

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

November 1, 2004

**Washington State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, Washington
2:00 pm – 4:00 pm**

AGENDA

Call to Order

- | | | |
|--|-------------|-------|
| • Approval of August 3, 2004 minutes | ACTION | Tab 1 |
| • Approval of weighted average tuition for 2004-05 | | |
| • Director's report | INFORMATION | Tab 2 |
| • GET investment update
Diana Will, Investment Officer
Washington State Investment Board | INFORMATION | Tab 3 |
| • GET actuarial valuation report
Bill Reimert, Principal & Consulting Actuary
Milliman | INFORMATION | |
| • 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:
February 22, 2:00 – 4:00 p.m.
Washington State Investment Board, 2100 Evergreen Park Drive SW, Olympia, WA

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Tuesday, August 3, 2004
State Investment Board
2100 Evergreen Park Drive
Olympia, WA

MINUTES

HECB staff in attendance:

Betty Lochner, GET Director
Larry Lee, GET Operations Manager
Debra Blodgett, Office Manager
Heidi Arneson, Benefits and Finance Manager
Denise Fry, Outreach Coordinator

Guests in attendance:

Wendy Dore, The Marketing Partners
David Jensen, Office of the State Treasurer
Michael Kirlin, Member of the public (GET Customer)
Heather Lois-Lechner, Senate Higher Ed. Committee
Diana Will, State Investment Board
Jean Six, Senate Higher Ed. Committee
Cathy Stevens, The Marketing Partners
Elaine Emans, Office of the State Treasurer

CALL TO ORDER

GET Committee chair Jim Sulton called the meeting to order at 2:05 p.m. Other committee members in attendance included Michael J. Murphy, State Treasurer, Marty Brown, Director of the Office of Financial Management, Beth Stecher Berendt, citizen member and Mooi Lien Wong, citizen member.

APPROVAL OF MINUTES AND MEETING SCHEDULES

The minutes from the April 20, 2004 meeting were reviewed. The Revised 2004 Meeting Schedule and the 2005 Meeting Schedule were also reviewed. A motion was made by Berendt, and seconded by Murphy, to adopt the minutes and meeting schedules as presented. The motion was approved and carried unanimously.

DIRECTOR'S REPORT

GET Director Betty Lochner reported that she and Larry Lee, GET Operations Manager, attended the National Association of State Treasurer's/College Savings Plan Network (NAST/CSPN) conference in May. There they learned that the GET program is the fastest-growing prepaid program in the nation (based on the percentage of increase in new contracts from June 2003 to June 2004). GET is also one of the few prepaid programs that is running in the black and showing a reserve. Many of the state prepaid programs have had to suspend their enrollments, while GET has continued selling. GET is also on the cutting edge in some of its processes, including web access and online enrollment.

Lochner referred the committee to the annual packet of statistical information and gave a brief overview of each slide. Families opened over 8,000 new accounts this past year with a total value of \$473 million (payments received plus future payments expected on contracts). She reported that the total number of GET accounts is 44,255. The payout year chart shows 2,269 new students are eligible to use their GET benefits this year. Murphy asked how many of the eligible beneficiaries actually use their benefits in the year in which they are scheduled. Lochner reported that to date just over 50 percent have used their benefits in the first year they were eligible. Custom Monthly contract usage has gone up from 35 percent to 40 percent of all accounts opened this year. She also reviewed the percentage of people in each county who participate in the GET Program relative to the total population in each county. Brown asked if there is a strategy to boost enrollment in Clark and Spokane counties. Lochner said that GET

will target these two counties this year and continue to come up with creative ways to increase exposure in Clark and Spokane counties. She said that the program tried billboards in Clark County because TV advertising was too expensive in the Portland market.

Lochner reminded the committee about the proposed technical changes to the GET statute that the committee discussed and approved last year. These proposed changes were not presented to the Legislature last year due to the short session. It is recommended that these same technical changes be presented during this year's legislative session. The technical changes include cleaning up the statute to remove the term "weighted average tuition" in the refund policy, changing the definition of residency of purchaser and student, and providing bankruptcy protection for GET accounts.

Wong clarified that the bankruptcy protection would be limited to funds that have been in the GET account for at least two years. Lochner verified that the proposed language states that any funds received and held under two years could still be seized in a bankruptcy filing.

