2010 Report
of the
Connecticut State Treasurer
and the
Board of Governors of
Higher Education

July 2010

Prepared for the

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

Statutory Requirements

Section 3-22e(b) provides for an annual report to be submitted by the State Treasurer and the Board of Governors of Higher Education to the Committees on Education and Finance, Revenue and Bonding of the General Assembly. This report is submitted in accordance with that requirement.

As required by the CHET statute, 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 of each year. The audited financials are also transmitted to the CHET Advisory Committee, which is established in statute and meets annually.

The members of the CHET Advisory Committee as of the 2009 annual meeting, which was held on December 3, 2009, were:

Denise L. Nappier, State Treasurer
Robert Genuario, Secretary, Office of Policy and Management (John Mengacci, designee)
Michael Meotti, Commissioner, Department of Higher Education (Nancy Brady, Associate Commissioner, designee)
Sen. Thomas P. Gaffey, Senate Chairman, Education Committee (Chuck Lockert, designee)
Rep. Andrew Fleischmann, House Chairman, Education Committee
Sen. Kevin Witkos, Senate Ranking Member, Education Committee
Rep. Debralee Hovey, House Ranking Member, Education Committee
Sen. Eileen M. Daily, Senate Chairman, Finance, Revenue & Bonding Committee
Rep. Cameron Staples, House Chairman, Finance, Revenue & Bonding Committee
Rep Chris Perone, House Ranking Member, Finance, Revenue and Bonding Committee
Sen. Andrew Roraback, Senate Ranking Member, Finance, Revenue & Bonding Committee
Rep. Vincent Candelora, House Ranking Member, Finance, Revenue & Bonding Committee
James Blake, Executive Vice President, Southern Connecticut State University
William Lucas, Vice President of Finance, Fairfield University
Julie Savino, Dean of Student Financial Assistance, Sacred Heart University
Margaret Wolf, Director of Financial Aid, Capital Community College

CHET 529 College Savings Program
Connecticut Higher Education Trust

Background and Program Management

The Connecticut Higher Education Trust ("CHET" or "Trust") is a qualified state tuition program pursuant to Section 529 of the Internal Revenue Code, which was unanimously approved by the Connecticut General Assembly in Public Act No. 97-224 (the "Act") and signed into law by the Governor in July 1997. 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.

CHET is available to help families save and invest for higher education expenses, and is privately managed by professional money managers under the supervision of the state treasurer.

As part of her review of all Treasury programs upon taking office in January 1999, State Treasurer Denise L. Nappier reviewed the performance of CHET and its manager, Collegiate Capital Group. She found significant problems with the management of the program, including the fact that the manager was undercapitalized and unable to appropriately market and administer the program. After taking steps to end Collegiate's management of the CHET program, Treasurer Nappier concluded an agreement on December 17, 1999, turning over management of the program to Teachers Insurance and Annuity Association – College Retirement Equities Fund's (TIAA-CREF) Tuition Financing Inc. (TFI) division. On March 13, 2000, the assets of all existing accounts were transferred to the Managed Allocation Option with four underlying TIAA-CREF institutional mutual funds.

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 $410 billion (as of June 30, 2010).

When program management was transferred to TIAA-CREF in 2000, there was one investment option – the Managed Allocation Option. Since then six additional investment options have been added: the High Equity Option (2001), the Principal Plus Interest Option (2001), the 100% Equity Index Option (2006), the 100% Fixed Income Option (2006), the Aggressive Managed Allocation Option (2007), the Social Choice Option (2007), and the Money Market Option (2008). In addition, the original Managed Option was changed from 10 age bands to six age bands in 2005.

Asset allocation changes have been made on a periodic basis in order to broaden 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 eleven core TIAA-CREF institutional mutual funds underlie investment options. The Principal Plus Interest investment option is invested through a Funding Agreement with TIAA-CREF Life Insurance Company.

TIAA-CREF's initial contract with the Trust to serve as Program Manager was for a five-year term ending March 13, 2005, with the provision for renewal. The Treasury determined that TIAA-CREF met performance standards set out in the initial management agreement, and the contract was extended for a second five-year term through March 13, 2010.

