

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Wednesday, February 8, 2006

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
Heidi Auderer, GET Finance Manager
Heidi Jones, GET Records Manager
Debra Blodgett, Special Assistant to the GET Director
Samina Occhino, GET Receptionist
Whitney DalBalcon, HECB Communications
Matthew Freeby, GET Records Coordinator
Dawn Eychaner, GET Customer Service Specialist
Weiya Liang, HECB Gear-up Associate Director
Jackie Ferrado, GET Customer Service Manager
Joann Wiszmann, HECB Deputy Director

Guests in attendance:

Gary Bruebaker, State Investment Board
Wendy Dore, The Marketing Partners
Cathy Stevens, The Marketing Partners
Terry Ryan, Office of the Attorney General
Darrel Jensen, Treasurer's Office

WELCOME

GET Committee chair, Jim Sulton called the meeting to order at 2:05 p.m. Sulton introduced Weiya Liang, Associate Director of the GEAR UP Program, Terry Ryan the interim Assistant Attorney General with GET and other HECB issues, and Joann Wiszmann Deputy Director of the HECB.

APPROVAL OF AUGUST 3, 2005 MINUTES

The minutes of the August 3, 2005 GET Committee Meeting were reviewed. A motion was made by Michael J. Murphy to adopt the minutes as presented and was seconded by Mooi Lien Wong. The motion was approved as presented.

APPROVAL OF UPDATED BYLAWS

The updated GET Bylaws were presented for review. A motion was made to adopt the updated bylaws by Wong and seconded by Murphy. The motion was approved as presented.

DIRECTOR'S REPORT

Betty Lochner, GET Director, presented a handout of updated GET stats through January 31 of this year. As of today, there are 3,457 new enrollments this year. This number is 38 percent higher than on this day last year. The increase may be because people are applying earlier; however, historically most people wait until the last two weeks of the enrollment period to enroll. Online enrollment stands at 74 percent of all new enrollments received. This is up from last year's online enrollment of 68 percent. If current enrollment rates continue, we are on course to surpass last year's enrollment total of 11,000 and could have our largest enrollment year ever. To date there are a total of 58,557 GET accounts open.

Lochner gave an update on state legislative activity. Senate Bill 6744, a bill that would have granted scholarships through GET for students that passed the WASL on their first attempt, did not get out of its committee of origin so it will not go any further this year. While the GET staff position was neutral, we testified that we could administer the program if asked to do so. Murphy commented that if the bill is introduced again next session, that the GET Committee should take a position on the bill. He expressed no concern with it at this point but felt strongly that if this comes up again next session, the committee should be taking a position.

Lochner explained that at the national level, Congress has recently passed a Deficit Reduction bill that included changing the treatment of prepaid tuition plans for eligibility for financial aid, making the treatment of all 529 plans (prepaid and savings) the same. As it stands now, funds in a 529 prepaid plan are treated as a resource that reduces financial aid received. In contrast, 529 savings plans are treated as an asset of the owner on financial aid forms, reducing the direct impact on the student. This legislation is good news for 529 prepaid plans. GET will be getting the word out through press releases, once the bill is signed by the President. This is some of the legislation Mr. Murphy has worked on and that the national organization (NAST/CSPN) has been working hard on for the past several years. The next big piece of legislation pending is to take away the sunset for the tax exemption for all 529 plans. Mr. Murphy will be going to Washington, DC in March to meet with our Washington Congressional delegation to gain support for making the tax exemption for 529 programs permanent.

Lochner explained that in April we will be bringing the new operating budget for the next fiscal year to the committee for approval. We may also be bringing a request for authority to increase our spending for our current fiscal year. There are several reasons for the increase. One reason is that the Program has grown faster than what we had budgeted for. We budgeted for 5,000 new enrollments and are already on target to reach over 10,000 in new enrollments, which has increased our costs. Another reason is increased HECB overhead costs. We have recently moved and have taken over a full floor of the HECB building which has increased our lease costs, and GET's share of indirect overhead costs for the HECB have also gone up.

