# Guaranteed Education Tuition (GET) Program

# Legislative Advisory Committee to the GET Committee

Staff Presentation to the

Ways & Means Committee

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Corrections made to slide #4 on 1/22/13

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Washington State Senate Committee SERVICES

# Highlights of the GET Program

- Established in 1997 to "help make higher education affordable and accessible to all citizens of the state of Washington by offering a savings incentive that will protect purchasers and beneficiaries against rising tuition costs" (RCW 28B.95.010)
- Contracts are legally binding on the state (RCW 28B.95.050)
- Tuition units are valued at one percent of the highest resident undergraduate (RUG) tuition and fees at a four-year institution (defined in GET contract, not in statute)
- If differential tuition rates on RUG programs are implemented and become the highest rate of RUG tuition and fees, they will impact the GET program
- If discontinuance of the program is declared, beneficiaries who are 4 or more years away from participating in higher education will receive an immediate refund at the current unit value (RCW 28B.95.090)
- $631 million unfunded liability as of June 30, 2012 (78.5% funded status)

# Recent legislation affecting the GET Program

- In 2011 via ESSB 5749, a Legislative Advisory Committee was created to meet at least once annually
  - 8 members (2 from each of the major caucuses in the House of Representatives and the Senate)
  - Purpose is to provide advice to the GET Committee and the State Actuary regarding administration of the program, including, but not limited to, pricing guidelines, tuition unit price, and unit payout value
- In 2012, a proviso in the supplemental operating budget (3ESHB 2127) directed the Legislative Advisory Committee to:
  - Review the impact of differential tuition rates on the funded status and future unit price of the GET Program
  - No later than January 14, 2013, make a recommendation to the appropriate policy and fiscal committees of the Legislature regarding how differential tuition should be addressed in order to maintain the ongoing solvency of the GET Program.

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# The funded status of GET is affected by investment returns and tuition prices.

| Fiscal Year | Funded Status | Tuition Growth | Investment Returns |
|---|---|---|---|
| 2013 | TBD | 12.0% | 7.4% |
| 2012 | 78.5% | 15.2% | 0.1% |
| 2011 | 79.1% | 19.0% | 20.5% |
| 2010 | 86.2% | 13.1% | 12.7% |
| 2009 | 84.2% | 13.1% | -16.0% |
| 2008 | 109.5% | 6.8% | -0.7% |
| 2007 | 117.4% | 6.8% | 14.8% |
| 2006 | 108.8% | 6.9% | 8.9% |
| 2005 | 108.1% | 6.8% | 10.1% |
| 2004 | 104.5% | 6.6% | 16.0% |
| 2003 | 98.4% | 7.0% | 7.6% |
| 2002 | 89.6% | 16.0% | -2.8% |
| 2001 | 104.9% | 7.1% | -1.6% |
| 2000 | 113.4% | 3.4% | 10.3% |
| 1999 | 110.1% | 3.7% | 5.0% |

NOTE: Investment returns data corrected on 1/22/13

SOURCE: Office of the State Actuary

Data for FY 1999 contains 9 months of returns and for FY 2013 contains 6 months of returns

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# In 2011, the GET Committee adopted new price-setting guidelines

- Price-setting guidelines include the following:
  - **Expected Cost** – Covers the expected cost of future tuition and certain administrative expenses.
  - **Expenses** – Covers the GET program's annual operating expenses.
  - **15% Reserve** – Covers unexpected future costs (e.g. above-expected tuition growth or below-expected investment returns).
  - **Amortization of Unfunded Liability** – Optional component that covers unexpected past costs. Current policy is a one-time, 30 year amortization of the unfunded liability measured at June 30, 2011.

