

Presentation to Senate Appropriations Committee

**Office of the State Treasurer
March 2016**



Capital Financing & Debt Management

History of Vermont's Debt Policies

- In the early 1970s, Vermont lost its Triple-A bond rating, largely because of a significant accumulation of bonded indebtedness. There were three principal causes for the increase in outstanding debt... interstate highway construction, extensive school construction and renovation, and sewage treatment plant construction.
- In 1975, Vermont enacted in statute the so-called “90 percent rule” as a policy device to reduce its large amount of accumulated tax supported debt.
 - New general obligation debt authorization was restricted to 90 percent of the debt being retired in the same fiscal year.
 - The ratio of debt as a percent of personal income, a key benchmark for rating analysts, was reduced from about 11% in the mid-1970s to about 3% in 1989.
 - The 90 percent rule policy was not sustainable and policymakers recognized it would eventually lead to unrealistically small amounts of allowable new debt.
- In 1990 the “90 percent rule” was repealed and the Capital Debt Affordability Advisory Committee was created to provide a new framework for determining the appropriate level of new debt issuance for the State.
- CDAAC Progress: In 1996, Vermont’s debt as percentage of personal income was twice the national median and we ranked 9th highest in the country. In 2012, the State is under the national median for that ratio and ranked 36th highest in the country; Vermont’s debt per capita ranked 34th highest in the country.
- Debt guidelines strengthened in 2004. State now benchmarks against triple-A rated states.
- In February of 2007, Vermont rejoined the ranks of Triple-A rated states when Moody’s raised its rating for the State from Aa1 to Aaa; in April 2010, Fitch “recalibrated” Vermont’s rating from AA+ to AAA; and in September 2012 S&P improved its outlook on Vermont’s AA+ rating from stable to positive although returned it to stable in November 2012.

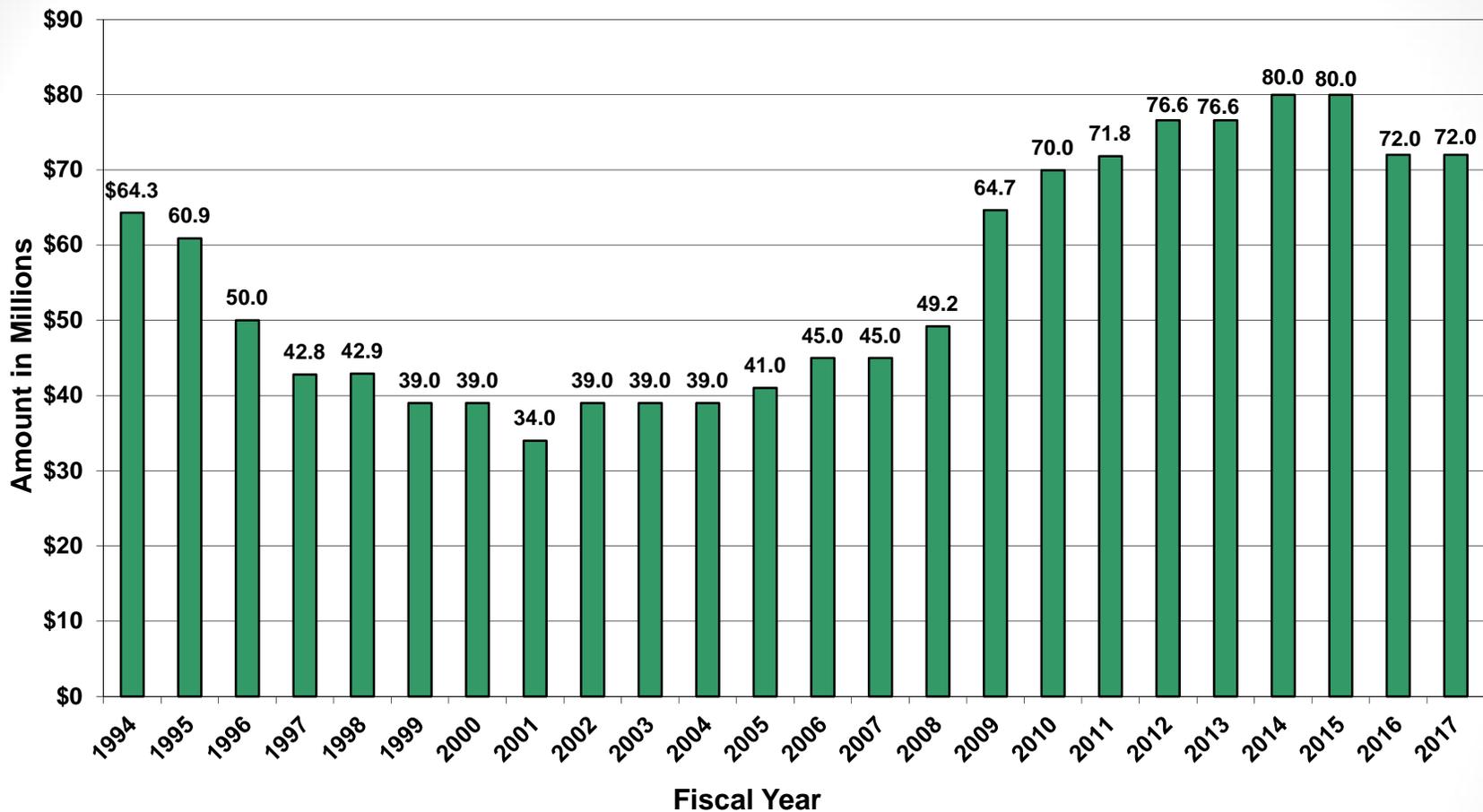
Overall Debt Strategy....

- State has substantially reduced outstanding debt since 1990s, but
 - Need to manage recent trend vs. recent national trend of reductions in bond issuance
- Uncomplicated debt profile, almost entirely general obligation debt
 - Transportation Infrastructure Bonds
- 100% fixed rate
- Level principal produces rapid amortization (reducing debt by quick installment payments)

Capital Debt Affordability Advisory Committee

- The CDAAC was created by State statute in 1989
- Annually reviews affordability of Vermont's net tax-supported debt
- Recommends annual debt issuance to Governor and General Assembly
- Recommendation is advisory; in practice, Governor and Legislature have always adopted
- Reviews amount and condition of bonds, notes and other obligations the State has a contingent liability or moral obligation

State of Vermont General Obligation (G.O.) Debt Authorizations, FY1994-FY2017 (\$ millions)

