



Annual Evaluation of the  
**CONNECTICUT HIGHER EDUCATION TRUST**

For the Period Ending December 31, 2014

Submitted to:

Committees on Education and Finance, Revenue and Bonding  
of the Connecticut General Assembly

July 2015

## **Statutory Requirements**

This *Annual Evaluation of the Connecticut Higher Education Trust* (“CHET” or “Trust”) is jointly submitted by the Connecticut State Treasurer’s Office and the Executive Director of the Office of Higher Education to the Committees on Education and Finance, Revenue and Bonding of the Connecticut General Assembly, pursuant to Section §3-22e(b) of the Connecticut General Statutes.

Pursuant to Section §3-22k of the general statutes, the annual audited financial statements for CHET are included in the Annual Report of the Treasurer, which is transmitted to the Governor and members of the General Assembly on December 31<sup>st</sup> of each year. The audited financial statements are also transmitted to the CHET Advisory Committee pursuant to Section §3-22e of the General Statutes.

The members of the CHET Advisory Committee as of the 2014 annual meeting, held on December 4, 2014, were:

<i>Denise L. Nappier</i>	<i>State Treasurer</i>
<i>Andrea Stillman</i>	<i>Senate Chair, Education Committee</i>
<i>Andrew M. Fleischmann</i>	<i>House Chair, Education Committee</i>
<i>Antonietta “Toni” Boucher</i>	<i>Senate Ranking Member, Education Committee</i>
<i>Tim Ackert</i>	<i>House Ranking Member, Education Committee</i>
<i>John Fonfara</i>	<i>Senate Chair, Finance, Revenue and Bonding Committee</i>
<i>Patricia M. Widlitz</i>	<i>House Chair, Finance, Revenue and Bonding Committee</i>
<i>L. Scott Frantz</i>	<i>Senate Ranking Member, Finance, Revenue and Bonding Committee</i>
<i>Sean J. Williams</i>	<i>House Ranking Member, Finance, Revenue and Bonding Committee</i>
<i>Benjamin Barnes</i>	<i>Secretary, Office of Policy and Management</i>
<i>Christopher Forster</i>	<i>Board of Regents for Higher Education</i>
<i>Jane Ciarleglio</i>	<i>Executive Director, Connecticut Office of Higher Education</i>
<i>Vacancy</i>	<i>Finance officer from a public institution of higher education</i>
<i>Margaret Malaspina</i>	<i>Director of Student Financial Assistance, Capital Community College</i>
<i>Patrick Torre</i>	<i>Vice President of Finance, University of New Haven</i>
<i>Julie Savino</i>	<i>Executive Director of Financial Assistance, Sacred Heart University</i>

## **Background and Program Management**

CHET is a qualified state tuition program pursuant to Section 529 of the Internal Revenue Code. Connecticut's authorizing statute was unanimously approved by the Connecticut General Assembly and signed into law by the Governor in 1997 (Public Act No. 97-224, the "Act"). The program began operating on January 1, 1998. While the Trust is considered an instrumentality of the State, the assets of the Trust do not constitute property of the State and the Trust is not construed to be a department, institution or agency of the State.

The Act designates the State Treasurer as the Trustee of CHET. The assets of CHET are privately managed by professional money managers under the supervision of the State Treasurer.

In December 1999, Treasurer Denise L. Nappier contracted with TIAA-CREF Tuition Financing Inc. ("TFI") as program manager for CHET. TIAA-CREF offers a wide range of products to the general public, including its core constituents in the academic, research, medical and cultural fields, and is recognized as a premier pension system provider in the United States. Ranked as one of *Fortune* magazine's 100 largest U.S. companies, TIAA-CREF manages total combined assets of approximately \$851 billion (as of December 31, 2013).

In 2009, Treasurer Nappier issued a request for proposals for management of both the current direct-sold program, as well as for a new, advisor-sold program. In 2010, the Treasurer entered into a management agreement with TFI to continue offering the CHET direct-sold plan for a contract period ending in March 2015. In October 2014, Treasurer Nappier exercised an option in the management agreement to extend the contract with TFI an additional five years, through March 2020. On August 31, 2010, Treasurer Nappier entered into a management agreement with The Hartford Financial Services Group, Inc. to offer an advisor-sold plan for a contract period ending August 20, 2017. That plan was launched in October 2010. To differentiate the plans, they were re-branded as "CHET Direct" and "CHET Advisor."

