

GET program challenged in economy

Today, the state is expected to set the new purchase price for units in the Guaranteed Education Tuition (GET) college savings program. The price is certain to be yet another indication of the damaging pace of tuition inflation.

Rising costs mean that more students will be priced out of higher education. This is particularly true for those in the middle class who don't have enough family money to keep up and don't qualify for the same financial aid as the poor.



Gary Brooks

In May, the state legislature allowed state universities to set their own tuition rates for the next four years. The University of Washington approved a 20 percent tuition hike. Washington State University increased tuition 16 percent.

The increases for 2011-12 follow back-to-back years of 14 percent increases. Responding to the 14 percent increases, the GET unit purchase price surged from \$76 in 2008-09 to \$117 last year. The precedent makes it likely that this year's purchase price will be north of \$130, possibly well beyond.

GETTING IN EARLY HAS PAID WELL

For GET participants who started at the infancy of the program, the tuition hikes are less impactful because the program has been a great investment. For example, imagine you have a student beginning their freshman year of college this fall and you purchased

GET units in 1998 when your student was entering kindergarten. In 1998, you would have paid \$35 per unit. The value of units redeemed for the 2011-12 school year is \$102.23. That's a 192 percent cumulative gain and 14.8 percent average annual gain. By comparison, the average annual gain of the S&P 500 U.S. stock market index from Sept. 1, 1998 through August 29 was 1.6 percent. By this measure, the return on GET units seems impossible. But the GET program is not built on a model where the investment return is the most important variable. The GET program is a numbers game similar to Social Security. As long as there are more participants buying units than there are redeeming units, the program works.

With the cost of GET units climbing so rapidly, however, enrollment in GET may decline making it less sustainable. It also will be interesting to monitor participation since the enrollment period has been delayed until November 1. Past year's enrollment has run September 15 through the end of March.

GET UNITS ARE GUARANTEED

State actuaries said in March that the GET program has no solvency issues. According to a post on the state Democrats' blog, GET had \$1.4 billion in investments and 120,000 participants as of March.

GET may still pass an audit but even the Legislature has indicated that changes may be required. Other states have already closed similar programs. Default is not an option, however. The state is legally

obligated to pay even if tuition inflation grossly outpaces the performance of the investment account tied to GET contributions.

Because the program cannot rely solely on investment returns to meet its obligations, participants pay a premium over today's tuition for each unit purchased. It's inaccurate to assume that you are buying tomorrow's tuition at today's price. Undergraduate tuition for in-state residents at UW for 2010-11 was \$8,700. If you bought GET units during the 2010-11 offering period, you paid \$117 per unit. One hundred units is considered a year of full-time tuition. Therefore, the 100-unit cost was \$11,700, \$3,000 more than the actual cost. That's a significant premium. It's the price you pay for the tuition inflation guarantee. The premium is also the reason why you have to wait a few years before redeeming units to essentially get your money back.

Tuition increases have become difficult for even good savers to keep up with. The outcome is that more people cannot afford higher education or will be burdened by tremendous student loan debt by the time they finish. Either scenario creates a big hurdle for someone hoping to build financial security.

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