

Connecticut Higher Education Trust (“CHET”) Advisory Committee Annual Meeting

Friday April 12, 2019, 9:30 A.M.

Legislative Office Building – Room 1C
300 Capitol Avenue, Hartford, CT 06106

MINUTES

Members Present

Shawn T. Wooden, State Treasurer and Trustee of CHET
Linda Savitsky, Deputy Treasurer, Office of the Treasurer, *Treasurer’s Designee*
Representative Christopher Davis, House Ranking Member, Finance, Revenue, and Bonding Committee
Representative Kathleen McCarty, Ranking Member, Education Committee
Representative Bobby Sanchez, Co-Chair, Education Committee
Kerry Kelly, Office of Policy and Management, on behalf of Melissa McCaw, Secretary of OPM
Kellie Guilbert, Senate Democrats Office, on behalf of Senator Doug McCrory, Senate Co-Chair, Education Committee
Amanda Bellagamba, Senate Republican Office, on behalf of Senator Eric Berthel, Senate Ranking Member, Education Committee
Julie Savino, Executive Director of Financial Assistance, Sacred Heart University
Margaret Malaspina, Director of Financial Aid, Capital Community College
Vincent Lugo, University of New Haven, on behalf of Patrick Torre, Vice President of Finance, University of New Haven
Jill McDowell, Gateway Community College, on behalf of Rose Ellis, Dean of Administration at Gateway Community College and Housatonic Community College
Teri Nixon, Office of Higher Education, on behalf of Tim Larson, Executive Director of the Office of Higher Education

Members Absent

Representative Jason Rojas, House Co-Chair, Finance Revenue & Bonding Committee
Senator John Fonfara, Senate Co-Chair, Finance Revenue & Bonding Committee
Senator Kevin Witkos, Senate Ranking Member, Finance Revenue & Bonding Committee

Others Present

Elizabeth McLaughlin, TIAA
Glenn Friedman, TIAA
Kerry Alexander, TIAA
Vivian Tsai, TIAA
Chris Morvant, Hartford Funds
Allison Mortensen, Hartford Funds
Jeff Cohan, Hartford Funds
Christine Shaw, Office of the Treasurer

Call to Order

Treasurer Shawn T. Wooden called the meeting to order at 9:38 a.m. He thanked members for attending the meeting, and delivered welcoming remarks that highlighted the growth in the program. He then turned the meeting over to Deputy Treasurer Savitsky to chair the remainder of the meeting.

Adoption of Minutes

Given the absence of a quorum at the 2018 annual meeting and, further, that the composition of the Advisory Committee for 2019 had changed after the November election, a vote to approve the 2018 meeting minutes was not taken.

Overview of CHET Program

Mr. Alexander gave a brief overview of the CHET program and noted the differences between the CHET Direct and CHET Advisor plans. He also noted the expanded use of 529 plans for K-12 tuition at private and independent schools, as well as the creation of 529A plans.

Presentation by Hartford Funds

Mr. Morvant noted that 2018 was a strong year for CHET Advisor, and that 2018 was the first full year of certain plan enhancements.

Mr. Morvant reported a record sales in 2018 of nearly \$90 million, linear growth in plan funds, and a healthy distribution between the ages of beneficiaries with the average account plan just under \$20,000.

Mr. Morvant reported on K-12 activity in light of federal changes in 2017, and noted withdrawals were low but they expect better data for next year.

Mr. Morvant discussed the availability of age-based, static, and customizable plans. He also touted that 85% of assets are rated 4 stars or better, or have Morningstar medalist ratings. He concluded by noting the relatively low expenses of operating these plans given the size of the actual fund.

Ms. Mortensen reviewed the specifics of the age-based plans and how portfolio managers work together to oversee the funds.

Mr. Cohan discussed partnerships with professional organizations and local firms to market the CHET Advisor plan. He highlighted sales with over half of Connecticut's financial advisors, nearly two-thirds of which hold their assets.

