

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Thursday, May 17, 2001

Utilities and Transportation Commission Building

1300 Evergreen Park Dr. SW

Olympia, WA

MINUTES

CALL TO ORDER

Marc Gaspard, HECB Executive Director and Committee Chair, called the meeting to order at 2:10 p.m. Committee members in attendance in addition to the Chair included Michael J. Murphy, State Treasurer; Marty Brown, Director of OFM and Mooi Lien Wong citizen member representing the general public. Not in attendance was Beth Stecher Berendt.

HECB staff in attendance:

Betty Lochner, GET Director
Larry Lee, GET Operations Manager
Jackie Molique, GET Customer Service Manager
Denise Fry, GET Outreach Coordinator
Ann Tolo, GET Office Assistant
Bruce Botka, HECB Director of Government Relations

Guests in attendance:

Howard Fischer, Office of the Attorney General
Gary Brubaker, State Investment Board
Jean Six, Senate Higher Education Committee
Marcia Reilly, House Higher Education Committee
Cliff Webster, TIAA-CREF
Kevin Breen, Safeco
Keith Anderson, Safeco
Rolo Tee, Safeco
Joe Dear, Frank Russell Company
Matt Smith, Frank Russell Company

WELCOME

Marc Gaspard opened the meeting with introductions of the Committee members, staff and asked the guests in attendance to introduce themselves. Betty Lochner gave a brief overview of the agenda and noted no other changes have been made to the agenda. Betty also noted that additional supplemental meeting materials were provided to Committee members as well as the public.

APPROVAL OF MINUTES

It was moved by Michael Murphy and seconded by Marty Brown to approve the January 23 and April 18, 2001 meeting minutes. Motion carried unanimously.

NEXT MEETING DATE

It was moved by Michael Murphy and seconded from Marty Brown to approve rescheduling the next regular meeting of the GET Committee to August 6, 2001, 10:00 a.m. to 1:00 p.m. Motion carried unanimously.

INVESTMENT UPDATE

Gary Brubaker, Chief Financial Officer, SIB, opened his briefing with a background report on his experiences prior to coming to SIB and concluded with an update of the investment portfolio as of March 31, 2001.

LEGISLATIVE UPDATE

Betty reviewed HB 2126, which was signed by the Governor on May 7, 2001. The bill includes technical changes regarding refund language and includes giving the Committee the authority to establish and operate a savings plan. Marc thanked the higher education committee and the Legislature for their support of the bill. Betty reviewed the staff report recommendation to establish an advisory committee to review and discuss the best options for the savings plan. Marc recommended that staff invite and welcome any Legislators and GET committee members who would like to participate in the advisory group. Michael Murphy noted that the Committee is authorized to consider a savings plan, therefore existing staff and resources may be used to establish and hold work sessions with an advisory group.

Public Comment

Joe Dear, of the Frank Russell Company, urged the Committee to implement the savings plan quickly and to take advantage of partnerships with financial companies who can assist and have the experience and budgets for marketing the plan. Mr. Dear also thanked the Committee for the opportunity to comment publicly.

It was moved by Michael Murphy and seconded from Marty Brown to approve the establishment of an advisory group to assist in the planning and implementation of the savings plan. Motion carried unanimously.

PROPOSED PROGRAM CHANGES

Betty briefly discussed three proposed program changes, which enhance customer services for current and potential customers.

2001 – 2002 Enrollment Year

Staff recommended changing the enrollment period beginning 2001-02 to run both plans concurrently September 15th through May 31st of each year.

Debit/Credit Card

Staff recommended accepting credit/debit cards for payment of enrollment fees for customers enrolling in the program. Mike Murphy offered clarification of data received from OFM and the Treasurer's Office and noted that the program will need to get approval from OFM to accept debit or credit cards.

Discount on enrollment fees

Staff recommended approval to offer discounts on enrollment fees during promotions. Mooi Lien Wong suggested being consistent with discount offers to ensure availability to all consumers. Marc also noted that the discounts are part of the marketing budget, which will supplement the discount.

It was moved by Michael Murphy and seconded by Mooi Lien Wong to approve the three proposed program changes. Michael Murphy noted the approval is contingent on authorizing the staff to do the economic analysis for the acceptance of debit and credit cards for enrollment fees and receive approval from OFM. Motion carried unanimously.