MOTION

**Brown made a motion to go forward with the proposed changes to statute as presented.
The motion was seconded by Murphy and approved unanimously.**

GET MARKETING UPDATE

Wendy Dore from The Marketing Partners presented the GET marketing update to the committee. Dore reported that focus groups were held this spring to identify popular misconceptions about the GET Program and receive feedback on a range of possible television commercials. She reported that focus group participants strongly supported the testimonial format used in the current commercials. Additional funds will be used to target Southwest Washington. The committee reviewed the three television commercials used in the past two years. The commercials will be edited to include new enrollment information and will rotate during this enrollment year.

Cathy Stevens of The Marketing Partners reported on the overall marketing campaign for this enrollment year. Stevens reported that the radio campaign will begin September 15 and run for two to three weeks. The radio campaign will cover the entire state of Washington. Outdoor board advertising will be used in Vancouver and Bellingham. The television ads will begin January 15 and run through March 30. The television buy will be focused on early morning news and evening and late news, with some prime time. Print ads will run in the Seattle Times. In addition, the program will target some parent publications. In addition, the GET staff are sending letters to all Washington school districts, superintendents, and PTA presidents. Brown requested that staff also send letters to the school counselors.

Berendt asked if the radio buys were done in advance of the impending political campaigns. Dore indicated that those buys had been done in advance and, consequently, purchased at lower rates.

Sulton asked GET staff and The Marketing Partners to consider how the program might better reach low-income people. Stevens indicated that they are looking into some new publications.

Lochner reported that GET has added a language line capability for callers who may need translation services.

GET INVESTMENT UPDATE

Diana Will, Investment Manager for the State Investment Board, presented the GET investment update. The portfolio is valued at \$405 million, a growth of \$32 million over the previous quarter. Contributions for the quarter were at \$34.5 million. However total investment returns were negative.

The -.79 percent return for last quarter reflected poor performance from the Treasury Inflation-Protection Securities (TIPS) portfolio. TIPS have performed very well over the last four years, during a period of declining interest rates. Now that the Federal Reserve is raising interest rates, this is hurting the TIP portfolio slightly. TIPS lost 3.23 percent for the quarter, compared to a loss of 3.10 percent in the benchmark Lehman Custom TIP Index. Will explained that the difference from the benchmark resulted from having an investment horizon slightly longer than the 10-year duration of TIPS.

Equities returned just .80 percent for the quarter and under-performed their benchmark by .13 percent. The variance was largely due to the Non-US Equity portfolio. Due to the expense of trading in international equities, SIB had limited the number of times that it invested new funds in this portfolio each month. Non-US Equities improved during the quarter, and due to the limited investment windows, funds were not able to be invested quickly and lost out on some of the potential returns.

SIB is working with the international manager to alleviate problems with getting into the market more often. Since inception, the return on the equity portfolio has exceeded the benchmark by about 20 basis points (.20%). While total return for the portfolio lagged behind the passive benchmark for the quarter, it has outperformed by more than 9 basis points since inception (5.77% vs. 5.68%).

GET ANNUAL UNIT PRICE SETTING

Lochner gave a brief overview of last year's unit price setting and the twice-yearly options to set the GET unit price. In April 2004 GET staff recommended raising the unit price to \$62. The committee set the price at \$61 and agreed to review raising the price in August. Over the past year, investments have gone down in value due to negative returns. This has changed the underlying assumptions used to set the unit price at the April meeting. At this time, the current unit price is \$61 with a payout value this year of \$51.54 per unit (highest tuition). This results in an 18 percent premium (the difference between the unit price and the amount of the payout value). In August 2003 the program did not raise the price and sales in August were very small. The program needs the money sooner to invest rather than later in the year. When a price increase is announced, participants are motivated to add funds to their accounts. Staff is recommending that the unit price be raised from \$61 to \$62.

Bill Reimert, principal actuary with Milliman, reviewed the analysis and assumptions used in April when the price was set at \$61. Reimert explained the assumptions that went into setting the \$61 unit price, as well as what has changed since then and what impact this information will have on price setting now. There was one significant change to the actuarial assumptions

presented to the committee in April. Specifically, the expected return on investments was reduced from 7.0 percent to 6.6 percent based on information received from the Washington State Investment Board (WSIB). The current assumptions continue to include building a 10 percent stabilization reserve within the next 10 years. Based on the analysis provided, he recommended that the committee adopt a unit price not less than \$64.