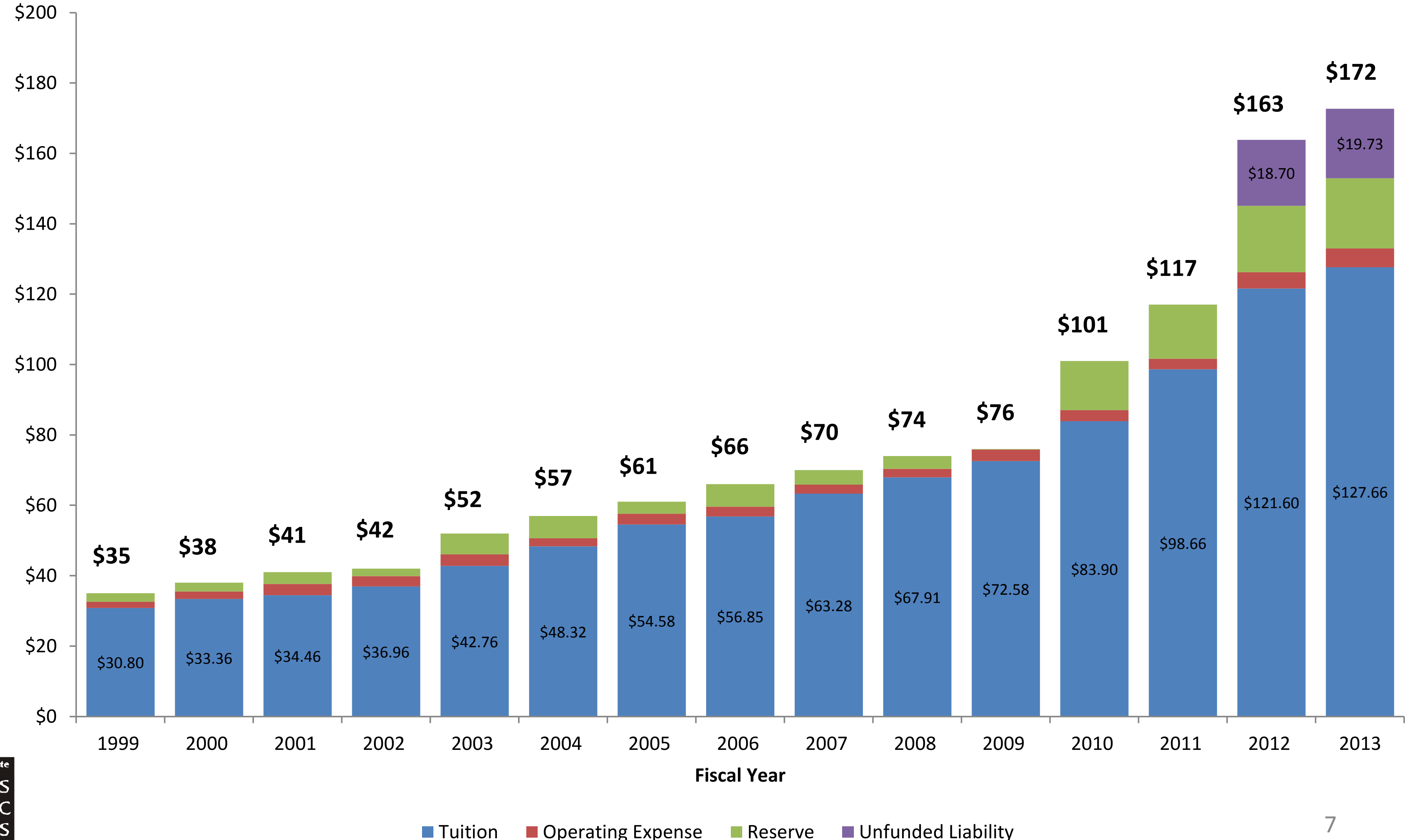
SOURCE: 2012 Actuarial Valuation Report of the Guaranteed Education Tuition Program, Office of the State Actuary

# With the additional amortization component of the unit price, the account will reach 100% funded status in 2032 (if all actuarial assumptions are realized).

