2014 Actuarial Valuation Report

Guaranteed Education Tuition Program

Office of the State Actuary

"Securing tomorrow's pensions today."

October 2014

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Letter of Introduction
Guaranteed Education Tuition
Actuarial Valuation Report
As of June 30, 2014

October 2014

This report documents the results of an actuarial valuation of the Guaranteed Education Tuition (GET) program. The primary purposes of this valuation are to:

- Calculate the funded status of the contracts sold as of the valuation date and explain how the funded status should be used.
- Explain the ongoing nature of the program and illustrate the expected future funded status including future unit sales.
- Show how the funded status changes when we change our assumptions.

This report also provides information regarding the assumptions and methods used in the valuation of the GET program and explains the change in the surplus/(deficit) from the last valuation.

This report is organized in the following sections:

- Executive Summary.
- Background.
- Plan Description.
- Best-Estimate Results.

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- Sensitivity of Best-Estimate Results.
- Actuarial Certification Letter
- Appendices.

The Executive Summary provides the key results for both current and future contracts. The Background and Plan Description sections explain how this valuation complements annual GET communications, how the Office of the State Actuary supports GET, and provide a general understanding of the GET program. The next two sections provide detailed actuarial asset, liability, and cash flow information over the next 25 years. The appendices describe the key assumptions and methods, assets, participant data, and additional information used to prepare this valuation.

We encourage you to submit any questions you might have concerning this report to our regular address or our e-mail address at state.actuary@leg.wa.gov. We also invite you to visit GET's website for further information regarding Washington's GET program.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA
State Actuary

Christi Steele
Senior Actuarial Analyst

Executive Summary

Intended Use

The purpose of this report is to:

- Provide an annual update of the financial status of the Guaranteed Education Tuition (GET) program.
- Provide a snapshot view of the present value of current contracts' obligations and assets as of the valuation date along with a best-estimate projection of the program assuming it remains open.
- Show how these results could vary if key assumptions are altered.

All of this information should be used together to understand the ongoing status of the GET program.

This report is one of several key documents related to GET throughout a fiscal year. This report is not intended to replace program information supplied by GET or price-setting analysis supplied by the Office of the State Actuary (OSA). Please replace this report when a more recent report becomes available.

Comments on 2014 Results

Many factors can influence how actuarial valuation results change from one measurement date to the next. Those factors include changes in the covered population, changes in program provisions, assumptions, and methods, and experience that varies from our expectations.

For this valuation, assumption changes and asset growth explain most of the changes from last year's report. We lowered the tuition growth we expect for periods after the 2013-15 Biennium. In terms of asset growth, the actual rate of investment return was 16.36 percent and above the assumed rate of 5.50 percent for the plan year. Both of these items lead to higher funded status and higher program reserves than calculated last valuation.

The covered population grew as we expected and there were no changes in program provisions. We also made no changes to our actuarial methods.

In 2011, the committee established a one-time 30-year amortization of the unfunded liability measured at June 30, 2011. After three years of experience, the full funding plan remains on track. Unit sales in 2014 did not meet the amount required under the amortization schedule (almost 742,000 units sold versus 787,000 required for the year under the 30-year amortization schedule). However, over the three-year period actual unit sales have exceeded the required amounts (2.7 million units sold versus 2.5 million required). The reserve dollars from these unit sales decreased the unfunded present value of future obligations.

The results of the valuation **exclude the impacts of differential tuition**. If differential tuition were implemented and included in the GET unit payout value, the results of this valuation could materially change.

Funded Status of Current Contracts

The table on the following page summarizes the key measures of the program's funded status as of the current and prior valuation dates. The present value of future obligations represents the expected value, as of the valuation date, of all future payments from the program for current contracts only. The future payments represent both unit payout values and expenses. The future payments are discounted to the present value as of

the valuation date using the valuation discount rate. The present value of the fund represents both assets currently on hand and the present value of monthly contract receivables discounted to the valuation date using the discount rate. Please see the **Best-Estimate Results** section of this report for funded status gain/loss and fund value reconciliation tables.

The funded status helps readers evaluate the health of the GET program at a single point in time. A history of funded status measured consistently over a defined period helps readers evaluate a plan's long-term ability to accurately assess and react to experience. A plan more/less than 100 percent funded is not automatically considered over-funded/at-risk.

The reserve/(deficit) indicates the excess/shortfall of the fund assets on hand to cover the program's obligations at the valuation date. The reserve level can be interpreted similarly to the funded status.

A self-sustaining program that collects all cash inflows up front, like GET, may want to aim for a long-term reserve of approximately 15 percent (or 115 percent funded status) in order to protect against unexpected adverse outcomes over the life of the program.

Funded Status Summary		
(Dollars in Millions)	**2014**	**2013**
Present Value of Future Obligations	$2,767	$2,716
Present Value of Fund	$2,928	$2,557
Funded Status	105.8%	94.1%
Reserve/(Deficit)	$161	($160)

Please see the **Sensitivity of Best-Estimate Results** section for how these results could change under different assumptions.

Projection of Current and Future Contracts

The funded status of the current contracts only tells part of the full story of the GET program. Consideration of the full history of the funded status along with a projection of future funded status provides the reader with a more complete picture of the program's health.

GET is currently open to new purchasers on an ongoing basis. The table on the next page shows a projection of future funded status based on the expectation that units will continue to be sold with a 15 percent reserve in the unit price, and assumes a GET unit price of $172 for 2014 (see **Appendix D** for price-setting guidelines). Along with the funded status, the table shows the expected number of units sold, assets, net cash flows, and present value of obligations (so the reader can assess the size of the program).