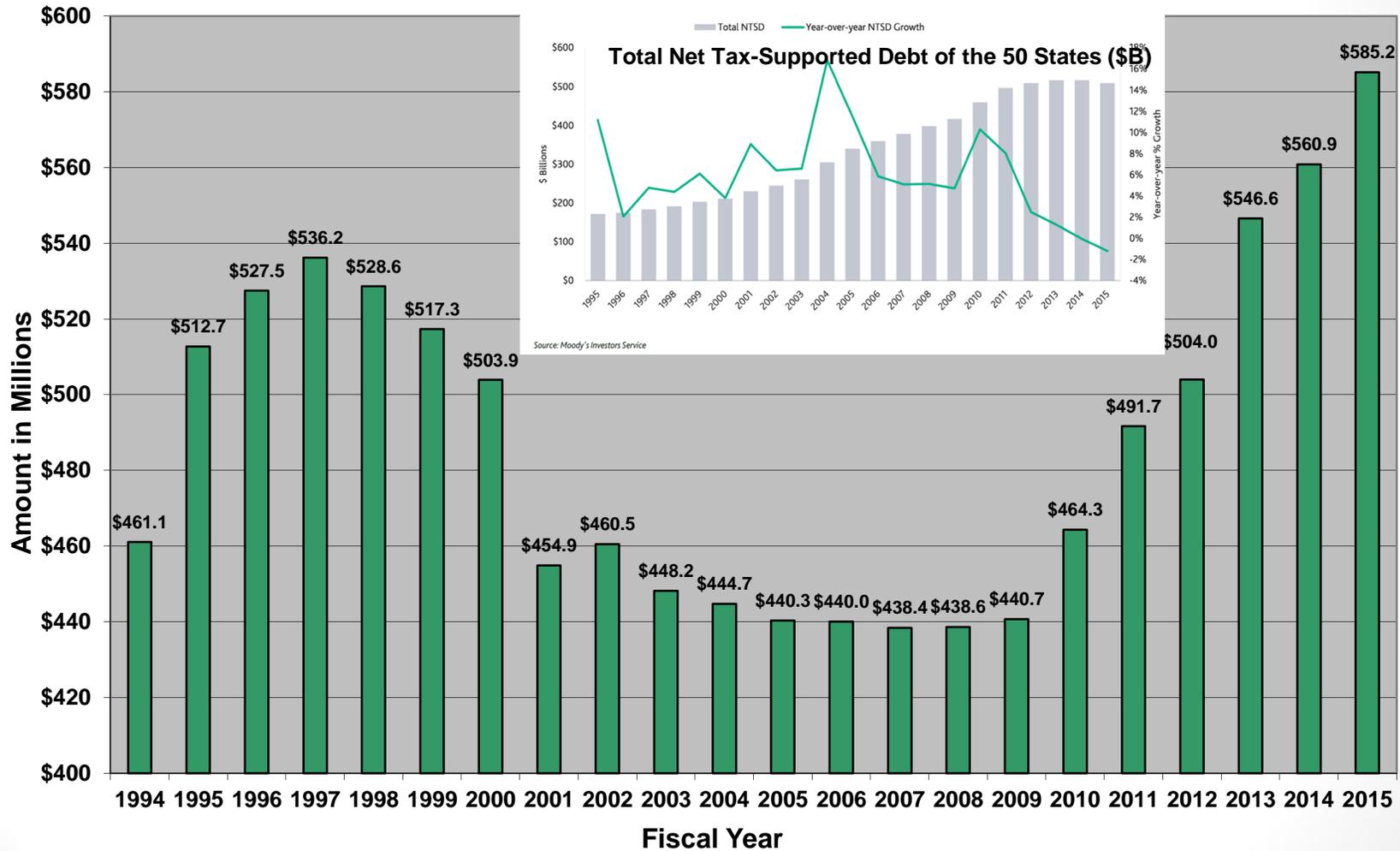


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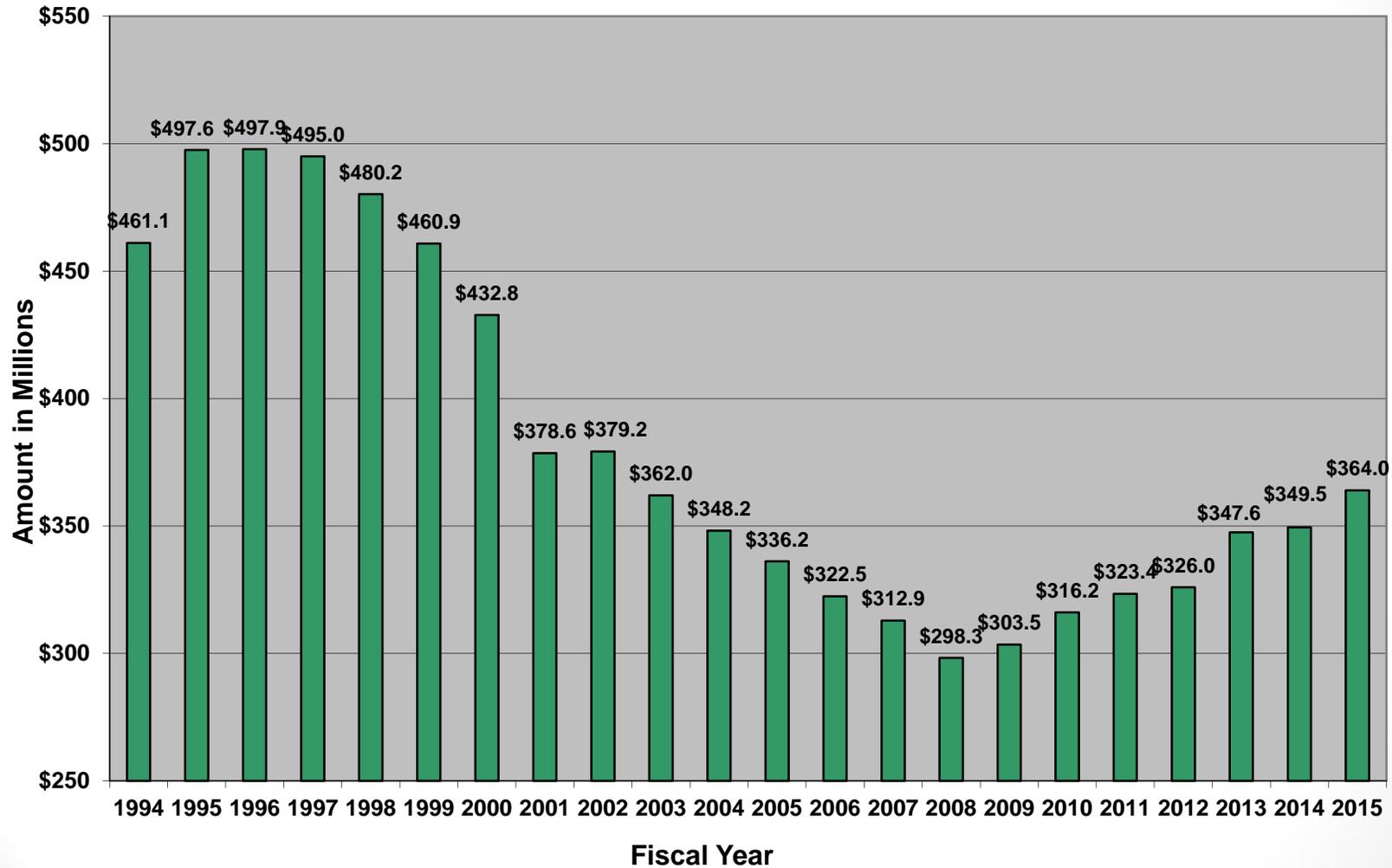
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Note: FY2016-2017 indicates CDAAC 2-year recommended net tax-supported debt authorization of \$144 million.

State of Vermont G.O. Debt Outstanding, FY1994-FY2015 vs. National Trend

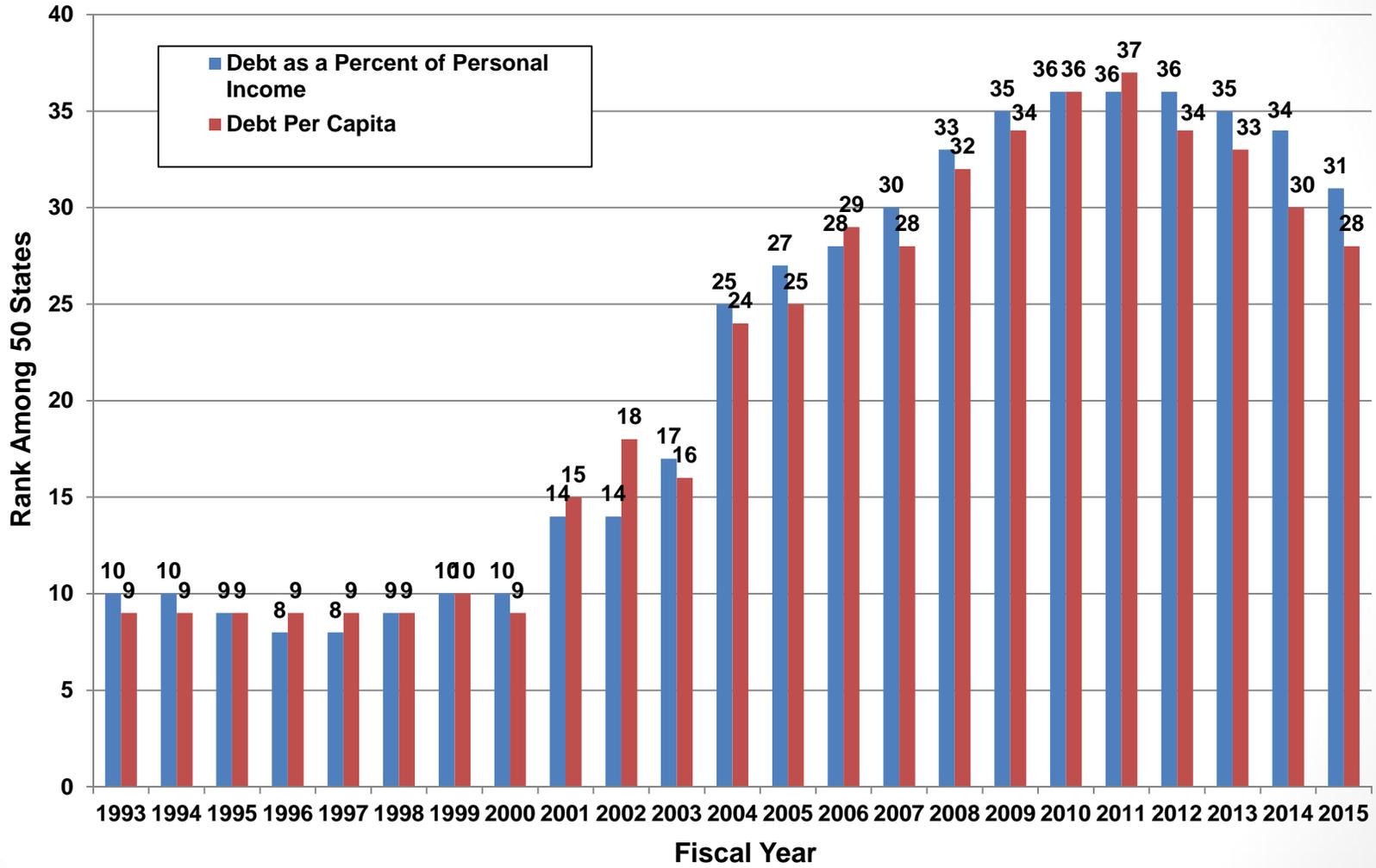


**State of Vermont
G.O. Debt Outstanding, FY1994-FY2015
Adjusted for Inflation (Using 1994 Dollars)**

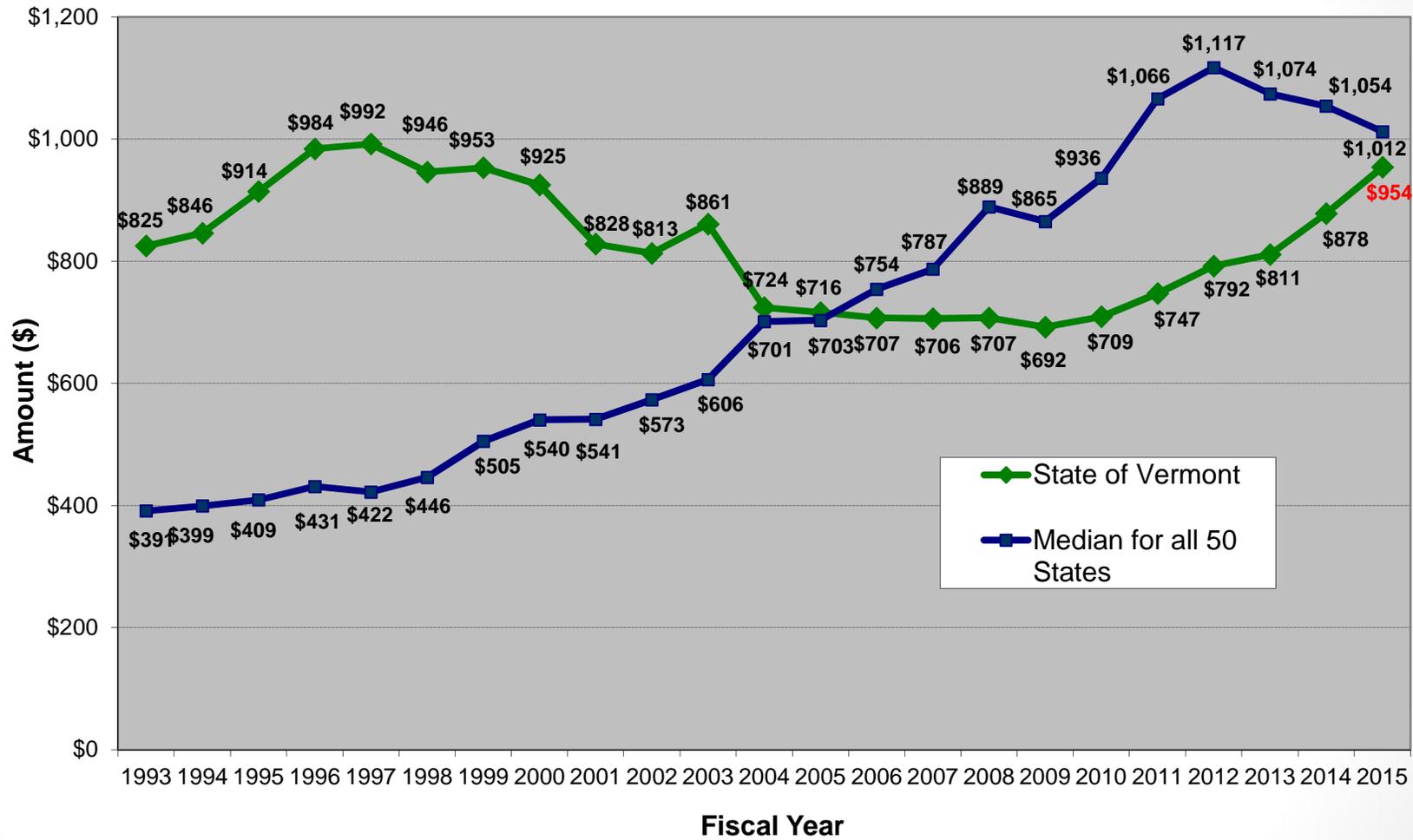


* Source: U.S. Bureau of Labor Statistics, CPI for All Urban Consumers, Not Seasonally Adjusted, June 1994 = 100

