

FEBRUARY - 2005

<i>COMMITTEE MEMBERS</i>	<i>REPRESENTING</i>	<i>PHONE</i>	<i>FAX</i>	<i>EMAIL</i>	<i>ADDRESS</i>
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MURPHY, MICHAEL	STATE TREASURER	360-902-9001	360-902-9044	michaelj@tre.wa.gov susanm@tre.wa.gov (Executive Assistant)	SUNSET BUILDING 3200 CAPITOL BLVD. S. OLYMPIA, WA 98501
MOORE, VICTOR	DIRECTOR, OFFICE OF FINANCIAL MANAGEMENT	360-902-0530	360-664-2832	victor.moore@ofm.wa.gov linda.hamilton@ofm.wa.gov (Executive Assistant)	302 14 TH AVENUE SE INSURANCE BUILDING OLYMPIA, WA 98504-3113
STECHE BERENDT, ELIZABETH	GENERAL PUBLIC	360-725-7117	360-586-0759	bethb@oic.wa.gov brendad@oic.wa.gov (Executive Assistant)	INSURANCE 5000 BUILDING 5000 CAPITOL BLVD TUMWATER, WA 98504-0255
WONG, MOOI LIEN	GENERAL PUBLIC	206-344-3684	206-344-2849	mooilien.wong@usbank.com	1420 FIFTH AVENUE SUITE 2100 SEATTLE, WA 98101
<i>GET STAFF</i>	<i>TITLE</i>	<i>PHONE</i>	<i>FAX</i>	<i>E-MAIL</i>	<i>ADDRESS</i>
LOCHNER, BETTY	GET DIRECTOR	360-753-7871	360-704-6271	bettyl@hecb.wa.gov	PO BOX 43450 OLYMPIA, WA 98504-3450
LEE, LARRY	DEPUTY DIRECTOR	360-753-7874	360-704-6274	larryl@hecb.wa.gov	PO BOX 43450 OLYMPIA, WA 98504-3450
BLODGETT, DEBRA	OFFICE MANAGER/GET COMMITTEE SUPPORT	360-753-7860	360-704-6260	debrab@hecb.wa.gov	PO BOX 43450 OLYMPIA, WA 98504-3450



WASHINGTON STATE
INVESTMENT BOARD

GET

Prepaid College Tuition Program

Quarterly Investment Report
December 31, 2004

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Dated: February 2, 2005

GET - Prepaid College Tuition Program

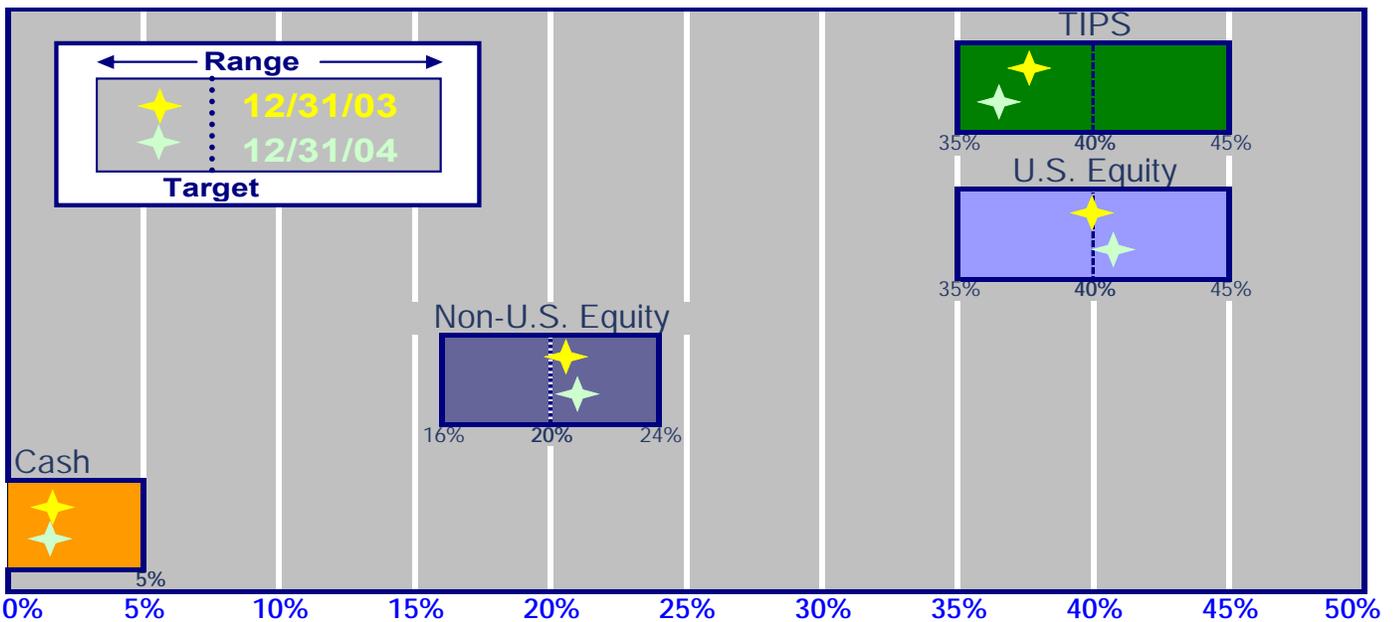
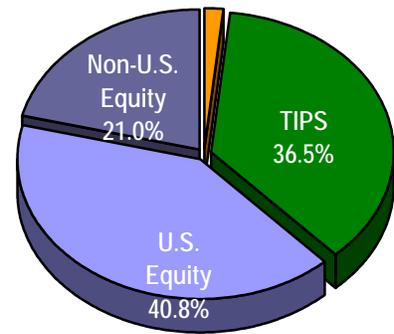
December 31, 2004