Projection of Current and Future Contracts (If All Assumptions are Realized and Program Remains Open)					
(Dollars in Millions)					
Fiscal Year	Funded Status	Units Sold	BOY* Fund Value	BOY* Obligation Value	Net Cash Flow
2014	106%	809,417	$2,928	$2,767	$126
2015	107%	844,763	3,077	2,874	112
2016	108%	851,685	3,215	2,966	92
2017	110%	860,473	3,335	3,035	76
2018	112%	867,879	3,441	3,084	80
2019	113%	877,162	3,552	3,133	87
2020	115%	885,323	3,672	3,184	106
2021	117%	895,360	3,812	3,249	116
2022	119%	901,841	3,963	3,318	122
2023	122%	910,386	4,121	3,387	131
2024	124%	920,856	4,291	3,458	143
2025	127%	928,441	4,474	3,534	158
2026	129%	938,085	4,673	3,617	171
2027	132%	945,342	4,888	3,706	191
2028	135%	954,740	5,125	3,804	219
2029	138%	964,155	5,393	3,921	260
2030	140%	971,802	5,704	4,069	303
2031	143%	981,642	6,061	4,247	351
2032	145%	990,045	6,470	4,463	399
2033	147%	998,972	6,931	4,713	444
2034	149%	1,008,476	7,441	4,995	489
2035	151%	1,042,064	$8,000	$5,307	$538

**Beginning of Year.*

Please see the **Sensitivity of Best-Estimate Results** section for how these results could change under different assumptions and how the results change if the program were closed or terminated.

Key Assumptions

The results of this valuation are based on a number of assumptions including future economic conditions and purchaser behavior. We summarize the key assumptions in the table to the right. Please see the **Assumptions, Methods, and Data** section in the Appendix for a detailed listing of the assumptions used in this valuation.

Key Assumptions		
Annual Investment Return		5.50%
Annual Tuition Growth		
	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%
Average Annual Unit Sales*		914,918

**Over next 20 years.*

Contract Data

The table below summarizes the current contract and unit data used in this valuation for the plan year ending June 30, 2014, as well as for the prior year. Please see the **Best-Estimate Results** section for a table reconciling outstanding GET units from last year to this year. Please also see the **Contract Data** section in the Appendix for detailed information about when units were bought and are expected to be used.

Contract Summary		
	2014	2013
Number of Current Contracts	131,511	129,816
Number of Units Outstanding	22,324,308	22,797,654

Background

The Washington State Legislature created the Guaranteed Education Tuition (GET) program in 1997. The program has sold units annually ever since its inception.

RCW 28B.95 outlines the purpose of the GET program along with general guidelines regarding how it is run. The statute establishes the five-member Committee on Advanced Tuition Payment (GET Committee). The GET Committee meets regularly to discuss the goals and status of the program, make administrative decisions, and set the unit price for the following enrollment period.

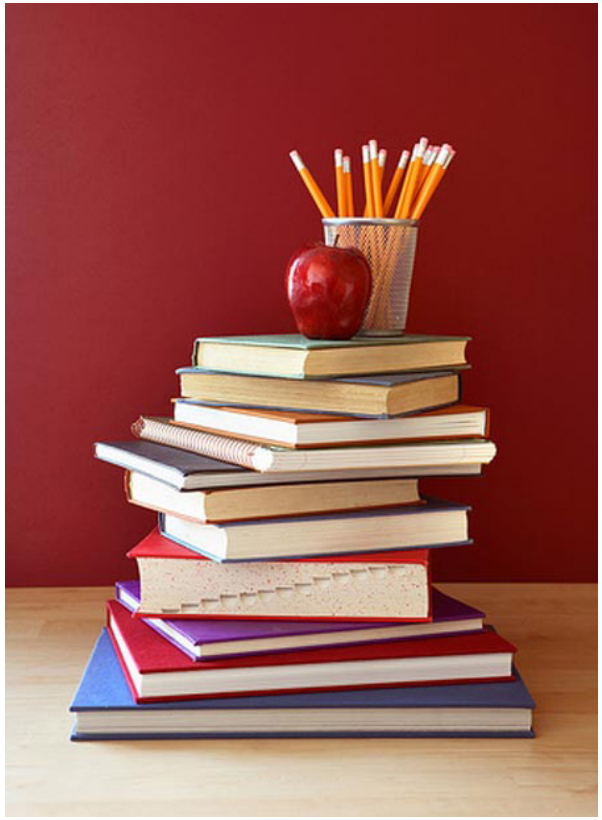
GET staff supports the functions of the program and the GET Committee by administering the program and staffing GET Committee meetings. GET staff also prepares studies and reports directed to the GET Committee by the Legislature. Communications from GET staff can be found on the GET website.

Statute also defines the eight-member Legislative Advisory Committee (LAC). The LAC provides advice to the GET Committee and Office of the State Actuary (OSA) regarding the administration of the program.

OSA assists the GET Committee and Legislature by providing actuarial services and consulting. OSA's three primary services for GET include:

- Prepare an annual actuarial valuation of GET (this document) for the GET Committee.
- Prepare unit price-setting analysis for the GET Committee.
- Consult, price, and communicate the effects of potential changes to the GET program for the GET Committee or Legislature.

This valuation should not be used in isolation to understand the ongoing health of the GET program. Rather, this document should be used together with the annual report from GET staff, OSA's price-setting analysis, and any other studies or reports created by GET staff, OSA, or LAC.



Plan Description

A combination of RCW 28B.95 (determined by the Legislature) and the Guaranteed Education Tuition Program (GET) contract (determined by the GET Committee) make up the terms of the GET program. Statute provides general guidelines and certain rules for the GET Committee, whereas the GET contract states all specific details for the purchaser.

The main plan provisions are outlined below so the reader can get a sense for what cash flows occur, what parties are involved, and what drives the results of the actuarial valuation. For a complete description of the plan provisions we direct you to GET's website, which includes both summarized plan provisions and the full GET contract.

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 (specific dollar amount) equals 1 percent of annual tuition at most expensive public Washington university 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.

Best Estimate Results

This section provides details of our best-estimate of the present value of obligations, assets, cash flow, and funded status information for the Guaranteed Education Tuition Program (GET). The first subsection shows the assets currently set aside for the contracts sold as of the valuation date along with a history of the funded status. A new "gain/loss" table this year illustrates how the funded status changed from June 30, 2013, to June 30, 2014. Also new this year is a short series of tables that reconcile fund values and outstanding contracts from last year to this year. The last subsection illustrates how the program is expected to fare beyond the valuation date, assuming it remains open.

Please see the **Executive Summary** section for a description of this information and how it can be interpreted.

Status of Current Contracts

The next two tables display the program's current funded status, along with a funded status history.