Mr. Cohan said that they avoid public advertisements so as not to confuse their product with CHET Direct, but noted some sales efforts on platforms like LinkedIn.

Mr. Morvant concluded with an overview of the scholarship program that is done in partnership with TIAA.

Presentation by TIAA

Mr. Alexander discussed the role of the Treasurer in promoting CHET Direct, TIAA's dedicated team for 529 plans, and the value of the CHET Advisory Committee.

Mr. Alexander noted that \$2 billion has been distributed for college, impacting over 52,000 people. He also touted the Morningstar ratings.

Mr. Alexander discussed the Connecticut tax incentives for participating in CHET and TIAA's efforts to lower management fees.

Mr. Alexander stated over \$3 billion was being saved through these accounts with an average account size for direct plans of approximately \$23,000.

Mr. Friedman discussed the investment teams' focus on 529 plans rather than offering competing savings plans for things like retirement. He also broke down the various investment plan tracks by levels of risk.

Mr. Friedman noted the use of external funds that are highly rated and concluded with TIAA's approaches to improving their plans.

Ms. McLaughlin provided an overview of the marketing plan, as well as outreach efforts which include brand awareness.

Ms. McLaughlin discussed a variety of approaches to creating new accounts which include working with Connecticut employers and providing culturally accessible materials.

Questions

Representative Davis asked about the status of the breach of certain CHET Direct accounts and their response. Mr. Alexander responded stated that TIAA immediately made affected account holders whole by covering all losses. He added that TIAA implemented enhanced security measures and a third-party audit was conducted, at the Treasurer's request.

Representative Davis expressed a concern with management fees. Mr. Alexander responded that CHET Direct has a very low fee structure, and pointed to the favorable review from Morningstar on this point. Mr. Morvant added that Hartford Funds had recently reduced its fees for CHET Advisor, and have included third party, passive investments.

Representative Davis expressed concern that 529 savings could negatively impact students' ability to qualify for other financial aid. Mr. Alexander noted that CHET is preferable to loans. Ms. Malaspina and Ms. Savino both agreed with the benefits of CHET.

Representative McCarty asked how the plans reach out to high schools. Ms. McLaughlin stated that there are scholarship opportunities for high schoolers and expressed an interest in reaching students early in life to promote savings.

Representative Sanchez asked how the plan reached out to preschool and school readiness programs. Ms. McLaughlin responded that these programs are the target of their grass roots efforts.

Representative Sanchez then asked about efforts to reach the Latino community. Ms. McLaughlin described CHET Direct's use of Spanish language marketing, as well as bilingual staff for outreach events. She also described TIAA's work with MEGA Education, an organization that conducts outreach in urban schools.

Discussion of Federal Tax Changes and the Impact on CHET

Christine Shaw led a discussion on the implications for CHET following federal tax changes enacted in December of 2017. She highlighted its expanded use for K-12 tuition at private and independent schools, and that funds can be rolled over into ABLE accounts. She reported on guidance provided by the Connecticut Department of Revenue services, stating that Connecticut will exclude interest earnings in the same manner as the federal government, provided that withdrawals are for a qualified purpose. She added that the 2017 revenue loss associated with Connecticut filers deducting contributions (capped at \$5,000 for single filers and \$10,000 for joint filers) from their adjusted gross income totaled \$11.4 million. She also reported that the program managers for each CHET program have been asked to continue tracking withdrawals for beneficiaries under 16.

Ms. Savitsky asked for an update of ongoing planning around CHET. Ms. Shaw reported a review of the benefit design and the marketing approach. Representative Davis asked if there was evidence that individuals were abusing the plans. Ms. Shaw responded that there was a low incidence of plans being opened and closed within a year.

Next Meeting Date

Ms. Savitsky announced plans to schedule a meeting within six months of the annual meeting.

Adjournment

Ms. Savitsky called for a motion to adjourn, which was seconded. The meeting adjourned at 10:48 a.m.

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