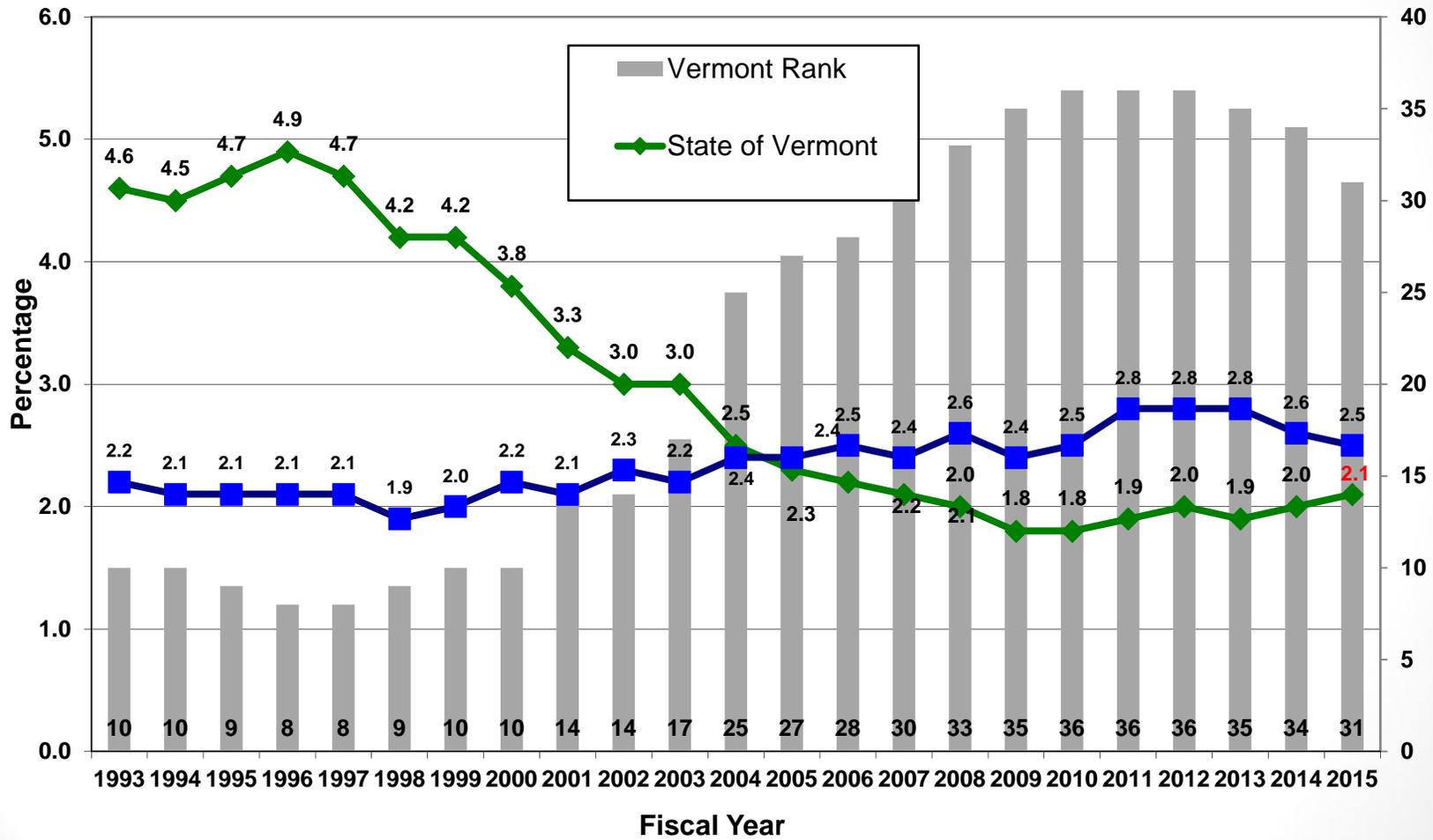
State of Vermont Historical State Debt Rankings



State of Vermont Net Tax Supported Debt Per Capita



State of Vermont Net Tax Supported Debt as a Percent of Personal Income



Vermont's Credit Ratings History

MOODY'S INVESTORS SERVICE

RATING ACTION	DATE
Aaa	1971
Aa	9/20/72
Aa2*	10/20/97
Aa1	9/29/99
AAA	2/05/07

* In 1997, Moody's began refining ratings with numerical modifiers. The shift to the "Aa2" rating was part of this process.

FITCH RATINGS

RATING ACTION	DATE
AA	8/18/92
AA+	10/25/99
AAA*	4/5/10

* Resulted from Fitch's "recalibration" of public sector credit ratings.

STANDARD & POOR'S

RATING ACTION	DATE
AAA	10/2/63
Rating withdrawn	3/23/71
AA	2/28/73
Rating withdrawn	10/16/73
AA	4/25/86
AA-	6/10/91
AA	10/14/98
AA+	9/11/00
AA+	9/18/12

Outlook revised to stable from positive on November 7, 2014

New England Bond Ratings

State	Moody's	S&P	Fitch
Vermont	Aaa	AA+	AAA
Connecticut	Aa3	AA	AA
Maine	Aa2	AA	N/A
Massachusetts	Aa1	AA+	AA+
New Hampshire	Aa1	AA	AA+
Rhode Island	Aa2	AA	AA

* Vermont S&P Outlook revised to stable from positive on November 7, 2014.

Credit Rating Priorities for Legislature

- **Pension Funding:** Continue 100% funding of the annual required contributions (“ARCs”) of the Vermont State Employees’ and State Teachers’ Retirement Systems pension funds.
- **Reserves:** Continue to maintain the 5% budget stabilization reserves, and build the newly-created General Fund Balance Reserve (or “rainy day reserve”) to a target level of 3% of the general fund incrementally and over time.
- **Debt Recommendation:** Continue unbroken record of adopting the Capital Debt Affordability Advisory Committee’s (CDAAC) biennium recommendation of \$144 million net tax-supported debt.
- **Teachers’ Healthcare:** Continue to fund retired state teachers’ healthcare costs from the annual budget, not from pension funds.

Pension & Retirement Operations Overview

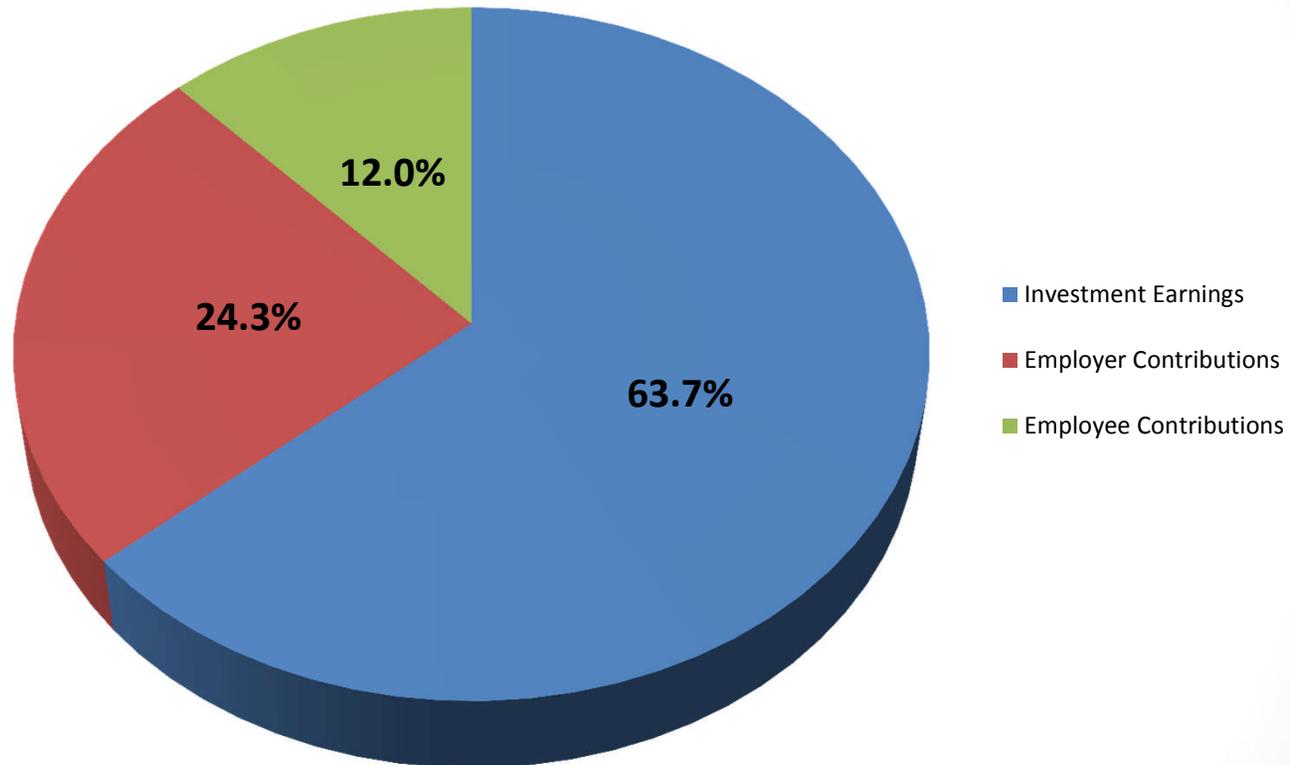
Guiding Principles for a Retirement Plan

Fairness and Sustainability Are Both Essential to Benefit Plans

What Do We Want From Our Retirement Benefit Plan?