Obligations	
(Dollars in Millions)	
a) Present Value of Unit Redemptions	$2,735
b) Present Value of Administrative Expenses	$31
c) Present Value of Obligations (a+b)	$2,767
Fund Value	
(Dollars in Millions)	
d) Assets	$2,657
e) Present Value of Monthly Contract Receivables	$271
f) Present Value of Fund (d+e)	$2,928
Calculation of Funded Status	
(Dollars in Millions)	
g) Present Value of Fund (f)	$2,928
h) Present Value of Obligations (c)	$2,767
i) Ratio of Fund Value to Obligations (g/h)	105.8%
j) Reserve / (Deficit) (g-h)	$161

Funded Status History	
Fiscal Year	Status
2014	105.8%
2013	94.1%
2012	78.5%
2011	79.1%
2010	86.2%
2009	84.2%
2008	109.5%
2007	117.4%
2006	108.8%
2005	108.1%
2004	104.5%
2003	98.4%
2002	89.6%
2001	104.9%
2000	113.4%
1999	110.1%

Reconciliations

The table to the right demonstrates actuarial gains and losses, expressed as funded status changes. We use gain/loss analysis to compare actual changes to assumed changes in the assets and obligations. We also use this analysis to determine:

- The accuracy of our valuation model and annual processing.
- Why funded status changed.
- The reasonableness of the actuarial assumptions.

Actuarial gains will increase funded status; actuarial losses will decrease funded status. Under a reasonable set of actuarial assumptions, actuarial gains and losses will offset over long-term experience periods.

Gain/(Loss) Analysis – Change in Funded Status by Source	
Funded Status at June 30, 2013	**94.1%**
Changes in 2014 Funded Status	
Program Obligations	
Tuition Payments	0.2%
Expenses	0.0%
New Units Purchased	(3.4%)
Other	(0.5%)
Total Program Obligations Gains/(Losses)	**(3.7%)**
Program Assets	
Contributions	5.7%
Distributions	(0.2%)
Contract Receivables	(1.3%)
Investment Earnings	8.7%
Other	0.0%
Total Program Assets Gains/(Losses)	**12.9%**
Additional Changes	
Method Changes	0.0%
Assumption Changes	2.5%
Other	0.0%
Total Additional Change Gains/(Losses)	**2.5%**
Other Gains/(Losses)	**0.0%**
Total Change	**11.7%**
Funded Status at June 30, 2014	**105.8%**

Note: totals may not agree due to rounding.

The next three tables show reconciliations from last year to this year, for Market Value of Assets, Present Value (PV) of Monthly Contracts, and Outstanding Units.

Change in Market Value of Assets	
(Dollars in Millions)	
2013 Market Value of Assets	$2,271
Changes in Net Asset Value	
Interest and Other Investment Income	49
Capital Gains and Losses	14
Unrealized Gains and Losses	307
Expenses	(1)
Contributions	158
Distributions	(141)
Total Changes in Net Asset Value	**386**
2014 Market Value of Assets	$2,657

Change in PV of Monthly Contracts	
(Dollars in Millions)	
PV Monthly Contracts at June 30, 2013	$286
Changes in PV Monthly Contracts	
Actual Custom Monthly Payments Received in 2014	(55)
Interest Adjustment	14
PV of Monthly Contracts for New Units in 2014	31
Other/Unexplained*	(6)
Total Changes in PV Monthly Contracts	**(15)**
PV Monthly Contracts at June 30, 2014	$271

**Includes customer-requested contract changes and unexplained changes.*

Change in Number of Outstanding Units	
Number of Outstanding Units at June 30, 2013	**22,797,654**
New Units Purchased During the Year	741,701
Units Redeemed During the Year	(1,067,656)
Units Refunded During the Year	(70,959)
Units Defaulted During the Year	(22,993)
Other*	(53,439)
Number of Outstanding Units at June 30, 2014	**22,324,308**

**Includes customer-requested contract changes and unexplained unit changes.*

Open Program Cash Flows

The table below shows how the program is expected to fare beyond the valuation date, assuming it remains open.

~ Best-Estimate Results ~

Projection of Current and Future Contracts (If All Assumptions are Realized and Program Remains Open)													
(Dollars in Millions)										Cash Inflows		Cash Outflows	
Fiscal Year	Funded Status	Unit Price*	Number of Units Sold	Unit Value*	Number of Units Used	BOY Fund Value**	BOY Obligation Value	Net Cash Flow	Lump Sum	Monthly Plan	Investment Return	Unit Use	Expense
2014	106%	$172	809,417	$118	1,209,829	$2,928	$2,767	$126	$77	$51	$144	($143)	($3)
2015	107%	180	844,763	127	1,356,928	3,077	2,874	112	84	54	150	(173)	(3)
2016	108%	190	851,685	137	1,503,005	3,215	2,966	92	89	58	155	(207)	(4)
2017	110%	200	860,473	147	1,613,171	3,335	3,035	76	95	63	159	(237)	(4)
2018	112%	211	867,879	157	1,572,736	3,441	3,084	80	101	68	163	(247)	(4)
2019	113%	222	877,162	167	1,537,478	3,552	3,133	87	107	73	168	(256)	(4)
2020	115%	234	885,323	177	1,439,809	3,672	3,184	106	114	79	173	(255)	(4)
2021	117%	246	895,360	187	1,416,746	3,812	3,249	116	121	85	178	(264)	(4)
2022	119%	260	901,841	197	1,415,524	3,963	3,318	122	129	91	185	(279)	(5)
2023	122%	274	910,386	208	1,400,133	4,121	3,387	131	138	98	191	(291)	(5)
2024	124%	288	920,856	219	1,376,076	4,291	3,458	143	146	105	198	(301)	(5)
2025	127%	304	928,441	231	1,346,585	4,474	3,534	158	156	112	206	(311)	(5)
2026	129%	320	938,085	244	1,328,908	4,673	3,617	171	166	120	215	(324)	(5)
2027	132%	338	945,342	257	1,292,128	4,888	3,706	191	176	129	224	(332)	(5)
2028	135%	356	954,740	271	1,233,905	5,125	3,804	219	187	137	235	(335)	(6)
2029	138%	375	964,155	286	1,144,179	5,393	3,921	260	199	147	247	(328)	(6)
2030	140%	396	971,802	302	1,064,677	5,704	4,069	303	212	156	262	(322)	(6)
2031	143%	417	981,642	319	983,971	6,061	4,247	351	226	166	279	(313)	(6)
2032	145%	440	990,045	336	922,493	6,470	4,463	399	240	176	299	(310)	(6)
2033	147%	464	998,972	355	882,475	6,931	4,713	444	256	187	321	(313)	(7)
2034	149%	489	1,008,476	374	857,570	7,441	4,995	489	272	199	345	(321)	(7)
2035	151%	515	1,042,064	395	849,232	8,000	5,307	538	296	212	372	(335)	(7)
2036	152%	543	1,051,515	416	849,239	8,618	5,655	582	315	226	402	(354)	(7)
2037	154%	572	1,061,792	439	856,345	9,285	6,029	626	335	242	434	(376)	(7)
2038	156%	604	1,070,218	463	865,648	10,001	6,428	673	356	258	468	(401)	(8)
2039	157%	$636	1,081,025	$489	872,645	$10,769	$6,852	$724	$379	$275	$505	($427)	($8)