GET MARKETING UPDATE

Wendy Dore with The Marketing Partners presented a marketing update for the GET Program. Goals for the program continue to be building public awareness in under-enrolled areas of the state. A focus has been placed on reaching Eastern Washington families, along with a continued effort to increase visibility in diverse communities across the state. Television has been included in the first quarter. GET is broadcasting on TV stations around the state, on cable in our targeted area in Southwest Washington, and running countdown spots for the last 10 days of enrollment. Radio will be doing some countdown spots as well, which includes some Spanish stations. Newspapers will be utilized in the Vancouver market. There are select magazines that have run ads and

Whitney DalBalcon also does press releases and public relations through the HECB. The primary target audience remains adults and women ages 25-49. Income levels are \$50,000 per household for Eastern Washington and \$75,000 for Western Washington with children zero to fourteen in the household, and grandparents. Messages within ads include GET as a positive program for families, GET as an excellent investment, enrollment options for people not living in Washington, and the benefits of enrolling very young children. Emphasis continues on the state guarantee and the flexibility of the program. Cathy Stevens, also with The Marketing Partners, gave a report on the media buy. The bulk of media dollars are spent in television, because television provides the greatest reach and frequency for cost benefits. In the Seattle market, GET ads are on all major stations and cable. Radio stations that highly target women are utilized as well. A select group of radio stations target the Hispanic population. Supplemental items include a multicultural magazine that targets specific minority populations. In Spokane and Yakima, we are on all four major television stations with some supplemental radio spots. Vancouver is a problem area, because of the Portland market cost, but we buy cable TV in that area, supplemented with newspaper ads in dailies and outdoor boards. Outdoor boards are also utilized in the Bellingham area. Web link opportunities are used with radio stations. An email media blitz happens during the countdown period for radio stations. Press contacts with news directors for on-air interviews are set up. Radio stations distribute our GET brochures at their media events as well. The outdoor boards and television commercials were shown to the committee.

Victor Moore asked about the annual marketing budget. Dore indicated that the total yearly budget is \$690,000.

GET INVESTMENT UPDATE

Gary Bruebaker, Chief Investment Officer for the State Investment Board, presented the GET investment update. The assets under management currently stand at \$599 million as of December 31st. Assets are up \$12.3 million for the quarter. Each of the asset allocation classes are within their adopted ranges. For fourth quarter 2005, the fund outperformed the passive benchmark by one basis point. Looking out at the one year, three year, five year and since inception the fund outperformed by 9 basis points for the one-year, underperformed by 12 basis points for the three year, then outperformed 31 basis points for the 5 year and 9 basis points for since inception. The return breakdown shows equity returns are very close to the benchmark. Equity funds did under perform the passive benchmark by 2 basis points for the fourth quarter, but outperformed for every other time period. The treasury inflation index notes outperformed for the quarter, the one year, the three year, but slightly underperformed for the five year, outperforming for the longer period of since inception.

GET SCHOLARSHIP POLICY FOR THE GEAR-UP PROGRAM

Larry Lee, GET Deputy Director, presented information related to establishing a GET scholarship policy for the GEAR UP Program. The GEAR UP Scholars Project provides comprehensive academic services and support to 1,000 low-income seventh graders following them through high school graduation. The project seeks to increase the students' academic performance and to prepare them for college.

The Scholars Project sets aside \$600,000 of its federal funding each year for scholarships. At the end of the six year project, GEAR UP will have \$3,600,000 to award to students and to cover administrative fees for the ongoing management of the scholarship funds for as long as students are accessing the scholarships. There are an estimated 600-800 students that will be eligible to receive a scholarship from GEAR UP at the end of the 6 year period.

GEAR UP believes the GET Program offers the most efficient administrative structure to best serve their students. The GET Statute allows for Qualified 501(c) (3) non-profit organizations and state or local government entities to establish a Master Scholarship Account. Lee gave a brief overview of the current Master Scholarship Account Policy.

