



Planning and Budgeting Brief

Date Prepared: January 8, 2009

Subject: The Guaranteed Education Tuition Program and State Tuition Policy

Background

Guaranteed Education Tuition (GET) is Washington's prepaid college tuition program authorized under Section 529 of the IRS code and governed by IRS rules and Washington State law (RCW 28B.95). The GET Program was established in 1997 and under the program, the State of Washington guarantees that a year's worth of tuition purchased today will buy the same amount of tuition units when a student attends a state university in the future.

GET operates on a unit system – 100 units are equal to one year of resident undergraduate tuition and state-mandated fees at the most expensive Washington public university (usually University of Washington or Washington State University). The current cost of a unit is \$76 – this price will remain in effect through April 30, 2009. Units are transferrable and refundable at the current unit rate. GET units can be used at most public or private colleges, universities, or vocational schools in the country. If a student attends a private or out-of-state college, they will be responsible for the difference between the value of the GET units and the tuition charged. The GET program is one of the fastest growing pre-paid tuition plans in the nation and currently has over 92,000 accounts.

GET program policies are governed by the five-member Committee on Advanced Tuition Payment, commonly referred to as the GET Committee. Members include two private citizens, the state Treasurer, the director of the Office of Financial Management, and the executive director of the Higher Education Coordinating Board. Day-to-day program administration is the responsibility of the HECB. Investment of GET funds is handled by the State Investment Board. The next regularly scheduled meeting of the GET Committee is February 11, 2009.

The Guaranteed Education Tuition (GET) Committee is directed by statute to set an annual GET unit price, and to adjust the price, if necessary, to ensure the actuarial soundness of the program. Unit prices can be adjusted on May 1st and September 1st of each year. An administrative fee included in the price of each unit allows the program to be self-supporting. In addition, the GET program is one of the few 529 programs in the country backed by the full faith and credit of the State of Washington (28B.95.050). In the event that funding in the account is still insufficient to pay contracted expenses in a given biennium, the legislature is required by state law to provide funding to cover the shortfall.

Unit Cost History

The GET unit purchase price is based on an actuarial formula that is based on several factors, including the current cost of tuition, estimated future tuition, inflation, investment returns, administrative costs, and the establishment of a stabilization reserve. The payout value of each GET unit is based on one percent of the resident undergraduate tuition plus state mandated fees for the highest-priced Washington public university for the academic year. The table below shows GET unit prices and payout values over the past decade.



Planning and Budgeting Brief

GET Unit Price & Payout Amounts

| | Price | % Change | Payout | % increase |
|----------|---------|----------|---------|------------|
| 1998-99 | \$35.00 | | \$33.78 | |
| 1999-00 | \$38.00 | 8.6% | \$35.21 | 4.2% |
| 2000-01 | \$41.00 | 7.9% | \$36.41 | 3.4% |
| 2001-02 | \$42.00 | 2.4% | \$38.98 | 7.1% |
| 2002-03 | \$52.00 | 23.8% | \$45.20 | 16.0% |
| 2002-03* | \$57.00 | 9.6% | \$45.20 | 0.0% |
| 2003-04 | \$57.00 | 0.0% | \$48.36 | 7.0% |
| 2004-05 | \$61.00 | 7.0% | \$51.54 | 6.6% |
| 2005-06 | \$66.00 | 8.2% | \$55.15 | 7.0% |
| 2006-07 | \$70.00 | 6.1% | \$58.87 | 6.7% |
| 2007-08 | \$74.00 | 5.7% | \$62.90 | 6.8% |
| 2008-09 | \$76.00 | 2.7% | \$67.20 | 6.8% |

* May 1st increase

The actuarial analysis supporting the pricing of GET program units is currently based on expected increases in tuition of 7 percent in future years and the Washington State Investment Board's expected investment return of 6.55 percent. The assumption of a 7 percent annual tuition increase is based on the average increase in resident undergraduate tuition and fees over the past 20 years.

In 2002, to address a significant budget shortfall, the Legislature authorized an undergraduate resident tuition increase of 16 percent in one year. As a result, the GET program experienced an actuarial deficit of over \$21 million dollars. In response, the price of GET units were increased by 24 percent in September 2002 and by an additional 10 percent in the following May. The GET program was eventually able to eliminate the deficit through increases in unit prices, better than anticipated investment returns, increased sales, and lower than projected tuition increases and within two years had a projected surplus. Since that time, the program has a goal of a stabilization reserve in the range of 6 to 10 percent and each unit includes a 0.04 percent contribution to the program's stabilization reserve. Due to current economic conditions, the surplus no longer exists.

Just as lower than expected earnings can result in future unfunded liabilities for the GET program, tuition increases that exceed assumptions for the program can also have an impact, however holding tuition at low levels should not be used as the primary means by which the state ensures the financial viability of the GET program. Other states have been in similar situations and have implemented policy options that minimize the impact of higher tuition levels on their pre-paid tuition programs.

Some options exercised or considered by other states that have dealt with significant increases in tuition are as follows:

- Raise contract prices to reflect higher future tuition increases (Maryland, Illinois)
- Suspend or cap enrollments into the program (Texas, Colorado, New Mexico, Kentucky, West Virginia)



Planning and Budgeting Brief

- Create a new program with account values based on different unit pricing (weighted average, tiered based on school of attendance, etc.)
- Terminate the program(Colorado)
- Shift risk from the program to universities and colleges or program participants

Specific Examples in Other States:

Virginia:

- Effective December 1, 2008, increased the price of a pre-paid tuition contract by 10.3 percent
- Prices for pre-paid contracts rose 25 percent in 2003, when tuition went up in the middle of the academic year. The state raised the prices by 46 percent in 2005, reflecting two years with combined tuition increases of more than 32 percent. In 2004, the state didn't even open the program for new contracts.

Florida:

- The Florida Prepaid College Plan is the largest and oldest state plan.
- Established a tuition differential fee that allows research universities to raise additional revenue. There is a limit on the amount of the differential fee and overall, tuition plus the differential fee cannot increase by more than 15 percent a year.
- A separate Florida Prepaid College Plan to cover the tuition differential fee is offered by the Florida Prepaid College Board covers the supplemental fee charged to a student for instruction provided by a research-level public university in this state.

Texas:

- Closed the Texas Tomorrow Fund in 2003 when lawmakers deregulated tuition.
- Created the Texas Tuition Promise Fund in 2007. Under this plan, there are three pricing levels (most expensive public tuition & fees, weighted average cost, and weighted average cost at 2-year public school) and flexibility to use the money at private or out-of-state universities.

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