In 2009, the Treasurer issued an RFP for management of the CHET program soliciting proposals for both the current Direct Sold Program, as well as for an Advisor Sold Program. In 2010, the Treasurer entered into a Management Agreement again with TFI to continue offering the CHET direct sold plan for a contract period ending in March 2015. On August 31, 2010, the Treasurer entered into a management agreement with The Hartford to offer an advisor sold plan. That plan will begin to be offered through financial advisors at the beginning of October 2010 and will be called CHETAdvisor.

Federal Tax Laws and IRS Regulations

Earnings on after-tax contributions made to CHET are free from federal and state taxes while invested in CHET. Earnings are exempt from Federal and Connecticut income taxes when withdrawn for qualified higher education expenses which include tuition, room and board, fees, books, supplies, and equipment required by the beneficiary for enrollment or attendance at any eligible public or private educational institution.

Earnings on non-qualified withdrawals (which are not made as a result of death, disability, scholarship or attendance at military academies) are subject to federal taxes and, incur an additional federal tax penalty of 10% on earnings.

In 2006, Congress passed the Pension Protection Act of 2006, which made permanent the federal income tax-free treatment of qualified withdrawals and other federal tax benefits for all 529 plans.

Current Internal Revenue Service Regulations provide that total contributions may not exceed the amount determined by actuarial estimates necessary to pay tuition, required fees, and room and board expenses incurred by the designated beneficiary for five years of undergraduate enrollment at the highest cost institution allowed by the program. Effective July 2006, the CHET account balance limit for contributions was raised to $300,000. This contribution limit is periodically updated by the Treasury in accordance with IRS guidelines to keep pace with increasing college tuition costs and to align CHET's maximum levels with those of other state 529 plans.

State Tax Laws

The State of Connecticut offers tax-deferred earnings on contributions and tax-free withdrawals of earnings on CHET accounts when funds are used for qualified higher education expenses. CHET withdrawals are subject to Connecticut taxes if the distribution is not used for qualified higher education expenses and if the distribution is included in the federal gross income of a person other than the beneficiary.

In 2006, the Connecticut General Assembly enacted a state income tax deduction for contributions to the CHET program. The bill was signed into law on May 7, 2006, and provides for state tax deductions from Connecticut adjusted gross income on annual CHET contributions of up to $5,000 for eligible single filers and $10,000 for joint filers beginning in the 2006 taxable year. Connecticut is one of nearly 30 states that provide college savings tax benefits to state taxpayers for contributions to their home state 529 plan.

As a result of the passage of favorable Connecticut tax treatment for the CHET program in 2006 and in accordance with the existing management agreement with TFI, the State Treasurer's Office successfully negotiated a further reduction in overall program management fees for existing and newly introduced investment options.

The Connecticut tax deduction for 529 college savings plans applies only to contributions to CHET. While the General Assembly has considered expanding this tax deduction to other 529 programs during the 2007 and 2008 legislative sessions, they have chosen not to do so.

Program Improvements and Changes

Online Enhancements

During 2009, the ability to request on-line withdrawals from a CHET account was introduced. This new and improved functionality allows existing account owners to request a withdrawal via the CHET website (secured site) and have the funds sent electronically to their bank account. As of June, 2010, 40% of withdrawals were made online, a 10% increase over last year. The program continues to strive to make account owners aware of the online withdrawal feature.

During 2010, the ability to receive account confirmations and quarterly statements, as well as disclosure materials, electronically was introduced. "Go Green" efforts continue.

Low Minimum Account Balance and Minimum Contribution Requirements

Several program enhancements have been introduced since TFI assumed program management in 2000. These include the elimination of the annual account fee and the lowering of the minimum for opening an account from $500 to $25 ($15 per pay period if using payroll deduction).

Program Manager and State Fees

CHET 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. Since inception, fee reductions have been negotiated by the Treasury four times, from a high of 1.55% to the current flat fee level of 0.60% on the average daily net assets of the Trust, with the exception of the Principal Plus Interest Option, which contains no fees.

On July 1, 2005, the Trustee began collecting a new 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).

Investment Options

Managed Allocation Investment Option

The original investment option offered by CHET in 2000 continues to be the most popular of all investment options: the Managed Allocation Investment Option (originally offered with ten age bands). Since March 2005, this option has utilized a total of six individual age-based configurations ("Age Band Funds"). The age bands are structured as groups of beneficiaries born within the same three-year period. As the age-band group approaches college age, each Fund's assets are moved from more aggressive to more conservative investments in accordance with the Trust's investment policy. The change to fewer, longer duration bands was designed to enable the beneficiary to realize the benefits of a selected asset allocation strategy over a longer investment horizon while also allowing investment allocations to track the beneficiary's attained age more closely.