PROPOSED FY 2002 PROGRAM BUDGET

Betty reviewed the operating budget recommendation for the next fiscal year. The budget is based on an assumption of an estimated 3,000 new contract sales. This is conservative as our marketing consultants estimate we will reach a sales goal of between 4,000 and 5,000. The proposed operating budget includes projected revenues of \$2,329,000 and projected expenses of \$2,082,114. The balance of \$246,941 allows funds to be loaned to start-up a savings plan, if needed, leaving a balance of \$46,941 in unallocated revenues.

It was moved by Michael Murphy and seconded by Mooi Lien Wong to approve the FY 2002 operating budget as presented. Motion carried unanimously.

DIRECTORS REPORT

Betty reported that as of April 30, 2001, 11,635 GET accounts have been opened, with a total value of contracts at \$102.9 million. The enrollment period for lump sum contracts will end June 30, 2001. Betty also reviewed the status of program contracts with outside vendors, which includes the termination of Saltmine for marketing services, extension of the contract with InTuition, Inc. through July 31, 2001 for records administration, the extension of CSG Openline through July 31, 2001 for call center services, and the extension of Milliman USA through October 31, 2001 for actuary services.

It is estimated that over 550 students will be eligible to use GET benefits in the 2001-02 academic year.

NEXT MEETING

The next meeting of the GET Committee is scheduled for August 6, 2001, 10:00 – 1:00 at the Utilities and Transportation Commission Building, 1300 S. Evergreen Park Dr. SW, Chandler Plaza.

ADJOURNMENT

There being no other business, the meeting was adjourned at 3:00 p.m.

Proposal for Next Scheduled GET Committee Meeting

August 6, 2001

Background

As outlined in RCW 28b.95.030, WAC 14-104-010, the GET Committee shall hold regular meetings as needed.

Recommendation

Staff recommends that the next regular GET Committee meeting be scheduled for September 25, 2001, at the State Investment Board, 2424 Heritage Court SW, Olympia, WA, from 2:30 p.m. to 5:00 p.m.

GET Account Information

as of

July 20, 2001

as of

July 20, 2001

Customized Plans*

	98-99 & 99-00	00-01	Total to date
Total Customized Plans	2,620	597	3,217
Customized Units	681,800	136,800	818,600
Future payments due	\$ 32,044,392	\$ 7,308,564	\$ 39,352,956
<u>Payments Received</u>	\$ 9,919,444	\$ 516,824	\$ 10,436,267
Total Account Value	\$ 41,963,836	\$ 7,825,388	\$ 49,789,223
Fees Collected	\$ 111,600	\$ 25,750	\$ 137,350

