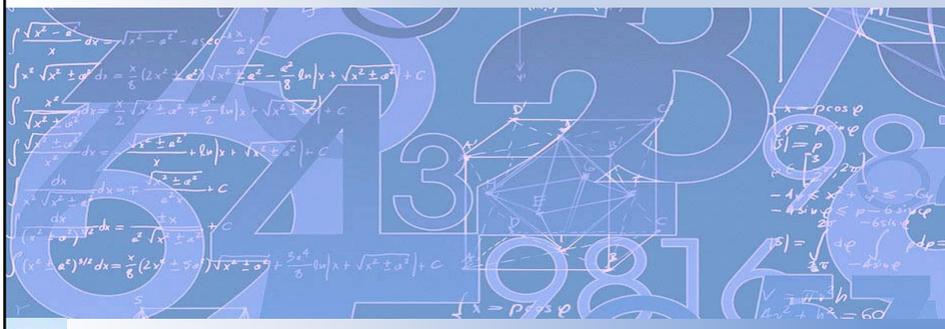


GET Educational Session

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State Actuary

Presentation to
Washington State Investment Board



Office of the State Actuary
"Securing tomorrow's pensions today."

November 20, 2014

Today's Presentation

- GET program overview and background
- Price-setting process
- Funded status, key assumptions, and experience
- GET assets
- Risk analysis
- Next steps



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Office of the State Actuary

GET Was Established To Offer Families A Safe And Secure Way To Save For College

- Established in 1998
- Administered by GET staff within Washington Student Achievement Council
- Five-member Committee on Advanced Tuition Payment (the GET Committee) oversees program and meets regularly
- OSA provides actuarial services
- Legislative Advisory Committee provides advice to GET Committee and OSA regarding administration of program
- WSIB sets investment policy and invests program's assets

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GET Quick Look

- Washington's 529 prepaid college tuition plan
 - Intended to be self sustaining
 - State guarantees the obligation; contractual obligation of the state
- For use at colleges, universities, and technical schools nationwide
- Covers tuition, room, board, books and other qualified expenses
- Transferrable to family member, use for graduate school, or request taxable refund
- Over 157,000 GET accounts opened
- Over 38,000 students have used their accounts nationwide



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How GET Works

Unit Price is Set

- GET Committee sets the price annually for the current enrollment period.
- Based on adopted price-setting guidelines.

Units are Purchased

- Maximum of 500 units.
- Can be purchased either through a lump sum payment or a monthly contract (with interest).

Money is Invested

- Investment returns on the proceeds from unit sales are expected to pay a portion of the future unit value and lowers the price of the unit today.
- Invested by the Washington State Investment Board.

Units are Redeemed

- Unit Value equals 1 percent of the annual cost of resident, undergraduate tuition and covered fees at the highest priced public university in WA at time of unit use.
- Maximum of 125 units per year.
- Refunded based on Unit Value or transferred to another eligible beneficiary.
- Used at any eligible in-state or out-of-state higher education institution based on Unit Value.

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Price Setting Process

GET Unit Price Information	
Category	2014-15 Enrollment
Unit Price	
Expected Cost	\$124.74
Expenses	5.93
Reserve	20.51
Amortization	20.82
Total Unit Price	\$172.00

Note: Totals may not agree due to rounding.

- Expected Cost** – covers expected cost of future tuition and certain administrative expenses
- Expenses** – covers GET program's annual operating expenses
- Reserve** – covers unexpected future costs such as above-expected tuition growth or below-expected investment returns; currently a 15 percent reserve.
- Amortization** – an optional component that covers unexpected past costs from significant program or policy changes
 - In 2011, GET committee established a one-time 30-year amortization of unfunded liability measured at June 30, 2011

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Funded Status Of Current GET Contracts

Funded Status Summary	
<i>(Dollars in Millions)</i>	
Present Value of Future Obligations	\$2,767
Present Value of Fund	\$2,928
Funded Status	105.8%
Reserve/(Deficit)	\$161

- Measured at June 30, 2014
- Excludes impacts of differential tuition
- Supporting analysis in *2014 GET Actuarial Valuation Report*

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Historical Funded Status And Tuition Growth