Staff recommends the GET Program establish a special Master Scholarship Account Policy for the GEAR UP Scholars Project that allows for special considerations as follows:

- Waive the one-time \$100 non-refundable enrollment fee per Master Scholarship Account and \$25 transfer fee per individual student account and charge an annual non-refundable administrative fee of three percent of the yearly contributions.
- Allow a total of 50,000 units in the one Master Scholarship Account.
- Extend the enrollment deadline to April 30, 2006 for GEAR UP to open the Master Scholarship Account.

A motion was made to accept the staff recommendation by Murphy and seconded by Moore. The motion passed unanimously.

NEXT MEETING

The next meeting of the GET Committee is scheduled for August 9, 2006 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 2:48 p.m.



GET Prepaid College Tuition Program

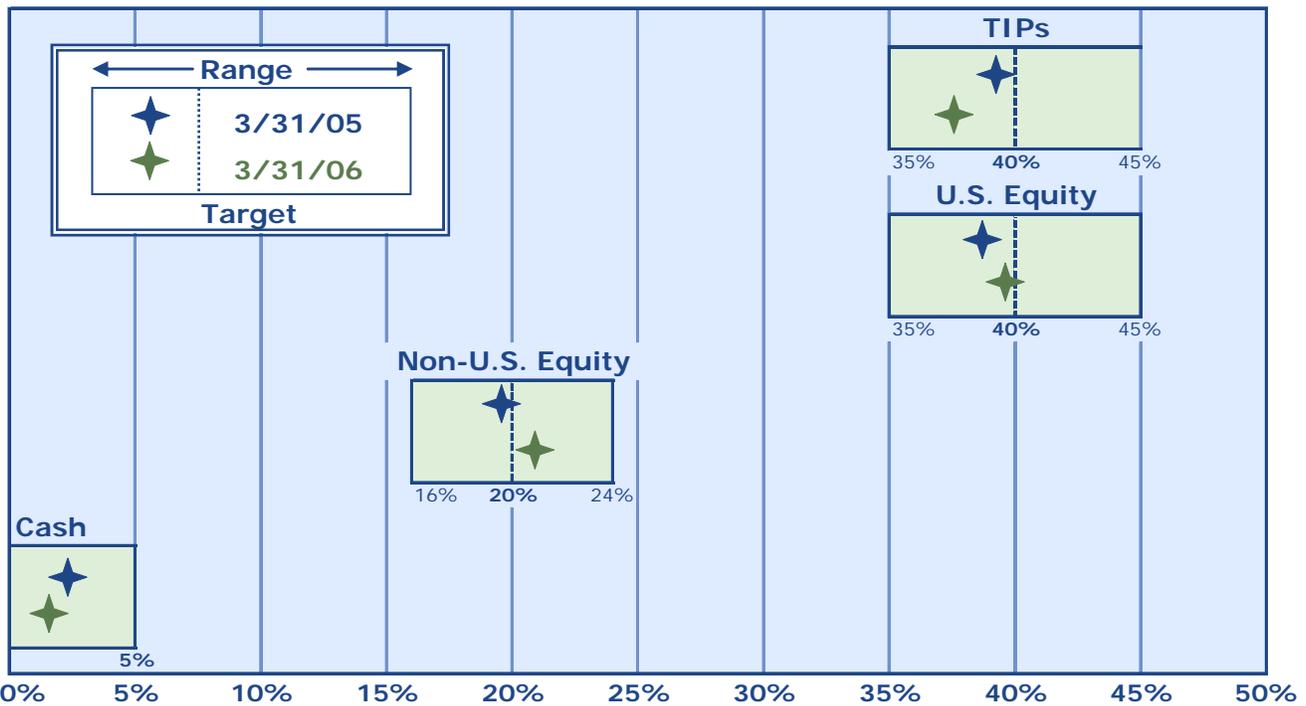
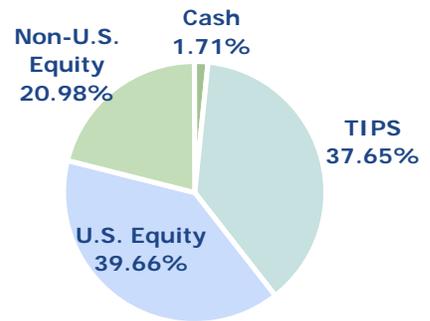
Quarterly Report – March 31, 2006

