



**2011 Report Pursuant
to 3-22e of the Connecticut
General Statutes**

CONNECTICUT HIGHER EDUCATION TRUST (CHET)

July 2011

Prepared for:

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

STATUTORY REQUIREMENTS

This report is being submitted to the Committees on Education and Finance, Revenue and Bonding of the General Assembly pursuant to Conn. Gen Stat. 3-22e(b).

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 2010 annual meeting, which was held on December 2, 2010, were:

<i>Denise L. Nappier</i>	<i>State Treasurer</i>
<i>Brenda Sisco</i>	<i>Acting Secretary of Office of Policy and Management</i>
<i>Sen. Thomas Gaffey</i>	<i>Senate Chair, Education Committee</i>
<i>Rep. Andrew M. Fleischmann</i>	<i>House Chair, Education Committee</i>
<i>Sen. Sam Caligiuri</i>	<i>Senate Ranking Member, Education Committee</i>
<i>Rep. Marilyn Giuliano</i>	<i>House Raking Member, Education Committee</i>
<i>Sen. Eileen M. Daily</i>	<i>Senate Chair, Finance, Revenue and Bonding Committee</i>
<i>Rep. Cameron Staples</i>	<i>House Chair, Finance, Revenue and Bonding Committee</i>
<i>Sen. Andrew Roraback</i>	<i>Senate Ranking Member, Finance, Revenue and Bonding Committee</i>
<i>Rep. Vincent Candelora</i>	<i>House Ranking Member, Finance, Revenue and Bonding Committee</i>
<i>Michael Meotti</i>	<i>Commissioner, Department of Higher Education</i>
<i>James Blake</i>	<i>Executive Vice President to Finance & 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 Finance, Fairfield University</i>
<i>Julie Savino</i>	<i>Dean of Students financial Assistance, Sacred Heart University</i>

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. The Connecticut authorizing statute 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 Act designates the State Treasurer as the Trustee of CHET. 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.

In December 1999, Treasurer Nappier changed the Program Manager for CHET to TIAA-CREF Tuition Financing Inc. (TFI). TFI 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, TFI manages total combined assets of approximately \$453 billion (as of December 31, 2010).

In 2009, the Treasurer issued an RFP for management of the program soliciting proposals for both the current direct sold program, as well as for a new 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 for a contract period ending August 20, 2017. That plan was launched in October 2010. To differentiate the plans, they were re-branded CHET Direct, and CHET Advisor.

CHET DIRECT

For CHET Direct, As of June 30, 2011, there were 103,083 program accounts with \$1.58 billion in assets. This compares to 94,886 accounts and \$1.27 billion in assets on June 30, 2010.

The program continues to realize an increase in account redemptions as account owners withdraw funds for their beneficiaries’ college tuition payments with \$401,557,362 withdrawn (14,932 beneficiaries) since inception and \$102,939 withdrawn (3,278 beneficiaries) over the period from July 1, 2010 to June 30, 2011.

CHET Direct – Program Offerings

With the renewal of the CHET Direct Contract, new investment options were added, and fees reduced. The plan now has eleven (11) investment options (date of inception of each option is noted). For more detailed descriptions, including underlying mutual fund investments, visit www.aboutchet.com.

- Moderate Managed Allocation Option 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 2011; created in 2006 and formerly called the 100% Equity Index Option)

- Active Fixed-Income Option (Renamed in 2011; created in 2006 and formerly called the 100% Fixed-Income Option)
- Aggressive Managed Allocation Option (2007)
- Social Choice Option (2007)
- Money Market Option (2008)
- Conservative Managed Allocation Option (2011)
- Active Equity Option (2011)
- Index Fixed-Income Option (2011)

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 twenty-two institutional mutual funds (from TFI, Thornburg, GE, DFA, T. Rowe Price and Artio 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 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 five times, from a high of 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 bringing the total asset based fees to 0.32% to 0.95% 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 more standard for the industry (program management fee plus state administrative fee plus 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 for over ninety consecutive days. An additional program management fee reduction will occur when assets under management reach \$2 billion.

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).

CHET ADVISOR

The CHET Advisor Plan inception date was October 1, 2010. Because of the short history, this report does not include investment performance comparisons to prior years. Marketing is mostly to financial advisors, who then work with their clients to create CHET Advisor accounts.

For the new CHET Advisor plan, as of June 30, 2011, there were 2,616 CHET program accounts, and total assets were \$ 31.1 million.

CHET Advisor Program Offerings:

While the plan offers similar investment options to CHET Direct, the structure of an advisor sold plan is different by its nature. The 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 (fee).

Share Classes and fee structure:

- There are 3 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 1.11% 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 1.86% - 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.¹ 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 0.86% - 1.32% of the total value of each Account, depending on investment options selected.

