2015 Annual Report

Office of the State Treasurer

State of Vermont

Issued January 2016

Beth Pearce
State Treasurer

The Vermont State Treasurer's Office Strives to:

- **Give Vermont taxpayers an excellent value.**
- **Offer the best customer service possible.**
- **Deliver high quality operational services.**
- **Create a productive work environment.**

Office of the State Treasurer / 109 State Street / Montpelier, Vermont 05609 / www.VermontTreasurer.gov

Office of the State Treasurer
Mission Statement

To manage the financial resources within our purview effectively and efficiently and to promote prudent financial practices in the State of Vermont.

Vision Statement

The overall vision of the State Treasurer's Office is to be the best office of the treasury in the U.S.A. This vision is further defined to state that the Treasurer's office staff will:

- **Give Vermont taxpayers an excellent value.**

  Excellent value to Vermont taxpayers implies highly competent investment and funds management; and initiative and creativity to "leave no stone unturned" with regard to either maximizing returns on investments or achieving maximum savings without compromising other office objectives.

- **Offer the best customer service possible.**

  Excellent customer service implies an effort to understand customer needs, a timely and appropriate response, and a proactive approach to solving problems.

- **Deliver the highest quality operational services.**

  Providing high-quality services requires the pursuit of operating practices within the office that utilize valuable resources efficiently.

- **Create a productive employee work environment.**

  A productive employee work environment implies teamwork, satisfied and motivated staff, and an appropriate set of core objectives and values.

Letter of Transmittal

Beth Pearce
State Treasurer

Whether it's the continued financial management and discipline that underpins our superior bond ratings, efforts to provide capital for needed community initiatives, expanding our consumer protection and financial literacy work, or improving the retirement security of Vermont citizens, I am proud of the efforts of the Treasury staff and our partners.

TO: Members of the General Assembly
Honorable Peter Shumlin, Governor
Citizens of Vermont

I am pleased to submit my fifth annual report as your State Treasurer. As you read this report, you will find useful information on the many Treasury related activities and initiatives. As we look at the past year and the initiatives we are working on for the coming year, I see a common thread - collaboration and partnership with our citizens, advocacy groups, government officials, the Administration, and the General Assembly. Vermont gets things done because we work together to identify issues and challenges and develop solutions. Whether it's the continued financial management and discipline that underpins our superior bond ratings, efforts to provide capital for needed community initiatives, expanding our consumer protection and financial literacy work, or improving the retirement security of Vermont citizens, I am proud of the efforts of the Treasury staff and our partners.

You will find narratives outlining our various accomplishments throughout the report. In summary, I would like to group these into several themes and highlight some of these:

- **Commitment to our core responsibilities;**
- **Transparency and accountability;**
- **Consumer protection;**
- **Fiscal discipline and bond rating;**
- **Retirement security for all Vermonters;**
- **Strengthening partnerships with communities and citizens; and**
- **Delivering cost effective services.**

Commitment to Our Core Responsibilities

The Treasurer's office serves as the State's banker and chief investment officer. We are responsible for the State's banking, cash management and financial transaction services, with over $5 billion in annual disbursements. We administer three legislatively authorized public retirement systems (State employees, teacher, and municipal) with just under 50,000 active, vested, inactive and retired members. In fiscal year 2015, we paid more than $276 million to over 17,000 retirees and over $53 million in health care premium payments on behalf of retirees. We administer investment policies and strategic oversight for approximately $3.94 billion in assets for the three defined benefit plans, (State employees, teacher, and municipal) as staff support to the Vermont Pension Investment Committee, as well as additional assets in defined contribution, optional retirement plans, various trusts and operating funds. We act as the steward for approximately $71 million in unclaimed financial property and actively work to return these funds to the rightful owner. We provide financial literacy resources and programs for Vermonters of all ages. In all of these responsibilities, we strive for excellence and the exercise of financial prudence over all the resources within our purview.

Transparency and Accountability

Vermont serves as a model for other states working to implement the association's best practices in voluntary financial reporting.

As reported last year, Vermont was a participant in the National Association of State Auditors, Comptrollers and Treasurers (NASACT) Continuing Disclosures Implementation project and developed a voluntary financial disclosure page for the State's website. I am proud to report that Vermont was the first state in the nation to implement all of the best practices and disclosures recommended by this national organization. We have continued to be leaders in this area. This past August I was named the recipient of the Treasurer's President's Award by NASACT for our work. NASACT stated that, "Vermont serves as a model for other states working to implement the association's best practices in voluntary financial reporting."

On the retirement front, we worked with our legislative and employee group partners to make statutory changes to the disability retirement provisions administered within the Vermont State Employees' Retirement System. This was accomplished to ensure the continuing eligibility for retirees on disability, while including a verification process for outside employment, adjusting retirement benefits when warranted. This provides greater protection to our retirement systems and taxpayers.

In April of this year, I was one of a small group of State Treasurers that called on the Securities and Exchange Commission (SEC) to strengthen disclosure of corporate political contributions. In a joint letter to the Committee on Disclosure of Corporate Political Spending, we urged the SEC to adopt a rule that would require all publicly traded corporations to disclose political giving. I am also part of a national coalition of public pension leaders overseeing approximately $1 trillion in assets that have called on the SEC to strengthen transparency of private equity fees and expenses. As a member of the Investor Network for Climate Risk, we are also seeking increased disclosure of environmental risks in filings with the SEC.

Consumer Protection

Vermont has been a leader in unclaimed property, reuniting citizens with their rightful property. We have implemented new technologies to reach more and more Vermonters. As a past president of the National Association of Unclaimed Property Administrators and one of two state advisors to a national effort by the Uniform Law Commission to revise the national Unclaimed Property Act, I have had the opportunity to work with national groups to assure the continuation of the consumer protections in the law. We have also been leaders in addressing life insurance issues. Vermont passed a law providing for enhanced due diligence by insurers to find the beneficiaries of the deceased insured and has worked with the National Conference of Insurance Legislators (NCOIL) and provided comment to a subgroup of the National Association of Insurance Commissioners on this issue. I want to commend the many Vermont legislators who are members of NCOIL and have advocated for these protections.

We continue to offer well designed financial literacy programs with the aim of assisting Vermonters to attain a lifetime of financial well-being. This past year, I worked with the House Economic Development Committee and other legislative leaders to propose and pass enabling legislation for the ABLE program (Achieving a Better Life Experience) for the creation of tax-free savings accounts to ease the financial strains for individuals with disabilities. We are working with a task force of financial experts, regulatory professionals and disability advocates to implement this program.

Fiscal Discipline and Bond Rating

Maintaining the State's bond rating is a critical issue. The bond rating is an indicator of our economic condition, debt structure, overall financial condition, and the management practices of the State. Vermont has a reputation as a state that meets its fiscal challenges. As a result, we have the highest bond rating in New England. We are rated triple-A by two rating agencies, the highest rating available, and AA+ by the third agency, the second highest rating available to states and municipalities.

A bond rating is analogous to your personal credit rating. Vermont's high bond rating enables us to borrow funds for critical infrastructure projects at low rates that save taxpayers millions of dollars. It also lowers the cost of financing for affordable housing, higher education loans, economic development, and capital projects in our local communities by providing a credit support to the agencies that provide these services. Given that our bond rating has an impact on every city, town, and citizen of Vermont, it is important that we maintain our financial health and take steps to improve it. In the debt management section of this report we discuss this issue and the steps we need to take with our executive, legislative, business community and citizen partners to accomplish this.

Retirement Security for All Vermonters

On the pension front, we continue to advocate for continued policies for full actuarial funding and utilize periodic valuations with reasonable assumptions to assure that the pension systems are achieving the dual goals of benefit security and fiscal responsibility to both members and taxpayers. Our office will continue to review the changes to the benefit system to assess their impact, remain disciplined investors in partnership with VPIC, and develop proactive strategies. As you will see in the pension funding section, we will be submitting recommendations to the General Assembly to improve the financing plan for addressing our unfunded liabilities.

We continue to advocate for continued policies for full actuarial funding and utilize periodic valuations with reasonable assumptions to assure that the pension systems are achieving the dual goals of benefit security and fiscal responsibility to both members andtaxpayers.