Funded Status History		Tuition Growth			
Fiscal Year	Funded Status	Year	Tuition Growth	Year	Tuition Growth
2014	105.8%	1982-83	11.0%	1998-99	4.0%
2013	94.1%	1983-84	11.2%	1999-00	3.7%
2012	78.5%	1984-85	0.0%	2000-01	3.4%
2011	79.1%	1985-86	22.7%	2001-02	7.1%
2010	86.2%	1986-87	0.0%	2002-03	16.0%
2009	84.2%	1987-88	7.9%	2003-04	7.0%
2008	109.5%	1988-89	3.8%	2004-05	6.6%
2007	117.4%	1989-90	1.7%	2005-06	6.8%
2006	108.8%	1990-91	6.9%	2006-07	6.9%
2005	108.1%	1991-92	11.5%	2007-08	6.8%
2004	104.5%	1992-93	3.4%	2008-09	6.8%
2003	98.4%	1993-94	12.4%	2009-10	13.1%
2002	89.6%	1994-95	14.8%	2010-11	13.1%
2001	104.9%	1995-96	3.9%	2011-12	19.0%
2000	113.4%	1996-97	4.0%	2012-13	15.2%
1999	110.1%	1997-98	3.9%	2013-14	0.0%
				2014-15	0.0%
		5-Year Average			9.2%
		10-Year Average			8.6%
		20-Year Average			7.2%
		33-Year Average			7.6%
		33-Year Standard Deviation			5.73%

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Key Actuarial Assumptions

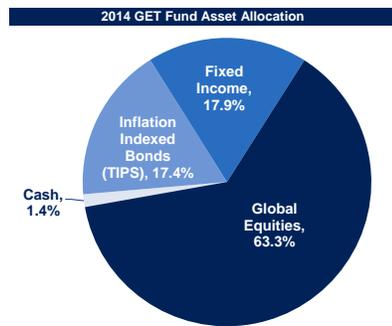
Key Economic Assumptions	
Investment Returns 5.50% per year	
Tuition Growth (Excludes Differential Tuition)	
2015-16	8.0%
2016-17	8.0%
2017-18	7.0%
2018-19	7.0%
2019-20	6.0%
2020-21	6.0%
2021-22	5.5%
2022-23	5.5%
2023-24	5.5%
2024-25	5.5%
2025-26+	5.5%

- Investment return assumption based on WSIB capital market assumptions
- Tuition growth assumption based on long-term inflationary assumption plus adjustments for increasing/decreasing state support, peer catch-up, and changing enrollment levels

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8

GET Assets At June 30, 2014



2014 Capital Market Assumptions			
Asset	Return	Standard Deviation	Weight
TIPS	2.70%	5.50%	20%
Fixed Income	3.50%	5.75%	20%
Global Equities	8.75%	18.50%	60%
Portfolio	6.49%	11.41%	100%
Correlation		TIPS	Fixed Income
TIPS		1.00	
Fixed Income		0.40	1.00
Global Equities		0.00	0.15
			1.00

Fund Value	
Market Value of Assets	
(Dollars in Millions)	
Cash	\$38
Inflation Indexed Bonds (TIPS)	463
Fixed Income	476
Global Equities	\$1,679
Total Market Value of Assets	\$2,657
Present Value of Monthly Contracts	271
Total Fund Value	\$2,928

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9

Risk Analysis

- Program’s success depends on maintaining delicate balance between “risk” and “affordability”
- “Risk” represents risk the state will need to make contributions to the program
- “Affordability” represents the affordability of future GET units
- Improving one factor will typically increase the other



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Key Risk Metrics And Solvency Report Card

Key Risk Metrics – 15% Reserve + 30 Year Amortization	
Risk Category	2014
Probability of Insolvency over 50 Years	0.1%
Probability of Funded Status Under 50% over 50 years*	4.1%
Probability of Purchaser Experiencing a Negative Return**	3.2%
Probability of Average Annual Sales Below 750,000 Units	16.4%
Average Expected Annual Units Sold (Next 20 Years)	914,918

*Probability of funded status below 50% over consecutive years is less than the probability of funded status below 50% in a single year.

**2014-15 enrollment cohort only and assuming a unit price of \$172.

Solvency Report Card - 15% Reserve + 30-Year Amortization of Unfunded Liability				
Category	Value	Score	Grade	Weight
Probability of State Contributions	0.1%	100	A	25%
Worst Case 50-Year State Contributions (millions)	\$462	99	A	25%
Average Funded Status	157.8%	100	A	20%
Probability of Funded Status Under 50%	4.1%	92	A	20%
Average Annual Change in Premium Level	0.6%	98	A	10%
Total Solvency Score		98	A	100%

- Programs risks change over time
- On-going risk management required
- Supporting analysis in *2014 Price-Setting Analysis* and *2009 GET Solvency Study*

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Next Steps

- Complete asset allocation study in November
 - Study includes impacts of asset allocation changes to risk analysis
- Asset allocation discussion at November GET Committee meeting
- Asset allocation recommendation and draft policy changes, if any, before WSIB in December



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