- ▶ **Recruitment** – The benefit plan should act as an incentive for recruiting high quality employees. The plan must be competitive with those in other states and within Vermont.
- ▶ **Retention** – The benefit plan should act as an incentive for retaining high-quality employees and maintaining a stable workforce. The plan should also be compatible with changing workforce and demographic trends.
- ▶ **Reward** – The benefit plan should provide a solid foundation for retirement security following a career in public service.
- ▶ **Sustainability** – The cost of the benefit plan should be sustainable and predictable over the long term.
- ▶ **Affordability** – The cost of the benefit plan should be affordable for current and future public employees and other taxpayers.
- ▶ **Fairness** – The benefit plan should be fair to workers and other taxpayers.
- ▶ **Equity** – The benefit plan should be equitable for all parties.

Investment Earnings Comprise the Greatest Source of Revenue



Source: NASRA, [Key Facts Regarding State and Local Government Defined Benefit Plans](#), January 2007.

The Pension Challenge

- Funding for retirement benefits, including health care, is among the largest fiscal challenges facing many state governments, including Vermont
- Health insurance has historically grown much faster than the rate of revenue growth
- Investment losses from the Great Recession significantly impacted pension funding
- At the same time, retirement security is important to Vermont's economic future
- Maintaining a disciplined approach is important to meet these challenges

Pension Funding: How are We Doing?

- Measured by an Independent Actuary

- Three Important Factors:
 1. What is your funded status?
 - Pension Liabilities
 - Assets Available to meet these liabilities

 2. Are you Contributing to Plan at the Recommended Rate
 - ARC
 - ADC/ADEC

 3. Do you have a plan in place to retire the unfunded liability?

New Pension Accounting GASB 67/68

- GASB 68 divorces funding and accounting
 - In prior standard, the focus was on whether the government is making its ARC contributions to adequately fund the plan
 - Under the new standard, the focus is on the size and growth of the NPL
- GASB68, based on fair market value of assets, will lead to more volatility in the NPL and funded ratio reported for accounting purposes
- Unfunded pension liabilities exist today and will tomorrow, much like the amortized portion of a mortgage
- Legislators and pension governing boards will still need to maintain/develop a funding policy to pay off the liabilities
 - Vermont's funding policy established in state statute
- Employers' unfunded pension liabilities are very large but will be paid down via annual contributions to the pension funds over many years

FY 2014/2015 GASB 67 Results

(Dollar Amount in Thousands)

FY 2014

	VSERS	VSTRS	VMERS
Total Pension Liability	2,008,888	2,663,802	543,652
Plan Fiduciary Net Position	(1,657,246)	(1,705,365)	(534,525)
Net Pension Liability	351,642	958,437	9,127
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.50%	64.02%	98.32%

FY 2015

	VSERS	VSTRS	VMERS
Total Pension Liability	2,169,909	2,839,621	613,000
Plan Fiduciary Net Position	(1,624,861)	(1,653,116)	(535,904)
Net Pension Liability	545,048	1,186,505	77,096
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	74.88%	58.22%	87.42%

Funding Progress of the Retirement Systems

State (VSERS)

(amounts in thousands)

	Year ending June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSERS	2015	\$ 1,636,268	\$ 2,178,827	\$ 542,559	75.1%	\$ 462,057	117.4%
	2014	1,566,076	2,010,090	444,014	77.9%	437,676	101.4%
	2013	1,469,170	1,914,300	445,130	76.8%	416,766	106.8%
	2012	1,400,779	1,802,604	401,825	77.7%	385,526	104.2%
	2011	1,348,763	1,695,301	346,538	79.6%	398,264	87.0%
	2010	1,265,404	1,559,324	293,920	81.2%	393,829	74.6%
	2009	1,217,638	1,544,144	326,506	78.9%	404,516	80.7%
	2008	1,377,101	1,464,202	87,101	94.1%	404,593	21.5%
	2007	1,318,687	1,307,643	(11,044)	100.8%	386,917	-2.9%
	2006	1,223,323	1,232,367	9,044	99.3%	369,310	2.4%
	2005	1,148,908	1,174,796	25,888	97.8%	349,258	7.4%
	2004	1,081,359	1,107,634	26,275	97.6%	336,615	7.8%
	2003	1,025,469	1,052,004	26,535	97.5%	319,855	8.3%
	2002	990,450	1,017,129	26,679	97.4%	300,994	8.9%
	2001	954,821	1,026,993	72,172	93.0%	278,507	25.9%
	2000	895,151	967,064	71,913	92.6%	266,519	27.0%
	1999	804,970	876,412	71,442	91.8%	238,281	30.0%
	1998	733,716	804,501	70,785	91.2%	235,956	30.0%
	1997	639,128	753,883	114,755	84.8%	227,000	50.6%

Funding Progress of the Retirement Systems

Teachers (VSTRS)

(amounts in thousands)

	Year ending June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSTRS	2015	\$ 1,662,346	\$ 2,837,375	\$ 1,175,029	58.6%	\$ 576,394	203.9%
	2014	1,610,286	2,687,049	\$ 1,076,764	59.9%	567,074	189.9%
	2013	1,552,924	2,566,834	1,013,910	60.5%	563,623	179.9%
	2012	1,517,410	2,462,913	945,503	61.6%	561,179	168.5%
	2011	1,486,698	2,331,806	845,108	63.8%	547,748	154.3%
	2010	1,410,368	2,122,191	711,823	66.5%	562,150	126.6%
	2009	1,374,079	2,101,838	727,759	65.4%	561,588	129.6%
	2008	1,605,462	1,984,967	379,505	80.9%	535,807	70.8%
	2007	1,541,860	1,816,650	274,790	84.9%	515,573	53.3%
	2006	1,427,393	1,686,502	259,109	84.6%	499,044	51.9%
	2005	1,354,006	1,492,150	138,144	90.7%	468,858	29.5%
	2004	1,284,833	1,424,661	139,828	90.2%	453,517	30.8%
	2003	1,218,001	1,358,822	140,821	89.6%	437,239	32.2%
	2002	1,169,294	1,307,202	137,908	89.5%	418,904	32.9%
	2001	1,116,846	1,254,341	137,495	89.0%	403,258	34.1%
	2000	1,037,466	1,174,087	136,621	88.4%	387,999	35.2%
	1999	931,056	1,065,754	134,698	87.4%	372,299	36.2%
	1998	821,977	955,694	133,717	86.0%	357,899	37.4%
	1997	717,396	849,179	131,783	84.5%	364,695	36.1%

Funding Progress of the Retirement Systems

Municipal (VMERS)

(amounts in thousands)

Year ending June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VMERS						
2015			-----Data Pending-----			
2014	\$ 500,558	\$ 580,972	\$ 80,414	86.2%	\$ 230,969	34.8%
2013	446,236	528,426	82,190	84.4%	220,372	37.3%
2012	417,443	488,572	71,129	85.4%	215,075	33.1%
2011	402,550	436,229	33,679	92.3%	205,589	16.4%
2010	376,153	409,022	32,869	92.0%	202,405	16.2%
2009	331,407	366,973	35,566	90.3%	191,521	18.6%
2008	348,740	343,685	(5,055)	101.5%	175,894	-2.9%
2007	325,774	309,853	(15,921)	105.1%	162,321	-9.8%
2006	288,347	276,552	(11,795)	104.3%	148,815	-7.9%
2005	259,076	248,140	(10,936)	104.4%	146,190	-7.5%
2004	232,890	225,092	(7,798)	103.5%	135,351	-5.8%
2003	222,854	218,533	(4,321)	102.0%	126,216	-3.4%
2002	193,278	176,109	(17,169)	109.7%	106,986	-16.0%
2001	177,928	158,786	(19,142)	112.1%	101,873	-18.8%
2000	161,900	138,697	(23,203)	116.7%	87,147	-26.6%
1999	137,454	114,481	(22,973)	120.1%	70,808	-32.4%
1998	113,678	102,005	(11,673)	111.4%	87,328	-13.4%
1997	96,196	85,686	(10,510)	112.3%	70,800	-14.8%

***For Our Funding Purposes,
the Actuarial Annual Required
Contribution is now the
Actuarially Determined
(Employer) Contribution***

ARC= ADC or ADEC

Annual Required Contribution

- Method by which UAL is eventually paid off (assuming it is funded)
- Annual Required Contribution (ARC):
 - A measure of needed plan funding
 - The actuarially determined pension fund contribution in a single year
- The ARC has two parts:
 1. The Normal Cost
 - The normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.
 - The employer normal cost equals the total normal cost of the plan reduced by employee contributions.
 2. Amortization, which is the annual amount needed to eliminate the unfunded liability over the plan's amortization period

FY 2015 VSERS Valuation Results

- Incorporates an ARC recommendation of **\$48,503,358**
 - Normal \$ 14,181,091
 - Accrued Liability Amortization \$ 34,322,267
- Increase from prior year of **\$2.3 million**
- the July experience study incorporated upward pressures due to the change from the select-and-ultimate rate of return assumption to the lower single rate return assumption of 7.95%, and new mortality assumptions. The Board wanted to undertake a further review of the components of the workforce as they related to mortality as well as salary increase assumptions. As a result two major changes were reflected in the valuation:
 - The mortality tables were adjusted to reflect a blended collar (blue collar, general collar) mix consistent with an analysis of the job titles in the active population
 - Mortality assumptions within the actuarial industry are continuing to evolve and the Treasurer's Office concurs with the Actuary's recommendation to conduct an annual review
 - Long term rates of salary increases were adjusted downward based on data supplied by HR and TRE staff

FY 2015 VSTRS Valuation Results

- Incorporates an ARC recommendation of **\$82,659,576**
 - Normal \$ 8,327,249
 - Accrued Liability Amortization \$ 74,332,327
- Increase from prior year of **\$6.6 million**
- The major upward cost drivers are the change from the select-and-ultimate rate of return assumption to the slightly lower single rate return assumption of 7.95%, and updated mortality assumptions
- Increase in retirements
- Overall, the number of active teachers continues to decline

VSTRS Facts

- Membership as of June 30, 2015
 - 9,585 active
 - 2,260 inactive
 - 1,163 terminated vested
 - 8,484 retired
- VSTRS benefits are currently funded by member contributions, contributions by the state (general fund), and net investment returns
- Investment returns historically provide the majority of funding for pension benefits
- FY2014: VSTRS was funded at 59.9% funded (on a funding policy basis) and 64% funded per GASB 67 standard
- FY2015: VSTRS currently funded at 58.6% (on a funding policy basis), GASB 67 data not yet available.
- VSTRS was not as well funded as the state or municipal plan going into the Great Recession, because of significant periods of underfunding the actuary's recommended contribution and the impact of paying health care in the pension fund without explicit funding sources
- Smaller amounts are attributable to retirement experience, demographic or economic assumptions