Brown questioned whether the number of new contracts sold affected the unit price. Reimert explained that it does, but not by a significant amount. For example, if GET sold 10,000 contracts instead of 5,000, it would change the unit cost by \$1.53.

Berendt agreed that the program needed to be sensitive to the concerns of future customers who will be paying the high premium, but said she also wanted to ensure that the program is truly viable and can withstand an unpredictable market. She said she would feel far more comfortable getting to a 10 percent reserve, and believes the program should focus on long-term investments. She expressed a desire to increase the unit price in an effort to move toward building an adequate reserve.

Murphy commented that GET's reserve, as a percentage of assets, is far greater than that of the general fund for the State of Washington and expressed his concern that the premium is outpacing the two-year payout.

Brown asked about the premium levels in other states. Reimert explained that the Virginia program's premium varies between 38 and 40 percent. However, the program offers a money back guarantee, plus a reasonable return. The Nevada program's premium runs between 25 and 31 percent. It also has a money back guarantee. Nevada is in a different situation than GET in terms of sales since it doesn't advertise and has added very few new contracts.

Murphy moved to hold the GET unit price at \$61. Brown seconded the motion.

Much discussion ensued. Wong said that people will not add money to their accounts if the price is held at \$61 and supported the staff recommendation of a small increase.

Murphy expressed a desire to keep the price as low as possible. He said he understands the actuarial recommendation and added that it would be nice to have a reserve, but believes the program is still in a growth pattern. He would like to keep the price as low as possible for as long as possible. He pointed out that GET has increased the premium steadily, and expressed concern about offering an even higher premium.

MOTION

The motion from Murphy to hold the GET unit price at \$61, was seconded by Brown. The motion passed with a majority of affirmative votes from Brown, Murphy and Wong. Sulton and Berendt voted no.

OTHER

Sulton updated the committee on the Higher Education Coordinating Board's 2004 Statewide Strategic Master Plan. One master plan proposal calls for undergraduate resident tuition to increase no more than 31 percent over the next four years, an average of 7 percent per year. The

HECB has approved the master plan proposal. The board will distribute a bound copy of the master plan on August 24, 2004.

NEXT MEETING

The next meeting of the GET Committee is scheduled for November 1, 2004 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 3:40 p.m.

Approval of Weighted Average Tuition for 2004-05

November 1, 2004

Background

The GET Committee is required by statute [RCW 28B.95.030(6)] to annually determine the value of the weighted average tuition. The weighted average tuition (WAT) is used in calculating the value of refunds in certain circumstances and is included in the current Cancellation and Refund Policy adopted by the committee. The approved WAT for the 2003-04 academic year was \$42.93 per unit.

WAT Calculation

At the January 23, 2001 committee meeting, the calculation methodology was approved as follows:

The committee shall set the value of the weighted average tuition annually, generally by September 30 of each year. “The amount shall be calculated as the sum of the undergraduate tuition and services and activities fees for each four-year state institution of higher education, multiplied by the respective full-time equivalent student enrollment at each institution divided by the sum total of undergraduate full-time equivalent student enrollments of all four-year state institutions of higher education, rounded to the nearest whole dollar.” RCW 28B.95.020(16)

For purposes of the calculation, undergraduate, tuition and services and activities fees shall be the tuition and services and activities fees established for the academic year commencing in the fall of the fiscal year for which the weighted average tuition is calculated.

For purposes of the calculation, resident undergraduate full-time equivalent student enrollments shall be calculated using the Higher Education Enrollment Report provided from the Office of Financial Management (OFM HEER Data), averaged over the previous three academic years.

Staff Recommendation

Staff recommends approval of the value of the WAT for the 2004-05 academic year as \$45.80 per unit (see attached spreadsheet for calculation).

GET your child's future college tuition TODAY



GET The Solution to Rising College Tuition

The total cost of a four-year public college education is about \$75,000 today. The College Board estimates it could rise to over \$200,000 in 18 years. Guarantee that your children and grandchildren can afford to go to college with Washington State's Guaranteed Education Tuition (GET) Program.

With GET:

- The money you set aside for college is guaranteed by the State of Washington to keep pace with rising college tuition.
- You can use your GET account at nearly any college, university or trade/technical school in the country.
- And you have peace of mind knowing that your money will be safe – and there when you need it.

GET All the Benefits

The State Guarantee

The State of Washington guarantees that if you buy one year of college today, it will be worth one year of college when your child or grandchild is ready for college – regardless of how much tuition has increased or how the stock market has performed.