The Age Band Funds consist of underlying investments in up to six TIAA-CREF institutional mutual funds – an institutional domestic equity index fund, an international equity index fund, a bond fund, an inflation-linked bond fund, a real estate securities fund and a money market fund. Each Age Band Fund represents a different asset allocation based on the age of the beneficiary for whom the account has been established. The assets in each age band are allocated in accordance with the investment policy adopted by Treasurer Nappier (as Trustee), after receiving guidelines recommended by TIAA-CREF Tuition Financing, Inc. (as program manager).

Over the past few years, there have been several asset allocation modifications and expansions to the Managed Allocation and other investment options. These include the addition and/or substitution of new underlying mutual funds, the expanded and broadened use of underlying funds from more diverse asset classes, and changes in the mix of equity, fixed income, and other instruments in the investment options. Asset allocation and underlying fund changes are generally made in response to annual asset allocation proposals provided by TIAA-CREF TFI and may be supplemented by independently contracted asset allocation and mutual funds evaluations.

Aggressive Managed Allocation Option

The Aggressive Managed Allocation Option introduced in November 2007 also invests in the same six underlying Institutional Mutual Funds as the Managed Allocation Option. However, the initial contributions to this investment option are more heavily invested in equities and real estate than in the Managed Allocation Option. As with the Managed Option, as the age-band group approaches college age, each Fund's assets are moved from more aggressive to more conservative investments in accordance with the Trust's investment policy. However, in the Aggressive Managed Option each age band is weighted more toward equity (and less toward fixed income) than the Managed Option. The Aggressive Managed Allocation Option has a higher risk of losing principal than the Managed Allocation Option but is more likely to keep pace with rising tuition rates. In return for greater opportunity for reward, this investment also has possible heightened volatility. Thus, this investment option may be a good choice for investors who can tolerate greater risk and volatility in exchange for higher potential returns over time. It may also be appropriate for investors who already have substantial college savings in less volatile investments. This option may also be considered by account owners who intend to pursue enrollment at a later than typical college entrance age.

Unlike the Managed Allocation Options (described above) the following underlying investment options do not change to reflect the age of the beneficiary.

High Equity Investment Option

CHET's High Equity Investment Option was added in 2001, offers a more aggressive investment strategy to the core age-based investment strategy. It is designed for investors who can tolerate greater risk and volatility in exchange for higher potential returns over time. The current asset allocation plan for the High Equity Option, which has been in place since June 2006, includes the TIAA-CREF Institutional S&P 500 Index, Small-Cap Equity, Mid-Cap Value, Mid-Cap Growth, International Equity Index, Inflation-Linked Bond and Bond Funds.

100% Equity Index Option

The 100% Equity Index Option allocates contributions between a domestic equity index fund and an international equity index fund. The investment objective of this investment option is to provide the opportunity for long-term capital growth while avoiding the uncertainty associated with actively managed portfolios. However, the value of the Account will fluctuate based on the performance of the mutual funds underlying this investment option.

Social Choice Option

The Program allocates contributions to the TIAA-CREF Institutional Social Choice Equity Fund, (introduced in November 2007) which invests primarily in equity securities of companies that meet certain social criteria, such as product safety, corporate citizenship, human rights and environmental performance. Because of the high exposure to domestic and foreign equities, and the corresponding degree of risk, this option may be appropriate for investors who have a long investment horizon and can tolerate a higher level of risk.

100% Fixed-Income Option

The Program allocates contributions under the 100% Fixed-Income Option between the TIAA-CREF Institutional Bond Fund and the TIAA-CREF Institutional Inflation-Linked Bond Fund. The investment objective of the 100% Fixed-Income Option is to provide the opportunity for favorable long-term total returns through current income, while maintaining the goals of preserving capital and providing a degree of protection from inflation.

Money Market Option

The Money Market Option (introduced February 2008) seeks to provide stability of principal by allocating 100% of contributions to the TIAA-CREF Institutional Money Market Fund

Principal Plus Interest Option

The Principal Plus Interest Option was introduced in 2001, providing for a more conservative and stable offering designed for investors, who for a variety of reasons and investment timelines, tolerate very limited risk. The Principal Plus Interest Option utilizes a Funding Agreement, which guarantees to the Trust principal and a minimum rate of return of not less than 1.0% per annum with the opportunity for additional returns as may be periodically declared in advance by TIAA-CREF Life. Effective February 18, 2008, transfers from the Principal Plus Interest Option to the Money Market Option are not permitted.