Portfolio Size, Allocation, and Assets Under Management	1
Performance	2

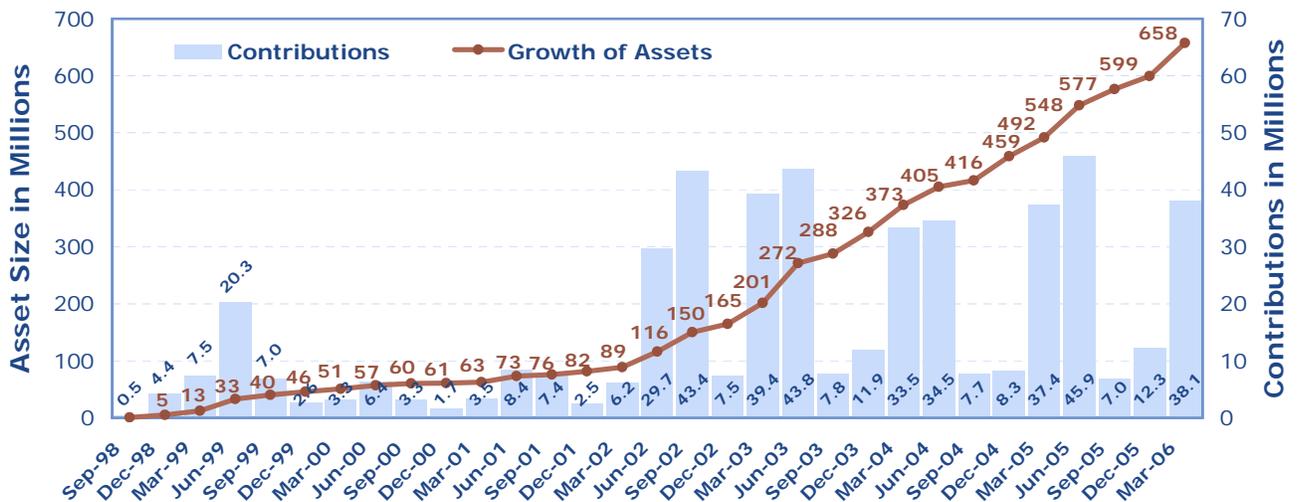
Dated: April 10, 2006

Portfolio Size **Actual Asset Allocation**

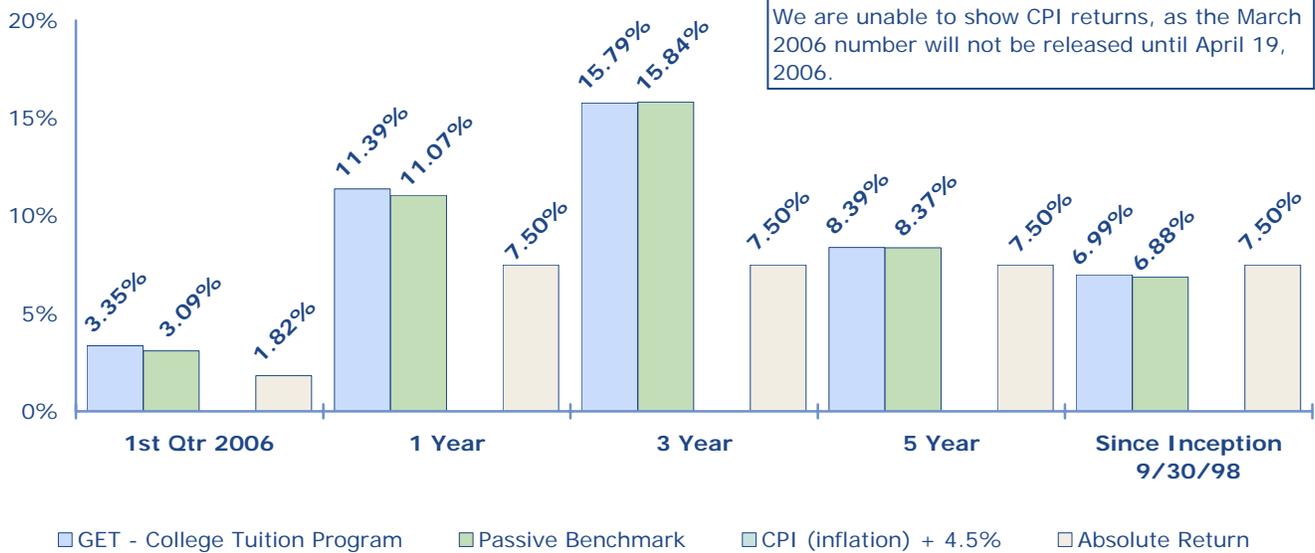
Total	\$657,662,019
Cash	11,214,937
Treasury Inflation Index Note (TIPS)	247,622,089
U.S. Equity	260,838,206
Non-U.S. Equity	137,986,788