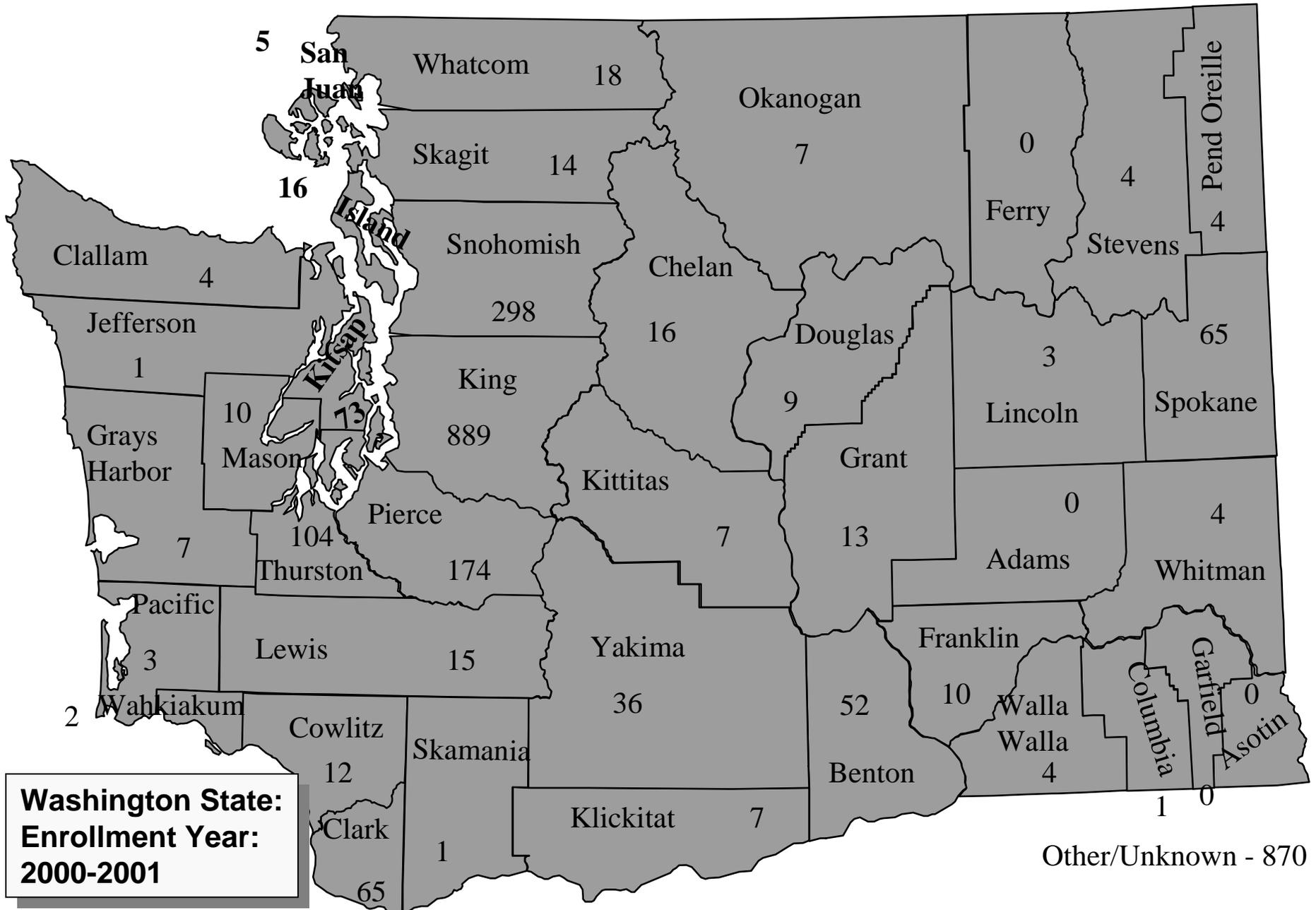
Lump Sum Plans**

Total Lump Sum Plans	7,803	2,230	10,033
Lump Sum Units	1,474,199	291,053	1,765,252
Future payments due	-	-	
<u>Payments Received</u>	\$ 52,318,127	\$ 11,933,177	\$ 64,251,304
Total Account Value	\$ 52,318,127	\$ 11,933,177	\$ 64,251,304
Fees Collected	\$ 340,125	\$ 95,875	\$ 436,000

Total Plans (Customized & Lump Sum)

Total Plans	10,423	2,827	13,250
Total Units	2,155,999	427,853	2,583,852
Future payments due	\$ 32,044,392	\$ 7,308,564	\$ 39,352,956
<u>Payments Received</u>	\$ 62,237,571	\$ 12,450,000	\$ 74,687,571
Total Account Value	\$ 94,281,963	\$ 19,758,564	\$ 114,040,527
Fees Collected	\$ 451,725	\$ 121,625	\$ 573,350
Total			\$ 114,613,877