The Principal Plus Interest Option rate is reviewed and reset annually. The current funding agreement, which is issued by TIAA-CREF Life to the Trust, provides for a fixed rate of 2.75% for the one year period ending June 30, 2010.

Account Activity and Asset Growth

As of June 30, 2010, there were 94,886 CHET program accounts. This compares to 86,559 accounts on June 30, 2009. Total assets on June 30, 2010, were $1.27 billion, compared to $1.049 billion on June 30, 2009.

The Managed Allocation Option continues to be the most actively utilized investment choice in the CHET program. However, investment patterns have shifted over the past few years. The Principal Plus Interest Option has generally varied in popularity in response to fluctuating equity and bond markets and economic conditions, but has sustained a significant account holder base. Contribution activity in the High Equity Option has declined due to recent market volatility, and the 100% Equity and 100% Fixed-Income Options have realized solid growth since their introduction in June 2006.

A review of net new contributions to CHET as of June 30, 2010, indicated that 42% of new funds were invested in Managed Allocation, 14% in Aggressive Managed Allocation, 13% in High Equity, 10% in 100% Equity Index, 1% in Social Choice, 4% in 100% Fixed Income, 14% in Principal Plus Interest, and 2% in the Money Market option.

Account Redemptions

The program has begun to realize an increase in account redemptions as account owners begin to withdraw funds for their beneficiaries' college tuition payments $322,074,588.51 (12,584 beneficiaries) since inception.

Heightened awareness of the CHET program and its new state tax deduction has precipitated the need for tightened monitoring and controls over program use, including account rollovers and redemptions. In early 2007, the Treasury implemented new reporting mechanisms to review account activity in order to monitor carefully program use patterns and safeguard state tax benefit use for the intended purpose of saving for college.

Investment Performance

Program investment performance for all CHET investment options from June 30,2009 to June 30, 2010, reflect the improved economic growth in the financial markets as compared to the same period last year. Investment returns for all CHET options are reported net of fees, while benchmark returns are not reduced by applicable fees. The Managed Allocation Option investment returns closely tracked their benchmarks, which differ by age band depending upon the asset allocation of the underlying funds that comprise the Age Band Fund. As of June 30, 2010, annual returns for the age bands ranged from 14.22% versus the benchmark's return of 15.89% for the youngest beneficiaries (0-3 years of age) to 6.43% versus the benchmark's return of 6.86% for the oldest (18 years and over). For the Aggressive Managed Allocation Option annual returns for the age bands ranged from 16.21% versus the benchmark's return of 17.16%

for the youngest beneficiaries (0-3 years of age) to 9.09% versus the benchmark's return of 9.63% for the oldest (18 years and over). Younger age bands' underlying portfolios were more aggressive with higher allocations in equities that produced comparatively higher returns than the more conservative underlying portfolios with higher allocations to fixed income, which were assigned to older age bands due to the recovery of the equity markets between June 2009 and June 2010.

For the year ending June 30, 2010, The High Equity Option produced a 12.24% annual return versus the benchmark's index return of 13.84%. The 100% Equity Index and 100% Fixed Income Options, reported returns for the year ending June 30, 2010, of 12.97% and 9.41%, respectively. Finally, the Principal Plus Interest Option produced a return of 2.73% for the year ending June 30, 2010. As of the same date, the Social Choice option produced a 17.34% return versus the benchmark's return of 15.72%.

Year to date (January 2010-June 30, 2010) returns for the 100% Equity, Social Choice, and High Equity options are reflecting a negative return due to the equity markets retreating significantly during May and June 2010. The 100% Fixed Income and Principal Plus Interest option are reflecting a positive return and continue to track their benchmarks.