| Fiscal Year | Funded Status | Units Sold | BOY Fund Value | BOY Obligation Value | Net Cash Flow |
|---|---|---|---|---|---|
| **2012** | 79% | 845,569 | $2,311 | $2,942 | $126 |
| **2013** | 79% | 869,288 | 2,458 | 3,096 | 109 |
| **2014** | 80% | 861,123 | 2,591 | 3,232 | 86 |
| **2015** | 81% | 866,814 | 2,702 | 3,345 | 58 |
| **2016** | 81% | 892,654 | 2,786 | 3,428 | 45 |
| **2017** | 82% | 899,118 | 2,859 | 3,499 | 45 |
| **2018** | 82% | 907,440 | 2,935 | 3,568 | 59 |
| **2019** | 83% | 914,932 | 3,025 | 3,649 | 69 |
| **2020** | 84% | 924,248 | 3,127 | 3,738 | 76 |
| **2021** | 84% | 935,700 | 3,237 | 3,831 | 76 |
| **2022** | 85% | 943,892 | 3,350 | 3,923 | 79 |
| **2023** | 86% | 951,762 | 3,467 | 4,014 | 85 |
| **2024** | 87% | 959,453 | 3,592 | 4,108 | 95 |
| **2025** | 89% | 969,082 | 3,729 | 4,207 | 108 |
| **2026** | 90% | 976,698 | 3,880 | 4,315 | 118 |
| **2027** | 91% | 986,312 | 4,045 | 4,429 | 136 |
| **2028** | 93% | 994,280 | 4,231 | 4,556 | 164 |
| **2029** | 95% | 1,004,270 | 4,447 | 4,705 | 205 |
| **2030** | 96% | 1,012,920 | 4,708 | 4,890 | 249 |
| **2031** | 98% | 1,020,504 | 5,017 | 5,112 | 297 |
| **2032** | 100% | 1,030,222 | 5,378 | 5,374 | 342 |
| **2033** | 102% | 1,039,096 | $5,788 | $5,674 | $390 |

SOURCE: State Actuary presentation to the Senate Higher Education Committee, January 17, 2013

# Since inception, the GET unit price has increased by 391%. Today, 11.5% of the current price is dedicated to paying off the unfunded liability.

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# Individuals who entered the GET Program prior to the 2011-13 biennium will experience a greater return on their investment than those who entered the program more recently.

| | | ANNUAL RATE OF RETURN | |
|---|---|---|---|
| Year Entered GET | Lump Sum | Treasury Bond Rates | Municipal Bond Rates |
| 1999 | 9.4% | 5.7% | |
| 2009 | 8.4% | 3.7% | 4.1% |
| 2012 | 4.1% | 2.4% | 2.9% |

| | | ANNUAL RATE OF RETURN | |
|---|---|---|---|
| Year Entered GET | Custom Monthly Contract | Treasury Bond Rates | Municipal Bond Rates |
| 1999 | 10.5% | 5.7% | |
| 2009 | 9.0% | 3.7% | 4.1% |
| 2012 | 1.7% | 2.4% | 2.9% |

*NOTE: Calculations provided by the Office of the State Actuary. Portions of the return calculations include forecasted experiences based on the State Actuary's assumptions regarding the unit price and unit value. This analysis assumes that: 1) 100 units were purchased or contracted for purchase in the year entering the GET program; and 2) 100 units were/will be redeemed 15 years later.*

# Recommendations of the Legislative Advisory Committee to the GET Committee

- December 31st – Informal email vote taken of Advisory Committee Members
- Via this email vote, the majority of the Advisory Committee voted for:
  - Closure of the GET Program;
  - Modifications to statute to allow honoring GET contracts of all existing beneficiaries, rather than an immediate refund for those beneficiaries who are more than four years away from participation in higher education as is currently required in statute; and
  - Allowing differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but only for those institutions that are not the basis for the value of a GET unit.

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# With closure of the program, unless the $631 million unfunded liability is addressed sooner, costs to honor all contracts as they become due are approximately $1.7 billion (if all actuarial assumptions are realized).

