



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

For the Period Ending December 31, 2012

Submitted to:

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

June 2013

## 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 Board of Governors 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 2012 annual meeting, held on December 6, 2012, 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>Marilyn Giuliano</i>	<i>House Ranking Member, Education Committee</i>
<i>Eileen M. Daily</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>Andrew Roraback</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>Dr. Philip E. Austin</i>	<i>President, Connecticut Board of Regents for Higher Education</i>
<i>James Blake</i>	<i>Executive Vice President for Finance and Administration, Southern Connecticut State University</i>
<i>Margaret Wolf</i>	<i>Director of Financial Aid, Capital Community College</i>
<i>Julie L. Dolan</i>	<i>Vice President of Finance and Treasurer, Fairfield University</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 in Public Act No. 97-224 (the "Act"), signed into law by Governor John Rowland in July 1997, and 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 \$502 billion (as of December 31, 2012).

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. 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."

## **(Update) Regulatory Environment during 2012**

In 2012, the Securities and Exchange Commission ("SEC") and the Municipal Securities Rulemaking Board ("MSRB") provided continuing guidance and new rulings governing the disclosure of program information, including investment options and performance, as well as fees and other program features. This enhanced oversight has brought 529 plans into closer alignment with investment securities guidelines. New rulings that relate to broker-administered plans have also significantly affected 529 plan marketing and communication practices, including increased media advertising disclosure requirements and provisions. One new stipulation requires that 529 disclosure and marketing materials adequately inform consumers about potential state tax benefits for investments made in plans administered within their home state.

The National Association of State Treasurers ("NAST") expanded its collaborative work with the College Savings Plan Network ("CSPN") to address regulatory, media and consumer concerns relating to adequacy of disclosures and program comparability. The Connecticut Treasurer's Office and TFI have been actively engaged in national planning efforts regarding program administration and marketing practices and standards, and actively monitor new industry trends. CHET has implemented all of the new CSPN disclosure principles and participates in the new CSPN college savings website, [www.collegesavings.org](http://www.collegesavings.org) which provides comparative information on all state qualified and prepaid 529 college savings programs.

## **CHET DIRECT**

As of December 31, 2012, CHET Direct had 84,945 unique accounts<sup>1</sup> with \$1.82 billion in assets. This compares to 79,288 accounts and \$1.55 billion in assets on December 31, 2011. This represents an increase of 7.1% and 17.6% 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 \$630 million has been withdrawn for 21,217 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 eleven (11) 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).

- Moderate Managed Allocation Option (6 Age bands) was the only investment option when CHET was initially launched. This option was changed from ten age bands to six age bands in 2005
- High Equity Option (2001)
- Principal Plus Interest Option (2001)
- Equity Index Option (Renamed in 2010; created in 2006 and formerly called the 100% Equity Index Option)
- Active Fixed-Income Option (Renamed in 2010; created in 2006 and formerly called the 100% Fixed-Income Option)
- Aggressive Managed Allocation Option (6 Age bands) (2007)
- Social Choice Option (2007)
- Money Market Option (2008)
- Conservative Managed Allocation Option (6 Age bands) (2010)
- Active Equity Option (2010)
- Index Fixed-Income Option (2010)

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.

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<sup>1</sup> "Unique Accounts" are defined as separate, individual account owner/beneficiary relationships. This is an updated definition from 2011, where "Program Accounts" referred to individual investment options. Using the updated definitions, for reference, 2011 unique accounts and individual investment options were as follows: As of December 31, 2011, CHET Direct had 79,288 unique accounts (103,926 individual investment options) with \$1.55 billion in assets. This compares to 74,811 unique accounts (96,479 individual investment options) and \$1.44 billion in assets on December 31, 2010.

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 0.29% to 0.87%, 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 0.18% in June 2011 when total assets under management exceeded \$1.5 billion. Since inception, fee reductions have been negotiated by the Treasury five times, from 1.55% to the current fee level of 0.18% on the average daily net assets of the Trust, plus the cost of underlying fund expenses. An additional program management fee reduction will occur when assets under management reach \$2 billion.

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**

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 to the core target market, CHET also incorporates an outreach effort to low- to moderate-income individuals, to ensure that all Connecticut residents have the knowledge and access to save with CHET. Also, TFI employs a full-time bilingual Field Consultant to ensure outreach and connection with Connecticut's growing and diverse Hispanic population. Tactics include:

#### ***General Advertising***

During 2012 CHET completed the second year of a two-year advertising campaign, running the "Give the Gift of Education" TV, radio, outdoor billboards and bus kings, and print ads. Timing focused heavily on tax-time and year-end, which are proven highly effective seasonal times when individuals are thinking about finances and take action. The ads emphasized the concept of contributing to a child's future college education as a gift, the state tax deduction, importance of starting to save early, as well as promoting general brand awareness of CHET Direct.

#### ***Digital Advertising***

In 2012, CHET maintained a significant and robust online presence through banner advertising and online search optimization. Account conversions generated from both search and banner continue to be a very strong driver of new account openings. CHET realized positive results from on-line banner advertising, generating over 3,500 new accounts and achieving a solid conversion rate with low cost of acquisition, making it a cost-effective advertising tactic for CHET.