Portfolio Size

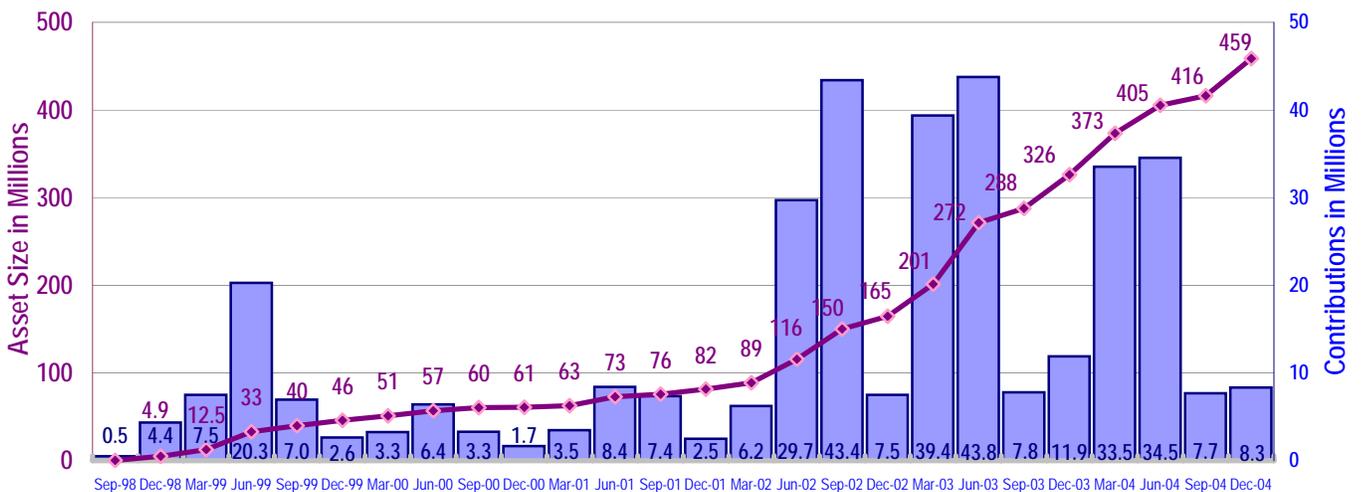
Total **\$458,658,073**

Cash	7,570,076
Treasury Inflation Index Note (TIPS)	167,526,794
U.S. Equity	187,120,845
Non-U.S. Equity	96,440,358