**Shown in dollars (not in millions). 2014 unit price adopted by GET Committee. Assumes a 15% unit price reserve.*

***Fund Value includes present value of monthly contract receivables. Fund Value is used for funded status measurement since liabilities include monthly contract units.*

Sensitivity of Best Estimate Results

The best-estimate results are sensitive to the key assumptions used in the valuation. In this section, we calculated the results after varying the rate of investment return (as well as the discount rate), tuition growth, and number of units sold per year to illustrate the sensitivity of the results to these assumptions. The table in the first subsection shows these results.

We also show the projected cash flows of the program if it were closed as of the valuation date, which the reader can use with a discount rate they deem appropriate to determine the present value of the current contracts. A closed program refers to the full benefits of the program being paid out to contracts sold before the valuation date, but no units being sold beyond the valuation date. The table in the second subsection shows these results.

In addition, we show the termination liability under RCW 28B.95.100 and the corresponding expected cash flows if the Guaranteed Education Tuition Program (GET) were to be terminated as of the valuation date. Program termination means anyone beyond four years of their first expected unit use year would be immediately paid out the current unit value. All participants within four years of unit use would continue to be able to use the program as is for up to ten years.

If program termination were to occur, the present value of obligations as of the valuation date would be $2.419 billion and the fund value would be $2.680 billion, which would result in a reserve of $261 million and a funded status of 110.8 percent (represents the funded status if the program were terminated at the valuation date and before the immediate payout occurs). The decrease in liability is due to the immediate payout at a lower than expected unit value for a portion of the contract holders and a portion of the outstanding monthly contracts being cancelled. The decrease in fund value is due to a portion of the outstanding monthly contracts being cancelled (lower than expected contract receivables). The table in the third subsection shows these results.

Sensitivity to Economic Assumptions

Sensitivity of Results to Key Assumptions								
(Dollars in Millions)		Best-Estimate	-1% Tuition	+1% Tuition	-1% Discount Rate	+1% Discount Rate	90% of Expected Unit Sales	110% of Expected Unit Sales
Present Value of Fund		$2,928	$2,928	$2,928	$2,939	$2,918	No Change	
Present Value of Obligations		$2,767	$2,573	$2,979	$3,000	$2,560		
Reserve / (Deficit)		$161	$354	($51)	($61)	$358		
Funded Status (*as of June 30*)								
	2014	106%	114%	98%	98%	114%	106%	106%
	2015	107%	116%	99%	99%	116%	107%	107%
	2016	108%	117%	100%	99%	118%	108%	109%
	2017	110%	119%	101%	100%	120%	110%	110%
	2018	112%	122%	102%	101%	122%	111%	112%
	2019	113%	124%	104%	103%	124%	113%	114%
	2020	115%	126%	105%	104%	127%	115%	116%
	2021	117%	129%	106%	105%	129%	117%	118%
	2022	119%	132%	108%	107%	132%	119%	120%
	2023	122%	135%	110%	109%	134%	121%	122%
	2024	124%	138%	112%	110%	137%	124%	124%
	2025	127%	141%	113%	112%	140%	126%	127%
	2026	129%	144%	116%	115%	142%	129%	129%
	2027	132%	147%	118%	117%	145%	132%	132%
	2028	135%	150%	120%	119%	148%	135%	134%
	2029	138%	153%	122%	122%	151%	138%	137%
	2030	140%	156%	125%	124%	154%	141%	140%
	2031	143%	159%	127%	127%	156%	144%	142%
	2032	145%	161%	129%	129%	158%	146%	144%
	2033	147%	163%	131%	131%	160%	148%	146%
	2034	149%	165%	133%	133%	162%	150%	148%
	2035	151%	166%	135%	135%	164%	152%	149%
	2036	152%	168%	136%	137%	166%	154%	151%
	2037	154%	170%	138%	138%	168%	156%	153%
	2038	156%	171%	139%	140%	169%	157%	154%
	2039	157%	173%	141%	141%	171%	159%	156%

Closed Program Cash Flows

Projection of Current Contracts Only (If all Assumptions are Realized)											
(Dollars in Millions)								Cash Inflows		Cash Outflows	
Fiscal Year	Funded Status	Unit Value*	Number of Units Used	BOY Fund Value**	BOY Obligation Value	Net Cash Flow	Monthly Contracts	Investment Return	State Contributions	Unit Use	Expense
2014	106%	$118	1,209,829	$2,928	$2,767	$49	$51	$144	$0	($142.5)	($3.0)
2015	106%	127	1,348,025	2,939	2,771	17	46	145	0	(172)	(3)
2016	107%	137	1,490,451	2,922	2,744	(22)	41	145	0	(205)	(3)
2017	107%	147	1,595,815	2,869	2,681	(59)	36	143	0	(235)	(3)
2018	108%	157	1,548,417	2,782	2,584	(76)	32	139	0	(244)	(3)
2019	108%	167	1,504,078	2,681	2,473	(91)	28	135	0	(251)	(3)
2020	109%	177	1,393,822	2,568	2,348	(96)	24	130	0	(246)	(3)
2021	111%	187	1,353,348	2,453	2,220	(111)	20	124	0	(252)	(3)
2022	112%	197	1,328,363	2,325	2,080	(129)	17	118	0	(261)	(3)
2023	114%	208	1,283,539	2,182	1,923	(145)	13	111	0	(266)	(2)
2024	116%	219	1,225,811	2,026	1,753	(158)	11	103	0	(268)	(2)
2025	118%	231	1,158,446	1,859	1,571	(168)	8	94	0	(268)	(2)
2026	122%	244	1,099,187	1,684	1,380	(179)	6	85	0	(268)	(2)
2027	127%	257	1,017,162	1,499	1,179	(184)	5	75	0	(262)	(2)
2028	135%	271	908,520	1,311	973	(180)	3	65	0	(246)	(2)
2029	146%	286	766,468	1,128	771	(163)	2	56	0	(219)	(2)
2030	164%	302	631,075	963	586	(143)	1	48	0	(191)	(1)
2031	194%	319	491,842	819	421	(117)	0	41	0	(157)	(1)
2032	249%	336	358,169	702	282	(86)	0	35	0	(120)	(1)
2033	357%	355	234,164	616	173	(52)	0	32	0	(83)	(1)
2034	587%	374	137,093	563	96	(22)	0	30	0	(51)	(0)
2035	***	395	73,498	541	48	(0)	0	29	0	(29)	(0)
2036	***	416	35,331	541	20	14	0	29	0	(15)	(0)
2037	***	439	11,278	555	6	25	0	30	0	(5)	(0)
2038	***	463	1,789	581	1	31	0	32	0	(1)	(0)
2039	***	$489	$61	$612	$0	$34	$0	$34	$0	($0)	($0)