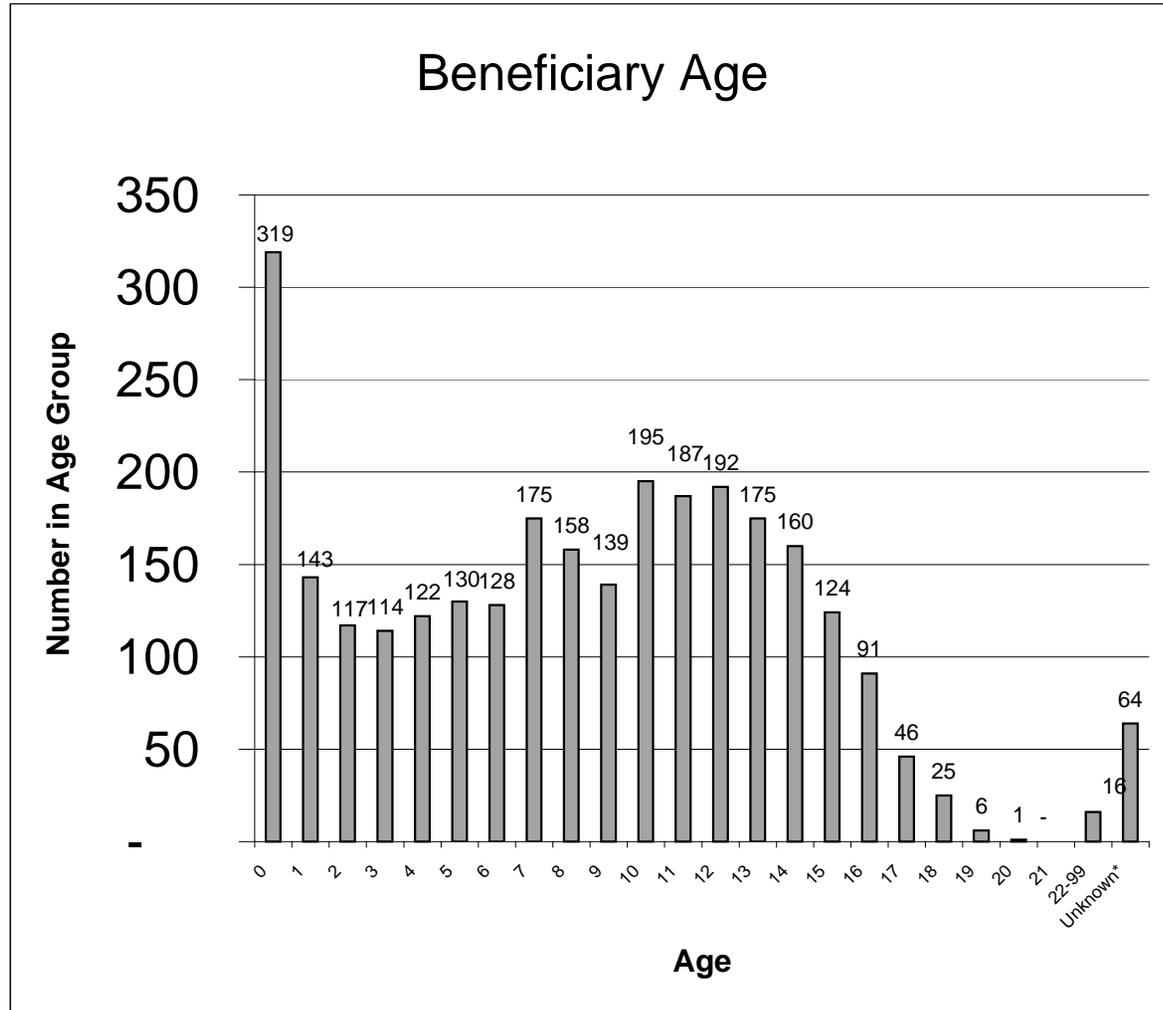
Contracts by County



Beneficiary Age at Purchase

as of July 20, 2001

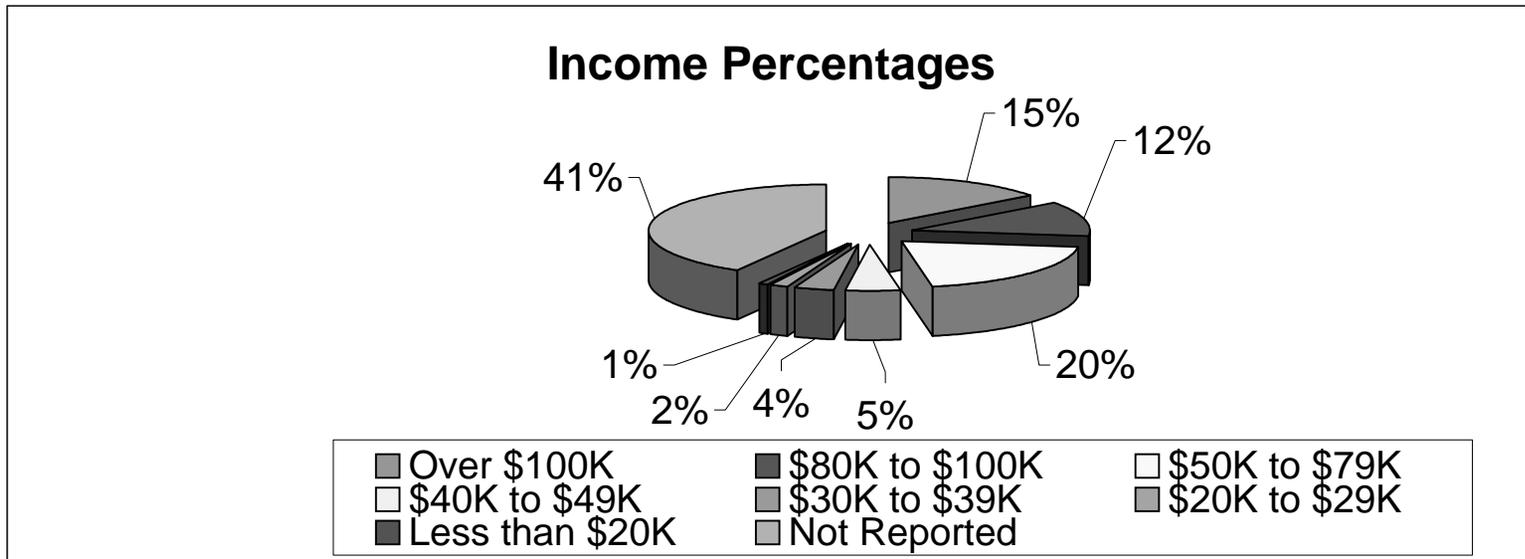
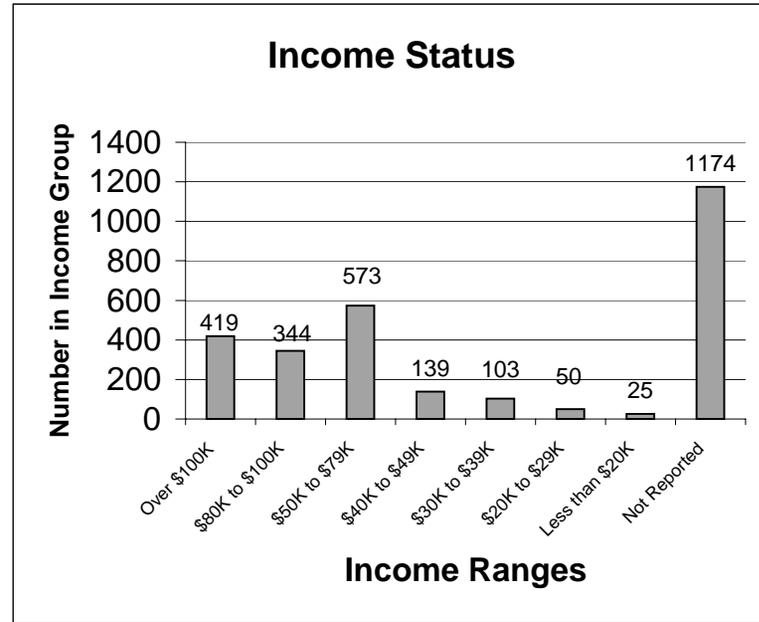
Beneficiary Age	#	%
0	319	11.3%
1	143	5.1%
2	117	4.1%
3	114	4.0%
4	122	4.3%
5	130	4.6%
6	128	4.5%
7	175	6.2%
8	158	5.6%
9	139	4.9%
10	195	6.9%
11	187	6.6%
12	192	6.8%
13	175	6.2%
14	160	5.7%
15	124	4.4%
16	91	3.2%
17	46	1.6%
18	25	0.9%
19	6	0.2%
20	1	0.0%
21	-	0.0%
22-99	16	0.6%
Unknown*	64	
Total	2,827	



*Applications received but not entered in system yet due to software conversion.

