

**GUARANTEED EDUCATION TUITION COMMITTEE MEETING
REGULAR MEETING**

**Friday, November 16, 2001
2:00 pm - 5:00 pm
State Investment Board
2424 Heritage Ct SW
Olympia, Washington**

AGENDA

1. Call to Order
2. Approval of September 25, 2001 Minutes ACTION Tab 1
Approval of Regular Meeting Dates for 2002
3. Investment Update INFORMATION Tab 2
Gary Bruebaker, Chief Investment Officer
State Investment Board
4. Marketing Update INFORMATION
Wendy Dore and Cathy Stevens
The Marketing Partners
5. Approval of Contracting Process for ACTION Tab 3
Actuarial Services
6. College Savings Plan DISCUSSION Tab 4
PUBLIC COMMENT
ACTION
7. Director's Report INFORMATION
8. Adjournment of Regular Meeting
9. Possible Executive Session
May be held for any of the purposes set forth in RCW 42.30.110
10. Action Items, if any, made necessary by Executive Session

Next Regular Meeting, January 15, 2002, 2:00 – 5:00 p.m. (pending approval)
State Investment Board, 2424 Heritage Court SW, Olympia, WA

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Tuesday, September 25, 2001

State Investment Board

2424 Heritage Court SW

Olympia, WA

MINUTES

CALL TO ORDER

Marc Gaspard, HECB Executive Director and Committee, Chair, called the meeting to order at 2:40 p.m. Committee members in attendance in addition to the Chair included Michael J. Murphy, State Treasurer, Marty Brown, Director of OFM, Beth Stecher Berendt, Citizen Member and Mooi Lien Wong, Citizen Member.

HECB staff in attendance:

Betty Lochner, GET Director

Larry Lee, GET Operations Manager

Heidi Jones, GET Financial Accountant

Lyle Jacobsen, HECB Special Assistant

Guests in attendance:

Shane Bird, Senate Republican Caucus

Violet Boyer, Washington Association of Independent Colleges and Universities

Gary Bruebaker, State Investment Board

Elaine Emans, Office of the State Treasurer

Cindy Flynn, Council of Presidents

Joe Dear, Frank Russell Company

Howard Fischer, Office of the Attorney General

Bill Papesh, Washington Mutual

Helen Small, State Investment Board

Cliff Webster, TIAA-CREF

WELCOME

Marc opened the meeting with introductions of the committee members. Betty Lochner, GET Director, introduced GET staff in attendance. Guests in attendance were asked to introduce themselves.

Betty reported that there would be no changes to the agenda, however, an additional staff report for agenda item #5 (College Savings Plan Recommendations) was distributed.

APPROVAL OF MINUTES AND NEXT MEETING DATE

It was moved by Beth Berendt and seconded by Mooi Lien Wong to approve the minutes of the September 25, 2001 meeting as presented and to approve scheduling the next meeting for November 16, 2001, from 2:00-5:00 p.m. Motion carried unanimously.

APPROVAL OF WEIGHTED AVERAGE TUITION FOR 2001-2002

Betty reviewed the methodology that was approved by the committee last January for calculating the weighted average tuition. The committee is required by statute to annually determine the value of the weighted average tuition. It is used in calculating certain refunds and is included in the adopted cancellation and refund policy. Using the approved methodology, the rate for the 2001-02 academic year would be \$35.16 per unit.

Motion to approve the weighted average tuition rate for the 2001-02 academic year at \$35.16 per unit was made by Marty Brown and seconded by Mike Murphy. Motion carried unanimously.

INVESTMENT UPDATE

Marc introduced Gary Bruebaker, Chief Investment Officer for the State Investment Board to present the GET investment update to the committee. Gary reported that the second quarter, ending June 30, 2001, was a good investment quarter for GET and gave an overview of the report. He directed the group to the final page of the report and gave a breakdown of numbers.

