

**Connecticut Higher Education Trust (“CHET”) Advisory Committee
Minutes of the Annual Meeting
December 4, 2014, 1:30 pm**

Members Present:

Denise L. Nappier, Connecticut State Treasurer
Christine Shaw, Deputy Treasurer, Office of the State Treasurer
Kerry Kelly, Office of Policy and Management (representing the OPM Secretary)
Christopher Foster, Board of Regents for Higher Education
Scott Ciecko, Office of Higher Education (representing the Executive Director)
Representative Andrew Fleischmann, House Chair, Education Committee
Representative Tim Ackert, Ranking Member, Education Committee
Senator Antonietta Boucher, Ranking Member, Education Committee
Billy Taylor (representing the House Chair, Finance, Revenue & Bonding Committee)
Jessica Inacio (representing the Senate Chair, Finance, Revenue & Bonding Committee)
Chris Zavagnin (representing the Ranking Senate Member, Finance, Revenue & Bonding Committee)
Patrick Torre, Vice President of Finance, University of New Haven

Members Absent:

Julie Savino, Dean of Students Financial Assistant, Sacred Heart
Margaret A. Malaspina, Director of Financial Aid, Capital Community College
Senator Andrea L. Stillman, Senate Chair, Education Committee

Others Present:

Mike Noone, President, TIAA-CREF Tuition Financing Inc.
Kerry Alexander, Senior Director, TIAA-CREF Tuition Financing Inc.
Elizabeth McLaughlin, Program Marketing Manager, TIAA-CREF Tuition Financing Inc.
Glenn Friedman, Manager, Asset Allocation and Investment, TIAA-CREF Tuition Financing Inc.
Jeffrey Coghan, Assistant Vice President and Director, 529 Plans, The Hartford Funds
Michael Myers, Assistant Director, 529 Plans, The Hartford Funds
Laura Jordan, Assistant Treasurer for Policy, Office of the State Treasurer
David Barrett, Communications Director, Office of the State Treasurer
Pamela Bartol, Assistant Investment Officer, Office of the State Treasurer
Joanne Dombrosky, Principal Investment Officer for Fixed Income, Office of the State Treasurer
Corey SeaQuist, Policy Analyst, Office of the State Treasurer
Lydia Neals, Secretary, Office of the State Treasurer
Claire Shaughnessy, CFA, Partner, Hewitt EnnisKnupp, Inc.

Vacant Appointment:

Finance officer from a public institution of higher education

Call to Order

At 1:07 p.m., in her capacity as acting Chair, Deputy Treasurer Christine Shaw called the meeting to order.

Welcoming Remarks and Introductions

Ms. Shaw acknowledged Treasurer Denise L. Nappier and greeted the Committee. She then asked attendees to introduce themselves. Treasurer Nappier made introductory remarks concerning the heavy debt college students are taking on and how CHET helps pay for college expenses.

Ms. Shaw highlighted CHET's growth and significant milestones in 2014: the plans (both CHET Direct and CHET Advisor) surpassed \$2.5 billion in assets under management and had over 110,000 account holders, compared to the 4,000 accounts with \$18.5 million in assets in 1999 when Treasurer Nappier took office. She added that nearly \$855 million in qualified withdrawals have been taken since the inception of CHET, which helped meet college costs for 27,600 students.

Ms. Shaw commented on the increase in marketing and outreach for CHET, noting that TIAA-CREF Tuition Financing, Inc. spent approximately \$1.4 million on marketing, and that two hundred scholarships were awarded in 2014 through the CHET *Advance* Scholarship. She pointed out the Treasury's partnership with the Governor's Office on the launch of CHET Baby Scholars, a program designed to encourage parents of newborns and newly adopted children to start saving early for college. Ms. Shaw announced that Treasurer Nappier renewed TIAA-CREF's contract for the management of CHET Direct for an additional five-year term and, under the terms of the new agreement, once CHET Direct plan assets reach \$2.5 billion, program fees will be reduced from 15 basis points to 12 basis points.

Ms. Shaw concluded with the news Morningstar affirmed its Bronze rating for CHET Direct, which puts CHET in the top half of 529 plans nationwide.