We are also committed to raising the retirement security for all Vermonters. I chaired a committee formed to investigate retirement security in Vermont. We found that retirement savings for members of the public in Vermont are insufficient and that serious contemplation of a solution or measures to combat the problem of retirement security need to be taken. Further, an AARP study found that about 45 percent of Vermont's private sector employees— roughly 104,000— work for an employer that does not offer a retirement plan.

Retirement security for all Vermont workers, public and private, is good for the individual and for Vermont. When individuals have adequate and reliable income in retirement, they buy goods and services and that creates jobs. Retirement security is an economic generator. Moreover, studies show that providing retirement security relieves budgetary pressures at both the federal and state levels. We are working on a range of options to address these issues, as outlined in a separate report to the General Assembly. We look forward to identifying and implementing options to address these important issues.

Strengthening Partnerships With Communities and Citizens

The Treasurer's office has been a leader in identifying opportunities to invest locally in Vermont. To the extent possible, within liquidity, safety and yield parameters, we have been successful in executing investment opportunities that keep our dollars in Vermont. We have commitments of approximately $30 million for local investment in the 10 percent in Vermont program and have enhanced financing activities through partnerships with the Vermont Community Loan Fund, NeighborWorks of Western Vermont, the Vermont Housing Finance Agency, the Vermont Economic Development Agency, and others. Since its inception in 2004 and through 2015, we have awarded just over $730 million in certificates of deposits to local banks of varying maturities through the Bank in Vermont program. We have over $122 million invested in the Vermont Manager Program (as of 6/30/2015) for our pension funds. More information on these efforts can be found in the investment section of this report and on our website. We will continue to look for opportunities to invest locally while preserving responsible and disciplined practices on behalf of our citizens.

This past year we also worked with communities and educational agencies across the state as they implemented new pension reporting requirements in their financial statements. In the process, we worked with local government officials, school business officers, CPA firms, the Vermont League of Cities and Towns, and city and town managers. Partnership was clearly the theme as we worked through these issues and were able to provide municipalities and schools with timely and accurate information. This effort is detailed in the retirement section of the report.

Delivering Cost Effective Services

Over the last several years we have completed bond refundings that have saved multiple millions of dollars, including a refunding this year that will save $1.88 million in interest payments.

In all of our activities, our goal is to give Vermont taxpayers an excellent value and we constantly look for ways to provide services in a cost-effective manner. In fiscal year 2014 we delivered the pension information technology project, significantly under budget, and have completed the warranty period this year. This update of the retirement pension administration was a multi-year project to replace an aging COBOL mainframe system from the 1970s. The result has been increased productivity; enhanced database, reporting and actuarial services capability; a state-of-the-art payment system; and new tools to enhance customer service. We have also been able to secure cost-effective back-up systems for this and other technology products.

In our debt management programs, we continually seek ways to manage borrowing at the lowest possible cost to the taxpayer. Over the last several years, we have completed bond refundings that have saved multiple millions of dollars, including a refunding this year that will save $1.88 million in interest payments.

Since last fiscal year and continuing to the present, we have saved substantial fees in our Trust Investment Account through fund restructuring, lowering fees from an average of 38 basis points to 6 basis points. We have also lowered participant fees in our deferred compensation program from 15 basis points in fiscal year 2011 to the current 10 basis points with a plan to reduce these further to 7 basis points in the next few months. The Treasurer's office will continue to seek opportunities to reduce costs to the taxpayer.

Conclusion

I want to thank the Treasurer's office staff for all of the hard work they have done to successfully attain a record of excellence and accomplishment for all Vermonters. I am proud to say I have the best staff in the State and one of the best Treasury staffs in the country. I want to especially thank my Deputy Treasurer, Steve Wisloski, for his hard work and support.

The aforementioned accomplishments, and others to follow in our report, cover a wide range of activities. We will continue to provide the best services at the lowest cost possible to the people of Vermont and work with our partners to promote fiscal discipline, retirement security, local investment and economic prosperity. As we move forward, we recognize that budgets will be tight and taxpayers will expect more from its public servants. I believe we can successfully address these financial concerns, as well as improve the lives of our citizens. Through hard work, resiliency, fiscal prudence, fairness, and partnership we can accomplish this. I am privileged to serve as Vermont's State Treasurer and look forward to working with you on behalf of all Vermonters in the year ahead.

Sincerely,

Beth Pearce
State Treasurer

We will continue to provide the best services at the lowest cost possible to the people of Vermont and work with our partners to promote fiscal discipline, retirement security, local investment and economic prosperity.

CORE VALUES & SUPPORTIVE BEHAVIORS

Integrity above all
Supported by honesty, fairness, trust, and self-reflection.

A strong team spirit
Supported by open communication, mutual respect and support, and consistent treatment of all.

Desire for excellence
Supported by professionalism, accountability, and pride in work.

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Our Commitment to Vermonters

The State Treasurer's Office manages money that belongs to all citizens of Vermont. The Treasurer and staff are committed to doing this efficiently, responsibly, and professionally. The Treasurer's office operates as a business, serving the needs of Vermonters while working to save the taxpayers money and earn the highest possible investment returns in its funds within acceptable risk parameters.

About the Treasurer's Office

We manage money that belongs to all of the citizens of Vermont to support government operations. We are committed to administering these funds professionally, efficiently, and responsibly, and to maintaining Vermont's hard-earned reputation as a fiscally sound, disciplined state.

The State Treasurer's Office serves as the State's banker and chief investment officer. The office is organized into an executive office and five divisions. The executive office is responsible for overall strategic planning, legislative initiatives, constituent relations, debt management, financial literacy, and supervision of the divisions.

Executive Office
(802) 828-1452

Beth Pearce
State Treasurer

Michael Clasen
Deputy Treasurer

Tim Lueders-Dumont
Policy Director

- **Treasury Operations Division:** Responsible for the State's banking, cash management, and financial transaction services.
- **Retirement Division:** Administers three public retirement systems authorized by the legislature, Vermont State Employees' Retirement System, Vermont State Teachers' Retirement System, and the Vermont Municipal Employees' Retirement System.
- **Investment Services:** Provides cash and investment management for the State of Vermont and the three pension systems administered by the office.
- **Unclaimed Property Division:** Serves as the caretaker of abandoned or unclaimed financial property, while seeking to return it to its proper owner.
- **Technology Services:** Responsible for developing and maintaining automated systems, providing appropriate access to information, maintaining the office web site, and maintaining the overall security of the office network and automated interactions with other State departments and entities outside of State government.