VSTRS- Funding History

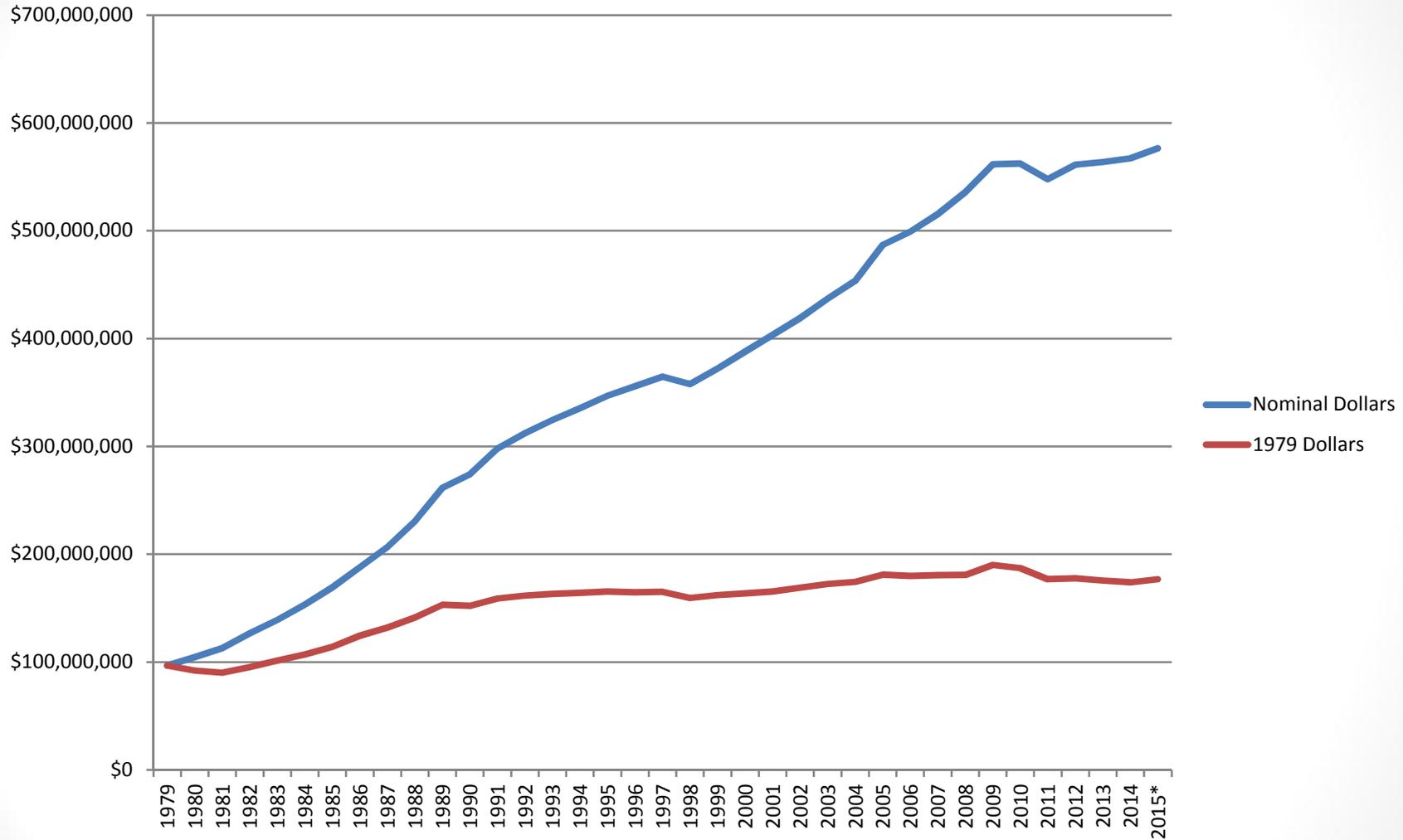
Year	Total VSTRS Payroll	Recommended Contribution For Budget Based on Actuarial Projection	Actual Contribution	\$ Difference: Act vs. Rec. (Uses Budget Beginning 1996)	Percentage of Request	Actual Contribution as a Percentage of Payroll
1979	96,725,620	7,806,825	4,825,155	2,981,670	61.8%	5.0%
1980	104,521,888	8,944,090	8,471,960	472,130	94.7%	8.1%
1981	112,811,389	9,862,861	8,830,900	1,031,961	89.5%	7.8%
1982	126,748,398	10,200,209	7,822,760	2,377,449	76.7%	6.2%
1983	139,085,342	10,721,814	10,929,355	(207,541)	101.9%	7.9%
1984	153,329,729	12,341,069	11,592,100	748,969	93.9%	7.6%
1985	169,219,652	13,475,181	12,567,866	907,315	93.3%	7.4%
1986	187,834,677	14,668,095	14,461,148	206,947	98.6%	7.7%
1987	206,728,650	15,925,452	16,239,416	(313,964)	102.0%	7.9%
1988	230,430,153	16,294,346	17,186,259	(891,913)	105.5%	7.5%
1989	261,596,990	18,072,172	19,000,000	(927,828)	105.1%	7.3%
1990	273,951,188	21,320,155	19,561,000	1,759,155	91.7%	7.1%
1991	298,104,184	25,013,437	15,000,000	10,013,437	60.0%	5.0%
1992	312,346,750	28,595,220	14,618,992	13,976,228	51.1%	4.7%
1993	324,536,824	28,819,875	19,890,048	8,929,827	69.0%	6.1%
1994	335,155,405	25,805,408	20,580,000	5,225,408	79.8%	6.1%
1995	346,975,007	27,451,926	18,080,000	9,371,926	65.9%	5.2%
1996	355,894,809	29,884,559	11,480,000	18,404,559	38.4%	3.2%
1997	364,695,370	30,954,237	18,080,000	12,874,237	58.4%	5.0%
1998	357,899,112	33,519,949	18,106,581	15,413,368	54.0%	5.1%
1999	372,298,852	27,232,542	18,080,000	9,152,542	66.4%	4.9%
2000	387,998,959	23,573,184	18,586,240	4,986,944	78.8%	4.8%
2001	403,258,305	20,882,521	19,143,827	1,738,694	91.7%	4.7%
2002	418,904,021	21,965,322	20,446,282	1,519,040	93.1%	4.9%
2003	437,238,543	23,197,088	20,446,282	2,750,806	88.1%	4.7%
2004	453,517,153	29,608,892	24,446,282	5,162,610	82.6%	5.4%
2005	486,857,658	43,592,332	24,446,282	19,146,050	56.1%	5.0%
2006	499,044,327	49,923,599	24,985,506	24,938,093	50.0%	5.0%
2007	515,572,694	38,200,000	38,496,410	(296,410)	100.8%	7.5%
2008	535,807,012	40,749,097	40,955,566	(206,469)	100.5%	7.6%
2009	561,588,013	37,077,050	37,349,818	(272,768)	100.7%	6.7%
2010	562,149,916	41,503,002	41,920,603	(417,601)	101.0%	7.5%
2011	547,748,405	48,233,006	50,268,131	(2,035,125)	104.2%	9.2%
2012	561,179,272	51,241,932	56,152,011	(4,910,079)	109.6%	10.0%
2013	563,623,421	60,182,755	65,086,320	(4,903,565)	108.1%	11.5%
2014	567,073,601	68,352,825	72,668,412	(4,315,587)	106.3%	12.8%
2015	576,393,699	72,857,863	72,908,805	(50,942)	100.1%	12.6%

VSTRS Demographic Data

Year	Active Members	Inactive Members	Deferred Vested Members	Retired members	System Total	Actives Only			
						Average Age	Average Service	Annual Compensation	Avg
1979	7,515	603	24	2,014	10,156	38.5	8.3	96,725,620	12,871.01
1980	7,665	526	25	2,079	10,295	38.7	8.5	104,521,888	13,636.25
1981	7,713	614	25	2,156	10,508	39.0	8.7	112,811,389	14,626.14
1982	8,143	881	28	2,200	11,252	40.0	9.4	126,748,398	15,565.32
1983	8,116	1,209	29	2,244	11,598	39.6	9.7	139,085,342	17,137.18
1984	8,218	1,312	33	2,285	11,848	40.0	10.0	153,329,729	18,657.79
1985	8,367	1,302	122	2,324	12,115	40.4	10.3	169,219,652	20,224.65
1986	8,549	1,455	142	2,378	12,524	40.8	10.4	187,834,677	21,971.54
1987	8,737	1,493	184	2,430	12,844	41.1	10.6	206,728,650	23,661.29
1988	9,057	1,426	245	2,495	13,223	41.1	10.6	230,430,153	25,442.22
1989	9,487	1,428	286	2,547	13,748	41.8	10.7	261,596,990	27,574.26
1990	9,644	1,417	334	2,577	13,972	42.2	11.0	273,951,188	28,406.39
1991	9,770	1,442	383	2,631	14,226	42.8	11.4	298,104,184	30,512.20
1992	9,763	1,339	427	2,742	14,271	43.2	11.1	312,346,750	31,992.91
1993	9,777	1,267	475	2,799	14,318	43.6	11.5	324,536,824	33,193.91
1994	9,836	1,265	508	2,897	14,506	44.0	11.8	335,155,405	34,074.36
1995	10,110	1,292	393	3,011	14,806	44.2	12.4	346,975,007	34,319.98
1996	10,185	1,465	414	3,092	15,156	44.5	12.6	355,894,809	34,943.03
1997	10,280	1,681	402	3,188	15,551	44.9	12.9	364,695,370	35,476.20
1998	9,808	2,227	381	3,289	15,705	45.1	13.2	357,899,112	36,490.53
1999	10,006	2,278	376	3,485	16,145	44.9	12.2	372,298,852	37,207.56
2000	10,234	2,414	356	3,647	16,651	44.9	12.0	387,998,959	37,912.74
2001	10,264	2,654	495	3,812	17,225	45.1	12.1	403,258,305	39,288.61
2002	10,257	2,932	513	3,991	17,693	44.5	12.4	418,904,021	40,840.79
2003	10,355	2,901	583	4,169	18,008	45.4	12.5	437,238,543	42,224.87
2004	10,315	3,084	560	4,386	18,345	45.9	12.8	453,517,153	43,966.76
2005	10,744	2,906	568	4,592	18,810	44.6	12.6	486,857,658	45,314.38
2006	10,696	2,777	759	4,879	19,111	46.7	13.6	499,044,327	46,657.10
2007	10,675	2,901	741	5,192	19,509	46.7	13.6	515,572,694	48,297.21
2008	10,685	2,929	705	5,555	19,874	46.9	13.6	535,807,012	50,145.72
2009	10,799	2,655	721	5,910	20,085	47.1	13.8	561,588,013	52,003.71
2010	10,509	2,853	718	6,146	20,226	47.1	13.8	562,149,916	53,492.24
2011	10,123	2,675	647	7,005	20,450	46.9	13.8	547,748,405	54,109.30
2012	10,262	2,193	793	7,376	20,624	46.9	13.1	561,179,272	54,685.18
2013	10,101	2,322	751	7,743	20,917	46.6	13.1	563,623,421	55,798.77
2014	9,952	2,416	740	8,086	21,194	46.5	13.2	567,073,601	56,980.87
2015	9,585	2,260	1,163	8,484	21,492	46.2	12.9	576,393,699	60,134.97