Under all CHET Advisor asset classes there is an additional 0.02% fee to pay for expenses related to oversight of the Trust (similar to the CHET Direct Trustee fee).

Investment Options: (for more detailed descriptions, including underlying mutual fund investments, visit www.CHETAdvisor.com.)

- 1 Age-Based track – 5 bands

¹ 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 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 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.

- CHET Advisor Age-Based 0-8, 9-13, 14-15, 16-17 & 18+ Portfolios
- 5 Static Portfolios
 - CHET Advisor Aggressive Growth
 - Growth
 - Balanced
 - Conservative
 - Checks & Balances Portfolios
- 12 Individual Portfolios
 - The Hartford Small Company
 - Growth Opportunities
 - International Opportunities
 - Capital Appreciation
 - Fundamental Growth
 - MidCap
 - Global Research
 - Value
 - Dividend & Growth
 - Inflation Plus
 - Total Return Bond
 - Money Market 529 Portfolios

CHET DIRECT – PROGRAM IMPROVEMENTS AND CHANGES

Marketing and Public Awareness

The Treasury works closely with TFI to enhance its annual marketing program to strengthen public awareness of the CHET Direct program features and to increase understanding of the importance of saving for a college education. TFI is committed to promoting the benefits of saving for college early to families of all backgrounds and cultures throughout Connecticut. During 2010 and the first part of 2011, multi-channel direct marketing campaigns were used to obtain the greatest reach. Major campaigns included tax time (February/March), graduation (June/July), College Savings month (September), and 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, outdoor billboards, bus ads and TV were utilized during the 2010 year-end/gift giving campaign emphasizing the state tax deduction and importance of developing a college savings strategy, as well as promoting general brand awareness of the CHET Direct 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, 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, and quarterly statement messaging and inserts.

As persons respond to events, direct mail and online communication, TFI utilized 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 Direct program. The communication series is established such that inquirers receive a monthly direct mail piece or email upon initial contact, and again in thirty days. It culminates with a final communication piece approximately sixty days following their initial inquiry.

In 2010 and the first part of 2011, CHET Direct 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 Direct. In 2010, 67.8% (vs. 64.4% in 2009) of all new accounts were opened directly via the Internet. CHET Direct 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. The ability to do online withdrawals was also implemented in 2010 and approximately 60% of all withdrawals are done online.

Web-based advertising continues to be an important marketing medium for 529 plans nationally, and is particularly critical to the future success of CHET Direct. 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, TFI has continued to make enhancements to the CHET Direct website. There upgrades have been implemented to help meet the needs of the multicultural clients that CHET Direct continues to attract in a more user-friendly manner, and to provide self-help tools and resources. The CHET Direct website features enhanced comparative information on investment options and related performance information compliant with industry disclosure standards.

CHET Direct 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.

CHET DIRECT PROMOTION

Dream Big Competition

In early 2011, CHET Direct and the Treasurer's Office once again kicked off the CHET Dream Big! Competition. The CHET Dream Big! Competition is a drawing and essay contest for students in grades Kindergarten (K) through five (5). The parents or legal guardians of the eighty-six county winners each received a \$250 CHET Direct account. The parents or legal

guardians of the forty-three Merit winners each received a \$50 CHET Direct account. Additionally, \$50 towards school supplies was 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 Direct partnered in May 2011 to culminate the CHET Dream Big! Award ceremony at Rentschler Field in East Hartford. The Dream Big! award ceremony recognized the winning children, parents and teachers and made them aware of the importance of going to college and starting to save early for a college education. In 2010, of Connecticut's eight counties, 100% participated and were represented.

Summer Reading Program

In June 2011, CHET Direct and the Treasurer's Office partnered with the Connecticut State Library to present the Summer Reading Promotion entitled "Destination College Savings." CHET Direct reached out to the Connecticut State Library (CSL) to find a way to support its summer reading initiatives by providing a financial incentive to encourage more children to participate in the CSL summer reading program. Participation in the annual CSL conference in early May 2011 helped generate excitement around the program. "Destination College Savings" is a great way to keep the communities thinking about saving for college with CHET during a traditionally slow account enrollment period. This initiative also reaches across the state and encourages participation through the award of four CHET Direct accounts.

PROGRAM OUTREACH

Education and Cultural Community Outreach and Events

TFI employs Connecticut-based outreach personnel (including a bi-lingual field consultant) to educate Connecticut residents, employers and community organizations about the benefits of the CHET Direct 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. TFI 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 as well as specific outreach to the Latino community and to low and moderate income families.

Specific outreach and support for marketing to the Latino community included attendance at the following events and the development of a Spanish language microsite and phone number (link for microsite can be found on www.aboutchet.com). More robust marketing will be implemented in the Fall of 2011, when the CHET Direct Spanish language disclosure book and enrollment forms have been finalized. In person meetings were also offered in both English and Spanish in the Hamden office during 2010 and the first half of 2011.