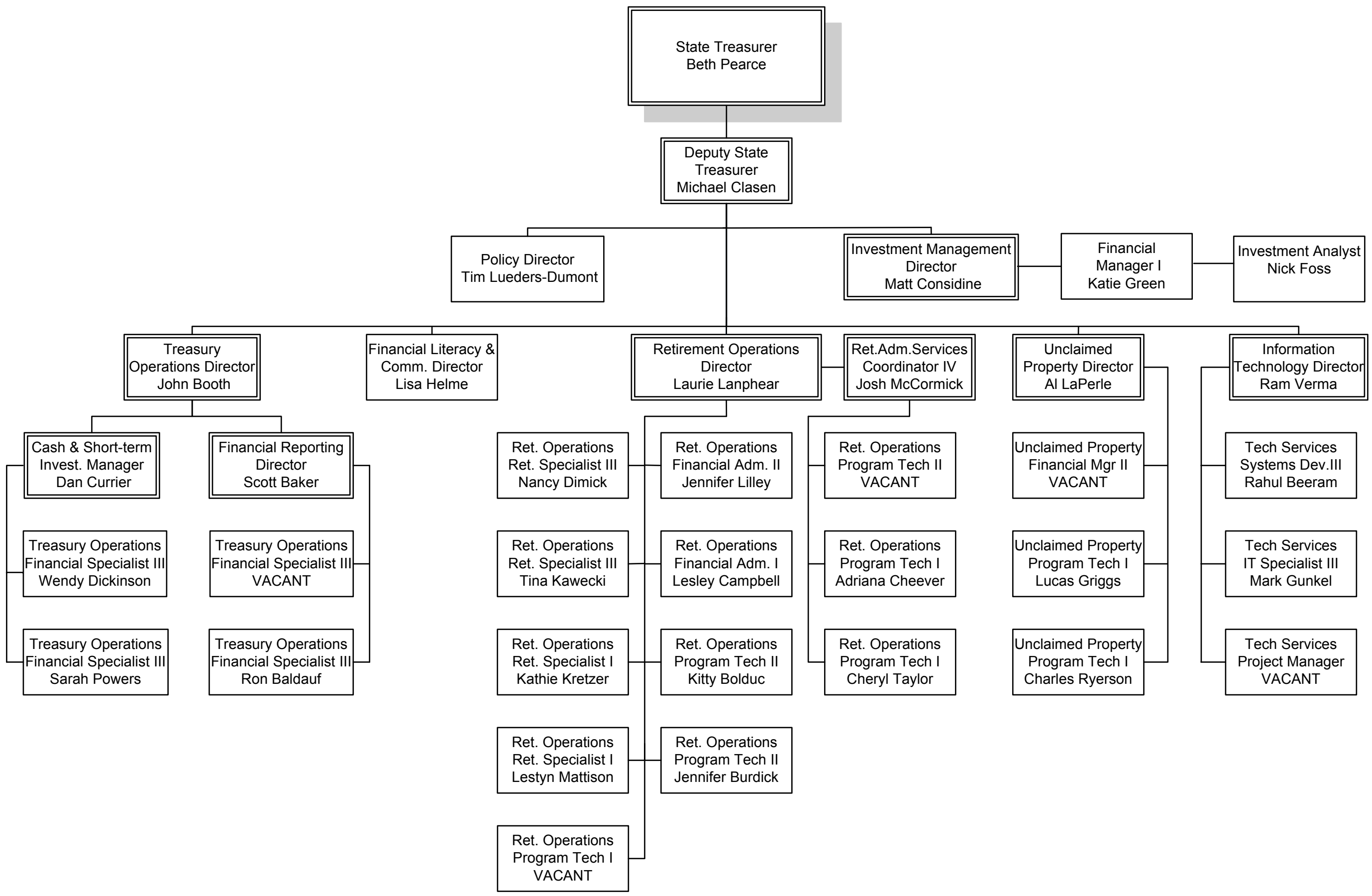
Employee of the Year

The State Treasurer's Office, "Employee of the Year" selection for 2015 was Lisa Helme. She is the Director of Financial Literacy and Communications for the Treasurer's office. As the Treasurer's Office Outstanding Employee for 2015, she was recognized for her work in building the financial literacy program--with programs that serve Vermonters from elementary school to retirement.


Lisa Helme was named the 2015 Employee of the Year for the State Treasurer's Office.

"Lisa continues to grow our successful financial literacy programs," said State Treasurer Beth Pearce. "She has single-handedly created the Treasurer's office programs that include the Reading is an Investment program, Vermont Treasury Cup Challenge and a wide range of workshops and events for adults. She also plays a key role in our communication activities. She is the editor of our retirement newsletter and the director of our unclaimed property marketing campaigns."

Vermont State Treasurer's Office



The State Treasurer's Office is comprised of a team of 36 individuals. The organizational chart and staff listing above are effective as of January 11, 2016.

Specific administrative and service duties as prescribed by State statutes include:

- **Investment of State funds;**
- **Issuing all State bonds authorized by the General Assembly;**
- **Serving as the central bank for State agencies;**
- **Management of the State's cash balances, processing of checks, and the reconciliation of payroll and vendor checks;**
- **Safeguarding and return of unclaimed or abandoned financial property, which is held in trust by the State until the rightful owner can be located; and**
- **Administration of three defined benefit plans, the deferred compensation plan, and the defined contribution plans for State employees, teachers, and participating municipalities.**

Vermont Retirement Systems

Retirement plans administered by the State Treasurer's Office serve approximately 49,787 active and retired members. These plans serve members of the Vermont State Employees' Retirement System (VSERS), Vermont State Teachers' Retirement System (VSTRS), and the Vermont Municipal Employees' Retirement System (VMERS). Each system is overseen by a board of trustees.

ACCOMPLISHMENTS IN 2015

- **As of June 30, 2015 there were 17,227 retirees and beneficiaries receiving pensions totaling more than $276 million annually. The boards of trustees are statutorily charged with establishing rules and regulations for the administration of their systems and for the transaction of their business.**

- **The VSERS board implemented a new disability income verification process for disability retirement members. The goal of this disability verification is to ensure the integrity of the disability retirement program.**

- **The VMERS board worked cooperatively with employer and employee groups in revising rate structures to provide greater stability for the pension fund.**

- **All three retirement boards received notification from the IRS that they are in good standing with the IRS through January 1, 2019. This favorable determination means the retirement plans meet IRS requirements to be treated as tax-exempt. The determination protects the plans from being retroactively disqualified for defective plan amendments that could result in loss of benefits associated with being tax-exempt-qualified and avoid expensive sanctions. The retirement boards and the Treasurer's office have favorably completed the determination process several times since the 1990s.**

- **Three new entities joined VMERS in 2015— the Central Vermont Public Safety Authority, the Town of Jay, and the Mettawee Community School.**

Boards Administration
(802) 828-2305

Joshua McCormick
Assistant to the Boards

The Work of the Boards of Trustees

The boards of trustees are responsible for the administration of the system, management of its assets, and benefit management. The boards delegate the day-to-day administration of the plans to the Retirement Division staff, utilizing the governing statutes and board-established rules and policies as guidelines. If questions arise, or if a member or retiree does not agree with a decision made by staff, they may appeal to their board for re-consideration. The Attorney General's Office provides legal counsel to the boards when necessary. The boards also are charged with approving regular retirement applications, disability retirement applications, and withdrawals from membership. Each board of trustees acts as a fiduciary of the funds held on behalf of its members and retirees. Each board designates an actuary to make an annual valuation of the assets and liabilities of the funds of the system. Based on the actuarial recommendation, the State and teachers' boards advise the Governor on the annual amount of State contribution that should be appropriated for the next fiscal year to achieve and preserve the financial integrity of the funds.

The boards of trustees generally meet once a month. The boards are required to keep a record of their proceedings, which are open to the public. Minutes from each meeting are posted on the Treasurer's office web site. To read in detail actions taken by the boards, go to www.VermontTreasurer.gov and click on "Retirement" located in the menu on the left side of the page. Each retirement system has its own set of web pages. Click on the pension plan for VSERS, VSTRS or VMERS. There is a link to each system's board of trustees located in the menu on the right side of the page. For updates on the individual systems, see the Retirement Division Operations section of this report. Information on pension fund performance is located in the Investments section of the annual report.

UPDATES

Changes in Board Members

All three retirement boards of trustees said good-bye to exceptional board members in 2015. Kevin Gaffney vacated his position of chairman of the VSERS board and his position as VSEA representative as he took a new position in State government. James Reardon, the commissioner of the Department of Finance and Management, retired from the State of Vermont. The VSTRS board saw Vaughn Altemus, a long-time board member, retire from the Agency of Education. Long-time board member and chairperson, Steven Jeffrey, retired from his position as director of the Vermont League of Cities and Towns.

The VSERS board welcomed four new members to the board in 2015: Jay Wisner, Judy Rosenstreich, Jean-Paul Isabelle and Andy Pallito. Roger Dumas was elected to chair of the board when Kevin Gaffney vacated his position. The VSTRS board welcomed two new members to the board, Daniel Raddock and Debora Price. The VSTRS board re-elected Jon Harris as chair to the board through July, 2019. The VMERS board welcomed Mel Hawley, from the Town of Vergennes, as a new member to the board. Peter Amons was elected as chair of the VMERS board.