Assets Under Management



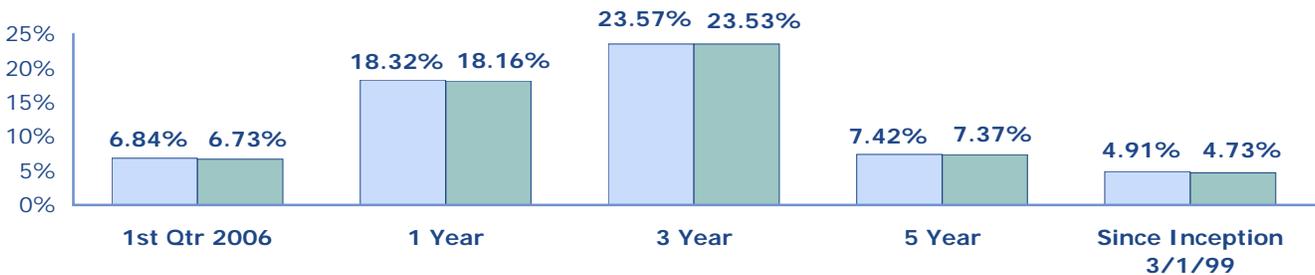
Total Return *



Return Breakdown

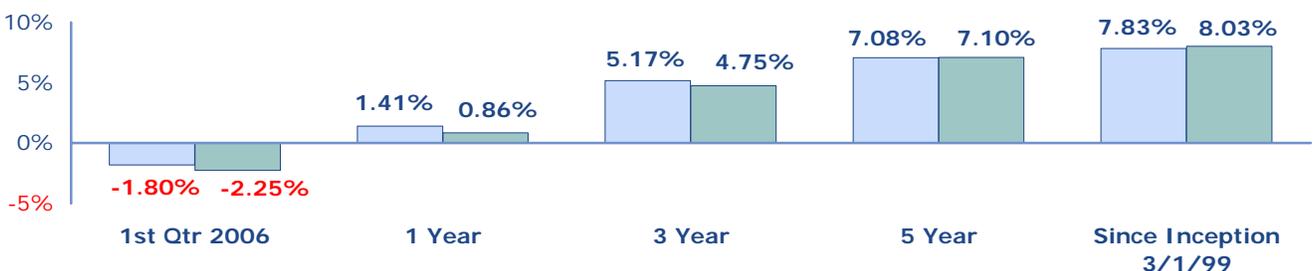
Equity Return *

- Equity
- Benchmark - DJ Wilshire 5000 and MSCI EAFE + Canada weighted to the policy's target (currently 66%% and 33½%)



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.