Actual Asset Allocation



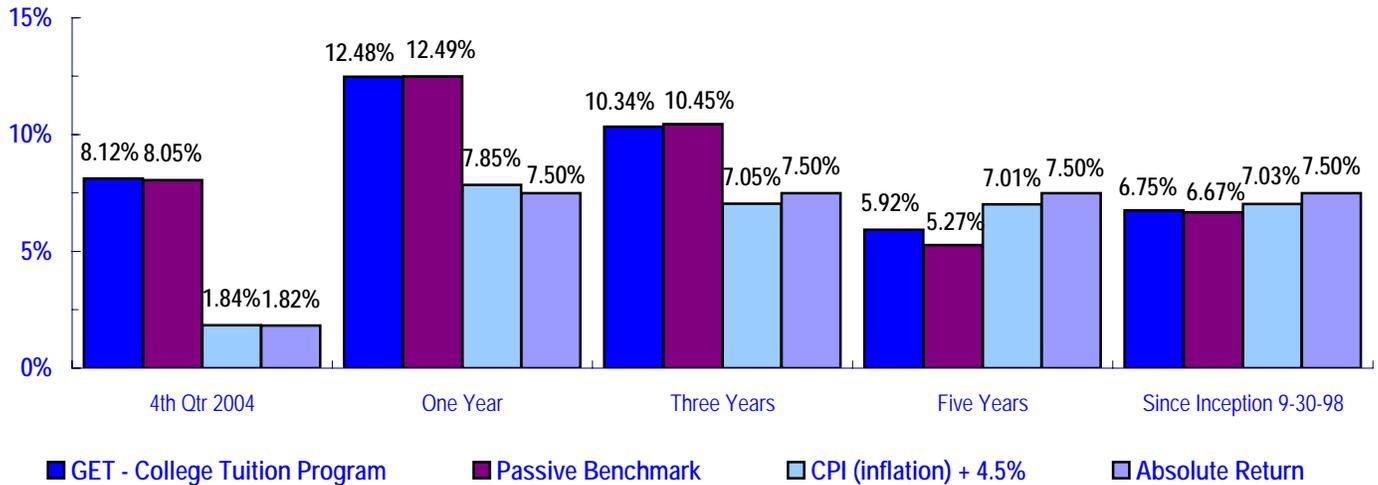
Assets Under Management



GET - Prepaid College Tuition Program Performance

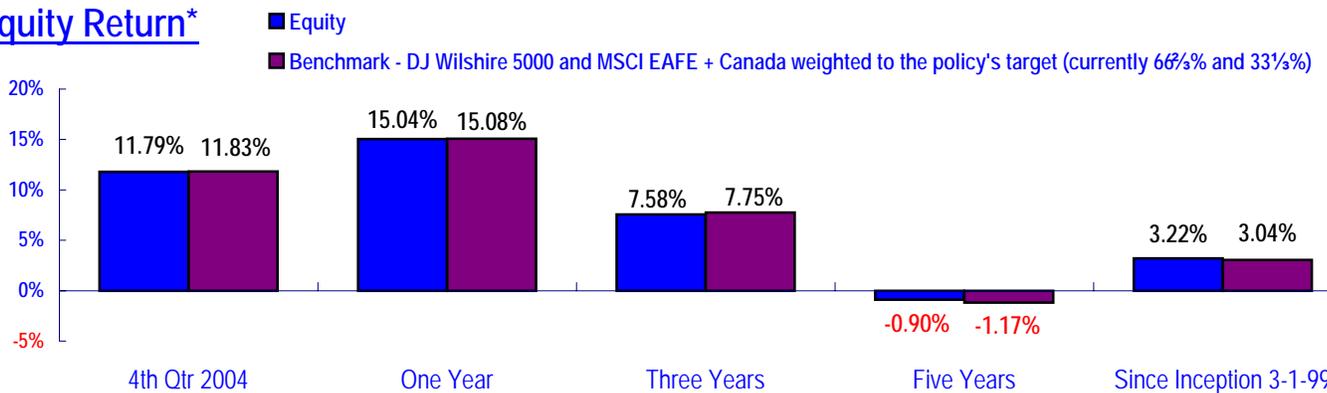
December 31, 2004

Total Return*

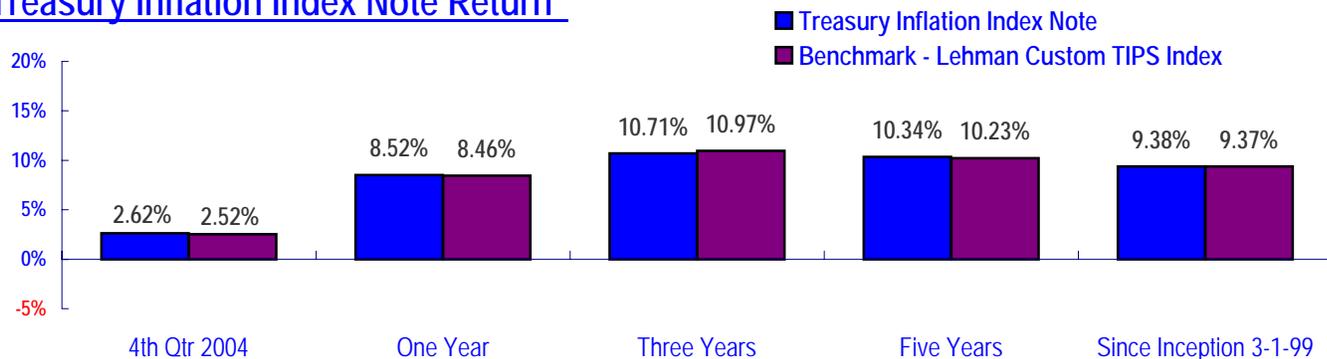


Return Breakdown

Equity Return*



Treasury Inflation Index Note Return*



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

* The return numbers above are net of manager fees and other expenses that can be directly debited from the account for portfolio management but do not include the WSIB management fee.

DRAFT

Guaranteed Education Tuition (GET) Committee

**GET VENDOR SELECTION PROCESS
FOR MARKETING SERVICES**

February 22, 2005

Background

The Marketing Partners has been under contract with the HECB on behalf of the GET Committee for marketing and public relations services since May 2001. The contract allows for two, 2-year contract extensions (maximum 6 years). The GET Committee approved the first two-year extension in February 2003. That contract expires June 30, 2005. The current contract allows for one more contract extension to be authorized at rates not to exceed 5% per annum of the current contract rates.

The marketing and public relations contract has covered three services areas: media planning and advertising (TV, radio, and print), written marketing materials, and public relations. The total cost for these services for the current two-year period is \$1,291,500.

In September, 2005 the HECB began providing some public relations services for GET in-house. In addition, the Program has experienced increased needs for web services including web design and implementation that are not included in the scope of the current marketing contract and that are beyond the capacity that the HECB can provide.

Recommendation