Gary also reported on the current GET investment balances as of 8-31-01 as follows:

Cash - \$3.8 million

TIP's - \$38.6 million

US Equity - \$24.6 million

Non-U.S. Equity - \$10.8 million

Total invested: \$77.8 million

Marc asked if it is projected that GET will reach the benchmark of a 7.5% overall gain. Gary responded that this is still a realistic goal. Marc requested that the third quarter results be brought to the November 16th GET Committee Meeting.

MARKETING UPDATE OF GET PROGRAM

Betty introduced Wendy Dore and Cathy Stevens of The Marketing Partners. GET has a contract with The Marketing Partners to provide marketing services for the GET program through 2003.

Wendy began by giving an update of marketing activities to date. The goal for this year is 4,000 new enrollments and to increase the awareness of GET among Washington families. She reported that mailings have been sent to all K-12 schools in the state. Radio spots are in progress for the fall push and a television campaign is planned for winter/spring. The fall newspaper press releases were sent out on Sept. 10; these will be re-sent the week of Oct. 15. A payroll stuffer will be distributed to state employees on October 10th. A holiday promotion is also planned. GET is continuing to use the "877-GET-TUIT" number and visual images that are easy to remember.

The Marketing Partners has subcontracted with Bonner and Associates to obtain pertinent data in identifying target audience demographics. There will be focus groups conducted in Seattle and Spokane to define ways to most effectively use television spots. Bonner and Associates will be facilitating the focus groups. Most of the marketing budget has been set aside for television advertising. Cathy reviewed the flight schedule for the television media push. The focus will be on news and other target prime schedules. The message will be focused on flexibility, the state guarantee, and the ability to use benefits at any college or university in the country.

Marc asked if we would be monitoring what type of marketing has been the most effective. Wendy reported that the call center (Morningside) will be monitoring this when they take calls. Beth pointed out that many companies are now advertising on the children's stations and would like The Marketing Partners to consider this option. Cathy reported that Bonner and Associates will have research to pull from, and they will monitor that closely. Mike commented that his office learned that you don't necessarily run ads on the stations you listen to, but on the stations that are reaching your target audience.

Marc asked for the committee to be updated at the next meeting on results from the focus groups.

SAVINGS PLAN ADVISORY GROUP REPORT

Marc began by expressing appreciation for the work the advisory group did and thanked all that were present. He also expressed appreciation to the staff for their work on this project.

Betty gave a brief overview of the purpose of the advisory group. The group was established to research and develop options to assist the committee in its decision making. The group met five times between mid May and mid Sept. She then reviewed the final report from the advisory group. The report identifies issues the group believes should be considered by GET staff in their recommendation to the GET Committee as it establishes a college savings plan. It acknowledges the budget constraints inherent in program set-up, identifies several options for operating a savings plan, and includes a recommendation for moving forward.

Marc expressed appreciation for the work and the options that have been presented and asked the committee if there were any questions regarding the advisory group report.

PUBLIC COMMENT

With no questions being presented, Marc opened up the meeting to public comment and called on the first guest on the sign in list to give public comment if they chose to do so. Marc reminded the committee that at all advisory group meetings, investment firms present recused themselves from the deliberations of the advisory group to prevent possible conflicts in the RFP process. Those requesting to make public comment and their comments follow:

Joe Dear, Frank Russell Company, gave an overview of his company's services. He joined Marc in saluting the work that the advisory group accomplished, adding that the group is following a good public policy goal. He agrees with the intent to focus on Washington residents and provide lower or no account management fees to state residents. Joe suggested consideration be given to hiring a Washington State investment firm that has no other state plan they are marketing. He suggested that the investment firm selected do marketing since they have a vested interest in doing it well. He also suggested that an outside company do record keeping. He also feels that one firm should do investment oversight. He encouraged the committee to move forward on the RFP process.