Director's Report

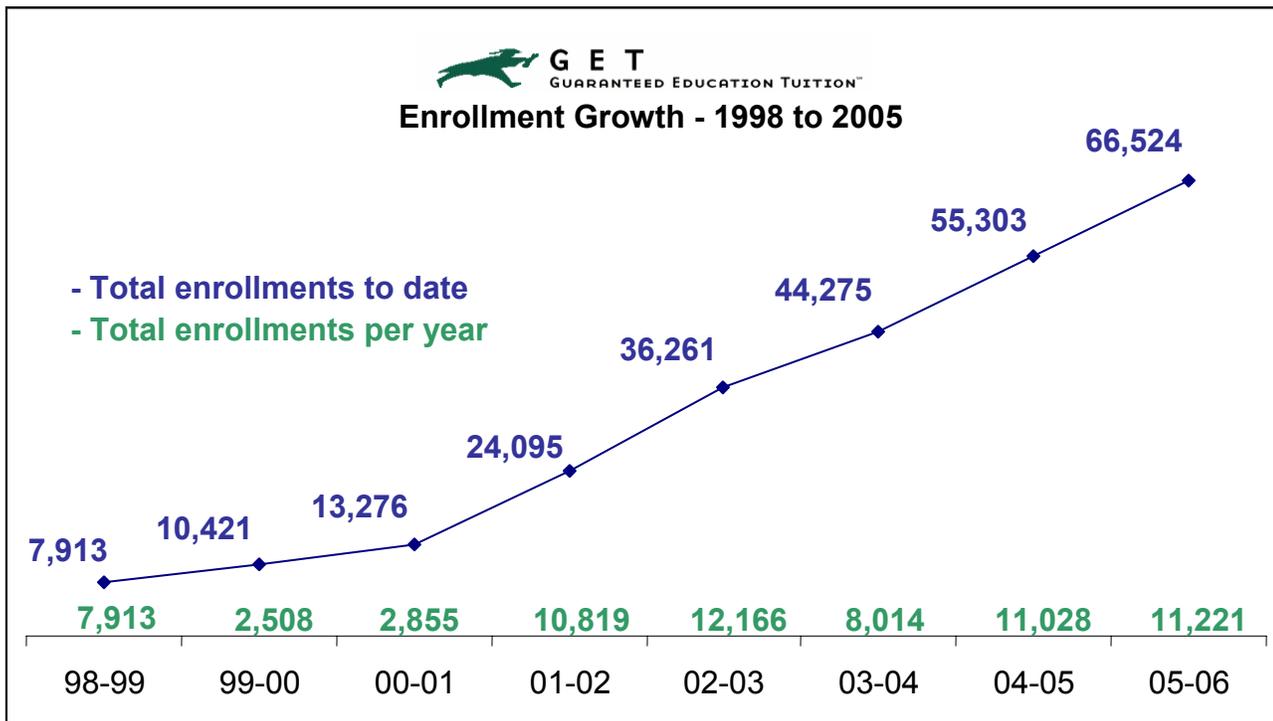
April 19, 2006

2005-2006 Enrollment Year (as of March 31, 2006)*	2004-2005 Enrollment Year (August 31, 2005)
Total GET accounts opened: (Sept. 15-Mar.31, 2006)	Total GET accounts opened: (Sept. 15-August 31, 2005)
11,221	11,028
Total payments received:*	Total payments received:
\$39.9 million	\$69 million
Total units purchased:*	Total units purchased:
1.4 million	1.8 million
Total value of all contracts:*	Total value of all contracts:
\$86.4 million	\$130.9 million

GET Program Since Inception	
Total Active GET accounts since inception:*	66,524
Total payments received:*	\$533.4 million
Total units purchased:*	12.8 million
Total value of all contracts:*	\$717.3 million

*Dollar amounts and unit totals are estimates that include all unprocessed 2005-2006 enrollments.