#### ***Direct Marketing / Email and Direct Mail***

CHET's direct marketing campaigns focused on key seasonal time frames, including tax time (March/April), graduation (June), back-to-school/College Savings Month (August/September), and year-end/gift giving (November/December). Email and direct mail continue to work for CHET, with over 1,400 new accounts generated from the effort. Direct marketing is targeted to

prospects to bring in new accounts, as well as to existing account owners to ensure customers continue to maximize their use and saving for college with CHET. CHET also maintains a robust lead follow-up program, through its integrated inquirer follow-up strategy to capture interest and communicate directly to interested parties. The program tracks inquiries with the ultimate goal of helping that individual open an account.

### ***Major Promotions***

#### **Dream Big! Competition**

Dream Big is CHET's flagship event and the 2012 competition resulted in 5,400 entries from across Connecticut. Dream Big is a drawing and essay contest for students in grades K-5. The contest inspired students to imagine how a college education would help them to change the world for the better, while it motivated parents to think about how to save for college education to support their children's dreams. Ninety-six winners, including a boy and a girl from each grade from each of the eight Connecticut counties were awarded a \$300 contribution to a CHET account. In addition, over 320 new accounts were opened by families who entered, but were not winners. Significant outreach was conducted to ensure participation of schools in underserved districts such as Bridgeport, Waterbury, Hartford and New Haven.

#### **Summer Reading Promotion**

CHET Direct and the Connecticut Treasurer's Office again partnered with the Connecticut State Library ("CSL") to present the Summer Reading Promotion. The collaboration with Connecticut libraries to help encourage children to read over the summer is in line with the Treasurer's and CHET's commitment to education and encouraging all children and families to believe that college is a goal and a choice. CHET supported CSL's summer reading initiatives by providing a financial incentive to encourage more children to participate in the CSL summer reading program. Parents or legal guardians entered their children to win one of four grand prizes, a \$1,000 contribution to a CHET account. Partnering with the CSL has proven to be a good way to help keep families thinking about saving for college with CHET during a traditionally slow account enrollment period.

#### **Book Bag Donation Program**

In August 2012, CHET Direct sponsored the Third Annual Book Bag Donation. The Connecticut State Treasurer's Office partnered with the State Department of Children and Families and the Salvation Army of Southern New England to distribute more than 1,529 book bags that contained notebooks, pencils, rulers, water bottles, folders, markers, and more. In addition, the Department of Economic and Community Development worked with the Office of the State Comptroller and the State Department of Consumer Protection to organize a collection of back packs and school supplies from their employees, to add more back packs stuffed with a variety of school supplies to the donation. The donation event occurred in August before the start of school to help ensure that more children had needed supplies to prepare for the new school year.

#### **School Supply Program**

CHET and the Treasurer's office recognize that in these tough economic times teachers often spend their own money to purchase supplies for their classrooms. New in 2012, CHET created a program to offer free classroom supplies to teachers, including folders for students, bookmarks, growth charts and string bags. The materials were CHET-branded, and also included information

on CHET for the children to bring home to their parents to raise awareness of CHET. The program was a success, resulting in over 40,000 folders and materials ordered by teachers. It was a good way for CHET to show support of schools and educators, and continue to talk about CHET and the importance of saving early for future college costs.

### **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 strategy aims to promote 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 2012, 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 Bridgeport Bluefish and 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. In addition, CHET undertook specific outreach and marketing to the Latino community including attendance at events such as the Latinas in Power Symposium, Telemundo La Ferian 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 Money Conference for Women, the Fairfield County Women's Expo, college financial planning nights at local high schools, company benefit fairs and more.

## 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 30, 2012, CHET Advisor had 9,842 program accounts with \$129,694,663 in assets. This compares to 5,077 accounts and \$58,504,206 in assets from a year earlier. Accounts grew by 94% and assets more than doubled 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 1.07% to 1.57% 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 1.82% to 2.32% 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<sup>2</sup> (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 0.82% to 1.32% 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.

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<sup>2</sup> Those groups associated with Hartford Life that are eligible for the Class E fee structure include: current or retired officers, directors, trustees and employees and their families of The Hartford Financial Services Group, Inc. and its affiliates; employees of Wellington Management and their families; selling broker-dealers and their employees and sales representatives and their families, who have a sales agreement with Hartford Life and Hartford Security Distribution Company ("HSD") to sell the program; and individuals purchasing an account through a registered investment advisor who has a sales agreement with Hartford Life and HSD to sell the program. "Family" includes the account owner's spouse or legal equivalent recognized under state law and any children under the age of 21.



## **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

### **11 Individual Portfolio Option**

- Small Company
- Growth Opportunities
- International Opportunities
- Capital Appreciation
- MidCap
- Global Research
- Value
- Dividend & Growth
- Inflation Plus
- Total Return Bond
- Money Market 529 Portfolios