

# GUARANTEED EDUCATION TUITION COMMITTEE MEETING

**February 11, 2003**  
**State Investment Board**  
**2424 Heritage Ct SW**  
**Olympia, Washington**  
**2:00 pm – 5:00 pm**

## AGENDA

Call to Order

- Approval of December 3, 2002 minutes                      ACTION                      Tab 1
- Director's report    INFORMATION
- GET investment update    INFORMATION                      Tab 2  
Gary Bruebaker  
Washington State Investment Board
- GET marketing update    INFORMATION  
Wendy Dore and Cathy Stevens  
The Marketing Partners
- Establishment of a college savings plan – update      INFORMATION                      Tab 3  
Joan McCallen and Kris Heurich  
ICMA Retirement Corporation
- GET vendor selection process                                      INFORMATION                      Tab 4  
Marketing and public relations services                      DISCUSSION  
Prospective call center and fulfillment                      PUBLIC COMMENT  
ACTION
- 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 14, 2003, 2:00 – 5:00 p.m.  
State Investment Board, 2100 Evergreen Park Drive SW, Olympia, WA

## GUARANTEED EDUCATION TUITION COMMITTEE MEETING

December 3, 2002

Utilities and Transportation Commission  
1300 Evergreen Park Drive SW  
Olympia, WA

### MINUTES

#### HECB staff in attendance:

Betty Lochner, GET Director  
Larry Lee, GET Operations Manager  
Debra Blodgett, GET Office Manager  
Jackie Molique, GET Customer Service Manager  
Heidi Arneson, GET Student Benefits Coordinator  
Lyle Jacobsen, HECB Special Projects

#### Guests in attendance:

Elaine Emans, Office of the State Treasurer  
Howard Fischer, Office of the Attorney General  
Gary Bruebaker, State Investment Board

Karen Barrett, Senate staff  
Joan McCallen, ICMA-RC  
Kris Heurich, ICMA-RC  
Jerry Backenstoe, ICMA-RC  
Julie Dellinger, ICMA-RC  
Girard Miller, ICMA-RC  
John Saeli, ICMA-RC  
Jeff VanOrden, Milliman USA  
Rick Legoza, SCT  
Wendy Dore, The Marketing Partners  
Cathy Stevens, The Marketing Partners

### CALL TO ORDER

Marc Gaspard called the meeting at 2:05 p.m. with introductions of the Committee Members, staff and guests in attendance. Committee members in attendance in addition to the Chair included Michael J. Murphy, State Treasurer, Marty Brown, Director of OFM, Mooi Lien Wong, Citizen Member (by telephone).

### WELCOME

Gaspard opened the meeting with introductions from committee members, staff and guests in attendance. Gaspard noted a change to the agenda as published, which was to move the GET investment update ahead of the Director's Report on the agenda.

### APPROVAL OF MINUTES

**The revised minutes from the July 30, 2002 GET Committee Meeting were reviewed and a motion was made to adopt the minutes by Brown and seconded by Murphy. The motion was approved and carried unanimously.**

### APPROVAL OF 2003 GET CALENDAR

The proposed GET Committee Meeting calendar for 2003 was presented to the Committee. Wong noted that she wouldn't be able to make the April 14<sup>th</sup> Committee Meeting. Murphy mentioned that he might have a conflict with the August Committee Meeting. Gaspard noted that changes may be made to the schedule at a later date, if it looks like there won't be a quorum. **It was moved by Brown to adopt the GET Committee Schedule as presented, which was seconded by Murphy. The motion was approved and carried unanimously.**

### **APPROVAL OF WEIGHTED AVERAGE TUITION FOR 2002-2003**

Lochner presented the proposed weighted average tuition for the 2002-03 academic year, using the approved methodology. **Brown moved to adopt the weighted average tuition calculation of \$40.26 per unit for the 2002-2003 academic year, which was seconded by Murphy. The motion was approved and carried unanimously.**

### **GET INVESTMENT UPDATE:**

Lochner introduced Gary Bruebaker, Chief Investment Officer for the State Investment Board, to give the 3<sup>rd</sup> quarter investment update. Bruebaker indicated that participants continued to add to the trust fund (more than \$44 million in new funds had been invested into the GET fund during the quarter). He also confirmed that the asset allocation of each investment class was within its targeted range. Investment returns, however, continued to struggle in the third quarter. The total return for the quarter was -6.08%, with year-to-date and since inception total returns of -3.35% and .85% respectively. Investment returns under performed both the absolute return of 7.5% and the benchmark CPI (inflation) + 4.5% return. When capital markets get back to normal, we should be back on track, although there is no indication of when that will happen.