Income Status

Annual Income	Count	Income Percentages %	as of July 20, 2001
Over \$100K	419	14.82%	
\$80K to \$100K	344	12.17%	
\$50K to \$79K	573	20.27%	
\$40K to \$49K	139	4.92%	
\$30K to \$39K	103	3.64%	
\$20K to \$29K	50	1.77%	
Less than \$20K	25	0.88%	
Not Reported	1174	41.53%	
Total	2827	100%	



Actuarial Analysis and Price Setting for Enrollment Year 2001-02

August 6, 2001

Background

The following page includes a preliminary draft of the information that will be presented to the Committee at the August 6, 2001 meeting by Bill Reimert, Principal and Actuary with the firm of Milliman, USA.

History of GET Unit Price Increases

1998-99	\$35
1999-01	\$38
2000-01	\$41

History of Tuition Benefit Payout*

2000-01	\$3,641
2000-01	\$3,898*

*As of July 31, 2001

* Payout is based on 100 units and includes tuition and mandatory services and activities fees at the highest public university in Washington.

**Preliminary Options for Establishing and Operating a College Savings Plan
Briefing Paper**

August 6, 2001

Background

On May 7, 2001, Governor Gary Locke signed House Bill 2126, authorizing the Committee on Advanced College Tuition Payment (GET Committee) to establish a savings program that complies with the terms of Section 529 of the federal Internal Revenue Code. The Legislature's intent was to offer families an additional opportunity to save for college costs that would complement the existing GET Program.

The bill includes language that allows up to \$200,000 to be borrowed for start-up costs from administrative fees collected by the GET program. Any funds borrowed must be repaid with interest before the end of the biennium in which the funds were drawn.

Establishment of a Savings Plan Advisory Group

At the May 17 GET Committee meeting, the Committee directed staff to establish a Savings Plan Advisory Group to research and develop college savings program options to assist the GET Committee in its decision-making. The advisory group established includes representatives from the State Investment Board, the Office of the State Treasurer, the Office of Financial Management, an actuarial consulting firm, the legislative fiscal and higher education committees, and the institutions of higher education.

Advisory Group Meetings

The Savings Plan Advisory Group has met three times since May. The June 29 meeting was facilitated by Jeff Van Orden, an investment consultant representing the GET Program's contracted actuarial firm, Milliman USA.

The Advisory Group worked through several decision points and achieved consensus on the following issues:

- A. The program services should be "unbundled." This would imply the following:
 - 1. In-house record keeping, using the state's existing administrative infrastructure, including recently purchased software for the GET program.
 - 2. In-house marketing of the savings plan in conjunction with the marketing already in place for the GET program.
 - 3. Competitive selection of an investment manager, which could be responsible for national marketing of the savings plan.
 - 4. The process of selecting an investment management firm or firms should provide an environment that ensures fair competition involving private companies and, if appropriate, the State Investment Board. This may be addressed by requesting information from the State Investment Board, while going out to bid to private firms. The GET Committee would then review all information respectively.

- B. While the program should be open to investments by persons outside Washington, residents of Washington should get investment incentives not available to customers outside the state.
 - 1. The group supports developing a program that would have a strong Washington identity within the state and provide more benefits to Washington residents than to those in other states.
 - 2. Reductions or waivers of administrative fees should be considered for in-state residents.
 - 3. Rollovers to and from other state programs should be allowed.
- C. Investment firms will permit national sales and marketing, provided such efforts do not detract from the state focus. The advisory group re-affirmed the public policy goal that the savings plan remain state focused, and first and foremost focus on Washington citizens, to include providing an affordable opportunity for family members outside the state to open accounts.
- D. The lowest feasible investment threshold (account minimum) should be established to encourage participation by low- and middle-income families, while also allowing the highest possible cap to encourage wealthier families to save the amounts they'd need if they chose to send their students to higher-priced private institutions.
- E. To maximize participants' potential for return on investment, a range of investment options should be offered, from conservative to high-risk.
- F. The savings program must be coordinated with the GET program. One should not "compete" with the other.

Preliminary Options

In establishing a savings plan, three main areas that must be considered: investment management, record keeping, and marketing. The following are preliminary options and issues that are being addressed by the Advisory Group.

1. Investment Management

Option A – Analyze the merits of using the State Investment Board (SIB) for the investment management of a college savings plan. This would include examination of SIB performance as it pertains to offering a savings plan to Washington residents. These results would be compared to private investment products of firms that currently offer managing investments for college savings plans.

