



Annual Evaluation of the
CONNECTICUT HIGHER EDUCATION TRUST

For the Period Ending December 31, 2015

Submitted to:

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

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 2015 meeting, held on December 3, 2015, were:

<i>Denise L. Nappier</i>	<i>State Treasurer</i>
<i>Gayle Slossberg</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>Gail Lavielle</i>	<i>House Ranking Member, Education Committee</i>
<i>John Fonfara</i>	<i>Senate Chair, Finance, Revenue and Bonding Committee</i>
<i>Jeffrey Berger</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>Christopher Davis</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 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 manages total combined assets of approximately \$854 billion (as of December 31, 2015).

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. In October 2014, Treasurer Nappier exercised an option in the management agreement to extend the contract with TFI an additional five years, through March 2020. 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 in August 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, 2015, CHET Direct had 104,555 unique accounts with \$2.36 billion in assets. This compares to 98,180 accounts and \$2.29 billion in assets on December 31, 2014, representing an increase of 6.5 percent and 3.2 percent for accounts and assets respectively, and reflecting account redemptions as account owners withdrew funds to pay for beneficiaries’ college expenses. Since inception, over \$1.19 billion has been withdrawn for 34,492 beneficiaries.

Investment Options

CHET Direct now has fourteen investment options (the inception date for 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 Balanced Option (Renamed in 2015, created in 2001 and formerly called High Equity Option)
- Principal Plus Interest Option (2001)
- Global Equity Index Option (Renamed in 2010 and 2015; created in 2006 and formerly called the 100% Equity Option and Equity Index Option)
- Active Fixed-Income Option (Renamed in 2010; created in 2006 and formerly called the 100% Fixed-Income Option)
- Social Choice Option (2007)
- Aggressive Managed Allocation Option (6 age bands) (2007)
- Money Market Option (2008)

- Active Global Equity Option (Renamed in 2015, created in 2010 and formerly called Active Equity Option)
- Conservative Managed Allocation Option (6 age bands) (2010)
- Index Fixed-Income Option (2010)
- International Equity Index Option (2015)
- U.S. Equity Index Option (2015)
- Global Tactical Asset Allocation Option (2015)

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, Blackrock, GE, DFA, Harding Loevner, TCW, 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. The Principal Plus Interest Option is not assessed a program management fee; the total asset-based fees of the other investment options range from 0.18 percent to 1.12 percent, depending upon which option is selected. There is an annual state fee of 0.01 percent of the average daily net assets of the Trust to pay for expenses related to oversight of the Trust (included in the fees above). This was instituted July 1, 2005.

Since Treasurer Nappier became Trustee of CHET in 1999, program management fee reductions for CHET Direct have been negotiated by the Treasury seven times. With the 2010 contract renewal, effective November 2010, the fee structure changed from a flat fee (unitary pricing for all options) to an option-specific fee structure, which is in line with industry standards. The new fee structure includes program management fees, state administrative fees, and underlying mutual fund fees. At the start of Treasurer Nappier's administration, overall fees were 1.55 percent of assets for all participants. As of December 31, 2015, the combination of plan management, administrative and asset-based fees for approximately 90 percent of investments were between 0.01 percent and 0.50 percent.

CHET-Direct Marketing and Promotion

Each year the Connecticut Treasurer's Office works closely with TFI to develop and execute a holistic, 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.

Key highlights for 2015 include:

CHET Baby Scholars

CHET Baby Scholars is a highly visible and important public policy initiative for the state of Connecticut. The Connecticut legislature funded the program with \$4,400,000 from the Connecticut Student Loan Foundation.

With the program officially launching in July 2014, 2015 was the first full year of its operation. By the end of 2015, just over 3,000 families had signed up and \$650,000 had been distributed to CHET accounts for Connecticut's newborns. That represents approximately 5 percent of new births in Connecticut, which is a strong, positive result that is getting more families starting to save earlier for future college costs.

CHET Dream Big! Competition

The Dream Big! drawing and essay competition continued to be one of CHET's flagship events and key awareness drivers for CHET. The 2015 competition resulted in a record breaking 6,200 entries from across Connecticut. Schools in over 75 percent of Connecticut's 169 cities and towns participated. 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 through eighth 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 2015, there were 84 winners, with 4 grand prize winners who received a \$1,000 contribution to a CHET account, and 80 students who received \$500. Significant outreach occurred to reach schools in underserved districts such as Bridgeport, Waterbury, Hartford and New Haven.

CHET Advance Scholarship

In 2015 the CHET *Advance* Scholarship program was offered to high school seniors and ninth graders, with 100 to each group (200 total scholarships). To ensure that this scholarship opportunity reached students with the greatest potential need, half of the scholarships went to students in underperforming schools. For all schools, the older students received \$2,500 for immediate use as they entered college the following fall. The ninth graders were incented to save by granting a \$2,000 scholarship, with opportunity for an additional \$500 match if they saved at least \$500 in their own individual CHET account by the time they graduated from high school. CHET's plan managers, TFI and The Hartford, provide exclusive funding for this program.

Overall CHET has achieved a substantial presence in Connecticut:

- Between the CHET Dream Big! Competition and the CHET *Advance* Scholarship program, CHET reaches students/families/administrators in every grade in every school in Connecticut, including public and private and home-schools. Outreach via Connecticut school systems is one of the best ways to ensure we are reaching all students/families across the state.
- Events targeting low- to-moderate-income communities were scheduled throughout the year to ensure that the CHET message was reaching Connecticut's underserved populations.
- CHET Direct also partnered with other community-based organizations and agencies specializing in promoting financial literacy and economic empowerment, including the annual Latinas in Power Symposium, YWCA Money Conference for Women, college financial planning nights at local high schools, company benefit fairs and more.

- New in 2015, CHET sponsored a unique holiday experience in two malls in Connecticut at year-end holiday time to continue to touch families directly and in-person with information about CHET and saving for college. CHET ran a sweepstakes generating entries from more than 660 persons, a third of whom requested follow up from a CHET representative.

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 31, 2015, CHET Advisor had 21,877 program accounts with \$347,254,477 in assets. This compares to 18,401 accounts and \$297,293,318 in assets from a year earlier. Accounts grew by 19 percent and assets by more than 17 percent 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. Share classes are structured to include compensation for the financial advisor.

Share classes and fee structure are as follows:

Class A: Under the Class A fee structure, there is an up-front sales charge of up to 5.5 percent, 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 0.69 percent to 1.42 percent 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 percent of the amount withdrawn. In addition, there are ongoing asset-based fees equal to an annual charge of approximately 1.44 percent to 2.17 percent 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 0.44 percent to 1.17 percent 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 percent 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

12 Individual Portfolio Options

- Small Cap Growth
- Growth Opportunities
- International Opportunities
- Capital Appreciation
- MidCap
- Global Real Asset
- Equity Income
- Dividend & Growth
- Inflation Plus
- Total Return Bond
- World Bond
- Money Market.