### **DIRECTOR'S REPORT**

Lochner reported that the 2001-02 enrollment year ended with a total of 24,063 total active accounts, with a total of 10,819 new enrollments received during the 2001-02 enrollment year. We were 6,819 over the goal of 4,000 new accounts. As of Oct. 31, 2002, 582 accounts have been opened for the current (2002-03) enrollment year, which is double the accounts that were opened by this time last year. The unit price changed to \$52 on September 1<sup>st</sup>. Of the 1,100 students eligible to use their GET benefits, there are 500 students actually using their benefits to attend college this year. Lochner reported that the program is actively working on payroll deduction and that currently all state government and most of higher education along with other city, county agencies are participating. Outreach activities include state employee benefit fairs. Lochner introduced the new staff that had been added to the GET Program – Heidi Arneson, Student Benefits Coordinator and Pam Holt, Customer Service Representative.

### **GET ACTUARIAL VALUATION REPORT**

Lochner introduced Jeff VanOrden from Milliman USA to update the Committee on the 2001 annual valuation report. VanOrden summarized the highlights of the valuation. The expected long-term return for the assets has been reduced from 7.5 to 7.25 and the assumption for tuition growth has changed. This has resulted in a long-term deficit of 21.6 million dollars or a 10.4% unfunded liability. Every prepaid tuition program nationwide is in the same situation. The State of Washington is above average and in better shape than most of the states prepaid programs. The program has taken steps to alleviate this deficit in the future and should be able to recover the potential deficit over time.

### **GET MARKETING UPDATE**

Wendy Dore of The Marketing Partners gave the Committee an update on the current marketing strategies in place. The enrollment goal this year is again 4,000. Last spring's television buy

had some leftover dollars that have been used this fall. Plans for this enrollment year include a new television ad and will include radio and television stations including links from their websites to the GET website. Reminder postcards will be sent after the first of the year to remind people who have requested information of the March 31<sup>st</sup> deadline. Cathy Stevens gave an overview of the television buy, which covers 100% of the State. The television spots will run January through March.

### **ESTABLISHMENT OF A COLLEGE SAVINGS PLAN**

Lochner gave the Committee an update on the process of establishing a college savings plan to date. Lochner introduced Girard Miller and Joan McCallen from ICMA Retirement Corporation to give their presentation on the savings plan. Miller gave an overview of ICMA-RC and their role in the savings plan, which includes The Marketing Partners and SCT as subcontractors. In addition, there will be a national distribution partner, which is yet to be finalized. Miller commented that the proposal would not work economically without a national distribution partner. There was a concern raised by Murphy regarding investment products that may be on the Washington State Investment Board “watch list”, which are listed as options through the proposed savings plan. Miller addressed these issues and assured the Committee that this would be looked into closely.

Gaspard asked VanOrden to comment on the proposal before the Committee. VanOrden indicated that the proposal is clearly in the mainstream and quite competitive. Based on the no load options, the plan is in line with most other states and the quality of the product is in line or ahead of many other states. VanOrden indicated that the program, as presented, would be a good one.

Murphy asked if the Committee would be interested in a motion to approve the chair to negotiate the contract and work out the terms and conditions, but that the Committee has final approval of the national distribution partner.

After active discussion, Lochner went over the staff recommendation, which was that the Committee accept the proposal as presented by ICMA-RC to establish a Washington College Savings Plan and direct the staff to negotiate a contract with ICMA-RC as outlined in the presentation. The Committee would delegate to the chair, the authority to negotiate the contract and present the contract to the Committee for approval. Items to be considered in the contract negotiations include:

- Terms of the Contract – (ten years)
- Annual State Program administration reimbursement
- Total estimated average expense ratio that would be no higher than 150 basis points
- Annual participation fee of \$30 for accounts with less than \$25,000 and no fee for any account with more than \$25,000, instead of an enrollment fee
- Selection of subcontractors that may be needed to include the national distribution partner

The contract should be negotiated and ready for the Committee to approve at the next meeting. This would include approval of the national distribution partner.

Gaspard opened the meeting to public comment. No comments were made.

**Murphy made a motion to accept the staff recommendation as presented. Brown seconded the motion. Motion was approved and carried unanimously.**

#### **NEXT MEETING**

The next meeting of GET Committee is scheduled for February 11, 2003 at the State Investment Board.

#### **ADJOURNMENT**

There being no other business, the meeting was adjourned at 3:30 p.m.

**GET VENDOR SELECTION PROCESS**

February 11, 2003

**Background**

The following vendors are currently under contract with the HECB on behalf of the GET Committee:

Actuary services

Milliman USA. Contract ends 12/31/03.