**Shown in dollars (not in millions).*

***Fund Value includes present value of monthly contract receivables. Fund Value is used for funded status measurement since liabilities include monthly contract units.*

****Funded Status exceeds 1,000 percent due to very small obligation value.*

Terminated Program Cash Flows

Projection of Program Termination (If All Assumptions are Realized)											
(Dollars in Millions)								Cash Inflows		Cash Outflows	
Fiscal Year	Funded Status	Unit Value*	Number of Units Used	BOY Fund Value**	BOY Obligation Value	Net Cash Flow	Monthly Contracts	Investment Return	State Contributions	Unit Use	Expense
2014	111%	$118	11,026,618	$2,680	$2,419	($1,179)	$11	$111	$0	($1,299)	($2)
2015	123%	127	1,332,562	1,491	1,217	(87)	8	77	0	(170)	(2)
2016	126%	137	1,477,042	1,397	1,108	(129)	5	71	0	(203)	(2)
2017	132%	147	1,583,387	1,264	959	(170)	2	63	0	(233)	(2)
2018	142%	157	1,536,610	1,092	771	(190)	0	53	0	(242)	(2)
2019	160%	167	1,223,241	902	563	(162)	0	44	0	(204)	(2)
2020	194%	177	857,187	741	383	(116)	0	37	0	(152)	(1)
2021	253%	187	547,753	624	246	(72)	0	32	0	(102)	(1)
2022	360%	197	407,304	553	154	(53)	0	28	0	(80)	(1)
2023	634%	208	262,574	500	79	(29)	0	26	0	(55)	(0)
2024	***	$219	$121,755	$471	$27	($2)	$0	$25	$0	($27)	($0)

** Shown in dollars (not in millions).*

*** Fund Value includes present value of monthly contract receivables. Fund Value is used for funded status measurement since liabilities include monthly contract units.*

****Funded Status exceeds 1,000 percent due to very small obligation value.*

Actuarial Certification Letter

Actuarial Certification Letter
Guaranteed Education Tuition
Actuarial Valuation Report
As of June 30, 2014

October 2014

This report documents the results of an actuarial valuation for the Washington Guaranteed Education Tuition (GET) Program defined under Chapter 28B.95 of the Revised Code of Washington. The primary purpose of this report is to update the annual financial status of the program through the calculation of the funded status for current contracts in combination with the projection of the expected funded status in future years. This report also provides information on the sensitivity of the valuation results to key assumptions and developments in the program since the last valuation. This report should not be used for other purposes. Please replace this report with a more recent report when available.

The results summarized in this report involve calculations that require assumptions about future economic and demographic events. Standards of practice that specifically apply to prepaid tuition programs have not been defined within the actuarial profession. We used the standards of practice for pension systems where possible to guide the actuarial valuation of GET. In our opinion, the assumptions, methods, and calculations used in the valuation are reasonable and appropriate for the primary purpose as stated above, and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this publication. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results. Actual results may vary from our expectations.

The results of the valuation **exclude the impacts of differential tuition**. If differential tuition were implemented and included in the GET unit payout value, the results of this valuation could materially change. Significant differences between the actual and assumed future enrollments will impact the projection of expected funded status in future years. This analysis will need to be updated in the future if changes are made to the GET program or the Legislature enacts major reform to current tuition policy.

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The GET Program staff provided the participant and historical data to us. We checked the data for reasonableness as appropriate based on the purpose of this valuation. The Washington State Investment Board provided financial and asset information. We relied on all the information provided as complete and accurate. In our opinion, this information is adequate and substantially complete for the purposes of this valuation.

No members of the GET Committee or their respective staff attempted to bias our work product. We are not aware of any matters that impacted the independence and objectivity of our work.

We intend this valuation to be used by the GET Committee during the 2015 Fiscal Year only. This valuation should be used in combination with separately provided price-setting analysis in order to set the unit price for the 2014-15 enrollment period. We advise readers of this valuation to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this valuation as a whole. Distribution of, or reliance on, only parts of this valuation could result in its misuse and may mislead others.

Consistent with the actuarial Code of Professional Conduct, I, Matthew Smith, must disclose any potential conflict of interest. I have purchased units in GET; however, this does not impair my ability to act fairly. I have performed all analysis without bias or influence. The GET Committee contracted with OSA to perform this valuation, and I supervised the actuarial analysis performed.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this report is intended to be complete, we are available to offer extra advice and explanations as needed.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA
State Actuary

Lisa Won, ASA, FCA, MAAA
Senior Actuary

Appendices

Appendix A — Assumptions, Methods, and Data

The assumptions used in this report can be divided into three broad categories: economic, demographic, and behavioral. We discuss the assumptions used in this valuation throughout the next three subsections.

Economic Assumptions

The two key economic assumptions are expected investment returns and expected tuition growth. The next table shows what we have assumed for this valuation.

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%

Expected investment returns are based on the Washington State Investment Board's (WSIB) Capital Market Assumptions (CMA) and current asset allocation over a fifteen-year period. We relied on the CMAs provided by WSIB as accurate and have reviewed them for reasonability. We've implicitly assumed the current 60 percent global equity/20 percent fixed income/ 20 percent inflation-indexed bond portfolio will remain unchanged throughout the projection period. The expected investment returns are used as the discount rate for the liabilities and receivables as well as the investment returns in our best estimate projections.