Staff recommends the following:

- 1) Approval of a 2-year extension of the existing contract for marketing and advertising services. The amended contract would end June, 30, 2007. At that time a formal and complete Request for Proposals (RFP) process would be required.
- 2) Approval for staff to issue a Request for Proposals (RFP) for web design and implementation. It would be expected that the services would be provided through June 30, 2007. The Committee chair would be delegated the oversight and approval of the vendor selection and execution.

GET Unit Price Setting Work Session

February 22, 2005

Background

The Guaranteed Education Tuition (GET) Committee is directed by statute to set an annual GET unit price, and to adjust it annually, if necessary, to ensure the actuarial soundness of the program. Historically, price increases have occurred on May 1st and/or September 1st of each year.

The Committee, during its April, 2005 meeting, will determine whether to increase the unit price effective May 1st. Exhibit 1 shows the history of the GET unit price, in addition to the payout value, and the dollar and percentage premium calculations for each enrollment period. Exhibit 2 shows the history of tuition increases in Washington since 1981. Exhibit 3 shows the growth of the GET Program since inception.

Milliman is under contract with the GET Program to serve as the external actuary for the program, and based upon a variety of assumptions provided by staff, prepares materials for the Committee’s consideration demonstrating the impact on the program of a variety of pricing alternatives. Pricing assumptions are developed based upon information received from the State Investment Board (SIB), the GET Committee and information provided by the Higher Education Coordinating Board (HECB).