Note: Based on data point of 6/30; does not include new hires/transfers/terminations during year but does reflect school year end retirements. Includes members of the teachers retirement system, does not include school staff (non licensed positions) that are included in the municipal retirement system

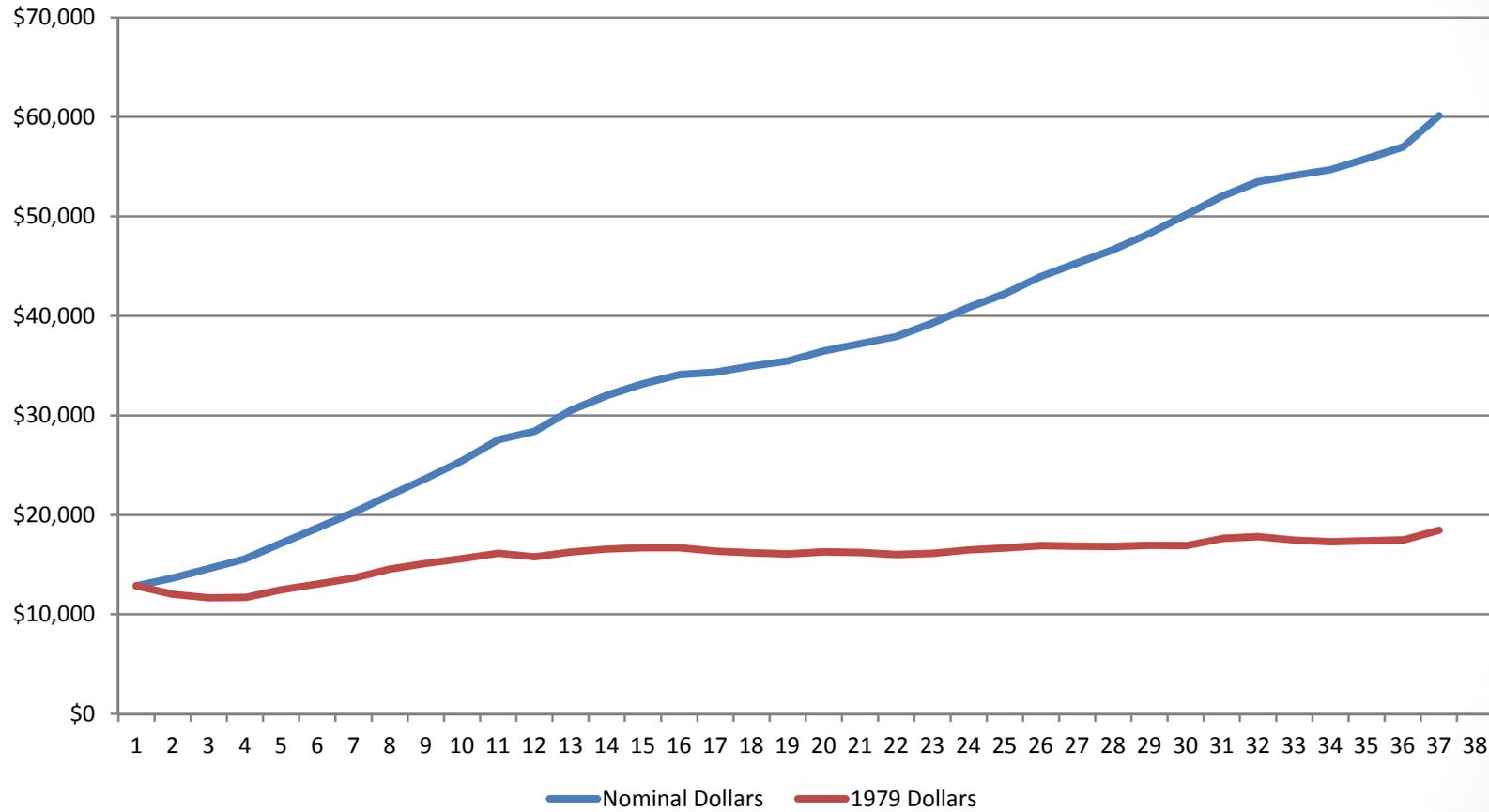
VSTRS Total Active Annual Compensation as of 6/30 by Year



Preliminary Data

*2015: An estimate for 2015 is based on the change in the CPI from second quarter 2014 to second quarter 2015

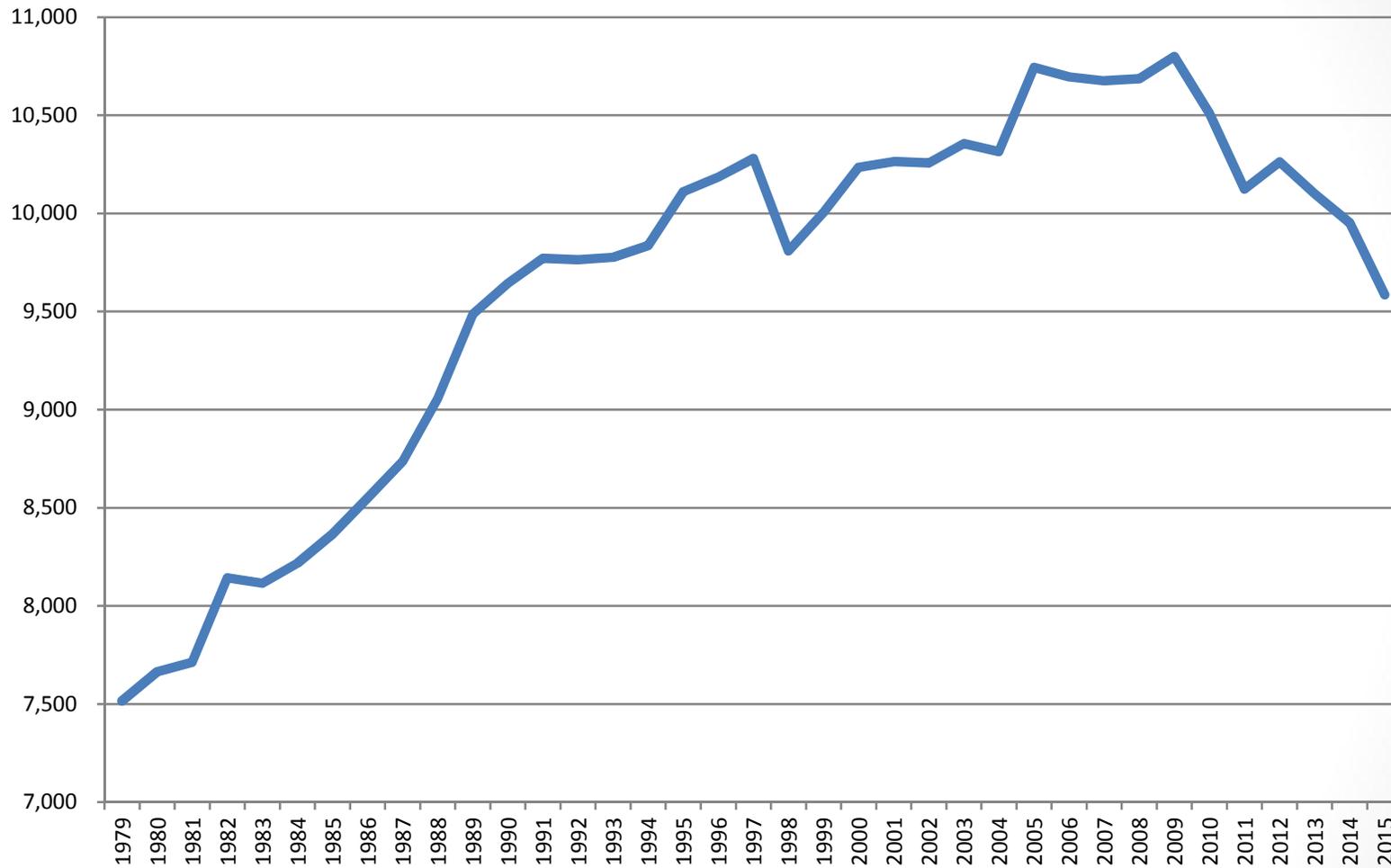
VSTRS Average Annual Salaries as of 6/30 by Year