The tables on the following page show the structure of the tuition growth model we used to set the tuition growth assumption. Structurally, the model has the ability to add extra components such as a high tuition/high financial aid model or changing enrollment. However, since we've assumed these components are steady during this period we've left them out of the display.

The tuition growth model has three main structural components.

1. **Long-Term Inflationary Growth** — This represents the increase in total dollars spent on instruction. Over the last twenty years, this has increased by about 4 percent per year. We assume it will grow by 5.5 percent in the future.

2. **State Funding** — This represents the increase or decrease in the percent of total dollars assumed to come from the state versus tuition. Historically, it has decreased from approximately 80 percent (in 1990) to 29 percent (in 2014). This has put upward pressure on tuition since tuition increased to replace lost state funding. We assume state funding will continue to decline to about 25 percent in the next four years and level out. As

a result, we project tuition will increase above long-term inflationary levels over the period where state funding is assumed to decrease.

3. **Peer Catch-Up** — This represents additional total funding growth above the 5.5 percent inflationary component intended to improve quality and catch up to peer institutions according to RCW 28B.15.068 (assumed to grow at 5.5 percent annually). We assume the University of Washington will not increase total funding beyond 5.5 percent through 2019.

Tuition Growth Assumption Structure						
(Dollars in Thousands)		Step 1 – Inflation	Step 2 – State Funding			
School Year	Total Dollars	Inflationary Growth	Assumed State %	State Dollars	Tuition Dollars	Tuition Growth After State Funding
2011-12	$686,000		30.9%	$212,000	$474,000	
2012-13	725,510	5.8%	28.9%	209,465	516,045	8.9%
2013-14	810,786	11.8%	31.3%	253,896	556,890	7.9%
2014-15	855,199	5.5%	28.8%	246,471	608,728	9.3%
2015-16	902,235	5.5%	27.9%	251,410	650,825	6.9%
2016-17	951,858	5.5%	26.9%	256,146	695,711	6.9%
2017-18	1,004,210	5.5%	26.0%	260,643	743,567	6.9%
2018-19	1,059,442	5.5%	25.0%	264,860	794,581	6.9%
2019-20	1,117,711	5.5%	25.0%	279,428	838,283	5.5%
2020-21	1,179,185	5.5%	25.0%	294,796	884,389	5.5%
2021-22	1,244,040	5.5%	25.0%	311,010	933,030	5.5%
2022-23	1,312,462	5.5%	25.0%	328,116	984,347	5.5%
2023-24+	$1,384,648	5.5%	25.0%	$346,162	$1,038,486	5.5%

2012 through 2015 data provided by the University of Washington.
Note: State and tuition dollars in a given year are used to develop tuition increase assumptions for the following year.

Tuition Growth Assumption Structure						
Step 3 – Peer Catch Up						
School Year	Peer Funding (per FTE)*	Peer Funding Growth	UW Funding (per FTE)*	UW Funding Growth	UW Funding as % of Peer	Tuition Growth After State Funding & Peer Catch Up
2013-14	23,776	5.5%	17,201	(3.1%)	72%	
2014-15	25,084	5.5%	16,823	(2.2%)	67%	0.0%
2015-16	26,463	5.5%	17,748	5.5%	67%	8.0%
2016-17	27,919	5.5%	18,724	5.5%	67%	8.0%
2017-18	29,454	5.5%	19,754	5.5%	67%	7.0%
2018-19	31,074	5.5%	$20,840	5.5%	67%	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%

**2013-14 Values from University of Washington Planning and Budget Brief, dated June 13, 2014; based on 2011-2012 school year statistics.*

The tuition growth assumption does not consider differential tuition. The impact from differential tuition could vary based on how it interacts with the current contracts. If the payout value is tied to the highest rate of differential tuition, the tuition growth assumption would likely increase. However, if the payout value were tied to the lowest rate of differential tuition, the tuition growth assumption could actually decrease as base tuition may not need to increase as fast with higher differential tuition making up the difference.

We assumed expenses would grow at an inflationary rate of 2.50 percent per year. Consistent with the most recent actuarial valuation, we assume:

- Maintenance expenses will be $20.06 per contract per year.
- Distribution expense will be $13.38 per contract in payment status per year.
- Monthly payment plan expense will be $1.58 per contract per month.

Demographic Assumptions

We based the new entrant (or future purchaser) cohort on an average of the previous three years' new sales data provided by GET staff. We assumed each future cohort would have this same makeup.

The table to the right shows the percent of the population in each of the 38 combinations. It also shows the number of units each combination purchases and the length of the monthly payment plan for those who select that payment option. For example, 2.0 percent of the people are assumed to purchase 73 lump sum units that are kept for six years before being used.

To illustrate how we use the table, for every one hundred purchasers, approximately:

- Sixty-eight select the lump-sum payment option.
  - Each buys 72 units.
- Thirty-two select the monthly payment plan option.
  - Each buys 127 units.
  - They pay for it over 142 months.

Future Purchaser Cohort Assumption					
Length In Program (Years)	% Lump Sum	Lump Sum Units Purchased	% Monthly Payment Plan	Monthly Payment Plan Units Purchased	Length of Monthly Payment Plan (Months)
2	0.0%	62	0.0%	0	0
3	1.8%	66	0.2%	96	25
4	1.1%	67	0.4%	94	37
5	1.5%	73	0.7%	95	48
6	2.0%	73	0.9%	119	59
7	2.2%	82	1.2%	107	69
8	2.6%	96	1.3%	126	80
9	2.8%	89	1.4%	129	92
10	3.1%	81	1.5%	123	103
11	2.9%	93	1.7%	127	114
12	3.2%	84	1.8%	133	125
13	3.5%	85	1.7%	136	132
14	4.9%	75	2.5%	127	144
15	4.7%	60	2.2%	120	156
16	5.3%	64	2.6%	123	163
17	6.5%	54	2.8%	128	175
18	11.8%	60	4.3%	129	190
19	8.2%	76	4.0%	139	199
20	0.0%	3	0.0%	150	112
Total	**68.2%**	**72**	**31.8%**	**127**	**142**

Behavioral Assumptions

We've made the following assumptions for GET contract holders.

- **Rate of Redemption** — The table to the right shows what percent of a contract holder's total units we expect will be used upon reaching college (or their "use year").