Membership of the Three Boards of Trustees

(As of Jan. 1, 2015)

Vermont State Employees' Retirement System

Secretary Nancy Dimick

Roger Dumas, Chair, VRSEA
Tom Hango, Vice Chair, VSEA
Beth Pearce, State Treasurer
Andy Pallito, Commissioner, Dept. of Finance & Management
Maribeth Spellman, Commissioner, Dept. of Human Resources
Jay Wisner, Governor's Appointee
Jeff Briggs,VSEA
Judy Rosenstreich, VSEA
J.P. Isabelle, Alternate-VSEA
Allen Blake, Alternate-VRSEA

Vermont State Teachers' Retirement System

Executive Secretary Kathie Kretzer

Jon Harris, Chair, Active Teachers
Joe Mackey, Vice Chair, Retired Teachers' Association
Justin Norris, Active Teachers
Beth Pearce, State Treasurer
Dan Raddock, Department of Financial Regulation
Debora Price, Department of Education
Linda Deliduka, Alternate, VRTA
Vacant, Active Teachers Alternate

Vermont Municipal Employees' Retirement System

Secretary Tina Kawecki

Peter Amons, Chair, Employee Representative
Tom Golonka, Vice Chair, Employer Representative
Beth Pearce, State Treasurer
David Rowlee, Employee Representative
Mel Hawley, Employer Representative

Retirement Division Operations

Overview

It was an exceptionally busy year for our Retirement Division. In addition to maintaining the regular schedule of counseling and administrative tasks, the division responsed to the increased demand for service resulting from implementation of a retirement incentive for State employees. The division works diligently to serve the needs of the approximately 49,787 active, vested and retired members. Three statutorily defined benefit plans comprise the backbone of the Vermont Retirement System. The three plans are the Vermont State Employees' Retirement System (VSERS), Vermont State Teachers' Retirement System (VSTRS), and the Vermont Municipal Employees' Retirement System (VMERS). The largest expenditure for all three defined benefit plans is the retirement benefit. During fiscal year 2015, the three retirement systems paid out more than $276 million in monthly benefit payments. In addition, both the Vermont State employees' and the teachers' retirement systems have traditionally offered health insurance to their members by picking up a portion of the premium – up to 80 percent for participating retired teachers and 80 percent for participating retired State employees and their dependents. In fiscal year 2015, these health care expenses for the two retirement systems totaled more than $53.07 million. The Vermont Municipal Employees' Retirement System does not offer a health insurance plan, but instead instituted a health retirement savings plan in fiscal year 2008.

Retirement division staff:

- **Oversee enrollments, transfers, and refunds;**
- **Provide individual retirement counseling as it pertains to the system;**
- **Conduct retirement system workshops;**
- **Process employee and employer contributions;**
- **Make adjustments to members' accounts for all active members;**
- **Oversee, for retired members, the issuance of payroll, dependent changes, payment adjustments, and replacement checks; and**
- **Maintains all retiree data and ensures the timely processing of monthly pension payment checks.**

ACCOMPLISHMENTS IN 2015

- **The Retirement Division staff calculated approximately 8,318 retirement estimates for prospective retirees and met with 1,132 individual members to provide retirement counseling during fiscal year 2015. The staff conducted 31 member informational sessions across the state with 872 individuals in attendance.**

- **In response to a retirement incentive program for State employees passed by the State Legislature in June, 2015, the Retirement Division identified eligible employees, processed 311 submitted applications, conducted retirement workshops, and followed through with the retirement process for 221 employees.**

- **The Treasurer's office implemented changes to disability provisions within the Vermont State Employees' Retirement System. A new verification process was put into place and the information sent to impacted employees on disability retirement.**

Retirement Operations

(802) 828-2305
(800) 642-3191 (toll free in VT)

Laurie Lanphear
Director of Retirement Operations
Nancy Dimick
Retirement Specialist III
Tina Kawecki
Retirement Specialist III
Kathleen Kretzer
Retirement Specialist I
Lestyn Mattison
Retirement Specialist I
Josh McCormick
Ret. Adm. Services Coord. IV
Jennifer Lilley
Financial Administrator II
Lesley Campbell
Financial Administrator I
Kitty Bolduc
Program Technician II
Jennifer Burdick
Program Technician II
Cheryl Taylor
Program Technician I
Adriana Cheever
Program Technician I
Vacant
Program Technician I
Vacant
Program Technician I

UPDATES

Retirement Incentive Offered to State Employees

Legislation passed in June, 2015, offered a retirement incentive to retirement-eligible State employees. The goal was to reduce the State payroll and help prevent employee layoffs. The incentive included a cash payment dependent on years of service credit. The Retirement Division identified 989 eligible employees, of whom 311 submitted applications. There were 221 employees that followed through with the application process and 119 employees that retired effective October 1, 2015. The remaining 102 employees were granted extensions, as permitted by law, to retire between November, 2015, and March, 2016. Executive branch employees who had worked for the State for 5-15 years received $750 per year of employment. Those with 15 years or more of service were eligible for $1,000 per year they worked for the State. The maximum payable under the incentive was $15,000. The incentive is to be paid to recipients in two equal payments in fiscal years 2016 and 2017. The incentive payments will be paid from operating funds, not pensions.

State & VSEA Partner to Reform Disability Pension Process

Changes to disability provisions administered within the Vermont State Employees' Retirement System were made to ensure continuing eligibility for retirees on disability, while including a verification process of outside employment to make adjustments to retirement benefits when warranted. The update to the disability provisions within the VSERS retirement laws enables the Treasurer's office to ensure someone is not receiving disability payments while gainfully employed elsewhere. At the same time, the update provided reemployment opportunities for retirees who are no longer disabled. The following changes were made as part of the miscellaneous retirement bill, Act 18, signed into law by the Governor on May 7.

- System members receiving a disability payment must annually file a statement with the State Treasurer certifying the full amount of income earned during the preceding calendar year.
- Disability retirement is subject to earnings limitations. If a member earns income that exceeds the difference between the individual's disability payment and his or her average final compensation at retirement, the person will refund the difference.
- If the retirement board concludes that the member on disability is engaged in, or is able to engage in gainful employment and declines to do so, the board may modify the disability retirement payment.
- Employees who are no longer disabled will have re-employment rights consistent with other State employees.

Retirement Division Performance Indicators - FY 2015

Activity	2015	2014	2013	2012	2011	2010	2009
Estimates	8318	6196	6,344	6,028	7,019	7,231	7,999
Individual Counseling	1132	824	751	889	1,054	1,077	1,196
Retirements	1118	1081	1,082	1,068	1,008	1,023	907
Withdrawals	1382	1,198	1,257	1,393	1,312	1,386	937
Deaths	463	329	377	349	376	291	316
Seminars	31	33	42	26	45	64	90
Seminar Attendance	872	752	1,243	783	1,000	1,496	1,623

These numbers are for the fiscal year, not calendar year. The chart above does not include 2015 retirement incentive activity, as those occurred in fiscal year 2016.

Comparative Information--Vermont Retirement System

Vermont State Employees' Retirement System (VSERS)

Active Members	June 30, 2015	June 30, 2014	% Change
Vested	5,465	5,637	-3.05%
Not Vested	2,981	2,688	10.90%
Total Active members	8,446	8,325	1.45%
Average Age	46.54	45.21	2.94%
Average Service	11.71	11.77	-0.51%
Average Compensation	$ 54,707	$ 52,574	4.06%
Retired Members and Beneficiaries			
Number	6,204	5,980	3.75%
Annual Retirement Allowances	$ 111,516,073	$ 104,452,793	6.76%
Inactive Members	891	867	2.77%
Terminated Vested Members	735	732	0.41%

Vermont State Teachers' Retirement System (VSTRS)

Active Members	June 30, 2015	June 30, 2014	% Change
Vested	7,295	7,720	-5.51%
Not Vested	2,290	2,232	2.60%
Total Active members	9,585	9,952	-3.69%
Average Age	46.23	46.53	-0.64%
Average Service	12.88	13.15	-2.05%
Average Compensation	$ 60,135	$ 56,981	5.54%
Retired Members and Beneficiaries			
Number	8,484	8,086	4.92%
Annual Retirement Allowances	$ 160,847,936	$ 147,409,221	9.12%
Inactive Members	2,260	2,416	-6.46%
Terminated Vested Members	1,163	740	57.16%

Vermont Municipal Employees' Retirement System (VMERS)

Active Members	June 30, 2015	June 30, 2014	% Change
Vested	4,026	4,129	-2.49%
Not Vested	2,659	2,535	4.89%
Total Active members	6,685	6,664	0.32%
Average Age	48.71	48.87	-0.33%
Average Service	8.73	9.13	-4.38%
Average Compensation	$ 37,369	$ 34,659	7.82%
Retired Members and Beneficiaries			
Number	2,539	2,359	7.63%
Annual Retirement Allowances	$ 21,215,360	$ 19,065,769	11.27%
Inactive Members	1,958	1,817	7.76%
Terminated Vested Members	837	692	20.95%

Disability retirement is a form of pension given to members who are permanently or temporarily unable to work due to illness or injury and provides needed retirement security to members. Disability requests will continue to be reviewed by the Medical Review Board and the VSERS Board of Trustees.