## **CHET DIRECT**

As of December 31, 2014, CHET Direct had 98,180 unique accounts with \$2.29 billion in assets. This compares to 91,379 accounts and \$2.10 billion in assets on December 31, 2013. This represents an increase of 7.4% and 8.7% for accounts and assets respectively, and reflects account redemptions as account owners withdrew funds to pay college costs for beneficiaries' college tuition payments. Since inception, over \$983 million has been withdrawn for 29,849 beneficiaries.

## **Investment Options**

Upon renewal of the CHET Direct contract with TFI in 2010, new investment options were added and fees reduced. CHET Direct now has fourteen (14) investment options (the date of inception of each option is noted below). For more detailed descriptions, including underlying mutual fund investments, please visit [www.aboutchet.com](http://www.aboutchet.com).

1. Conservative Managed Allocation Option

2. Moderate Managed Allocation Option
3. Aggressive Managed Allocation Option
4. Global Equity Index Option
5. Global Tactical Asset Allocation Option
6. Active Global Equity Option
7. International Equity Index Option
8. U.S. Equity Index Option
9. High Equity Balanced Option
10. Active Fixed-Income Option
11. Index Fixed-Income Option
12. Social Choice Option
13. Money Market Option
14. Principal Plus Interest Option

Asset allocation changes have been made on a periodic basis in order to broaden the investment options for the underlying assets. These adjustments have taken the form of new or replacement underlying mutual funds or inclusion of new asset classes, based on an improved risk-reward analysis and projected performance improvement for all categories. A total of twenty-two institutional mutual funds (from TIAA-CREF, Thornburg, GE, DFA, T. Rowe Price, Templeton and GMO fund families) underlie the investment options. The Principal Plus Interest Option is invested through a funding agreement with TIAA-CREF Life Insurance Company.

CHET Direct's administrative and program management fees are competitively ranked in the bottom quartile of fees charged by providers in the 529 industry, and are currently the lowest in the program's history. Current total asset-based fees range from 0.25% to 0.82%, depending upon which option is selected. The Principal Plus Interest Option is not assessed a program management fee. With the 2010 contract renewal, effective November 2010, the fee structure changed from a flat fee (unitary pricing for all Options) to a non-unitary structure which is in line with industry standard. The new fee structure includes a breakdown of program management fees, state administrative fees, and underlying mutual fund fees. The base program management fee was reduced from 0.20% to 0.15% in August 2013 when total assets under management exceeded \$2 billion. Since inception, fee reductions have been negotiated by the Treasury six times, from 1.55% to the current fee level of 0.15% on the average daily net assets of the Trust, plus the cost of underlying fund expenses.

In addition, there is a state fee of 0.01% of the average daily net assets of the Trust annually to pay for expenses related to oversight of the Trust (included in the fees above). This was instituted July 1, 2005.

## **CHET-Direct Marketing and Promotion**

### *Marketing*

Each year the Connecticut Treasurer's Office works closely with TFI to develop and execute a multi-channel marketing plan to promote CHET, strengthen public awareness, and increase understanding of the importance of saving for a college education. The Treasury and TFI are committed to promoting the benefits of saving for college early to families of all backgrounds and cultures throughout Connecticut. In addition to broad-based marketing, CHET also incorporates outreach specifically to low- to moderate-income individuals, to ensure that all Connecticut residents have the ability to save with CHET. Also, TFI employs a full-time, bilingual field consultant to ensure connection with Connecticut's growing and diverse Hispanic population.

TFI rolled out a modified strategy for following up with "Inquirers" -- people who ask for information about CHET through community events, CHET's website or phone center. The follow up strategy provides a CHET Enrollment Kit, and a series of direct mail and/or email contacts to remind potential customers to complete the account opening process, or contact CHET for more information. The new process resulted in higher conversion rate for this source of leads for CHET.