Redemption	
Year	Rate
0	20%
1	20%
2	20%
3	10%
4	10%
5	10%
6+	10%

Payment Default	
Year	Rate
1	2.5%
2	2.0%
3	2.0%
4	2.0%
5+	1.5%

- **Rate of Monthly Payment Default** — The table to the left shows the assumed rate at which payments stop under monthly payment plan contracts. If default occurs, these contracts are converted to a lump sum plan.

- **Rate of Refund** — The table to the right shows the assumed rate at which people ask for payouts for any reason other than tuition payments.

Refund	
Year	Rate
1	1.10%
2	0.40%
3	0.25%
4	0.25%
5+	0.10%

We relied on the expense and behavioral assumptions set by the prior actuary as accurate. We reviewed them for reasonableness and plan to perform an experience study later this year to determine if they should be altered.

We assumed purchasers are made up of 70 percent "cash constrained" and 30 percent "investors."

- **Cash Constrained** — Assumed to spend a certain amount on units each year. Currently assumed to equal $15,300 per contract and assumed to grow by 6 percent per year.

- **Investors** — Assumed to buy units based on the expected rate of return on the units over their expected holding length. Currently assumed to stop buying if the expected rate of return falls to 2 percent per year and buy the historical average amount at an expected rate of return of 5.5 percent per year.

We assumed the GET Committee would continue to follow their current price-setting guidelines throughout the projection period. Please see **Appendix D** for details on the current price-setting guidelines.

We assumed the GET Committee would price future units in line with the expected investment returns and tuition growth discussed in the Economic Assumptions subsection.

We assumed no Legislative changes will occur to the program over the projection period.

We further assumed no significant changes will be made to tuition policy over the projection period.

Methods

We valued the current contract and asset values in GET by estimating the future tuition payments (cash outflow), administrative expenses (cash outflow), and monthly contract payments (cash inflow). The estimation of future cash flows required assumptions about:

- When the contract holder will redeem their units.
- Whether they will stop making payments on their monthly payment plan.
- What tuition will be in future years.
- What administrative expenses will be over time.

We discounted these cash flows to today's value in order to calculate the plan's funded status at the valuation date. Discounting the cash flows to today's value requires an assumption regarding how fast invested money will grow over time. The idea is that $1 today is worth more next year ($1.06 in this case) due to investment earnings. Discounting moves the opposite way and states that $1.06 a year from now will be worth $1 today. Discounting all of the cash flows to one common year allows for an apples-to-apples comparison of all cash flows.

Unlike the current contract holders, we do not have data on who will purchase GET units in the future. So, the first step we took was to estimate the makeup of these future purchasers. We refer to the entire group of purchasers each year as a "cohort". The cohort for each purchase year is made up of 38 different types of people. The 38 types of people represent a mixture of the entire population. We expect each of the 38 types of people to remain in the program between two to 20 years before starting to use their units, and are either lump sum or monthly payment plan purchasers. The 38 combinations are made up of the nineteen different contract lengths multiplied by the two different payment options. The percent of the population expected to be in each of the combinations is shown in the assumption section.

Next, we valued the 38 types of people in each cohort. We valued each cohort in the same way we valued the current contract holders in the actuarial valuation. We estimated the future tuition payments (cash outflow), administrative expenses (cash outflow), and monthly contract payments (cash inflow). The estimation of future cash flows required assumptions about when contract holders will redeem their units, whether they will stop making payments on their monthly payment plans, how tuition will change in future years, and what administrative expenses will be over time.

We then discounted these cash flows to the cohort's entry year. We repeated this process for each year in our 25-year projection, since we expect a new cohort to enter each year.

We then created a projection of the GET program that measures every key element during each future year.

For example, we start with the program's current status — present value of obligations, assets, funded status, and unit price/value. Throughout the next year, investment returns occur at our assumed rate, tuition grows at our assumed rate, people cash in tuition units at our assumed rate, and people buy new units at our assumed rate (discussed above in the assumption subsection). This particular projection moves the program forward assuming experience matches our assumptions exactly. We call this a deterministic projection because the current program and assumptions determine the future.

At the end of the first year, a valuation is performed and the new obligations, assets, and funded status are calculated. Based on the funded status from the valuation, we make an assumption for how the GET Committee will set a new price for the following year (according to their current price-setting guidelines).

Once the new price is set, we have projected one year. We repeat this process 25 times during our 25-year projection. At the end of the projection, we have developed our "expected" path that the GET program will follow. Of course, in reality, the future will be different than we assume. We believe there is a 50 percent chance the future will be better for the program, and a 50 percent chance the future will be worse for the program.

Please see the **Sensitivity of Best-Estimate Results** section for how the results could differ under different assumptions.

Data

We used the contract data file provided by GET staff. We relied on this data file as accurate and complete since we value each entry in the file. We did not perform an audit of this data, but believe it is reasonable for the purposes of our work. We used data entries such as:

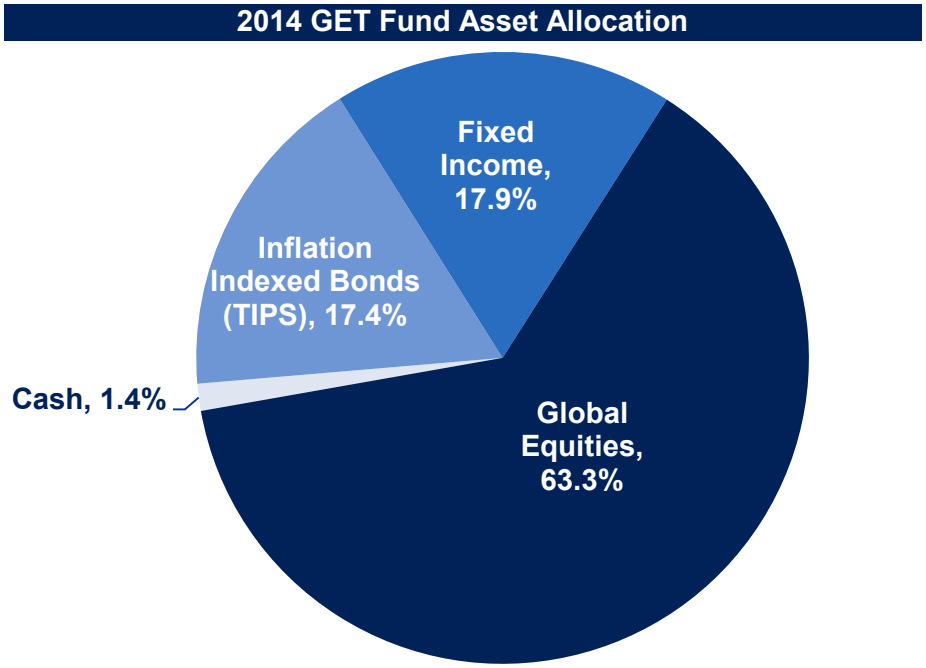
- **Program Year** — The contract holder's entry year into the program.
- **Use Year** — When the contract holder expects to start using units for tuition.
- **Payment Amount** — The monthly amount the contract holder owes on their payment plan.
- **Payments Due** — The number of monthly payments left on their monthly payment plan.
- **Units Outstanding** — The number of units the contract holder currently owns (including units still being paid for in the monthly payment plan).