Funding Overview

The VSERS, VSTRS and VMERS plans are defined benefit plan systems. In a defined benefit plan, there is a promise to provide members with a monthly benefit beginning with each member's retirement through a statutory formula generally based on average final compensation and years of service. In order to fulfill the promise of paying employees future retirement benefits, each system has developed a funding plan. The primary objective of funding is to equitably allocate costs between generations of taxpayers and provide retirement security to members and retirees, who then have assurance that their future and current benefits will be paid.

The funds come from three sources: employee contributions, employer contributions and investment income. Interest earned on investments from the retirement fund is the largest source of funds used to pay benefits. As more members approach retirement, it's anticipated that significant increases in benefit payouts will occur as employee life span lengthens and health care expenses rise.

Each system must accumulate funds to meet future funding needs. The amount of funding that must be set aside each year for future benefits is determined by an independent professional actuary retained by the board of trustees for each system. All three boards have retained Buck Consultants. There are several factors that impact the funding needs of the system. First, the actuary must use one of several accepted methods to allocate costs to a particular year. While new government accounting standards, to be discussed further in this report, will standardize much of this for accounting purposes, states may have different methods for funding purposes. In Vermont's case these are set by statute for the VSTRS and VSERS. Some features of the municipal (VMERS) system are also codified. As will be demonstrated later, the selection of the actuarial method can have a significant impact on funding results and progress.

Funding a pension benefit also requires the use of actuarial assumptions to estimate future events. These include demographic, economic and experience assumptions. Demographic assumptions relate to the characteristics of the members. Economic assumptions pertain to such factors as the rate of salary growth and the future expected investment return on the fund's assets. Past experience, depending on the size of the plan, may provide insights that may be relevant to the assumption-setting process. The assumptions are set by the boards of trustees, based on the advice of the actuary and are reevaluated through periodic experience studies. The interest rate assumption is set jointly by the respective board of trustees and the Vermont Pension Investment Committee (VPIC), based on advice by the actuary and the VPIC investment consultant.

For VSTRS and VSERS, Buck Consultants makes a recommendation to the retirement boards in October of each year as to the amount of funds that the State must contribute to keep the system on a funding plan. This in turn, is adopted by the boards in the form of a recommendation to the Governor and the General Assembly as to the amount that must be appropriated for the upcoming fiscal year. The State's contributions to each system are based on percentage rates of each member's annual earnable compensation. In the case of VSERS, it is then increased for any expenses (excluding investment expenses) to be appropriated in the upcoming fiscal year. The various State cost centers/funds are assessed an employer contribution based on the payroll associated with the cost center/fund. VSERS funding requirements are then calculated as a percentage of the State payroll and are remitted to the pension fund as an employer contribution with each bi-weekly payroll. As actual payroll for the year may vary from estimated totals and from pay period to pay period, reconciliation is completed by the State during the course of each year to assure that the entire recommended amount is paid to the system. In the case of VSTRS, an appropriation is made from the general fund and does not include provision for retirement system expenses. Beginning in fiscal year 2016, the general fund appropriation will be offset by expected employer contributions from local educational entities.

The contributions have historically been referred to as the annual actuarially recommended contribution or ARC. Under the new government accounting rules described below, the ARC is no longer the proper terminology, but has been replaced by an actuarially determined (employer) contribution or ADC or ADEC. For purposes of discussion, and because of the familiarity of the term, the Treasurer's office will continue to use the term ARC.

The ARC consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the unfunded accrued actuarial liability. The unfunded liabilities for VSERS and VSTRS are amortized over a 30-year period ending in 2038.

The actuarial method for both the VSTRS and the VSERS plans is set by State statute. Through fiscal year 2005, the method used was entry age normal (EAN) with frozen initial liability (FIL). The legislature enacted a statute change revising the method to entry age normal without FIL for the actuarial valuation for the year ending June 30, 2006. This change in methodology effectively reset the starting balance. Under the previous method, the unfunded liability was frozen at 1988 levels. Any impact of underfunding subsequent to the "freezing" of the liability in 1988 falls to normal cost, instead of being added to the unfunded liability as in more conventional funding methods. In the case of VSERS, changing the method did not have a significant impact because the contributions received closely mirrored the actuarial requirements.

For the teachers' system, where considerable underfunding occurred in the 1990s and early 2000s, the FIL methodology effectively misrepresented the funded status of the plan. This issue was also exacerbated by the paying of health care premiums from the pension plan. As a result, VSTRS was not as well funded as the State or municipal plans going into the Great Recession and has suffered as a result. During that period, the VSTRS board, Treasurer's staff and professional actuaries made consistent efforts to convey the need to fund the actuarially required contribution to both the Administration and the General Assembly. The high cost of these liabilities today is largely attributable to the failure to adequately fund these in the past. Smaller amounts are attributable to retirement experience and demographic or economic assumptions.

While the VMERS also completes an annual valuation for the system, an ARC is not calculated. Instead the actuary makes recommendations as to employer rates that are assessed to each participating employer (municipalities, schools, other governmental organizations). In the past, the VMERS has used a hybrid funding method. The VMERS board is in the process of evaluating both the method and period of amortization of the unfunded liability. While ranges have been developed under different methods that permit the setting of rates for the majority of participating members (and therefore employers) and specific members participating in group A and B of the plan, no final determination has been made on employer contribution rates for the two remaining plans within the system (C and D). Therefore, funding data is incomplete at the time of the publication of this report. We expect to provide an update on the employer rates to the General Assembly over the next few months.

Funding Progress of the Retirement Systems - (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%
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%
VMERS	2015	**2015 data to be provided upon finalization of VMERS actuarial data.**					
	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%

Funding Valuations

The Treasurer's office worked with the actuary to complete both the GASB 67 and funding valuations of the pension system. The funding valuations results are below.

Teacher Plan	2014	2015
Actuarial Accrued Liability	$ 2,687,049,333	$ 2,837,374,737
Actuarial Value of Assets	$ 1,610,285,523	$ 1,662,345,707
Unfunded Liability	$ 1,076,763,810	$ 1,175,029,030
Funding percentage	59.9%	58.6%

State Plan		
Actuarial Accrued Liability	$ 2,010,089,866	$ 2,178,826,481
Actuarial Value of Assets	$ 1,566,075,540	$ 1,636,267,663
Unfunded Liability	$ 444,014,326	$ 542,558,818
Funding percentage	77.9%	75.1%

Municipal Plan		
Actuarial Accrued Liability	$ 580,972,276	**Information Pending**
Actuarial Value of Assets	$ 500,557,919	
Unfunded Liability	$ 80,414,357	
Funding percentage	86.2%	

Funding Valuations

Pension funding remains an area of concern, particularly for the teachers' retirement system. The funded ratios (the actuarial value of a systems' assets divided by the systems' liabilities) were 58.6 percent for VSTRS and 75.1 percent for VSERS in fiscal year 2015. Both ratios are below the fiscal year 2014 ratios of 59.9 percent and 77.9 percent, respectively. These are problematic as a generally well-funded system should be more than 80 percent. VMERS data is not available at this time, but the system is in a significantly better funding position.

This past year the retirement systems undertook experience studies to assess the actuarial assumptions used to develop the pension liabilities. The result was a lowering of the interest rate assumption and changes to the mortality tables for VSTRS and VSERS. In the past year, market returns have been flat. This did not have a significant impact on this year's funding because it was offset by prior year's gains not recognized that year because of actuarial smoothing. Overall return and the reduction of interest rate assumptions for future market returns, however, increased long-term liabilities. The mortality changes also have had an impact, although the interest rate assumption is the more significant factor. As life expectancy increases, the payments required of the system also increase, leading to increasing liabilities.

In the teachers' system, there was upward pressure based on increasing retirements, although this was partially offset by teacher salary experience. There has been some positive experience in the teachers' retirement system from the legislative action requiring the separation of retiree health care expenses from the retirement expenses. This will have an increasingly positive impact in the future as we will be eliminating the compounding actuarial losses. That should help with the funding of the VSTRS plan.