In 2014, CHET-Direct launched important new initiatives to reach Connecticut families and enhanced existing efforts:

- With the launch of CHET Baby Scholars, Connecticut became one of the few states in the country to offer a college savings start to every new baby born in the state and every new adoption. CHET Baby Scholars is an important policy initiative championed by Treasurer Nappier and Governor Malloy, and resulted in legislation being passed in mid-2014. The program provides a \$100 contribution into a CHET account for babies under one year old or children within the first year of their adoption, and offers a match of \$150 if the family saves at least \$150 more in the account by the time the child is four (or within four years of the adoption anniversary). The program went live in August, and through December TFI signed up over 600 families into the program. Awareness efforts focus strongly on organizations that serve the state's underserved populations to ensure that all families in Connecticut have the opportunity to sign up for the program. The program was funded with an appropriation by the General Assembly. When the appropriation is expended, the program will end.
- CHET has continued to work with several major Connecticut hospitals to help increase awareness with families of newborns about the importance of starting to save for college early. For 5/29 Day, CHET provided a \$1,529 CHET account to the family of the first baby born on May 29 among participating hospitals in the state of Connecticut.
- CHET increased its presence in and sponsorship of community events across the state and across demographics to engage with all segments of CHET's audience, including new partnerships with various sports teams and venues across the state such as the Farmington Sports Arena that runs year-round soccer tournaments and games. CHET sponsors minor league baseball teams and the Connecticut Sound Tigers hockey team.

- In 2014, TFI continued to generate widespread awareness and visibility for CHET through public relations. In total, 94.8 million media impressions were made through the following public relations promotions - a 50% increase over 2013:
  - CHET Backpack Donation
  - CHET Dream Big! Competition
  - New Parent Program
  - CHET *Advance* Scholarship
  - CHET Baby Scholars
  
- CHET's TV, radio, print and all advertising paid media drove significant awareness, value and results, including:
  - Over 56 million media impressions
  - More than \$200,000 in added value through 1,200 bonus TV spots and 1,039 radio spots
  - A Dream Big! Facebook campaign that drove over 760 likes and 13,000 visits to CHET's Facebook page
  - The Collage Savings Month Facebook campaign, which drove 10,881 web visits and 100 enrollments.

#### Educational and Cultural Community Outreach and Events

TFI employs Connecticut-based outreach personnel, including a bilingual field consultant, to inform Connecticut residents, employers and community organizations about the benefits of CHET Direct. The outreach promotes the message that saving for college through CHET is available to families of all income levels, as well as to differentiate CHET from competing 529 plans or other savings vehicles such as Custodial or Coverdell accounts. During 2014, TFI outreach focused on sponsoring and attending a series of individual and small group events to reach as many potential investors as possible. Events targeting low- to-moderate-income communities were scheduled throughout the year to ensure that the CHET message was reaching Connecticut's under-served populations. For example, CHET Direct sponsored a series of New Britain Rock Cats baseball games, providing tickets to target organizations to attend the games as a group, booths to answer questions about CHET, running radio ads and CHET signage at games to raise awareness. CHET also undertook specific outreach and marketing to the Latino community including attendance at events such as the Latinas in Power Symposium, Telemundo, La Feria de la Familia, Latino Expo and more. In-person meetings were offered and encouraged to both low- to-moderate-income families, as well as to Latino families, in both English and Spanish, to provide the extra level of support and service needed to ensure individuals understood CHET and how CHET could help them save for college.

CHET Direct also partnered with other community-based organizations and agencies specializing in promoting financial literacy and economic empowerment, including the annual

YWCA Money Conference for Women, college financial planning nights at local high schools, company benefit fairs and more.

### *Major Promotional Events*

#### **Dream Big!**

Dream Big is one of CHET's prominent events and the 2014 competition resulted in over 3,900 entries from across Connecticut. Schools in 117 of Connecticut's 169 cities and towns participated. Dream Big! is a drawing and essay contest for students in grades K-5. The contest asked children in kindergarten through third grade to draw a picture that answers the question, "What do I want to do after I go to college?" Fourth and fifth grade students were asked to write an essay responding to the question, "How will I change the world after I go to college?" The competition motivated parents to think about how to save for college education to support their children's dreams. In 2014, a special prize category was created for Connecticut's Review or Turnaround schools. This new category ensured that students from the state's underserved communities were among the winners. In total there were 60 \$500 winners, 12 of which were from a Review or Turnaround school. Also new for 2014, there were three \$1,000 grand prize winners, selected from all entries across the state.