Violet Boyer, Washington Association of Independent Colleges and Universities, thanked the committee for the opportunity to be a part of the discussion. She believes the savings plan is an important opportunity for Washington families. Violet brought forward four points for consideration:

1. Flexibility: Make the program work for as many families as possible.
2. Unique Customer Service: Focus on strong customer service orientation.
3. Provide name brand products that provide a comfort level.
4. Maintain a strong marketing focus. It is important to have to have an ongoing consistent marketing plan.

Hearing no further public comment, Marc moved to presentation of the staff recommendations.

RECOMMENDATION

Betty went through the staff recommendations and timeline. The staff recommendations were developed based on the work that the advisory group completed, and information gathered from other states.

The staff recommendations were presented as follows:

- A. An RFP should be developed to address the program design elements provided in the savings plan advisory group report to the GET committee. It should also include services required for the establishment of a college savings program in Washington. These services would include investment management, record administration, and marketing either in a "bundled" approach or "unbundled" approach, allowing for more flexibility in exploring options for program operation. It should also

require respondents to provide compatible records administration with the GET in-house system already in place.

- B. The committee should consider selecting the State Investment Board (SIB) to provide internally managed investment options.
- C. The committee should explore with the SIB how best to address investment oversight (performance monitoring) for the GET committee.

Betty then reviewed the timeline for program implementation and projected timeline. The RFP process is expected to take three months, and contract negotiation an additional three months, with the savings program opening between June and September 2001. It is recommended that the promotional kick-off coincide with the GET kick-off in September 2002.

Betty stated that staff will give an update as to the status of the RFP process at the next committee meeting, and may have an RFP ready for approval at that time. However, an RFP may not be fully developed by then or staff may need more direction at that point. She reminded the committee that the timeline presented is only an estimate, and it may take longer than anticipated to work through some of the issues.

Mike Murphy commented on the option of using the SIB in an investment oversight role. He indicated that the SIB is already doing that for the TRS 3 retirement plan. Since 75% of all SIB business is outsourced, it makes sense to have the SIB in an oversight role. He also added that he agrees that since the focus of the program is to be on Washington residents, an in-state firm should be considered.

Marc added that Howard Fischer should be included in the RFP development process.

SAVINGS PLAN RECOMMENDATION

Mike made the motion to approve the staff recommendations as presented and authorize staff to start the RFP development process. This would include exploring the feasibility of using the SIB to manage some investment options and/or provide investment oversight. Marc seconded the motion. Motion carried unanimously.

DIRECTOR'S REPORT

Betty reported that there was a one-week delay in the marketing kick-off because of national events.

Payroll deduction will be available to state employees by November. The HECB is participating in a pilot program for payroll deduction during the month of October.

GET Staff will be attending all of the benefit fairs for state employees. Beth suggested that we utilize the Retiree Workshops at the Benefit Fairs as well.

Betty updated the committee on the conversion of in-house customer service. Customers have expressed their appreciation of the improved customer service being provided. Some of the data isn't in place quite yet, but we expect to be able to mail the new contract to current account owners, along with the announcement of on-line viewing of accounts, by the first of the year.

ADJOURNMENT

Marc called for any other items to be brought before the committee. There being no other business, the meeting was adjourned at 4:15 p.m.

NEXT MEETING

The next meeting of the GET Committee is scheduled for November 16th, from 2:00 – 5:00 p.m. at the State Investment Board (Board Room).

**Proposal for Regular Meeting Schedule
January 2002 – September 2002**

November 16, 2001

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 meeting schedule for January 2002-September 2002.

DATE	TIME	PLACE
January 15, 2002 Tuesday	2:00 – 5:00 p.m.	Olympia, State Investment Board (Board Room)
March 19, 2002 Tuesday	2:00 – 5:00 p.m.	Olympia, State Investment Board (Board Room)
May 22, 2002 Wednesday	2:00 – 5:00 p.m.	Olympia, State Investment Board (Board Room)
July 16, 2002 Tuesday	2:00 – 5:00 p.m.	Olympia, State Investment Board (Board Room)
September 17, 2002 Tuesday	2:00 – 5:00 p.m.	Olympia, State Investment Board (Board Room)

Recommendation

Staff recommends that the proposed regular GET Committee meeting be approved.