Records administration software and technical assistance

SCT Software and Resource Management Corporation. Contract ends 7-01-04.

Marketing and public relations services

The Marketing Partners. Contract ends 6-30-03.

Prospective customer call center and fulfillment Services

Morningside. Contract ends 7-31-03.

The contracts for both marketing and public relations services and for prospective customer call center and fulfillment services are due to expire soon. The following are the recommendations for both of these contracts.

**Marketing and Public Relations Services**

The current contract allows for 2-two-year contract extensions to be authorized at rates not to exceed 5% per annum of the current contract rates. The performance of The Marketing Partners in meeting their contract obligations has been outstanding.

***Recommendation***

Staff recommends that the Committee approve a two-year extension of the existing contract. The amended contract would end 6-30-05.

**Prospective Customer Call Center and Fulfillment Services**

The current contract allows for 2-two-year contract extensions to be authorized at rates not to exceed 5% per annum of the current contract rates. Though the GET staff has generally been satisfied with the performance of Morningside, there have been increasing concerns about their ability to grow with the program and to provide increased services on demand. In addition, there have been sporadic problems with call and fulfillment reporting and customer service performance.

We are considering the possibility of separating prospective call center services from fulfillment services. We are also considering merging the prospective and client call centers into an in-

house call center to improve services and lower costs. To determine whether this approach is economically feasible and in the best interest of the GET Program and its customers, an RFP for a prospective call center and/or fulfillment services has been developed. This will afford maximum flexibility, as bidders may be able to provide services in one or both of the areas. The results of the RFP will be used to determine whether GET should continue to outsource the prospective customer call center or consider bringing the prospective customer call center in-house. If responses demonstrate that outsourcing the prospective customer call center is in the best interest of the program, then the selected vendor would be recommended to the Committee at the April 14, 2003 Committee meeting.

**Proposed RFP Timeline**

RFP Issued: On or about February 12

Pre-proposal Conference: February 25

Proposals Due: March 21

Workgroup review of proposals: March 24-28

Oral Presentations for Finalists: April 7

Recommendation to GET Committee for Approval: April 14, 2003

***Recommendation***

Staff recommends that the Committee approve issuing a Request for Proposals (RFP) for a prospective customer call center and/or fulfillment services.

**GET Account Information  
As of 1/31/03**

**Contract Statistics by Plan Year**

	<u>1998-2001</u>	<u>2002</u>	<u>TOTAL</u>
# of Active Contracts			
Custom Monthly Contracts (CM)	6,038	625	6,663
Lump Sum Contracts (LS)	17,504	1,795	19,299
Subtotal # of Active Contracts	23,542	2,420	25,962
# of Inactive Contracts	459	8	467
# of Depleted Contracts	53	0	53
# of Incomplete Applications	2	1	3
<b>Total # of Contracts</b>	<b>24,056</b>	<b>2,429</b>	<b>26,485</b>

**Unit Statistics (active contracts only)**

Total # of Contracted Units (CM)	1,441,527	137,971	1,579,498
Total # of Lump Sum Units Purchased (LS)	3,717,833	190,972	3,908,805
<b>Total # of Units - Both Plans</b>	<b>5,159,360</b>	<b>328,943</b>	<b>5,488,303</b>

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

Payments Received (CM)	\$ 20,239,684	\$ 88,294	\$ 20,327,978
Payments Received (LS)	\$ 147,555,335	\$ 9,912,915	\$ 157,468,250
Total Payments Received (CM and LS)	\$ 167,795,019	\$ 10,001,209	\$ 177,796,228
Total Contract Value (CM)	\$ 78,855,653	\$ 10,392,539	\$ 89,248,192
Less Payments Received (CM) from above	\$ (20,239,684)	\$ (88,294)	\$ (20,327,978)
Future Payments Due (CM)	\$ 58,615,969	\$ 10,304,245	\$ 68,920,214
<b>Total Value of All Accounts</b>	<b>\$ 226,410,988</b>	<b>\$ 20,305,454</b>	<b>\$ 246,716,442</b>
<b>Fees Paid</b>	<b>\$ 1,088,413</b>	<b>\$ 106,600</b>	<b>\$ 1,195,013</b>
<b>Grand Total</b>			<b>\$ 247,911,455</b>