For the 2004-05 enrollment period, the following information was included by Milliman in developing its pricing alternatives.

Assumptions	Value	Source	Assumptions	Value	Source
Annualized Investment Returns	6.60%	SIB	GET 2004-2005 Admin Budget	\$3,100,000	Staff/Committee
Annualized Tuition Increases	7.00%	HECB	Expected New Contracts	5,000	Staff/Committee
Inflation	2.50%	SIB/Milliman	Expected New Unit Sales	1,000,000	Staff/Committee
Highest WA Tuition: 2004-05	\$5,154	HECB	Average Date of Unit Purchase	March 1	Staff
Annual Contract Expenses	\$16.39	Staff/Milliman	Average Date of Tuition Payouts	December 1	Staff
Payout Expenses	\$10.93	Staff/Milliman	Age Distribution	Actual 1998-2003	Staff/Milliman
Purchase Expense	\$1.33	Staff/Milliman	Enrollment Fee	\$50	Staff/Committee

Based on the GET Actuarial Valuation completed by Milliman for the fiscal year ending June 30, 2004, the program had a 57% probability that funds would be sufficient to meet future obligations. To increase this probability, Milliman has recommended increasing the unit price to build a larger stabilization reserve. As of June 30, 2004, the reserve of \$20.9 million was equal to 4.5% of obligations. This small margin may not be sufficient to offset higher than expected tuition increases or lower than expected investment returns in the future.

Work Session Objectives

This work session will allow the Committee to review the above assumptions and to receive input from Milliman and program staff, and to provide guidance in preparing the assumptions to be used for the April, 2005 price setting meeting.

Exhibit 1

GUARANTEED EDUCATION TUITION PROGRAM Unit Price Premium Over Current Tuition

Enrollment Period	Unit Price	Payout Value per Unit	Unit Premium over Current Tuition (\$)	Unit Premium over Current Tuition (%)
1998-99 (a)	\$35.00	\$33.78	\$1.22	3.61%
1999-00 (a)	\$38.00	\$35.21	\$2.79	7.92%
2000-01	\$41.00	\$36.41	\$4.59	12.61%
2001-02	\$42.00	\$38.98	\$3.02	7.75%
2002-03	\$52.00	\$45.20	\$6.80	15.04%
2002-03 (b)	\$57.00	\$45.20	\$11.80	26.11%
2003-04	\$57.00	\$48.36	\$8.64	17.87%
2004-05	\$61.00	\$51.54	\$9.46	18.35%

Notes

- (a) No distributions were allowed during the first two enrollment years due to 2-year wait requirement.
- (b) Unit price increased May 1, 2003, payout value was unchanged until September 1, 2003.

