



Annual Evaluation of the
CONNECTICUT HIGHER EDUCATION TRUST

For the Period Ending December 31, 2013

Submitted to:

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

July 2014

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 31st 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 2013 annual meeting, held on December 5, 2013, 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>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>Jane Ciarleglio</i>	<i>Executive Director, Connecticut Office of Higher Education</i>
<i>James Blake</i>	<i>Executive Vice President for Finance and Administration, Southern Connecticut State University</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 \$564 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. 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, 2013, CHET Direct had 91,379 unique accounts with \$2.10 billion in assets. This compares to 84,945 accounts and \$1.82 billion in assets on December 31, 2012. This represents an increase of 7.6% and 15.8% 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 \$794 million has been withdrawn for 25,459 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.

- 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 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.

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 0.83%, 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

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.

In 2013, CHET marketing efforts successfully evolved to work harder and smarter including:

- A refined advertising approach
 - Enhanced creative executions focused on resonating with parents and grandparents, the priority audience.
- New creative designs for direct mail, email and online banner ads to directly reach and influence current and prospective parents
 - All three campaigns produced improved results in terms of increased traffic of potential participants over the prior year
- The introduction of:
 - The first year of the annual CHET Advance Scholarship
 - Social media to begin connecting with our audience on their terms

- First-time Hispanic focus group held to inform strategic decision-making
- Enhanced community events and sponsorships presence across the state and across demographics to engage with all segments of CHET’s audience
 - New partnership with Hartford’s Camp Courant
- The program overall has achieved a substantial presence in Connecticut
 - Over 100 million mass media impressions across Connecticut through TV, radio, print, Facebook and transit advertising
 - Entries in the Summer Reading Program more than doubled in 2013 over the number in 2012 and the event generated 2.23 million media impressions through program publicity
 - 21% increase in direct mail net conversion rate over 2012
 - 92% increase in website visits over 2012
 - Partnered with Camp Courant for the Backpack Donation Program and generated 48 million media impressions through program publicity
 - Generated over 7 million media impressions for the Dream Big! Competition
 - Generated an additional 6.5 million impressions through ongoing media relations efforts
 - Successfully implemented a Blogger Giveaway Promotion to support National College Savings Month that resulted in 2,808
 - In total, over 63.3 million media impressions through public relations efforts

Major Promotions

Dream Big!

Dream Big is one of CHET’s prominent events and the 2013 competition resulted in 2,200 entries from across Connecticut. Schools in 116 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 2013, there were 96 winners – 12 per county – of a \$300 contribution to a CHET account. Significant outreach occurred to reach schools in underserved districts such as Bridgeport, Waterbury, Hartford and New Haven.

CHET *Advance* Scholarship

In 2013, the Office of the State Treasurer launched the CHET Advance Scholarship to help 200 Connecticut high school seniors achieve their goal of a college education. The winning students will each have a \$2,500 award made on their behalf to the post-secondary institution they attend. CHET’s plan managers, TIAA-CREF and The Hartford, provided exclusive funding for this program. Over 3,600 seniors took the initiative to submit an entry and 200 were selected through

a random drawing process. The winners hailed from 85 public, 10 parochial, and 3 independent high schools in Connecticut. Two of the winners were home-schooled students. Almost half the towns in the state had at least one winner and all eight counties were represented among the winners. A moving ceremony was held at the Legislative Office Building in October 2013 at which students and school administrators spoke of the benefit the program provided.

Backpack Donation

In July 2013, CHET Direct offered the third Annual Backpack Donation. The State Treasurer's Office partnered with the Department of Children and Families and Hartford's Camp Courant to distribute approximately 1,500 backpacks that contain notebooks, pencils, rulers, water bottles, folders, markers, and more. In addition, the Department of Economic and Community Development works with the Office of the State Comptroller to organize a collection of backpacks and school supplies from their employees to add more backpacks stuffed with a variety of school supplies to the donation. The donation event occurs in July 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. 2013 marked the second year that CHET offered 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.

Summer Reading Promotion

CHET Direct and the Connecticut Treasurer's Office again partnered in 2013 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 a \$250 contribution to a CHET account. Eight winners, one from each county were selected throughout the state. 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.

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 2013, 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. 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 Feria de la Familia, 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 YWCA Money Conference for Women, 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, 2013, CHET Advisor had 14,092 program accounts with \$224,941,080 in assets. This compares to 9,842 accounts and \$129,694,663 in assets from a year earlier. Accounts grew by 43% and assets by more than 70% 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 1.53% 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 2.28% 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.

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