**GET Account Information  
As of 1/31/03**

**Contract Statistics by Plan Year**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>1998-2001</u>	<u>2002</u>	<u>TOTAL</u>
# of Active Contracts							
Custom Monthly Contracts (CM)	1,656	656	543	3,183	6,038	625	6,663
Lump Sum Contracts (LS)	5,929	1,759	2,245	7,571	17,504	1,795	19,299
Subtotal # of Active Contracts	7,585	2,415	2,788	10,754	23,542	2,420	25,962
# of Inactive Contracts	264	91	42	62	459	8	467
# of Depleted Contracts	51	2	0	0	53	0	53
# of Incomplete Applications	0	0	2	0	2	1	3
<b>Total # of Contracts</b>	<b>7,900</b>	<b>2,508</b>	<b>2,832</b>	<b>10,816</b>	<b>24,056</b>	<b>2,429</b>	<b>26,485</b>

**Unit Statistics (active contracts only)**

Total # of Contracted Units (CM)	421,750	164,300	124,100	731,377	1,441,527	137,971	1,579,498
Total # of Lump Sum Units Purchased (LS)	1,397,947	305,732	421,424	1,592,730	3,717,833	190,972	3,908,805
<b>Total # of Units - Both Plans</b>	<b>1,819,697</b>	<b>470,032</b>	<b>545,524</b>	<b>2,324,107</b>	<b>5,159,360</b>	<b>328,943</b>	<b>5,488,303</b>

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

Payments Received (CM)	\$ 11,347,788	\$ 3,478,528	\$ 1,931,326	\$ 3,482,042	\$ 20,239,684	\$ 88,294	\$ 20,327,978
Payments Received (LS)	\$ 50,932,171	\$ 11,960,424	\$ 17,457,005	\$ 67,205,735	\$ 147,555,335	\$ 9,912,915	\$ 157,468,250
Total Payments Received (CM and LS)	\$ 62,279,959	\$ 15,438,952	\$ 19,388,331	\$ 70,687,777	\$ 167,795,019	\$ 10,001,209	\$ 177,796,228
Total Contract Value (CM)	\$ 20,068,343	\$ 8,206,700	\$ 6,697,428	\$ 43,883,182	\$ 78,855,653	\$ 10,392,539	\$ 89,248,192
Less Payments Received (CM) from above	\$ (11,347,788)	\$ (3,478,528)	\$ (1,931,326)	\$ (3,482,042)	\$ (20,239,684)	\$ (88,294)	\$ (20,327,978)
Future Payments Due (CM)	\$ 8,720,555	\$ 4,728,172	\$ 4,766,102	\$ 40,401,140	\$ 58,615,969	\$ 10,304,245	\$ 68,920,214

<b>Total Value of All Accounts</b>	<b>\$ 71,000,514</b>	<b>\$ 20,167,124</b>	<b>\$ 24,154,433</b>	<b>\$ 111,088,917</b>	<b>\$ 226,410,988</b>	<b>\$ 20,305,454</b>	<b>\$ 246,716,442</b>
<b>Fees Paid</b>					<b>\$ 1,088,413</b>	<b>\$ 106,600</b>	<b>\$ 1,195,013</b>
<b>Grand Total</b>							<b>\$ 247,911,455</b>



***Higher Education  
Coordinating Board  
Meeting***

***February 11, 2003***

***Washington State 529 College  
Savings Program Status Update***

***Given by  
ICMA Retirement Corporation***

***Joan McCallen  
Executive Vice President & COO***

***Kristine Heurich  
Vice President***





## ***Status Update Washington State 529 Program***

- **ICMA-RC has aggressively been pursuing a partner**
  - 37 financial services firms contacted
    - 9 Broker/Dealers
    - 14 Insurance companies
    - 7 Mutual fund families
    - 7 National banks
  - Candidates felt program is competitive & attractive to potential partners; 6 firms very interested; 5 firms reviewing proposal
  - Of the potential candidates, 26 candidates unable to commit due to one of several reasons:
    - Current state of equity markets
    - Current state of economy
    - Prior commitment to another State's program



## ***Status Update Washington State 529 Program***

**In close coordination with HECB staff, the following is either in progress or completed:**

- **Lockbox Services**

- Allfirst Bank headquartered in Baltimore, Maryland
  - Competitive pricing
  - Existing lockbox services relationship with ICMA-RC

- **Product Features**

- Account contribution maximums and minimums have been established
- Investment line-up under review based upon 12/31/02 data

- **Umbrella program name has been determined**

- “Get Set For College”
- Undergoing trademark process



## ***Status Update Washington State 529 Program***

- **Web site names registered**
  - getsetforcollege.wa.gov
  - getsetforcollege.com
  - getsetforcollege.org
- **Telephony Arrangement**
  - Flow and structure has been defined
  - Determining hardware and software requirements to accommodate structure
- **Contract**
  - Draft has been written
  - Currently in review at both organizations
  - Next steps: Legal review



***Status Update  
Washington State 529 Plan***

**Implementation scheduled for Fall 2003 in  
coordination with the GET campaign**