Latino Events June 2010 – June 2011

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|-------------------------|---------------|-----------------|
| ▪ Family Arts Workshops | New Haven, CT | September, 2010 |
| ▪ Latinos in Science | Norwalk, CT | September, 2010 |

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|------------------------------------|---------------|-----------------|
| ▪ Telemundo La Feria De La Familia | Hartford, CT | September, 2010 |
| ▪ Hispanic Heritage Celebration | New Haven, CT | October, 2010 |
| ▪ Latinos in Art | Hartford, CT | October, 2010 |
| ▪ 21 st Latino Expo | Hartford, CT | October, 2010 |
| ▪ Latinas & Power Symposium | Cromwell, CT | May, 2011 |

CHET Direct partnered with other community-based organizations and agencies specializing in promoting financial literacy and economic empowerment including the annual Money Conference for Women in November 2010.

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

Bridgeport Bluefish Sunday Game Sponsorship (May-Sept 2010)

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

New Britain Rock Cats Family Fun Day

CHET Direct also is sponsoring the New Britain Rock Cats Baseball club to boost awareness of the CHET program. The sponsorship includes a thirty second radio spot. In addition, the two-person broadcast team engages in conversation about the benefits of CHET during each game providing important college savings information to listeners throughout Connecticut. The sponsorship also provides CHET Direct with dozens of tickets that are distributed to organizations that are involved in the development and betterment of low to moderate income families within the city of New Britain and the greater Hartford area.

School Bags for Families

From September 1 – 3, 2010, four organizations in the State of Connecticut received a total of 1,529 book bags stuffed with school supplies for the 2010/2011 school year. The stuffed book bags were donated to the statewide organizations for distribution to Connecticut students in need.

Each organization described below received bags based on the quantity they requested:

ASPIRA of Connecticut

Received 350 Bags

Founded in 1989, ASPIRA of Connecticut is dedicated to the education, empowerment, and leadership development of Latino students. ASPIRA of Connecticut serves more than 225 youth and their families per year. While assisting mainly Latinos, it now serves a significant number of non-Latinos such as African-Americans, Vietnamese and Eastern Europeans because of its program locations in major urban centers.

My Sisters' Place

Received 15 Bags

Since 1982, My Sisters' Place has been a safe haven for those who are suddenly forced into the streets due to domestic violence, eviction, unemployment or mental illness. Through guidance and empowerment, My Sisters' Place helps those who slip into homelessness transition to a future of self-reliance and permanent, safe housing.

Connecticut Department of Children and Families (DCF) Received 864 Bags

Working together with families and communities to improve child safety, ensure that more children have permanent families, and advance the overall well-being of children is the central focus of the DCF. DCF protects children who are being abused or neglected, strengthens families through support and advocacy, and builds on existing family and community strengths to help children who are facing emotional and behavioral challenges, including those committed to the Department by the juvenile justice system. Book bags were distributed to DCF offices in Bridgeport, Danbury, Hartford, Manchester, Meriden, Milford, New Britain, New Haven, Norwalk, Norwich, Stamford, Torrington, Waterbury and Willimantic.

The Salvation Army of Southern New England

Received 300 Bags

The Salvation Army of New England exists to serve the people of Connecticut and Rhode Island in their time of need – great or small. Each individual is addressed as a whole person with physical, emotional and spiritual needs. The Salvation Army aspires to assist individuals to become more independent through a variety of services and programs. Book bags were distributed to the Waterbury Family Emergency Shelter, the Waterbury Corps Community Center, the Meriden Corps Community Center, the New Britain Corps Community Center and the Laotian Corps of Hartford.

EMPLOYER OUTREACH

CHET Directs business outreach included contact with many of Connecticut's employers such as Yale University, the Communication Workers of America, AT&T, and the City of New Britain. CHET Direct continued to expand its outreach with TFI participants through its internal wholesaling activities. Several of those relationships have developed promising results. As of June 2011, 546 employers offered CHET Direct payroll deduction opportunities to their employees, with 1,286 employees participating.

CHET Direct 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.

REGULATORY ENVIRONMENT

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 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 Web-site, which provides comparative information on all state qualified and prepaid 529 college savings programs.

Going Forward

According to the Pew Research Center, there is growing concern by most Americans over college affordability; which is the main barrier preventing most young adults in having the financial resources to attend college. The cost of higher education in the United States is an enormous challenge for families; especially those with limited financial resources. A 529 savings plan is the answer because it instills savings behavior to meet the financial goals for the cost of postsecondary education. The Treasury is committed to continue to collaborate with TFI, The Hartford and other organizations to ensure that the message to *save early* gets out to Connecticut's families.