| Projection of Current Contracts Only (If All Assumptions are Realized) | | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in Millions)* | | | | | | Cash Inflows |
| Fiscal Year | Funded Status | Number of Units Used | BOY Fund Value* | BOY Obligation Value | Net Cash Flow | State Contributions |
| 2012 | 79% | 1,069,791 | $2,311 | $2,942 | $43 | $0 |
| 2013 | 78% | 1,204,650 | 2,316 | 2,986 | 7 | - |
| 2014 | 76% | 1,339,893 | 2,288 | 2,998 | (34) | - |
| 2015 | 75% | 1,472,880 | 2,222 | 2,974 | (84) | - |
| 2016 | 73% | 1,516,714 | 2,109 | 2,907 | (121) | - |
| 2017 | 70% | 1,503,445 | 1,963 | 2,809 | (145) | - |
| 2018 | 67% | 1,419,317 | 1,795 | 2,692 | (156) | - |
| 2019 | 63% | 1,359,492 | 1,619 | 2,569 | (172) | - |
| 2020 | 59% | 1,310,981 | 1,430 | 2,436 | (191) | - |
| 2021 | 53% | 1,292,151 | 1,224 | 2,291 | (217) | - |
| 2022 | 47% | 1,256,567 | 995 | 2,126 | (240) | - |
| 2023 | 38% | 1,204,335 | 745 | 1,943 | (261) | - |
| 2024 | 27% | 1,138,091 | 476 | 1,746 | (277) | - |
| 2025 | 12% | 1,064,540 | 192 | 1,538 | (180) | 112 |
| 2026 | 1% | 996,688 | 7 | 1,322 | 0 | 292 |
| 2027 | 0% | 907,867 | 4 | 1,097 | 0 | 281 |
| 2028 | 0% | 794,152 | 2 | 870 | 0 | 261 |
| 2029 | 0% | 649,663 | 0 | 652 | 0 | 225 |
| 2030 | 0% | 499,552 | 0 | 459 | 0 | 183 |
| 2031 | 0% | 346,167 | 0 | 297 | 0 | 134 |
| 2032 | 0% | 224,180 | 0 | 177 | 0 | 92 |
| 2033 | 0% | 128,833 | 0 | 92 | 0 | 56 |
| 2034 | 0% | 63,746 | 0 | 41 | 0 | 29 |
| 2035 | 0% | 22,441 | 0 | 13 | 0 | 11 |
| | | | | | Total | *$1,675* |

** Fund Value includes present value of monthly contract receivables. Fund Value is used for funded status measurement since liabilities include monthly contract units.*
*Source: 2012 GET Actuarial Valuation Report.*

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# 529 Plan Specifics

- Tax-advantaged, state-administered investment program authorized under Internal Revenue Code Section 529.
- Earnings grow free from federal income tax and, when used to pay for qualified higher education expenses, may be withdrawn federal income tax-free.
  - Qualified higher education expenses include tuition, mandatory fees, books, supplies, and equipment.
  - Contributions to 529 plans may not be deducted from federal income tax (some states may allow a deduction on state income tax)
  - Earnings on non-qualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes.
- Two primary types of 529 plans:
  - Prepaid Plan:  Participants purchase future tuition at today's rate.
  - Savings Plan (also known as investment plan):  Participants save money in a college savings account that provides a variable rate of return, although some plans guarantee a minimum rate of return.

SOURCE:  College Savings Plans Network (CSPN)

# The 529 Industry

- 49 states, plus the District of Columbia, offer 107 different Section 529 qualified tuition plans
- 12 issuers offer prepaid plans
- 47 states, plus the District of Columbia, offer 60 savings plans directly to the public (Direct Plans)
- 31 states also offer 34 different savings plans through financial professionals (Advisor Plans)

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SOURCE: GET Program presentation to the Legislative Advisory Committee, December 11, 2012

# Status of Prepaid 529 Plans/Guaranteed Savings Plans in Other States

| State | Plan | Status |
|---|---|---|
| Alabama | Prepaid Affordable College Tuition (PACT) Program | Closed to new enrollments (2009) |
| Alaska | University of Alaska College Savings Plan - ACT Portfolio | Open - guaranteed by the University of Alaska to provide a minimum return equal to tuition increases at the University of Alaska, but only for beneficiaries enrolling at that institution |
| Colorado | Prepaid Tuition Fund | Closed to new enrollments (2002) |
| Florida | Florida Prepaid College Plan | Open - state guarantee |
| Illinois | College Illinois! 529 Prepaid Tuition Program | Open |
| Kentucky | Kentucky's Affordable Prepaid Tuition (KAPT) | Closed to new enrollments (2004) |
| Maryland | College Savings Plans of Maryland -- Prepaid College Trust | Open |
| Massachusetts | U. Plan | Open - bond based program - state guarantee |
| Michigan | Michigan Education Trust | Open |
| Mississippi | Mississippi Prepaid Affordable College Tuition (MPACT) Program | Open - enrollment deferred pending actuarial audit results (2012) - state guarantee |