The Treasurer will be bringing some additional proposals to the legislature to change the way we are financing the unfunded liabilities of the two systems, which should reduce the overall long-term cost to the taxpayer. These recommendations relate to the amortization period, which is the expected period of time for the unfunded actuarial accrued liability to be paid in full. While the State has a date set in statute, 2038, to pay down the unfunded liability, the payment schedule increases in 5 percent increments each year. This has the effect of increasing interest associated with the payment of these liabilities and making payments rise each year at a rate higher than inflation. Leveling out the payment schedule would increase the actuarially required contribution (ARC) payments in the short-term, but have the positive effect of saving the taxpayers millions of dollars over the long-term. This also has the effect of a more rapid reduction of the unfunded liability. Changes to the amortization schedule can be phased in to cushion the budgetary impact. During this legislative session, the Treasurer's office will model alternative schedules as we work with the Vermont General Assembly to develop an optimum financing plan.

GASB Changes to Accounting

Fiscal years 2014 and 2015 marked a significant change in the way that pensions are calculated for accounting purposes and represented on the State's balance sheet, as well as those of participating schools and municipalities. The Governmental Accounting Standards Board (GASB) is the source of generally accepted accounting principles (GAAP) used by state and local governments. It was established in 1984 and in 1986 the first GASB accounting standards for pensions (GASB 4 and 5) were issued. At the same time, there were competing or overlapping standards for the private sector. This was addressed in 1994 when GASB issued new standard for public sector pension plans: GASB 25, Financial Reporting for Pension Plans by the plan and GASB 27, Financial Reporting for Pension Plans. These standards had a strong link between funding and accounting and included six options for funding method and options for amortization for the Unfunded Actuarial Accrued Liability or UAAL. The net effect has been an apples to oranges problem when comparing pension systems and their funded status across the county. To address this and create new standards for accounting purposes, GASB issued two new statements in 2012:

- GASB 67: accounting for the plan by the plan, effective for fiscal years beginning after June 15, 2013; and
- GASB 68: Employer Reporting, effective for fiscal years beginning after June 15, 2014.

GASB 67 and 68 essentially divorces funding and accounting. In prior standards, the focus was on whether the government was making its ARC contributions to adequately fund the plan. Under the new standard, the focus is on the size and growth of the net pension liability or NPL, which is akin in concept to the UAAL under the prior standard. However, since GASB 68 is based on the fair market value of assets, this will lead to more volatility in the NPL and funded ratio as reported for accounting purposes. Therefore, GASB recommends that governments review and develop separate funding valuations and the State

Single Deposit Investment Account

The Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan reported in the Pension Trust Funds, was established according to the provisions of Public Act 41 of the 1981 session. As of June 30, 2015, there were 1,555 SDIA members, with net assets of $57.34 million. The SDIA was intended to provide an investment vehicle in which to deposit contributions made by members of the State and teachers' contributory retirement systems who voluntarily elected to transfer to the newly established non-contributory retirement systems. In addition to the initial deposits made into the SDIA in 1981, there were three subsequent opportunities (in 1984, 1987, and 1990) for contributory members to transfer to the non-contributory plans and invest their accumulated contributions and interest in the SDIA. No new monies have been invested in the SDIA since 1990. Administrative services for the SDIA are provided by Empower Retirement. Empower Retirement administers the day-to-day activities of the SDIA, including maintaining all demographic and beneficiary information, processing all requests for withdrawals and minimum distributions, and maintaining member account value information.

has done this.

The Net Pension Obligation (NPO) on the government-wide financial statements under the previous GASB standard has now been replaced by the NPL. The new statements also require the use of one method, rather than the six previously applicable. The new requirement is to use the entry age normal method, which has had the advantage of being the same method used by VSERS and VSTRS (although different than VMERS) with some minor variances (except the major variance of market vs smoothed asset values). The results of the GASB 67 plan calculations completed by Buck Consultants are below.

FY 2014/FY 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%

Under the prior standards, municipalities did not need to disclose a portion of the VMERS unfunded liability on their books. That has now changed and entities (school systems, municipalities, other governmental organizations) participating in VMERS, or having their own defined benefit system, will need to record in their GAAP Entity-Wide financial statements (not the general fund) the net pension liability, pension expense, and pension related deferred outflows of resources and deferred inflows of resources. For cost-sharing multiple-employer plans such as VMERS, participating employers will recognize, in their 2015 financial statements, their proportionate share of the collective amounts for the plan as a whole. For VSTRS, participating schools will have a NPL of zero since the State makes the employer payments on their behalf, but will have to record a pension expense and offsetting revenue and provide additional disclosures in their financial statements.

This is a major change to municipal accounting for the roughly 450 participating employers in VMERS and VSTRS. The Treasurer's office took a number of steps to ease the accounting burden for all of these entities. Beginning in 2013, the Treasurer's office established a GASB resource page to provide ongoing guidance and seminars to municipal and school finance officials, city and town managers, and CPA firms. The Treasurer's office also prepared financial reports to provide each entity its proportionate share of the accounting entries, sample journal entries, and all the necessary information for disclosures in their respective financial statements. This effort was conducted by the State Treasurer and staff from the retirement operations, information technology, and treasury operations divisions.

Deferred Compensation 457 & 403 (b) Plans

As of June 30, 2015, their were 6,908 participants in the 457(b) deferred compensation program. Total assets in the plan were valued at $401.7 million. During fiscal year 2015, participating employees made contributions in the amount of $22 million to the plan. The deferred compensation program has been available since 1979 as a savings option for State employees, municipal employees, employees of agencies such as VEDA and VHFA, and members of the General Assembly. It is also available to VSTRS members who are part of a school that chooses to offer it. Since the deferred compensation plan qualifies as a Section 457(b) plan under the Internal Revenue Code, the portion of salary that is deferred is not taxed at the time of deferral. The program is administered by Empower Retirement. The Treasurer's office collects 12b-1 fees from Empower Retirement, as well as a per participant fee that is a percentage of assets invested in the plan. These amounts are then used to pay administrative expenses to Empower. This is a more transparent method of payment and has permitted the state to reduce fees to members in past years. Since the state receives these inflows and then pays a flat fee to Empower to administer the program, we have had the flexibility to assess cash flows and take opportunities to lower the participant fees. The per participant fee has been lowered twice since 2011, from 15 basis points to the current level of 10. In January, on the basis of the Treasurer's recommendation, the VSERS trustee board voted to further reduce these fees 7 basis points. We are pleased that the success of the deferred compensation program will generate even more savings for participants.

A 403(b) Investment Program for public school districts was implemented on January 1, 2009. There are currently 31 supervisory unions that have adopted the program. As of June 30, 2015, 2,320 school employees were participating in the program and assets had grown to $71.8 million. Participating employees made contributions in the amount of $14.57 million to the plan during fiscal year 2015. The program allows school employees to deduct money from their wages on a tax-deferred basis that may be invested in a variety of mutual funds during the employee's working years. The 403(b) contributions reduce taxable wages during employment and the money accumulates tax-free until the funds are withdrawn after retirement. At that time, all of the money is taxable as regular income to the participant. This program is also administered by Empower Retirement.

Great West Changes Name

As a part of the Vermont State Employees' Retirement System, employees have the opportunity to save additional money for retirement though a tax-deferred 457(b) plan. That plan is managed by Great-West Retirement Services. In January, 2015, Great-West was renamed Empower Retirement. The Empower name unites the retirement business of Great-West Financial, Putnam Investments, and Great West Financial Retirement Plan Services. The services that are offered through the 457(b) plan will not change. Members may still access their account information by going to www.vermont457.com. Members using the URL www.gwrs.com, will be automatically redirected to the new URL www.empower-retirement.com/participant. While the phone response greeting will include a new Empower greeting, the numbers remain the same: toll free (800) 457-1028; Vermont direct line (802) 229-2391; and fax to (802) 229-2637.

Defined Contribution Plan

The defined contribution plan for State and municipal employees is administered by Fidelity.

State Defined Contribution Plan

Established in 1999, the State's defined contribution plan had 602 participants and net assets of $58.3 million as of June 30, 2015. Under the defined contribution plan, which is modeled after private sector 401(k) plans, employees contribute 2.85 percent of their annual salary to their individual accounts. The State makes a fixed contribution of 7 percent to each employee's account. Employees are responsible for making all investment decisions. Fund line-ups are negotiated by the Treasurer's office and included in the contract with plan administrator, Fidelity Investment. At retirement or termination, employees receive the amount of contributions in their accounts, plus investment earnings. The defined contribution plan provides portability for an increasingly mobile workforce. The plan offers 11 mutual funds in equity, balanced, and fixed income asset classes, and age-based "life-cycle" funds that rebalance a multi-asset class portfolio of mutual funds appropriate to the age of the plan participant. Options include a stable value fund that has insured principal value; three intermediate term bond funds; three balanced funds of stocks and bonds; large-, mid- and small-capitalization domestic equity funds; and four international equity funds--which include a new fossil fuel-free mutual fund investment option introduced this year. The plan is self-directed with respect to investment selection, meaning that participants elect investment options consistent with their risk and reward preferences along with the timing of their need to access funds.