Preliminary Data

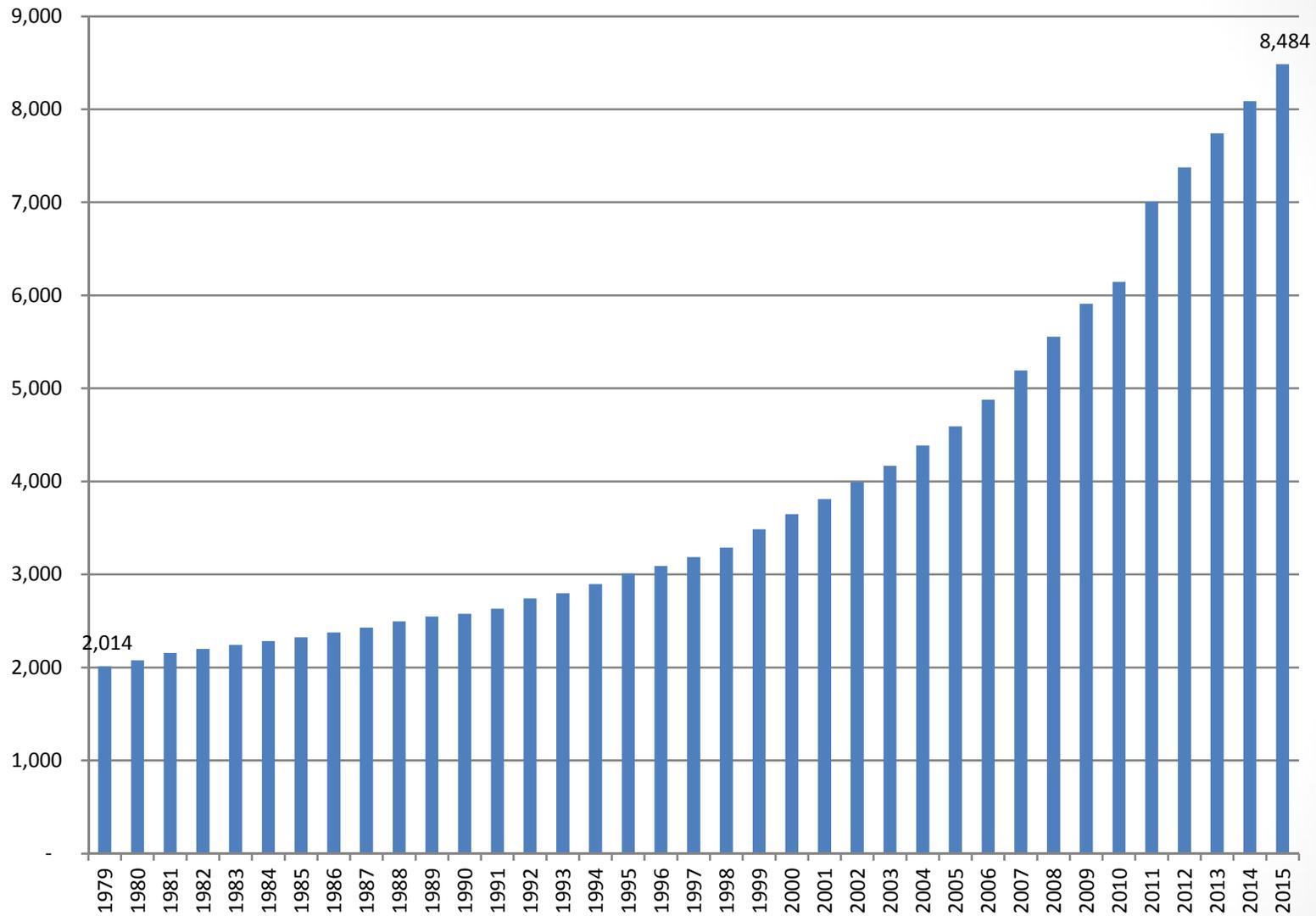
*2015: An estimate for 2015 is based on the change in the CPI from second quarter 2014 to second quarter 2015

VSTRS Active Member Count as of 6/30

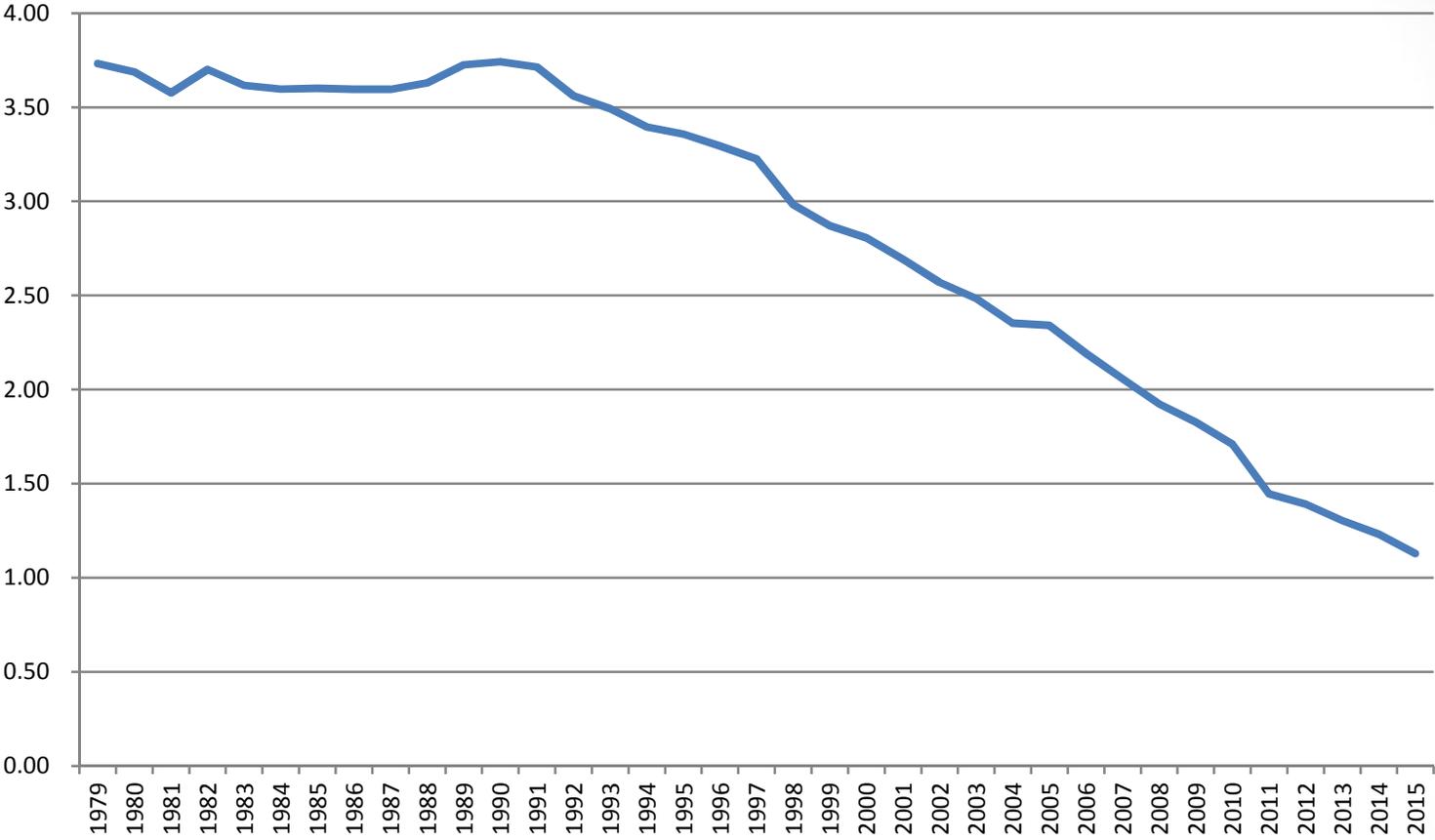


Based on counts as of 6/30 per actuarial data and does not take into account activity +/- during course of the year

VSTRS Growth in Retiree Count as of 6/30 by Year



VSTRS Active to Retiree Ratio



Issues related to Active to Retiree Ratio

- Unlike a “pay-as-you-go” plan such as Social Security, the actuary takes this in account when developing models to prefund benefits.
- The increasing trend may get ahead of actuarial demographic assumptions, creating actuarial losses.
- Trends are indicative of a maturing plan and can make it more difficult to achieve the objectives of full funding.
- Potentially creates more volatility in employer contribution rates.
- As more funds are needed for benefit payments, the system has a greater negative cash flow (benefit payments exceed contributions), requiring more liquid assets to fund these payments.
- Impacts asset allocation strategy over time. May have VPIC impacts.

Amortization

- The amortization period is the expected period of time for UAAL to be paid-in-full
- Amortization payment (of unfunded actuarial accrued liability) : That portion of the ARC plan contribution which is designed to pay interest on and to amortize the UAAL
- Three methods for public plans:
 1. Open amortization period: A period that begins again each time a new actuarial valuation is performed. This is analogous to getting a new 30 year mortgage every year for the unpaid balance of the mortgage started the previous year
 2. Closed amortization period: A specific number of years that is counted from one date and decreases by one each year. This is analogous to a 30 year mortgage (with no re-financing) on date it was set.
 3. Recalculated amortization period: A period that is recalculated each time a new actuarial valuation is performed. This type of amortization commonly applies to plans with a fixed contribution rate (e.g., set in statute)
- Source: PRB, Understanding the Basics of Actuarial Methods, April 2013

Amortization Schedule:

- While the State has a date set in statute, 2038, to pay down the unfunded liability, the payment schedule increases in 5% increments each year
- This has the effect of increasing interest associated with the payment of these liabilities
- Leveling out the payment schedule would increase ARC payments in the short-term but have the effect of **saving the taxpayers millions of dollars over the long-term**
- This would also have the effect of a **more rapid reduction of the unfunded liability**
- Changes to amortization schedule can be phased in to cushion budgetary impact
- Treasurer's Office staff will model alternatives schedules at the Committee's request to obtain an optimum solution

Recommendation: Consider Changes to Pension Funding Amortization Schedules for the Pension Plans

- Potentially phase-in any upward pressures from assumption changes
- Changing the 5% increment to a lower percentage
 - Level out payments
 - More cost in early years but lower the overall cost to pay the unfunded liability “mortgage”
 - Save interest payments by taxpayer over the long-run
 - More rapid improvement of the funded position of plans

Unclaimed Property

Types of Property

Including but not limited to:

- Dormant Savings/
Checking
accounts
- Matured
Bonds/CDs
- Unclaimed wages
- Money orders
- Uncashed checks
- Customer
overpayments
- Bonuses
- Life Insurance
proceeds
- Stock proceeds
- Property
distributable at
dissolution
- Dividends
- Pension/IRA
- Utility deposits

Purpose of Unclaimed Property

- Safeguard and return property to the rightful owners
- Place unclaimed property of unknown owners with the state to benefit the citizens of Vermont
- Relieve holders of the liability
- Establish one central place for owners to search for assets

Holders Must Remit Unclaimed Property to the State

- All types of business associations
- Banks and other financial institutions
- Insurance Companies
- Utilities
- Local governments, courts
- Other legal entities

New Life Insurance legislation

The Treasurer's Office worked with the Legislature in 2013 to enact a consumer protection measure that will require life insurance companies to make a good faith effort to contact beneficiaries when a policy holder has died.