Marketing and Public Awareness

The Treasury works closely with TFI to enhance its marketing program to strengthen public awareness of the CHET program features and to increase understanding of the importance of saving for a college education. TIAA-CREF is committed to promoting the benefits of saving for college early to families of all backgrounds and cultures throughout Connecticut. During 2009 and the first part of 2010, multi-channel direct marketing campaigns were used to obtain the greatest reach. Major campaigns included Graduation/Post-Tax Time (May/June), Back-to-School (July/August), College Savings Month (September), Year-end/Gift Giving (November/December). The multi-channel direct marketing strategy included print advertising, direct mail, e-mail, banner advertising and search engine marketing to target prospective account owners. Radio was introduced during the 2008 Year-end/Gift Giving campaign. The radio spots emphasized the importance of developing a college savings strategy and fostered general brand awareness of the CHET program.

Account owner marketing continued to be a critical component of the overall marketing strategy. Existing account owners were encouraged to re-contribute, automate their contributions with Automated Contribution Plan (ACP), and to roll over funds from other college savings plans. The primary communication channels used to target account owners included direct mail, e-mail, electronic newsletters, statement messaging and inserts.

As persons respond to events, direct mail and online communication, TFI developed an integrated contact strategy called the Inquirer/Respondent Follow-up Process (IRFP). The IRFP was developed to target persons who request more information about the program (inquirers) in response to our ongoing events, direct mail and online communication to prospects. This contact strategy was designed to establish a more aggressive method to educate inquirers about the many advantages of saving early for college via CHET. It also provides an opportunity for inquirers to request to have a phone center representative contact them directly to discuss the CHET program. The communication series is established such that inquirers receive a monthly direct mail piece or email upon initial contact, and again in 30 days. It culminates with a final communication piece approximately 60 days following their initial inquiry.

Throughout 2009 and the first part of 2010, CHET used very cost-effective direct marketing communications to prospects, account owners and inquirers. Throughout the duration of the program agreement with TFI, the costs of the marketing and public awareness campaigns have been borne by TFI and not Connecticut taxpayers.

Web-Based Marketing and Account Activity

Online enrollment has continued to be an increasingly popular method of opening accounts in addition to boosting awareness of and access to CHET. In 2009, 64.4% of all new accounts were opened directly via the Internet. CHET has realized a significant shift toward online activity over the past few years and has been increasingly successful in attracting and converting new prospects into account owners via this marketing medium.

Web-based advertising has become an increasingly important marketing medium for 529 plans nationally, and is particularly critical to the future success of CHET as a direct-sold program. The Connecticut marketplace has been heavily dominated by indirect college savings plans that are marketed through investment advisors and financial institutions. In order to keep pace with the industry and transform what had historically been an informational web-based tool into an effective marketing engine, the Program Manager has continued to make enhancements to the CHET website to meet the needs of the multicultural clients that CHET continues to attract in a more user-friendly manner, and to provide self-help tools and resources. The CHET website features enhanced comparative information on investment options and related performance information compliant with industry disclosure standards.

CHET has also worked with the College Savings Plan Network, a national membership organization for state 529 plan providers, and Savingforcollege.com to promote awareness of the program through new interactive college savings comparative informational databases that are available online.

Media Events

In late-2008, Connecticut State Treasurer Denise L. Nappier and CHET sponsored the first annual CHET 529 College Savings Program Kickoff. Once again in 2010 for the third year in a row the Connecticut State Treasurer and CHET will be promoting the CHET 529 College Savings Kickoff . The 2009 CHET 529 College Savings Kickoff was a fun halftime promotion for Connecticut students between the ages of 7 and 12. The CHET 529 College Savings Kickoff was developed to help build awareness of CHET and to remind Connecticut families about the importance of saving for college. Press releases and photos of the winners were distributed to local newspapers and publications throughout the state.

In early- 2010, CHET and the Treasurer's Office once again kicked off the CHET Dream Big! Competition. The CHET Dream Big! Competition is a drawing, poetry and essay contest for students in grades Kindergarten (K) through six (6). The parents or legal guardians of the 88 county winners each received a check for $250. The parents or legal guardians of the 43 Merit winners each received a check for $50. Additionally, $50 Office Max gift card were given to the top ten teachers whose students submitted the most entries. 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.

The Treasurer's Office and CHET partnered in May of 2010 to culminate the CHET Dream Big! Award ceremony at Rentschler Field in Hartford, CT. The Dream Big! award ceremony recognized the winning children, parents and teachers (grades K-6) and made them aware of the importance of going to college and starting to save early for a college education.

In addition, to the events outlined above, several press releases were distributed to the media promoting the Graduation/Post Tax-Time, Tax-Time, College Savings Month and Year-end/Gift giving Campaigns.