Municipal Defined Contribution Plan

The Vermont Municipal Employees' Retirement System was given statutory authority in 1999 to approve a defined contribution plan for its members. The board implemented a defined contribution plan on July 1, 2000. As of June 30, 2015, there were 70 contributing municipalities with 519 participants and assets of $21 million. The plan provides the employer municipality with the first option of deciding whether or not to offer a defined contribution plan to its employees. Once a municipality elects to offer the plan to all eligible employees or to specific employment groups, an individual employee has the choice to remain with the defined benefit plan or transfer to the new defined contribution plan. New employees of municipalities offering both a defined contribution plan and a defined benefit plan have a choice of either plan.

Other Post-Employment Benefits (OPEB): Health Care

Employees of state and local governments may be compensated in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will not be received until after their employment with the government ends through retirement or other reason for separation. The most common type of these post-employment benefits is a pension. As the name suggests, other post-employment benefits (OPEB) are post-employment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. It may also include some types of life insurance, legal services, and other benefits.

Vermont State Employees' Retirement System

Employees retiring directly from active State service for any reason, may carry whatever coverage is in effect at that time into retirement for themselves and their dependents. As of June 30, 2015, 4,530 retirees were enrolled in the medical plan in the single, spouse, and family plan options. The retirees contributed $7.2 million in premiums and incurred $38.4 million in claims expenses for the fiscal year ending June 30, 2015. The State's fiscal year 2015 contributions to this trust fund totaled $29 million. The trust fund then paid premium payments of $28.4 million (calculated on a pay-as-you-go basis) to the State's Medical Insurance Fund. At June 30, 2015, the trust fund had total net assets of $19,904,458 being held in trust for post-employment benefits other than pension benefits.

For employees hired on or before July 1, 2008, currently only 20 percent of the cost of the premium is paid by the retiree during his/her lifetime. If the retiree chooses the joint and survivor pension option, and predeceases his or her spouse, the medical benefits may also continue for the spouse, along with the pension. However, the surviving spouse must generally pay 100 percent of the cost of the premium. In addition, once retirees become eligible for Medicare coverage (at age 65) it is mandatory that they enroll in both Medicare Part A and Part B, making Medicare the primary insurer. If an employee, other than a Group C member, does not retire directly from State service, he or she is not eligible to participate in the State's medical insurance plan. Group C members who terminate with 20 or more years of service, but are not yet 50, may pick up the medical coverage at the time they begin retirement benefits. If the insurance is terminated at any time after retirement, coverage will not be able to be obtained again at a later date. Based on legislation enacted during fiscal year 2008, Group F employees hired after July 1, 2008 will receive a tiered retiree health care reimbursement -- a pro-rated percentage of paid premium based on years of service. This group also may recapture (access) subsidized health insurance at 80 percent upon initiation of retirement benefits in a manner comparable to regular retirements. This applies even if the employee was terminated prior to his or her early retirement date, providing the member has 20 years of service.

Vermont State Teachers' Retirement System

VSTRS retirees participate in multi-employer health coverage plans operated by the Vermont Education Health Initiative (VEHI), which is managed jointly by the Vermont School Boards Insurance Trust and the Vermont National Education Association. As of June 30, 2015, 5,801 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $16.7 million in premiums and the system contributed $11 million in premiums and paid $24.7 million on a pay-as-you-go basis during fiscal year 2015. VEHI incurred $21 million in retiree claims expenses for the fiscal year ending June 30, 2015. VEHI partners with Blue Cross Blue Shield to provide health insurance to retired and active teachers. The system pays 80 percent of the retiree's premium only for members with a minimum of 10 years of creditable service as of June 30, 2010. Payment is based on the cost of the "standard plan" as defined by statute. The retiree pays the full cost of the premium for all covered dependents.

The actuarial valuation reflects plan changes in health care coverage effective July 1, 2010. The changes affect future retirements only as no changes were adopted for those retired prior to July 1, 2010. Eligibility criteria and premium sharing levels were revised for active employees who did not attain 10 years of service as of June 30, 2010. In addition, the plan now offers subsidized spousal coverage for the first time. For new hires and those with less than 10 years of service as of July 1, 2010, there is no subsidized coverage for those retiring with less than 15 years of service at retirement—there is 60 percent single coverage at 15 years; 70 percent single coverage at 20 years; and 80 percent single or spousal coverage at 25 years. Current employees with more than ten years of service as of July 1, 2010 continue with the current 80 percent coverage. At 25 years of service, employees in this category are generally eligible to elect subsidized spousal coverage at retirement. Once a retiree becomes eligible for Medicare coverage at age 65, it is mandatory that they enroll in both Medicare Part A and Part B. Medicare becomes the primary insurer and the VSTRS medical plans become the secondary insurer. Two of the plans offered become "carve-out" plans to coordinate with Medicare and one of the plans is replaced with a true Medicare supplemental plan. The premiums for all plans are reduced in accordance with the decrease in liability once Medicare becomes the primary insurer.

Vermont Retirement Systems -- Year Ended June 30, 2015
Summary of Operations

		Vermont State Employees' Retirement System		Vermont State Employees' Retirement System-OPEB	State Teachers' Retirement System	Municipal Employees' Retirement System
SOURCES OF FUNDS						
Employee Contributions	$	33,296,248		0	34,863,531	13,587,975
Employer Contributions	$	55,881,364		28,126,844	72,908,805	14,136,067
Other Income	$	423,273		901,172	830,887	384,009
Investment Income (Reduction)	$	(8,484,694)		331,945	(7,566,697)	(2,358,518)
APPLICATION OF FUNDS						
Retirement Benefits		107,877,482		0	148,074,836	20,593,892
Refunds		2,796,892		0	1,833,058	1,780,091
Health/Life Insurance Expenses		0		28,359,565	0	0
Administrative Expenses		2,104,636		86	2,551,845	1,056,094
Other Expenses		721,810		0	824,951	941,191
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$	(32,384,629)	$	1,000,310	$ (52,248,164)	$ 1,378,265

OPEB Funding Status

The State's independent actuary has prepared valuations of the OPEB liabilities for VSERS and VSTRS as of June 30, 2015. Both the VSERS and VSTRS reports present two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded or remain on a pay-as-you-go basis. Since the VSERS has accumulated some assets, a third blended calculation is also included. The Vermont Municipal Employees' Retirement System (VMERS), a cost-sharing, multiple-employer public employees' retirement system, is administered by the State, but has no associated State health care benefit or liability. While the Vermont Municipal Employees' Health Benefit Fund is classified as a post-employment benefit fund, there is no accrued liability in excess of the assets of the fund. There is no annual required contribution and unfunded actuarial accrued liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs. See the Vermont Retirement System Summary of Operations chart above for details on the funding status of the plans, with amounts in the thousands of dollars, as of June 30, 2015.

OPEB Actuarial Valuation: Method and Assumptions

For VSERS, assuming no prefunding, the actuarial accrued liability for OPEB obligations earned through June 30, 2015 is $1.11 billion with an unfunded actuarial liability of $1.09 billion. The net increase in the liability was primarily due to higher than expected cost assumptions and a decrease in the discount rate. The health care cost trend assumption has been updated to reflect expected increases to medical costs based on available surveys of other employers' health care cost trend assumptions. Per unit per capita healthcare costs were updated based on recent plan premium equivalents and enrollment, as well as adjustments reflecting the level of actual health benefit costs over the last three years as compared to premium equivalent amounts. In addition, in developing the assumptions used in this report, pre-Medicare premiums were expected to increase at January 1, 2015 with health care cost trends, while Medicare premiums are expected to remain flat in order to reflect the savings anticipated for the EGWP arrangement. The VSER system reflects a pay-as-you-go rate of 4 percent. This is reduced from the 4.25 percent "blended rate" previously used because the system will no longer be prefunded with Medicare Part D receipts due to the implementation of EGWP, commencing in calendar year 2015.