#### **CHET *Advance* Scholarship**

The second year of the CHET Advance Scholarship ran in 2014, providing scholarships to both high school seniors and 6<sup>th</sup> grade students. A total of 200 scholarships were provided to help Connecticut students achieve their goal of a college education. The 100 winning seniors will each have a \$2,500 award made on their behalf to the post-secondary institution they attend. For the 100 6<sup>th</sup> grader winners, \$2,000 was put aside, with the opportunity to receive an additional \$500 match if they save \$500 in their own CHET account. The goal was to incentivize families to continue to save for their 6<sup>th</sup> grader's future college education. The winners hailed from 101 public, 13 parochial, and 1 independent school in Connecticut. All five Congressional districts were represented among the winners. For the second year, a celebratory event was held at the Legislative Office Building to acknowledge the winners.

#### **Backpack Donation**

In 2014, CHET-Direct hosted its annual backpack donation at Hartford's Camp Courant to provide over 1,500 backpacks and school supplies to campers, and also to children identified through the Department of Children and Families. The State Treasurer's Office partnered with Department of Economic and Community Development and the Office of the State Comptroller to organize the collection of backpacks and school supplies, including notebooks, pencils, rulers, water bottles, folders, markers, and more. The donation event occurred in late July before the start of school to help ensure that more children had needed supplies to prepare for the new school year.

## **CHET ADVISOR**

The CHET Advisor Plan was established on October 1, 2010, with The Hartford Financial Services Group, Inc. ("HFSG") serving as program manager. As of December 31, 2014, CHET Advisor had 18,401 program accounts with \$297,293,318 in assets. This compares to 14,092 accounts and \$224,941,081 in assets from a year earlier. Accounts grew by 31% and assets by more than 32% from previous year levels. Marketing is focused on educating financial advisors who then work with their clients to open CHET Advisor accounts.

## **Program Offerings**

While CHET Advisor offers similar investment options to CHET Direct, the structure of an advisor-sold plan is different by its nature. This plan offers three different share classes (A, C, and E), and has different fee structures for each share class, depending on the share class sales charge or fee. Share classes are structured to include compensation for the financial advisor.

Share classes and fee structure are as follows:

There are three share classes offered through CHET Advisor: A, C and E.

**Class A:** Under the Class A fee structure, there is an up-front sales charge of up to 5.5%, which is reduced as the total value of all Savings plan accounts of the account owner grows above certain levels. In addition, there are ongoing asset-based fees equal to an annual charge of approximately 0.71% to 1.46% of the total value of each account, depending on investment options selected.

**Class C:** Under the Class C fee structure, there is no up-front sales charge. However, withdrawal of any contribution that has been in the account for twelve months or less will be charged a contingent deferred sales charge equal to 1% of the amount withdrawn. In addition, there are ongoing asset-based fees equal to an annual charge of approximately 1.46% to 2.21% of the total value of each account, depending on investment options selected.

**Class E:** This class is available only to certain groups associated with Hartford Life Insurance Company (the parent company of HFSG). Under the Class E fee structure, there is no up-front or contingent deferred sales charge. There are ongoing asset-based fees each year of approximately 0.46% to 1.28% of the total value of each account, depending on investment options selected.

Under all CHET Advisor asset classes, there is an additional state fee of 0.02% to pay for expenses related to the oversight of the Trust.

## **Investment Options**

For more detailed descriptions, including underlying mutual fund investments, please visit [www.CHETAdvisor.com](http://www.CHETAdvisor.com).

### **1 Age-Based Option – 5 bands**

- CHET Advisor Age-Based 0-8, 9-13, 14-15, 16-17 & 18+ Portfolios



## **5 Static Portfolio Options**

- Aggressive Growth
- Growth
- Balanced
- Conservative
- Checks & Balances Portfolios

## **12 Individual Portfolio Options**

- Small Cap Growth
- Growth Opportunities
- International Opportunities
- Capital Appreciation
- MidCap
- Global Real Asset
- Equity Income
- Dividend & Growth
- Inflation Plus
- Total Return Bond
- World Bond