GROWTH OF ACTIVE ACCOUNTS SINCE PROGRAM INCEPTION



INTERESTING 2005-06 ENROLLMENT YEAR GET FACTS

- Enrollments are up 2 percent over last year.
- An average of \$2.3 million was deposited into the GET fund each day during the last five days of March.
- On-line enrollments were 76 percent of all new enrollments (up from 70 percent last year).
- Almost 7,000 new enrollments came in during the month of March.
- We took 2,794 customer calls during the last week of enrollment; down 11.3 percent from last year (fewer calls, but more enrollments).
- Lump Sum accounts are up 5 percent over last year.
- Monthly ACH draw is over \$1 million.

2006-07 Enrollment Year: September 15, 2006 – March 31, 2007

GET Account Information
As of 03/31/06

Contract Statistics by Plan Year

	<u>2005</u>	<u>TOTAL</u>
# of Active Contracts		
Custom Monthly Contracts (CM)	2,633	16,804
Lump Sum Contracts (LS)	6,020	43,993
<i>Unprocessed Custom Monthly Contracts</i>	1,004 *	1,004 *
<i>Unprocessed Lump Sum Contracts</i>	1,491 *	1,491 *
Subtotal # of Active Contracts - Including Unprocessed	11,148	63,292
# of Inactive Contracts	73	2,207
# of Depleted Contracts	0	857
Total # of Contracts - Including Unprocessed	11,221	66,356

Unit Statistics (active contracts only) - Including Unprocessed

Total # of Contracted Units (CM)	469,360	3,437,493
<i>Unprocessed # of Contracted Units (CM) - includes web and paper</i>	161,750 *	161,750 *
Total # of Lump Sum Units Purchased (LS)	618,065	9,070,429
<i>Unprocessed # Lump Sum Units (LS) - includes web and paper</i>	119,932 *	119,932 *
Total # of Units - Both Plans - Including Unprocessed	1,369,107	12,789,604

Account Value Statistics (active contracts only)

Total Payments Received (CM and LS)	\$ 39,930,340	\$ 533,425,373
Future Payments Due (CM)	\$ 46,083,939	\$ 183,853,403
Total Payments Received and Future Payments Due	\$ 86,014,279	\$ 717,278,776
Fees Paid	\$ 361,665	\$ 2,967,153
Grand Total	\$ 86,375,944	\$ 720,245,929

Benefit Statistics

Total amount paid out on contracts	\$34,290,284
Total # of students who have used benefits	4877

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

Guaranteed Education Tuition Program
 FY 2006 Estimated Expenditures
 July 1, 2005 - June 30, 2006

	FY06 Approved	FY 06 Est. Actual	
Budgeted Contract Sales	5,000	5,000	*
Actual Contract Sales		11,221	
Total Contracts	60,303	66,524	*
Enrollment & Other Fees	250,000	561,050	
Administrative Fees in Unit Price	<u>3,000,000</u>	<u>6,732,600</u>	(1)
Projected Available Funds	\$3,250,000	\$7,293,650	
Salaries & Benefits - 20.5 FTE	\$1,238,437	\$1,462,071	(2)
Goods & Services	568,813	601,179	(3)
Travel	25,000	36,000	
Actuarial Contract	78,750	78,750	
Marketing Contract	694,000	694,000	
Records Administration Software Contract	<u>270,000</u>	<u>210,000</u>	
Projected Expenses	\$2,875,000	\$3,082,000	
Projected Shortfall in Approved Budget		-\$207,000	
Funds Received In Excess of Budget - Increases Stabilization Reserve	<u>\$375,000</u>	<u>\$4,211,650</u>	

Notes:

(1) Based on average expense component of \$3.00

(2) Increase in HECB overhead charged to GET due to a change in the method of allocation - \$207,000

(3) Increase in rent and utilities overhead due to GET's additional use of resources - \$ 40,000

* As of April 7, 2006.