**RECOMMENDATION FOR
CONTRACT FOR ACTUARY SERVICES**

November 16, 2001

Background

Actuary services for the GET program has been provided by Milliman USA since June 1, 1998. The contract for actuary services was acquired through a competitive bid process. Milliman USA was selected for their expertise in working with prepaid tuition programs with other states.

Milliman USA has worked with the GET program since its inception and has provided services for three program years. Their services have included assistance with the business plan, actuarial and price setting analysis, including development of preliminary and final annual valuation reports, and additional actuarial research services, such as the research performed on potential tuition increases and their impacts on the GET program. Milliman USA now holds exclusive expertise in the area of prepaid tuition in the state of Washington as well as with six other states, including Colorado, Nevada, Ohio, Virginia, West Virginia and Wisconsin. They also provide services for investment consulting to prepaid and savings plans in 12 states.

Sole Source Contracts

State contracting laws allow a contract to be sole sourced if the contract provides professional or technical expertise of such a unique nature that the contractor is clearly and justifiably the most practical source of service.

The sole source process requires advertisement in a statewide or regional newspaper for one day. If a formal response is received to the advertisement from other than the proposed contractor, and the response indicates the responding firm is qualified to provide the service, a competitive RFP process must follow.

Recommendation

Staff recommends approval to sole source the contract for actuary services to Milliman USA for the period of January 1, 2002 – October 31, 2004 for up to \$150,000.

Washington Higher Education Coordinating Board
Guaranteed Education Tuition (GET) Committee

**RECOMMENDATION FOR
COLLEGE SAVINGS PLAN GUIDELINES**

November 16, 2001

Background

At the September 25, 2001 committee meeting staff were directed to begin development of a Request for Proposal (RFP) that addresses the identified values of the advisory group and protects the program through good contract management. Staff were also directed to consider selecting the State Investment Board (SIB) to provide internally managed investment options and to work with the SIB in determining how best to address investment oversight (performance monitoring) for the GET committee.

Staff are moving forward in determining how best to approach the RFP process under these directions. It is anticipated that an RFP will be brought to the committee for approval at the January 2002 committee meeting.

Program Guidelines

Several policy decisions establishing program guidelines need to be determined as part of the RFP process including maximum and minimum contributions, penalty refunds, rollovers, and age or time limitations on use of benefits. These guidelines are included in the table below and would be included in the RFP requirements. Although the committee may change these guidelines prior to implementation of the Program, or at a later date, initial guidelines must be in place to move forward with the RFP.

	Proposed Program Guidelines
Application fee	\$75 for each new account.
Minimum Contribution	\$250 minimum initial contribution OR \$25 monthly deposit via electronic funds (ACH) or payroll deduction.
Minimum Account Balance	\$250 unless on ACH or payroll deduction. \$10 annual fee if not maintained.
Maximum Contribution	\$200,000
Age Limit for Beneficiaries	None, but funds must be in Program for minimum of 24 months prior to qualified withdrawal
Rollovers	Allowed from Washington savings plan to other states. Allowed from savings plan to GET. Not allowed from GET to Savings Plan. (Current GET policy does not allow rollovers.)
Rollover Fee	\$25 to another plan, \$0 to GET.
Residency Requirement	None
Portfolio Options	The program will provide at least the following options for contributors: <ol style="list-style-type: none"> 1. An age-based portfolio. This portfolio need not match the actual age of the beneficiary. The age-based portfolio would “roll-down” to a more conservative allocation over time. 2. Balanced portfolios, to include several that would range from more conservative to more aggressive investment options. Each of these portfolios may be invested in multiple asset classes. 3. A stable value fund. 4. A 100% equity option. 5. A 100% bond option.
Refund Penalty	\$100 or 10% of earnings for non-qualified distributions, whichever is greater.

Recommendation

Staff recommends approval of the proposed guidelines for implementation of a college savings plan.