To set our tuition growth assumption we studied the historical tuition data in the table below. We also examined average tuition growth over different periods (see the bottom of the table).

Year	Tuition Growth	Year	Tuition Growth
1982-83	11.0%	1998-99	4.0%
1983-84	11.2%	1999-00	3.7%
1984-85	0.0%	2000-01	3.4%
1985-86	22.7%	2001-02	7.1%
1986-87	0.0%	2002-03	16.0%
1987-88	7.9%	2003-04	7.0%
1988-89	3.8%	2004-05	6.6%
1989-90	1.7%	2005-06	6.8%
1990-91	6.9%	2006-07	6.9%
1991-92	11.5%	2007-08	6.8%
1992-93	3.4%	2008-09	6.8%
1993-94	12.4%	2009-10	13.1%
1994-95	14.8%	2010-11	13.1%
1995-96	3.9%	2011-12	19.0%
1996-97	4.0%	2012-13	15.2%
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%

Appendix B — Assets

The chart below shows how GET assets are currently invested. Below the chart are descriptions of those investment types, or asset classes.



Cash: Highly liquid, very safe investments that can be easily converted into cash, such as Treasury Bills and money-market funds.

Fixed Income: Securities representing debt obligations and usually having fixed payments and maturities. Different types of fixed income securities include government and corporate bonds, mortgage-backed securities, asset-backed securities, convertible issues, and may also include money-market instruments.

Global Equities: Shares of U.S. and non-U.S. corporations that trade on public exchanges or "over-the-counter." The ownership of a corporation is represented by shares that are claimed on the corporation's earnings and assets.

Inflation Indexed Bonds (TIPS): Treasury Inflation Protected Securities. A security which is identical to a treasury bond, except that principal and coupon payments are adjusted to eliminate the effects of inflation.

The current WSIB Capital Market Assumptions are shown in the table below. The average 6.49 percent portfolio return is a one-year arithmetic return. When compounded over a 15-year period, the arithmetic return decreases to a 5.88 percent geometric return.

2014 Capital Market Assumptions

Asset	Return	Standard Deviation	Weight
TIPS	2.70%	5.50%	20.00%
Fixed Income	3.50%	5.75%	20.00%
Global Equities	8.75%	18.50%	60.00%
Portfolio	**6.49%**	**11.41%**	**100.00%**

Correlation	TIPS	Fixed Income	Global Equities
TIPS	1.00		
Fixed Income	0.40	1.00	
Global Equities	0.00	0.15	1.00

The target asset allocation is currently 60 percent global equity, 20 percent fixed income, and 20 percent inflation-indexed bonds.

The table to the right shows the GET Fund Value. The value of the fund includes the market value of assets held by the WSIB along with the present value of the monthly contract receivables.

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

Appendix C — Contract Data

Number of Units Sold By Unit Price		
Enrollment Year	Unit Price	Units Sold
1998-99	$35	1,374,095
1999-00	38	615,327
2000-01	41	523,702
2001-02	42	2,463,500
2002-03	52	2,099,531
2003-04	57	1,896,635
2004-05	61	2,108,360
2005-06	66	2,146,191
2006-07	70	2,339,431
2007-08	74	2,102,305
2008-09	76	3,177,699
2009-10	101	2,624,367
2010-11	117	2,697,696
2011-12	163	1,503,962*
2012-13	172	1,038,773
2013-14	$172	741,701

**Restated.*

Number of Units Outstanding by Use Year		
Fiscal Year	Expected Unit Value	Units Starting to be Used
2014*	$118	6,360,658
2015	127	1,417,115
2016	137	1,376,158
2017	147	1,385,645
2018	157	1,343,384
2019	167	1,268,712
2020	177	1,342,947
2021	187	1,260,489
2022	197	1,131,661
2023	208	1,086,730
2024	219	1,006,999
2025	231	962,492
2026	244	792,568
2027	257	645,864
2028	271	407,779
2029	286	302,220
2030	302	178,851
2031	319	53,167
2032	336	151
2033+	$355	720

**Includes contracts that already started using units.*

Appendix D — Price-Setting Guidelines

In 2011, the GET Committee adopted new price-setting guidelines (how we price future units) to address the new tuition-setting policy established by the Legislature and to return the program to a fully funded status. The current price-setting guidelines include the following four parts:

- **Expected Cost** — Covers the expected cost of future tuition and certain administrative expenses.
- **Expenses** — Covers the GET program's annual operating expenses.
- **Reserve** — Covers unexpected future costs such as above-expected tuition growth or below-expected investment returns. The current price-setting guidelines call for a 15 percent reserve. This component can be increased or decreased to alter the probability that a unit will ever create an unfunded liability in the future.
- **Amortization** — An optional component that covers unexpected past costs from significant program or policy changes. In 2011, the committee established a one-time 30-year amortization of the unfunded liability measured at June 30, 2011.

After three years of experience, the full funding plan remains on track. Unit sales did not meet the amount required under the amortization schedule (almost 742,000 units sold versus 787,000 required for the year under the 30-year amortization schedule). However, over the three-year period actual unit sales have exceeded the required amounts (2.7 million units sold versus 2.5 million required).

GET Unit Price Information

Category	2013-14 Enrollment	2014-15 Enrollment
Unit Price		
Expected Cost	$126.42	$124.74
Expenses	5.45	5.93
Reserve	19.78	20.51
Amortization	20.82	20.82
Total Unit Price	**$172.00**	**$172.00**

Note: Totals may not agree due to rounding.

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