Guaranteed Education Tuition Program
Proposed FY 2007 Budget
July 1, 2006 - June 30, 2007

	FY05 Approved	FY06 Approved	FY 07 Proposed
Budgeted Contract Sales	5,000	5,000	6,000
Total Contracts	49,217	60,303	72,524
Enrollment & Other Fees	250,000	250,000	300,000
Administrative Fees in Unit Price	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,600,000</u> ⁽¹⁾
Projected Available Funds	\$3,250,000	\$3,250,000	\$3,900,000
Salaries & Benefits - 19.5 FTE	\$1,100,000		
Salaries & Benefits - 20.5 FTE		\$1,238,437	
Salaries & Benefits - 24.5 FTE			\$1,750,000 ⁽²⁾
Goods & Services	862,500	568,813	585,864 ⁽³⁾
Travel	45,000	25,000	36,000
Fulfillment Contract	2,500		
Actuarial Contract	78,750	78,750	82,687
Marketing Contract	694,500	694,000	729,303 ⁽⁴⁾
Records Administration & Web Design Software Contracts	<u>250,000</u>	<u>270,000</u>	<u>294,737</u> ⁽⁵⁾
Projected Expenses	\$3,033,250	\$2,875,000	\$3,478,591
Supplemental Budget (if approved)	<u>-</u>	<u>207,000</u>	<u>-</u>
Adjusted Projected Expenses	\$3,033,250	\$3,082,000	\$3,478,591
Increases to Stabilization Reserve <i>(Projected Funds less Expenses)</i>	<u>\$216,750</u>	<u>\$168,000</u>	<u>\$421,409</u>

Notes:

- (1) Based on average expense component of \$3.00
- (2) HECB overhead charged to GET based on new method of allocation - \$223,585 (total amount)
Addition of 4 FTE's \$ 269,296
- (3) Includes call center phone system upgrades - \$20,000
Includes additional rent and utilities resulting from reconfiguration of office space - \$39,000
Includes HECB overhead charged to GET based on new method of allocation
- (4) Includes contracted annual increase of 5% - \$35,300
- (5) Includes scanning technology upgrades
Includes purchase of program enhancements paid on an hourly basis
Includes web site changes and enhancements
Includes annual maintenance contract - \$5,300

Actuarial Analysis and Price Adjustment for Enrollment Year 2006-07

April 19, 2006

Background

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

At the April 19, 2005 Committee Meeting, the Committee approved setting the unit price for May 1 – August 31, 2005 at \$66. At the August 2, 2005 Committee Meeting, the Committee approved leaving the unit price unchanged at \$66 for the 2005-06 enrollment period (through April 30, 2006).

The current unit price of \$66 for the 2005-06 enrollment period was based on the following assumptions:

- *Tuition would go up no more than an average of 7 percent annually in future years.*
- *Expected long-term investment returns would be 6.55 percent annually.*

Current Information

A pricing model, prepared by Milliman and based on information available through February 28, 2006, will be provided at the meeting to assist the Committee in setting a price for units to be sold from May 1 – August 31, 2006. Unit sales for the month of March and those processed in April will only be considered based on their impact to the actuarial reserve of the program.

The pricing model will show unit price recommendations based on building a stabilization reserve at the rates of 6.25 percent, 7.77 percent and 9.29 percent (\$70, \$71 and \$72 per unit respectively).

Recommendation

The actuarial analysis, based on expected increases in tuition of 7 percent in future years, and Washington State Investment Board's expected investment returns at 6.55 percent, supports a staff recommendation of adjusting the unit price to \$70 from May 1, 2006 through August 31, 2006. This will provide a 6.25 percent stabilization reserve for each new unit sold.

This price would remain in effect through April 30, 2007 unless there is an unexpected change in any of the assumptions used in the pricing model. Should the assumptions change, the Committee will determine whether an adjustment to the price will be needed for the 2006-07 enrollment year at its next meeting scheduled for August 9, 2006.