Program Outreach

Education and Cultural Community Outreach and Events

TIAA-CREF TFI employs Connecticut-based outreach personnel (including a bi-lingual field consultant) to educate Connecticut residents, employers, financial influencers and community organizations about the benefits of the CHET program. The outreach strategy is two-fold: promote the message that saving for college is available to families of all income levels through CHET, as well as to differentiate CHET from competing 529 plans being offered in Connecticut. Our outreach will continue to focus on offering more program access and exposure to Connecticut residents by leveraging relationships with existing account holders, employers, financial advisors, educators and community-based influencers.

In 2009 and part of 2010, CHET partnered with area schools and businesses to sponsor or exhibit in numerous educational events and promotions. Many have been detailed above including the CHET Dream Big! Competition, CHET Dream Big! College Fair, Family Art workshops, and the CHET 529 College Savings Program Kickoff.

CHET also partnered with other community-based organizations and agencies specializing in promoting financial literacy and economic empowerment including the annual Money Conference for Women and the Greater Bridgeport Latino

The Treasurer's Office and CHET sponsored several events designed to educate Hispanic and low to moderate income families about the benefits of saving for college early with CHET. Some of those events included:

- 20th Annual Latino Expo, Hartford, CT (March 2010).
- Bridgeport Bluefish Sunday Game Sponsorship (May-Sept 2010).
- Latinas & Power Symposium (May, 2010).

In June of 2010, CHET and the Connecticut State Treasurer's Office partnered with the Connecticut State Library to present the Summer Reading Promotion. CHET reached out to the Connecticut State Library (CSL) to find a way to support their summer reading initiatives by providing a financial incentive to encourage more children to participate in the CSL summer reading program.

As a means of offering more branding of the program in a family-friendly setting and to reach the Hispanic, and the low to moderate income families more effectively, CHET began its sponsorship of Sunday home games at the Bridgeport Bluefish minor-league baseball club at Harbor Yard Stadium. The sponsorship afforded CHET great exposure to thousands of families attending all Sunday home games. In addition, hundreds of CHET brochures and other materials have been distributed to families throughout the community who were interested in learning more about saving for college and the CHET Program.

Employers and Financial Influencers

During 2009 and 2010, CHET expanded its relationships with Connecticut's business leaders and employers as well as financial influencers. New program enhancements continue to make CHET's marketing message and general appeal stronger than ever before.

CHET's business outreach included contact with many of Connecticut's larger employers such as New Milford Hospital, several chapters of the Connecticut Visiting Nurses Association, and the CT Department of Revenue. CHET is also expanding its outreach with TIAA-CREF, Connecticut-based employers and participants through its internal wholesaling activities. Several of those relationships have developed promising results. As of June 2010, 511 employers offered CHET payroll deduction opportunities to their employees, with over 1,243 employees participating. The program keeps substantially improving relationships with financial influencers, including accountants, financial advisors and other financial professionals.

CHET outreach representatives will continue to work closely with the Treasurer's office to promote the program to all residents of the state who have an interest sending their families to college.

Competitive and Regulatory Environment

In 2009, the American Recovery and Reinvestment Act of 2009, or "Stimulus Bill" expanded the definition of qualified higher education expenses to include computer technology and equipment for section 529 college savings accounts in 2009 and 2010. This includes internet access and software, but excludes non-educational software for sports, games or hobbies.

On a national level 529 plans sold by financial advisors are offering expanded flexibility and investment choices similar to those traditionally offered in retirement plans, and provide an additional layer of commissions to broker-dealers not included in directly sold 529 plans. While many of the indirect advisor plans actively market services to predominantly upper-income individuals, TIAA-CREF continues to maintain Connecticut Treasurer Nappier's commitment to be a low-cost, directly sold program with attractive competitive options that is marketed and made accessible to all socio-economic groups. CHET program fees have continued to remain competitive and were lowered further during the past year. The program's management and state oversight fees total 0.60%, the lowest level since inception, ranking among the lowest in the industry.

The Securities and Exchange Commission and the Municipal Securities Rulemaking Board 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) on addressing regulatory, media and consumer concerns relating to adequacy of disclosures and program comparability. The Connecticut Treasurer's Office and TIAA-CREF 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 Web-site, which provides comparative information on all state qualified and prepaid 529 college savings programs.