Next, Ms. Shaw called for a motion to accept the minutes of the meeting of December 5, 2013. Senator Boucher moved acceptance, the motion was properly seconded, and the motion passed.

Presentation by TIAA-CREF Tuition Financing, Inc.

Ms. Shaw introduced Kerry Alexander, Senior Director of TIAA-CREF Tuition Financing, Inc. ("TIAA-CREF" or "TFI"). Mr. Alexander began by introducing Mike Noone, President of TFI, Glenn Friedman, Manager of Asset Allocation and Investment, and Elizabeth McLaughlin, Program Marketing Manager, as part of Connecticut's dedicated CHET Direct team.

Mr. Alexander explained TIAA-CREF is a Fortune 100 financial services company with \$840 billion in assets under management. TFI launched in 1999, and manages eleven state 529 plans across the country. TFI has served as the program manager for CHET Direct since 1999 and its current contractual period runs through March 2020. He stated that plan assets were currently valued in excess of \$2.2 billion with 96,000 accounts, and an average account size is \$23,423 per account. During 2014, account

owners made withdrawals of \$126 million in qualified withdrawals to pay for college, \$5.5 million of non-qualified withdrawals, and \$11.0 million of outbound rollovers.

Representative Fleischmann asked how the percentage of non-qualified withdrawals compared to rollovers. Mr. Alexander replied that 8.6% represented withdrawals for rollovers and 4.4% for non-qualified withdrawals.

Representative Ackert requested a breakdown of the number of qualified withdrawals for in-state colleges and for out-of-state colleges. Mr. Alexander explained that he could only supply information for tuition requests by account owners who directed TIAA-CREF to send payment directly to the college as opposed to the account owner, and that he would share his findings with committee members.

Senator Boucher commented on certain benefits of different 529 plans such as state tax deductions. Treasurer Nappier noted that her advocacy of the tax deduction allowed her to negotiate lower account fees with plan managers. Mr. Alexander discussed how fees decrease when the plan reaches certain milestones.

Next, Mr. Alexander announced that Morningstar gave CHET its Bronze rating, which is assigned to the top half of state-sponsored plans. He explained that Morningstar is an independent investment research firm that monitors college savings plans across the country. It annually rates 529 plans on a five-tier scale running from Gold to Negative.

Senator Boucher asked what distinguished other TIAA-CREF plans that received a higher Morningstar ranking from Connecticut's plan. Mr. Alexander explained that the rating difference had to do with the size of other plans. California, for example, has substantially more assets under management. Treasurer Nappier also noted that a state's governance and internal overview of a 529 plan affected a state's rating. She noted that Connecticut's plan had strong accountability because as a principal fiduciary, the Connecticut Treasurer is responsible to the voters of the state.

Mr. Alexander then introduced Glenn Friedman, who provided a financial overview of the plan. Mr. Friedman discussed CHET's current investment options, which include managed allocation, active, and passive options. Mr. Friedman spoke about three pending additions: the BlackRock Strategic Income Opportunities Fund (BSIX) to the age-based band, the U.S. Equity and International Index options, and finally, the Harding Loevner International Equity portfolio under active investment options.

Next, Mr. Alexander introduced Beth McLaughlin, who gave an overview of the marketing program. Ms. McLaughlin discussed CHET's holistic marketing approach which is implemented throughout the year. She described the marketing channels and tactics that are utilized, including the timing of advertising campaigns and targeted audiences. Ms. McLaughlin explained that CHET is marketed through television, radio, digital media, print, direct marketing and Facebook. She described CHET's major campaigns and promotions: the CHET Dream Big! competition, which will expand in 2015 to include grades 6 through 8; the Hartford's Camp Courant Backpack Donation program; and the CHET *Advance* Scholarship Program. She briefly touched upon the new CHET Baby Scholars Program and noted that 585 accounts had been started as of November 28th. Treasurer Nappier commented that her office has long had an interest in marketing CHET to families with newborns. She noted for the record

that the CHET Baby Scholars program was conceived by Governor Malloy and funded by assets remaining in the Connecticut Student Loan Foundation.

Representative Ackert asked whether CHET was being marketed to grandparents. Ms. McLaughlin responded affirmatively and noted that CHET has a relationship with AARP to market CHET to Connecticut residents. It also utilizes commercials suggesting that grandparents gift CHET contributions to grandchildren.

