CONSIDERATIONS REGARDING CREATION OF A GET 2 PROGRAM AND CLOSING GET 1
(Revised, January 10, 2014)

OVERVIEW

As of September 2013, the GET Program has an unfunded liability of $160 million and, therefore, a funded status of 94.1%. This liability is an obligation of the state. (RCW 28B.95.050)

Statue specifies a refund process should the State opt to close the GET Program. The language states that in the event that the State declares a discontinuance of the current program for any reason, the program will cease to accept any further contracts and any beneficiaries who are more than 4 years away from graduation from a secondary school "shall receive a refund equal to the value of the current tuition units in effect at the time that the program was declared discontinued." (RCW 28B.95.090)

The unit payout value of a GET unit is not defined in statute, but instead in the GET contract. This value is defined as: "1 percent of the highest resident undergraduate tuition and fees at four-year state institutions of higher education for the academic year at the time of distribution."

PREVIOUS GET 2 PROPOSAL

SB 5749 was introduced during the 2011 legislative session. This bill would have created a GET 2 program. The original version of this bill did the following:

- Redefined "tuition and fees" to include operating fees and building fees, but no longer included services and activities fees.
- Redefined the payout value for new purchasers to be the price of tuition and fees at the time of purchase multiplied by the average percentage increase in resident undergraduate tuition and fees at all state colleges weighted by the number of full-time equivalent resident undergraduate students.
- Shortened the length of time for beneficiaries to use their tuition units from 10 years to 6 years
- Modified the amount of the refund for individuals who choose not to participate in higher education from the current value of tuition units less administrative fees and any applicable penalties to the lesser of: 1) the actual dollar value of contributions plus actual interest earned, or 2) the newly redefined payout value less administrative fees and any applicable penalties.

The enacted version of the bill (ESSB 5749) did not create a GET 2 program and instead created the Legislative Advisory Committee to the GET Committee and involved the State Actuary in the process of establishing a tuition unit price used in ensuing enrollment periods.

CLOSING GET 1

If the Legislature opts to close GET 1 to new participants, the following are potential considerations:

- The unfunded liability remains.
- Current contract holders are contractually entitled to receive the value of GET units under the existing contract.

- Declared closure will trigger the refund process; but changes made to current law and/or the GET contract without the formal declaration will bifurcate the program into two separate and distinct programs and will not trigger the refund process.
- A decision is needed about whether the closure should happen immediately or be phased in over time.

CREATING GET 2

If the Legislature opts to create a GET 2 program, the following are potential considerations:

- The unfunded liability in GET 1 remains. One of the three options listed under "Managing the Unfunded Liability" will need to be adopted to address this liability.
- Any changes made impact only future contract holders.
- Specific changes will need to be identified (e.g. payout value, definitional changes, length of time for use of credits, refund process and amounts, etc.).
- A decision is needed about whether the creation of GET 2 should happen immediately or be phased in over time.
- A decision is needed about whether comingling of funds should occur among GET 1 and GET 2. It is unlikely there will be legal prohibitions on comingling the funds because the GET Account is a component of a defined benefit program and is not a traditional trust account.

MANAGING THE UNFUNDED LIABILITY

The following are options for managing the unfunded liability:

- **Option 1: Making an appropriation in a lump sum or over time**
  - ♦ Lump sum: $160 million
  - ♦ When unfunded payments are due: $454.0 million total (see the attached schedule of payments)
  - ♦ Even amount annually: $288.0 million total, amounting to $11.1 million per year or $22.2 million per biennium over the next 26 years
- **Option 2: Incorporate amortization of the unfunded liability into the unit price for GET 2 participants**
  - ♦ A portion of the price of a GET 2 unit would go toward paying for the unfunded liability in GET 1. EXAMPLE: GET 2 unit price is set at $150. Ten percent of the unit price is set aside for the unfunded liability in GET 1. $15 of every GET 2 unit would go towards paying the unfunded liability in GET 1. *(This example is for illustrative purposes only.)*
  - ♦ Disclosure is required to GET 2 participants of what portion of their unit price would be utilized to pay for the GET 1 liability.
- **Option 3: A combination of options 1 and 2**

PLEASE NOTE: The information contained in this document <u>excludes</u> the impact of differential tuition. If differential tuition were to be implemented, it is possible that the current unfunded liability would increase, which could cause an increase in price and could negatively impact the number of units sold whether or not a GET 2 is created.

OPTION 1B: Making Payments When They are Due

(This excludes the impact of differential tuition)

Fiscal Year	State Contributions ($ in Millions)
2013	$0
2014	0
2015	0
2016	0
2017	0
2018	0
2019	0
2020	0
2021	0
2022	0
2023	0
2024	0
2025	0
2026	0
2027	0
2028	0
2029	0
2030	75
2031	142
2032	103
2033	67
2034	39
2035	20
2036	8
2037	1
2038	0