SOURCE: GET Program

# Status of Prepaid 529 Plans/Guaranteed Savings Plans in Other States

| State | Plan | Status |
|---|---|---|
| Nevada | Nevada Prepaid Tuition Program | Open |
| Ohio | Ohio College Advantage -- Guaranteed Savings Fund | Closed to new enrollments and contributuions until approved by Ohio Tuition Trust Authority (2004) - state guarantee |
| Pennsylvania | Pennsylvania 529 Guaranteed Savings Plan | Open |
| South Carolina | South Carolina Tuition Prepayment Program | Closed to new enrollments until approved by General Assembly (2006) |
| Tennessee | Tennessee's BEST Prepaid College Tuition Plan | Closed to new enrollments (2010) |
| Texas | Texas Guaranteed Tuition Plan (aka Texas Tomorrow Fund) | Closed to new enrollments (2003) - state (constitutional) guarantee |
| | Texas Tuition Promise Fund | Open (2008) - institutions must accept distributions as full payments |
| Virginia | Virginia529 prePAID | Open |
| Washington | Guaranteed Education Tuition (GET) | Open - state guarantee |
| West Virginia | SMART529 Prepaid Tuition Plan | Closed to new enrollments (2003) |
| Other | Private College 529 Plan | Open - designed for private colleges |

SOURCE: GET Program

# Appendix

# 2012 Interim Meetings of the Legislative Advisory Committee

- June 28th
  - GET program update
  - Actuarial analysis of the GET program
  - Overview of differential tuition options
- October 2nd
  - Legal analysis of GET Program and differential tuition
  - Panel discussion of differential tuition/creation of GET 2
- December 11th
  - Legal/fiscal clarification of Option B – allow differential tuition but require public universities to waive the cost of charges above base tuition for GET participants
  - Discussion of differential tuition and GET 2
  - No final recommendations

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# Options for addressing differential tuition considered by the Legislative Advisory Committee

**Current Unfunded Liability (as of June 30, 2012): $631 million; Current Tuition Unit Price: $172**

| Option | Considerations | FISCAL IMPACTS | | | |
|---|---|---|---|---|---|
| | | 5% above base tuition | 10% above base tuition | 20% above base tuition | 50% above base tuition |
| **A. Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013 without changes.** | • State institutions maintain the flexibility they desire to charge differential tuition rates.<br><br>• The GET Program will be legally obligated to include differential tuition charges in the GET payout for current contract holders. | Unfunded liability increases by $139 million<br><br>Unit price increases by $14 | Unfunded liability increases by $279 million<br><br>Unit price increases by $29 | Unfunded liability increases by $558 million<br><br>Unit price increases by $76 | Unfunded liability increases by $1,395 million<br><br>Unit price increases by $314 |
| **B. Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but exempt (via tuition waiver) charges above base tuition at state colleges and universities for all GET participants.** | • State institutions will be required to forego collection of differential tuition revenue from GET students.<br><br>• The GET Program will be legally obligated to include differential tuition charges in the GET payout for current contract holders who attend out-of-state, private, and for-profit institutions of higher education. | Unfunded liability increases by $36 million<br><br>Unit price increases by $3 | Unfunded liability increases by $73 million<br><br>Unit price increases by $6 | Unfunded liability increases by $147 million<br><br>Unit price increases by $14 | Unfunded liability increases by $368 million<br><br>Unit price increases by $39 |

*NOTE: There may be additional negative impacts to the unfunded liability beyond those noted if students pursue refunds (the value of the GET units less applicable tax penalties) of any remaining value of their GET units from the GET account.*

Fiscal impacts assume a one-time increase to the GET payout value.

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# Options for addressing differential tuition considered by the Legislative Advisory Committee

**Current Unfunded Liability (as of June 30, 2012): $631 million; Current Tuition Unit Price: $172**

| Option | Considerations | FISCAL IMPACTS | | | |
|---|---|---|---|---|---|
| | | 5% above base tuition | 10% above base tuition | 20% above base tuition | 50% above base tuition |
| **C. Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but add a cap.** | • State institutions lose some of the ability to charge differential tuition rates.<br><br>• The GET Program will be legally obligated to include differential tuition charges in the GET payout for current contract holders. | If a cap is established at some level that is less than those noted above, then the impact to the GET program will be smaller than those noted in Option A. | | | |
| **D. Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but only for those institutions that are not the basis for the value of a GET unit.** | • All but one state institution maintains the flexibility they desire to charge differential tuition rates.<br><br>• Reduces, and may eliminate, the potential negative impact on the solvency of the GET Program and the GET unit price; although some risk remains that a school with differential tuition rates could increase rates to a level that would have an impact on the GET Program. | No impact provided the differential tuition rate does not become the basis for valuing GET units. | | | |

Fiscal impacts assume a one-time increase to the GET payout value.