Presentation by The Hartford Funds

Ms. Shaw introduced Jeff Cohan, Vice President of 529 Programs at The Hartford Funds, and asked him to provide an overview of the CHET Advisor program.

Mr. Cohan began by introducing Michael Meyers, Assistant Director of 529 Programs, and commented on The Hartford's team that supported the 529 Advisor-sold program. He reminded the Committee that CHET Advisor was sold exclusively by financial advisors to residents of the State of Connecticut. Next, Mr. Cohan provided highlights of the program, which launched in October 2010. He announced that there were currently \$278 million in assets under management and 16,348 active accounts. He also spoke about the investment options and the three share classes available for investment. He explained the investment options, including the age-based options, which consist of five age bands; five static portfolios including aggressive growth, growth, balanced, conservative, checks and balances; and 12 individual portfolios.

He further explained the Advisor-sold plan's three investment classes: A, C and E. Class A has an upfront sales charge; Class C has no upfront sales charge but has a contingent deferred sales charge for withdrawals made within one year of deposit; and Class E is only available to certain groups associated with Hartford Life and has no sales charge or deferred sales charge. He highlighted CHET's top 20 selling broker dealers.

Mike Myers then spoke about The Hartford's CHET Advisor sales and marketing program, noting that its partnering firms focused on marketing CHET's 529 programs at different times within the year such as:

- Quarter 1 - Tax Awareness
- Quarter 2 - 529 Awareness/Graduation
- Quarter 3 - Back to School
- Quarter 4 - Holiday Gifting

He highlighted The Hartford's sponsorship of the Connecticut Financial Planners Conference held in April, which is the largest financial planning conference in Connecticut, and also noted that the CHET Baby Scholars program was being marketed to all Connecticut advisors. It has resulted in 138 accounts opened in the first two months of operation.

Mr. Cohan stated that the marketing strategy for 2015 included initiatives to increase the number of financial advisors selling CHET. There are approximately 5,000 advisors in Connecticut and about 2,300 have sold CHET Advisor.

Presentation by the Policy Unit of the Office of the State Treasurer

Ms. Shaw recognized Laura Jordan, Assistant Treasurer for Policy, for the purpose of discussing the CHET *Advance* Scholarship Program and CHET Baby Scholars.

Ms. Jordan updated the Committee on statistics related to the CHET *Advance* Scholarship program and announced that a total of 3,784 students entered the 2014 contest, up slightly from the 2013 total of 3,634 applicants. The winners were from 68 towns in all eight counties.

Next, she announced that in 2014, the state created the CHET Baby Scholars program to encourage college savings for newborns and newly-adopted children. She provided details of the program, including the fact that the state will provide a one-time contribution of \$100 to families who open a CHET 529 college savings account by the child's first birthday or within the first year after adoption. Families who save \$150 dollars within four years will receive an additional state contribution of \$150 for a total state investment of \$250. Any baby born or adopted in Connecticut on or after January 1, 2014 is eligible to opt in to the CHET Baby Scholars program. The opt-in must occur by the newborn's first birthday or adopted child's first anniversary. A new tax refund option will allow Connecticut taxpayers to direct refunds to the program or an individual CHET account. She pointed out the exclusion of CHET accounts from means-tested state-funded programs such as cash assistance and from consideration in financial aid packages at Connecticut state colleges and universities.

Comments

Deputy Treasurer Shaw thanked the members of the Advisory Committee and the General Assembly in particular for its support of CHET and the tax deduction for Connecticut taxpayers. She then opened the floor for comments.

Committee Member Foster asked if it was possible for CHET to give students an incentive to go to a Connecticut college. He was also interested in learning how many qualified withdrawals in the past 24 months were for in-state tuition versus out-of-state tuition.

Ms. Shaw announced the date for the 2015 CHET Annual Advisory Meeting, which is scheduled for December 3, 2015.

Adjournment

With no further comments or questions, Ms. Shaw called for a motion to adjourn.

At 3:32 p.m., on a motion made by Kerry Kelly and seconded by Representative Ackert, the CHET Advisory Committee meeting adjourned.