Option B – Begin a competitive Request for Proposals (RFP) process to identify private investment firms that can meet the requirements of the recommended program design.

2. Record Keeping

Option A - Manage record keeping in house, using software that was recently purchased for use with the GET program.

Option B – Contract out record keeping, either to the investment firm chosen to manage the savings program, or to a separate outside vendor.

3. Marketing

Option A - Manage in-state marketing in-house, in partnership with the GET program. The selected investment firm would provide out-of-state marketing. Any out-of-state marketing would be managed in cooperation with the in-state marketing.

Option B - All marketing (in-state and national) is provided by the selected private investment firm and is coordinated with GET marketing.

Timeline

Whether the Committee determines the investments should be managed by the State Investment Board or by a private investment firm, the earliest a college savings plan could open, barring any budget impediments, is January 2002.

Budgetary Implications

In either investment management scenario, it is estimated it will take approximately four years for the program to collect enough revenue to become self-sustaining.

The Legislature allowed for only \$200,000 to be borrowed for start-up of a college savings plan. The Advisory Group is currently examining actual start-up costs for the various options. It is likely that projected start-up costs will exceed \$200,000. Therefore, a budget appropriation, or authority to borrow more than \$200,000 from GET, may be required from the 2002 legislative session. This would delay the program opening to July 1, 2002. Program opening would depend on legislative budget authorization.

Next Steps

Savings Plan Advisory Group Work Sessions

- August 22, 1:30 –3:30 p.m., State Investment Board (Board Room)
- September 13, 1:30-3:30 p.m., State Investment Board (Board Room)

National College Savings Plan Network Conference

- September 6-9

GET Committee Meeting – Recommendations from Savings Plan Advisory Group

- September 25, 2:30-5:00 p.m.

<p>Program Update: As of July 31, 2001</p> <p>Total GET Accounts opened: 13,250 Total units purchased: 2.6 million Total value of contracts: 114.6 million</p>	<p>Status of Data Conversion:</p> <p>We have successfully completed the conversion of all customer account records from InTuition, Inc. to our own in-house system, run by SCT's Banner software.</p>	<p>Matriculation Update:</p> <p>There are 560 students eligible to use their GET benefits this fall.</p>
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■ **GET IS NOW TAX EXEMPT:**

The Economic Growth and Tax Relief Reconciliation Act of 2001 was signed into law Thursday, June 7, by President Bush. It grants federal tax exemption on earnings from state 529 plans, when used to pay for qualified higher education expenses. Higher education expenses that can be paid with these accounts include, tuition, room and board, books and fees, and any other expenses that students are required to pay to attend any accredited college or university in the United States.

The provisions are effective for taxable years beginning after December 31, 2001.

Several additional provisions in the tax law also favor state college savings plans, these include,

- Increased limits on room and board expenses that may be paid from an account,
- The ability to transfer account benefits to first cousins, and
- An annual "rollover" of an account from one qualified tuition program to another qualified tuition program for the same beneficiary.

■ **MARKETING ACTIVITIES:**

New enrollment begins September 15, 2001. We are currently working on the new enrollment form, brochure and tri-fold marketing approach to be presented by The Marketing Partners at the September meeting.

■ **OUTREACH ACTIVITIES:**

Upcoming major events for GET include,

- KOMO Kids Fair – August 11, 2001
- Tomorrow's Learning – August 17-18, 2001
- Western Washington Fair, Puyallup – September 17, 19 & 23, 2001

■ **PERSONNEL UPDATE:**

Debra Blodgett has joined the GET team as the Administrative Assistant. Debra's former position was with The Evergreen State College where she has served since 1996 as the Faculty Hiring Coordinator. Debra is currently working on her Bachelor's degree at TESC.

Jackie Molique will now be focusing all of her time as Customer Service Manager for the GET Program.

Ann Tolo has moved into the new position of Records Coordinator for GET. She was previously the Office Assistant for the program.

Heidi Jones will be rounding out the GET staff filling the position of Financial Accountant. Heidi's career includes employment at two private sector organizations where she focused on tax accounting and reporting for varied clients and two years in the State Auditor's Office as Assistant Audit Manager. Heidi is a Certified Public Accountant and received her Bachelor's degree in Accounting at Saint Martin's College.