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# Options for addressing differential tuition considered by the Legislative Advisory Committee

**Current Unfunded Liability (as of June 30, 2012): $631 million; Current Tuition Unit Price: $172**

| Option | Considerations | FISCAL IMPACTS | | | |
|---|---|---|---|---|---|
| | | 5% above base tuition | 10% above base tuition | 20% above base tuition | 50% above base tuition |
| **E. Clarify in statute that differential tuition is not to be considered part of tuition for the purposes of calculating the GET payout value.** | • State institutions maintain the flexibility they desire to charge differential tuition rates.<br><br>• According to the informal Attorney General opinion, this will prevent differential tuition charges from being calculated in the payout value for future contract holders but not for current contract holders. | Impacts to the GET program will be the same as for Option A. | | | |
| **F. Disallow differential tuition for resident undergraduate students and allow unique program fees that are separate from tuition. (SSB 6399)** | • State institutions could use this fee authority in place of differential rates to raise revenue.<br><br>• According to the informal Attorney General opinion, the GET Program will be legally obligated to include these fees in the GET payout for current contract holders. | Impacts to the GET program will be the same as for Option A. | | | |

Fiscal impacts assume a one-time increase to the GET payout value.

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# Options for addressing differential tuition considered by the Legislative Advisory Committee

**Current Unfunded Liability (as of June 30, 2012): $631 million; Current Tuition Unit Price: $172**

| Option | Considerations | FISCAL IMPACTS | | | |
|---|---|---|---|---|---|
| | | 5% above base tuition | 10% above base tuition | 20% above base tuition | 50% above base tuition |
| G. Disallow the implementation of differential tuition for resident undergraduate students only (repeal the effects of E2SHB 1795 on differential tuition). | • State institutions maintain the ability to charge differential tuition rates to non-resident undergraduate students.<br><br>• Eliminates the flexibility desired by state institutions to charge differential tuition rates for resident undergraduate students. | No impact. | | | |
| H. Disallow all authority to charge differential tuition rates. | • Eliminates the authority given institutions in 2003 to charge differential tuition rates to non-resident undergraduate students.<br><br>• Eliminates the flexibility desired by state institutions to charge differential tuition rates for resident undergraduate students. | No impact. | | | |

Fiscal impacts assume a one-time increase to the GET payout value.

# Options for addressing differential tuition considered by the Legislative Advisory Committee

**Current Unfunded Liability (as of June 30, 2012): $631 million; Current Tuition Unit Price: $172**

| Option | Considerations | FISCAL IMPACTS | | | |
|---|---|---|---|---|---|
| | | 5% above base tuition | 10% above base tuition | 20% above base tuition | 50% above base tuition |
| **I. Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but require institutions that charge differential rates to remit a portion of the revenue collected to the GET Account.** | •State institutions maintain the flexibility they desire to charge differential tuition rates.<br><br>• The GET Program will be legally obligated to include differential tuition charges in the GET payout for current contract holders. | Impact is as described in Option A. There is a possibility that if enough tuition revenue is remitted to the GET Account that the impact could be lower. | | | |

Fiscal impacts assume a one-time increase to the GET payout value.



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# Legislative Advisory Committee GET 2 Discussion

- In the 2011 Legislative session, SB 5749 as introduced would have created a GET 2 program that tied the payout value to a weighted average of tuition and fees.

- Potential considerations in creating GET 2:
  - GET 2 would only apply to future contract holders
  - The unfunded liability of GET 1 remains because current contract holders are contractually entitled to receive the value of GET units under the existing contract
  - What should GET 2 look like?
  - Should this change happen immediately or be phased in over time?
  - How should the unfunded liability of GET 1 be managed?

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