Over 35,000 Participating Colleges

You can use your GET account at nearly any college, university, or trade/technical school – public or private – in the United States.

Maximum Flexibility

If your child or grandchild decides not to go to college, you can transfer the account to another family member, wait up to 10 years in case the student changes his/her mind, or request a refund.

Easy Saving Options

You decide how much and how often you want to save, then choose the savings plan that works best for you. As a state employee, you also can sign up for payroll deduction.

Tax Benefits

Your GET account will grow tax-free. And all withdrawals are tax-exempt when used for tuition, room and board or other qualified education expenses.

GET Going!

Call today: **1-877-438-8848** (toll-free)

Visit us online: www.get.wa.gov

Or talk to a GET representative at an upcoming PEBB Fair (October 27 – November 19)



GET Account Information
As of 09/30/04

Contract Statistics by Plan Year

of Active Contracts

Custom Monthly Contracts (CM)

Lump Sum Contracts (LS)

Subtotal # of Active Contracts

of Inactive Contracts

of Depleted Contracts

Total # of Contracts

	<u>2004</u>	<u>TOTAL</u>
Custom Monthly Contracts (CM)	126	11,141
Lump Sum Contracts (LS)	234	31,896
Subtotal # of Active Contracts	360	43,037
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# of Inactive Contracts	3	1,307
	<hr/>	<hr/>
# of Depleted Contracts	0	270
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Total # of Contracts	363	44,614

Unit Statistics (active contracts only)

Total # of Contracted Units (CM)

Total # of Lump Sum Units Purchased (LS)

Total # of Units - Both Plans

Total # of Contracted Units (CM)	30,250	2,441,791
Total # of Lump Sum Units Purchased (LS)	16,139	6,783,637
Total # of Units - Both Plans	46,389	9,225,428

Account Value Statistics (active contracts only)

Total Payments Received (CM and LS)

Future Payments Due (CM)

Total Payments Received and Future Payments Due

Fees Paid

Grand Total

Total Payments Received (CM and LS)	\$ 980,760	\$ 359,131,302
Future Payments Due (CM)	\$ 2,775,612	\$ 116,810,233
Total Payments Received and Future Payments Due	\$ 3,756,372	\$ 475,941,535
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Fees Paid	\$ 13,300	\$ 1,562,296
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Grand Total		\$ 477,503,831

Benefit Statistics

Total amount paid out on contracts

\$9,949,309

Total # of students who have used benefits

1810

**Weighted Average Tuition - Based on Annual Average Enrollment
Using Three-Year Average FTE Data
Calculated for 2004-05**

Calculation of Resident Enrollment:

"WAT shall be calculated as the sum of the UG tuition and S&A fees for each four-year institution multiplied by the respective full-time equivalent student enrollment at each institution divided by the sum total of UG FTE student enrollments of all four-year institutions rounded to the nearest whole dollar."

	(a) 3-Year Average Resident Undergraduate Student FTEs (academic years: 2001-2002, 2002-03, 2003-04)	(b) 2004-05 Resident Undergraduate Tuition & Fees	(a*b) Total Dollars	
U of W - Seattle*	20,537	5,061	\$ 103,937,126	
U of W - Bothell	1,053	5,037	5,305,744	
U of W - Tacoma	1,334	5,070	6,763,424	
WSU - Pullman	12,512	5,154	64,488,060	
WSU - Spokane	138	5,154	708,887	
WSU - TriCities	400	5,154	2,062,176	
WSU - Vancouver	847	5,154	4,366,532	
CWU	7,493	3,908	29,281,264	
EWU	6,921	3,882	26,867,249	
TESC	2,960	3,900	11,542,415	
WWU	10,211	3,886	39,679,920	
TOTAL/ AVERAGE	64,406 (c)		\$ 295,002,798 (d)	

Calculated WAT 2004-05	\$ 4,580
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The WAT is derived from the total of the 4-year institutions' most recent 3-year average resident undergraduate FTE's, divided into the total dollar amount of tuition and student & activities fees: (d) divided by (c).

Notes:

* Includes Seattle evening.

Source:

OFM: Annual Average FTEs calculated using Higher Education Enrollment Reports (HEER).

Calculation of Annual Average FTEs who are Washington residents is based on tall residency data from OFM's Higher Education Enrollment Reports. (HEER).