Exhibit 2

History of Tuition in Washington*

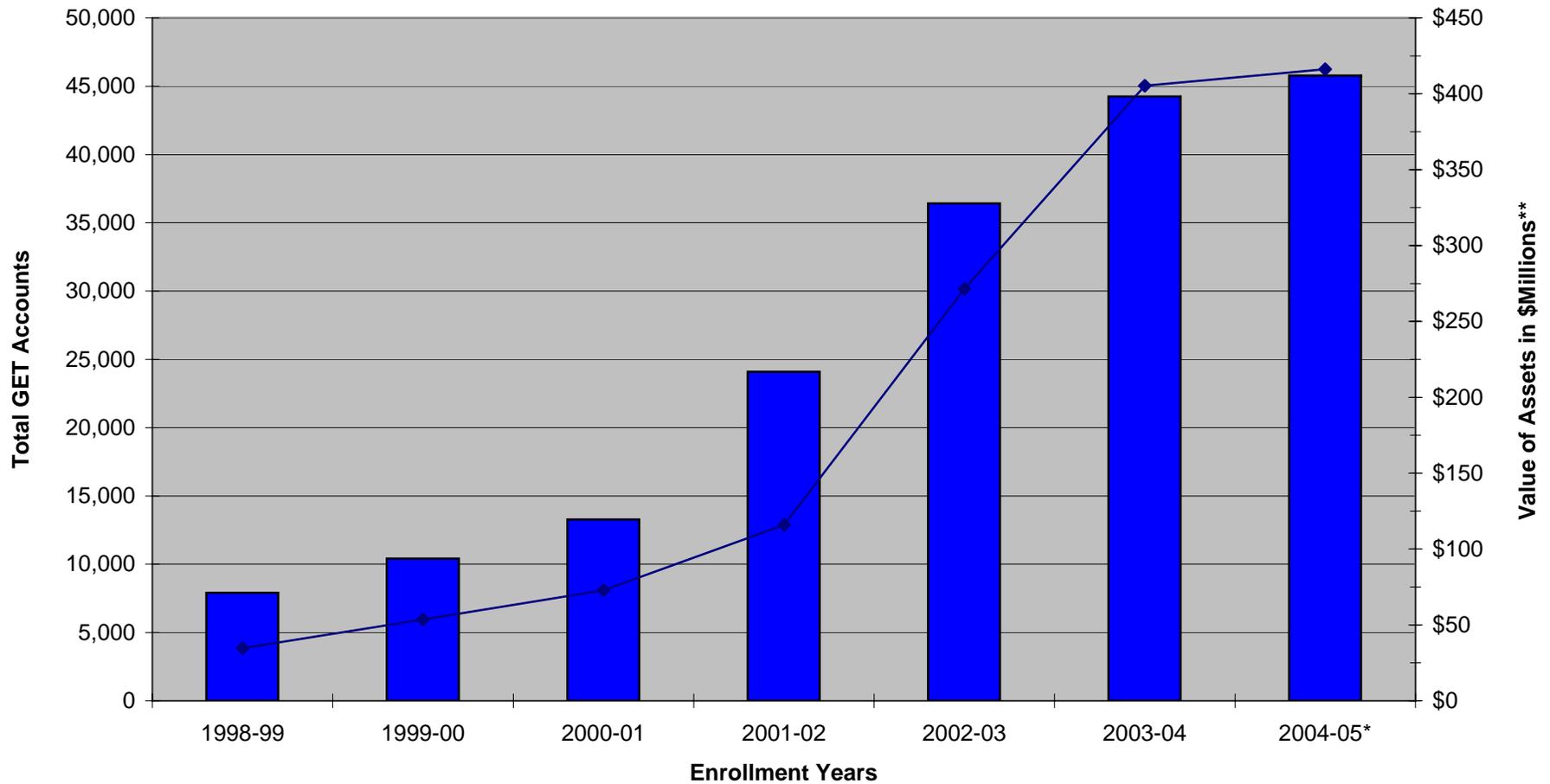
<u>Academic Year</u>	<u>Annual Tuition</u>	<u>% Increase</u>
1981-1982	\$1,059	
1982-1983	1,176	11.0%
1983-1984	1,308	11.2%
1984-1985	1,308	0.0%
1985-1986	1,605	22.7%
1986-1987	1,605	0.0%
1987-1988	1,731	7.9%
1988-1989	1,797	3.8%
1989-1990	1,827	1.7%
1990-1991	1,953	6.9%
1991-1992	2,178	11.5%
1992-1993	2,253	3.4%
1993-1994	2,532	12.4%
1994-1995	2,907	14.8%
1995-1996	3,021	3.9%
1996-1997	3,142	4.0%
1997-1998	3,266	3.9%
1998-1999	3,396	4.0%
1999-2000	3,521	3.7%
2000-2001	3,641	3.4%
2001-2002	3,898	7.1%
2002-2003	4,520	16.0%
2003-2004	4,836	7.0%
2004-2005	5,154	6.6%

Compounded Increase in Tuition

Over last 5 years:	7.9%
Over last 10 years:	5.9%
Over last 20 years:	7.1%
Over last 23 years:	7.1%

* Greater of UW or WSU tuition

Exhibit 3 GROWTH OF THE GUARANTEED EDUCATION TUITION PROGRAM Inception to Dec. 31, 2004



* Partial Year - September 15 - December 31, 2004
 ** Excludes future payments receivable

Total Accounts
 Assets (\$ Millions)