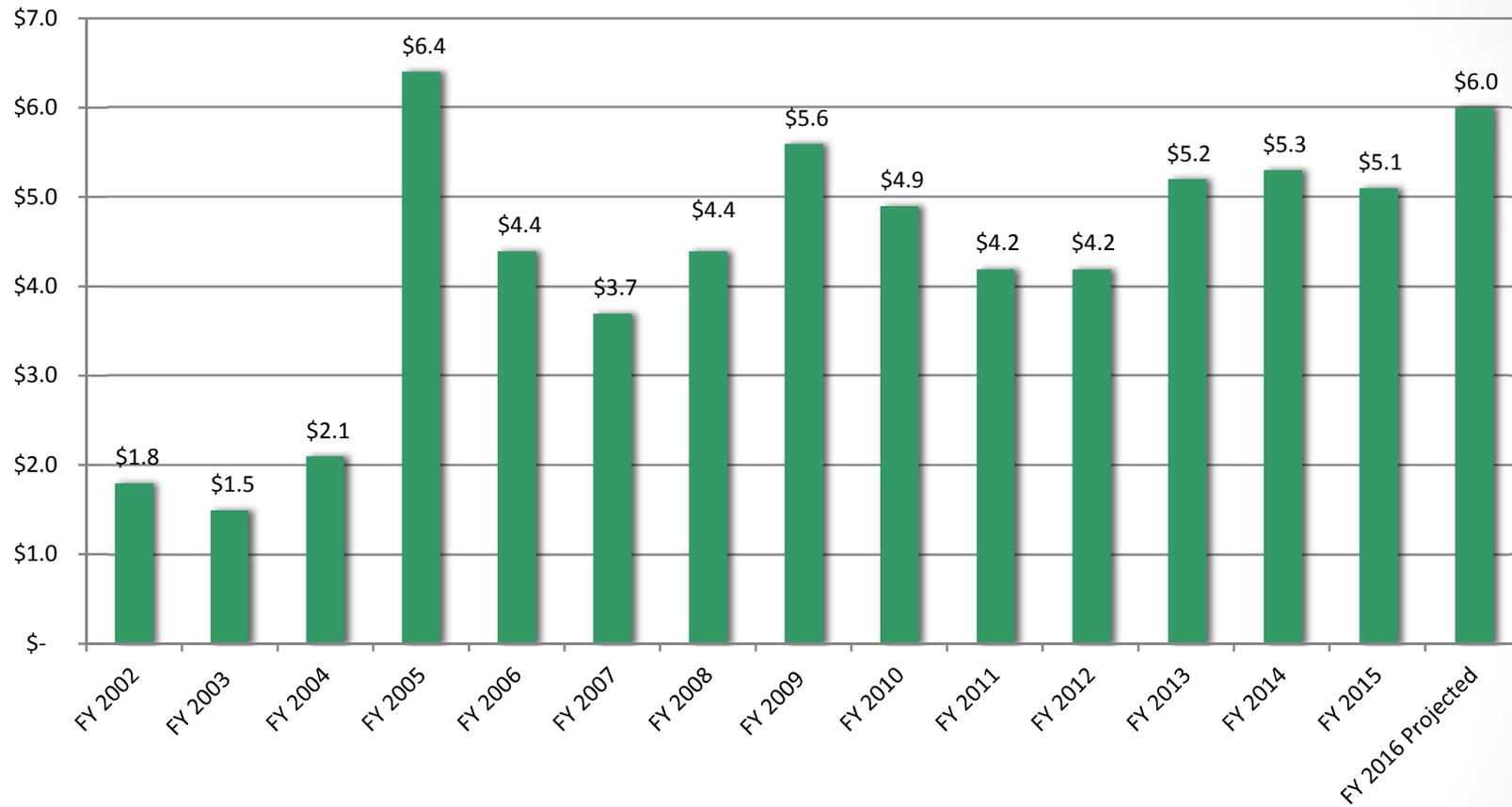
- It establishes a requirement that twice a year life insurance companies use various databases to cross-reference against their lists of life insurance policies to determine if policy holders have passed away.
- It requires the insurer to perform a good-faith effort to locate any beneficiaries and provide the necessary claim forms and instructions within 90 days of identifying a match.
- In the event the beneficiary cannot be located, it requires that the monies be sent to the State Treasurer's Office unclaimed property fund so that efforts may be made to locate the beneficiary.
- Vermont law based on work with National Conference of Insurance legislators (NCOIL). The National Association of Insurance Commissioners (NAIC) currently drafting a model act.
- To date, Vermont has received \$4.9 million for 3,251 beneficiaries and has returned \$2.2 million to 1,116 owners and taking additional steps to find rightful owners. This does not include additional funds sent directly to beneficiaries by the insurance companies as a result of these steps.

Unclaimed Property Remitted to the State Treasurer



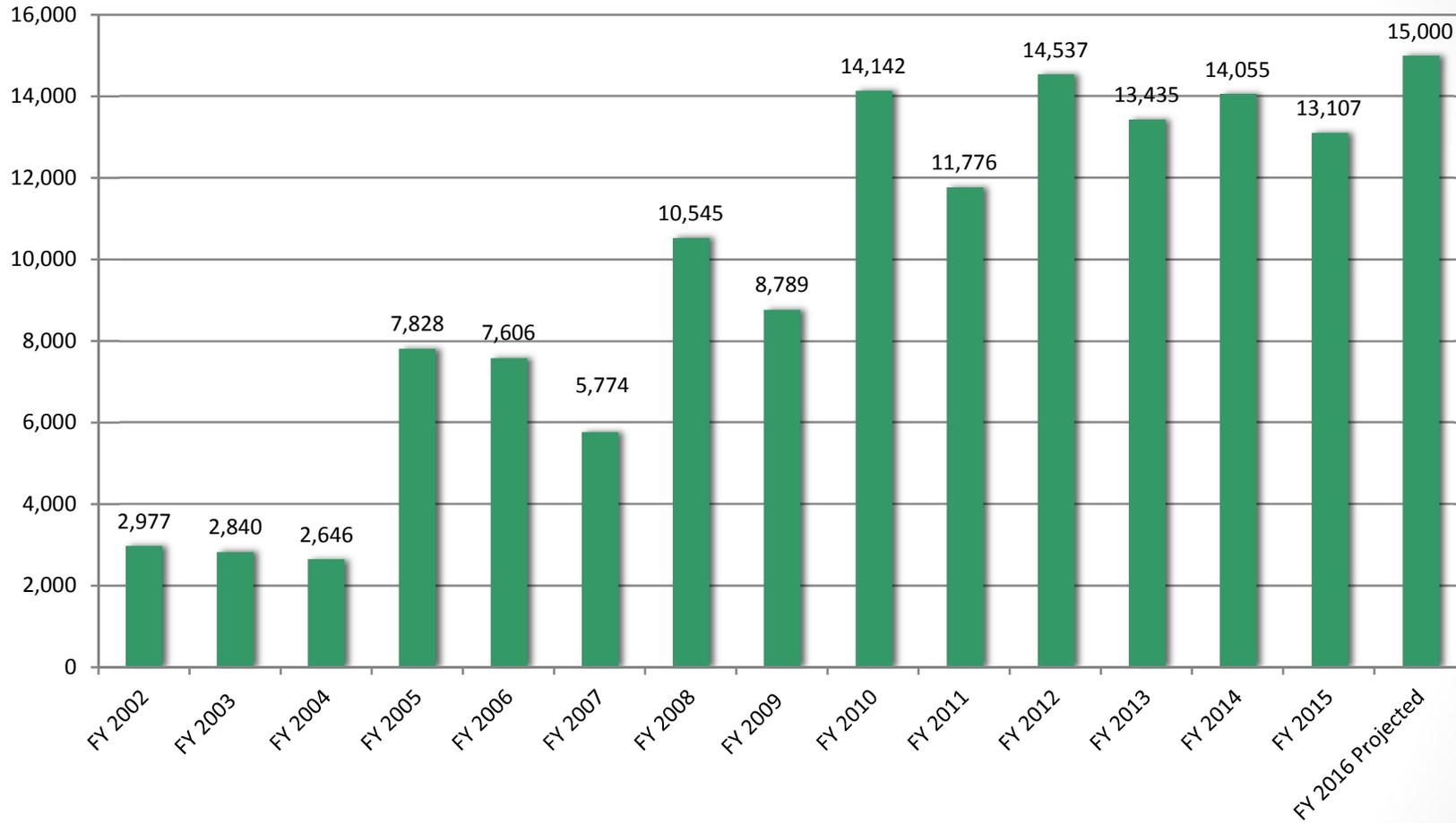
FY 2016 projection updated March 2016

Unclaimed Property Returned to Vermonters



FY 2016 projection updated March 2016

Number of Claimants Paid



Unclaimed Property Transfers to General Fund and Higher Education Fund

	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16--Projected
ALL INCOME	8,899,178	8,387,968	10,338,604	9,642,341	8,642,392	10,573,472	9,000,000
	8,899,178 50%	8,387,968 50%	10,338,604 55%	9,642,341 55%	8,642,392 55%	10,573,472 55%	9,000,000 55%
AMOUNT TO BE RETAINED	4,449,589	4,193,984	5,686,232	5,303,287	4,753,316	5,815,410	4,950,000
CALCULATION OF DUE TO GENERAL FUND:							
ALL INCOME	8,899,178	8,387,968	10,338,604	9,642,341	8,642,392	10,573,472	9,000,000
PRIOR YEAR CARRYFORWARD - (NET)	4,130,415	4,449,589	4,193,984	5,686,232	5,303,287	4,753,316	5,815,410
EXPENSES	13,029,593 574,734	12,837,557 642,037	14,532,588 832,253	15,328,573 744,161	13,945,679 722,045	15,326,788 752,991	14,815,410 730,567
LESS 55% OF FUNDS RECEIVED	4,449,589	4,193,984	5,686,232	5,303,287	4,753,316	5,815,410	4,950,000
LESS CLAIMS PAID	8,005,270	8,001,536	8,014,103	9,281,124	8,470,318	8,758,387	9,134,843
LESS HIGHER ED TRUST FUND	4,996,526	4,265,267	4,289,012	5,277,837	5,389,345	5,111,586	6,000,000
Adj from prior year	47,071 2,188	30,026 -	60,675 -	55,966 -	35,480 -	54,006 -	60,000
DUE TO GENERAL FUND	2,963,861	3,706,243	3,664,416	3,947,321	3,045,493	3,592,795	3,074,843
Original Projection	1,993,024	2,603,135	2,486,162	3,124,737	2,486,566	2,034,123*	2,799,843

* Updated subsequent to Budget Adjustment total which was \$2,012,317

FY 2016 and 2017 projection updated March 2016; current FY 2017 estimate is a general fund transfer of \$2,050,807