An OPEB valuation also was completed for VSTRS. An OPEB trust has not been created for VSTRS and no prefunding has been made. As already noted, an experience study was completed for the teachers' system. Valuation assumptions were updated to reflect the post-retirement benefit plans changes and the effects of changes to pension benefits adopted concurrently. Retirement rates were updated in order to reflect expected retirement patterns under the revised pension benefits. Assumptions regarding incidence of spouse coverage and spouse age difference were introduced. Benefits are attributed to expected date of retirement, consistent with the new tiered structure. Finally, the valuation no longer reflects age-morbidity factors, as it is has been determined that VSTRS liabilities are fully insured and any implicit rate subsidy is completely born by the Vermont Health Education Initiative (VEHI) health insurance purchasing arrangement. There were no changes to the discount rate. For VSTRS, assuming no prefunding, the actuarial accrued liability and the unfunded actuarial liability for OPEB obligations earned through June 30, 2015 is $993 million. Due to a change in actuarial standards of practice number 6 (ASOP 6), the actuary had to change the methodology to calculate liabilities, based on current statutory language. If this ASOP had not been implemented, the liability would have been $700.03 million. This is a reduction in liabilities versus the prior year of $767 million. The Treasurer's office believes the community rating requirements regarding ASOP 6 artificially increase these liabilities and we will look to statutory language changes that might address this issue.

OPEB - Schedule of Funding Progress

(dollar amounts in thousands)

Actuarial Valuation Date 6/30	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	$ 19,904	$ 1,113,023	$ 1,093,119	1.8%	$ 488,949	223.6%
VSTRS *						
2015	$ (10,056)	$ 993,037	$ 1,003,093	-1.0%	$ 576,255	174.1%

* Based on discount rate of 4 percent for 2015.

OTHER POST-EMPLOYMENT BENEFITS FUNDING ANALYSIS—VSERS & VSTRS

VSERS -- Other Post-Employment Benefits Funding Analysis

	Pre-Funding Basis	Pay-As-You-Go Basis
Assumed Discount Rate	7.95%	4.00%
Actuarial Value of Assets	$ 19,904,458	$ 19,904,458
Actuarial Accrued Liability		
- Active Participants	$ 309,645,353	$ 604,152,844
- Retired Participants	$ 358,126,342	$ 508,870,207
- TOTAL	$ 667,771,695	$ 1,113,023,051
Unfunded Actuarial Liability	$ 647,867,237	$ 1,093,118,593
Funded Ratio	3.0%	1.8%
Annual Covered Payroll	$ 488,949,089	$ 488,949,089
Unfunded Actuarial Liability (as % of covered payroll)	132.5%	223.6%
Normal Cost for the 2016 fiscal year	$ 15,970,194	$ 38,215,013
Amortization of Unfunded Actuarial Liability for FY 2016 (30 yr)	$ 31,363,913	$ 31,607,919
Interest on Expected Benefit Payments	$ (1,578,943)	$ (801,983)
Annual Required Contribution (ARC) for FY 2016	$ 45,755,164	$ 69,020,949
Expected Net Retiree Claims	$ 40,496,204	$ 40,496,204
Normal Cost for FY 2017	$ 16,688,853	$ 39,934,689
Amortization of Unfunded Actuarial Liability for FY 2017 (30 yr)	$ 32,655,041	$ 32,827,285
Interest on Expected Benefit Payments	$ (1,674,428)	$ (850,482)

OTHER POST-EMPLOYMENT BENEFITS FUNDING ANALYSIS—VSERS & VSTRS

VSTRS -- Other Post-Employment Benefits Funding Analysis

	Pre-Funding Basis	Pay-As-You-Go Basis
Assumed Investment Return	7.95%	4.00%
Actuarial Value of Assets	$ (10,056,456)	$ (10,056,456)
Actuarial Accrued Liability		
- Active Participants	$ 169,506,081	$ 359,164,277
- Retired Participants	$ 415,165,551	$ 633,872,561
- TOTAL	$ 584,671,632	$ 993,036,838
Unfunded Actuarial Liability	$ 594,728,088	$ 1,003,093,294
Funded Ratio	-1.7%	-1.0%
Annual Covered Payroll	$ 576,255,084	$ 576,255,084
Unfunded Actuarial Liability (as % of covered payroll)	103.2%	174.1%
Normal Cost for FY 2016	$ 10,127,009	$ 23,897,467
Amortization of Unfunded Actuarial Liability for FY 2016 (30 yr)	$ 28,791,393	$ 29,004,805
Interest on Expected Benefit Payments	$ (1,568,104)	$ (796,478)
Annual Required Contribution (ARC) for FY 2016 *	$ 37,350,298	$ 52,105,794
Expected Net Retiree Claims	$ 40,218,215	$ 40,218,215
Normal Cost for FY 2017	$ 10,633,359	$ 25,092,340
Amortization of Unfunded Actuarial Liability for FY 2017 (30 yr)	$ 29,586,625	$ 29,697,687
Interest on Expected Benefit Payments	$ (1,559,715)	$ (792,217)
Annual Required Contribution (ARC) for FY 2017 **	$ 38,660,269	$ 53,997,810

* *Payment is assumed to be made at the beginning of the fiscal year.*

** *ARC for fiscal year 2017 is estimated using roll forward from fiscal year 2016 results.*

HISTORICAL SUMMARY OF OPERATIONS: *Pension Fund Operations*

State Employees' Retirement System -- Summary of Operations

Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
SOURCE OF FUNDS										
Employee Contributions	$ 14,561,467	$ 15,456,691	$ 18,614,102	$ 22,148,754	$ 22,840,354	$ 22,269,041	$ 27,708,009	$ 29,847,352	$ 31,745,692	$ 33,296,248
Employer Contributions	36,866,451	39,297,002	39,179,823	25,134,235	31,468,884	37,572,599	40,302,433	51,370,307	56,482,985	55,881,364
Other Income	1,171,516	205,321	169,984	1,041,870	227,524	743,172	377,562	638,736	453,852	423,273
Investment Income (Reduction)	115,146,415	192,625,279	(84,156,254)	(242,976,381)	182,593,261	238,386,383	23,604,774	110,715,697	203,721,748	(8,484,694)
APPLICATION OF FUNDS										
Retirement Benefits	53,435,617	58,859,659	64,060,488	70,043,119	79,001,908	84,716,513	90,170,209	96,241,493	101,436,005	107,877,482
Refunds	1,351,911	1,526,140	1,414,144	1,403,995	1,521,440	1,731,375	1,908,752	2,515,758	2,461,242	2,796,892
Health/Life Insurance Expenses	11,590,588	13,541,092	16,371,373	-	-	-	-	-	-	-
Administrative Expenses	1,329,081	511,435	1,254,577	1,219,287	891,477	1,147,576	1,328,919	1,374,643	1,158,183	2,104,636
Other Expenses	668,929	344,719	631,321	477,966	568,278	613,899	702,136	437,367	595,306	721,810
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 99,369,723	$ 172,801,248	$ (109,924,248)	$ (267,795,889)	$ 155,146,920	$ 210,761,832	$ (2,117,238)	$ 92,002,831	$ 186,753,541	$ (32,384,629)

State Employees' Retirement System -- (OPEB) Summary of Operations*

Category	2008	2009	2010	2011	2012	2013	2014	2015
SOURCE OF FUNDS								
Employee Contributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Employer Contributions	1,444,757	19,893,129	20,888,347	24,963,027	25,865,470	23,888,787	22,782,575	29,028,016
Other Income	-	-	1,640,420	2,431,447	1,786,719	1,668,896	1,489,569	-
Investment Income (Reduction)	7,886	86,454	480,064	802,020	375,423	613,290	1,455,290	331,945
APPLICATION OF FUNDS								
Retirement Benefits	-	-	-	-	-	-	-	
Refunds	-	-	-	-	-	-	-	-
Health/Life Insurance Expenses	-	17,894,518	20,860,032	24,878,272	25,863,989	23,887,003	22,485,894	28,359,565
Administrative Expenses	-	-	-	68	275	71	175	86
Other Expenses		-	-	-	-	-	-	-
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 1,452,643	$ 2,085,065	$ 2,148,799	$ 3,318,154	$ 2,163,348	$ 2,283,899	$ 3,241,365	$ 1,000,310

*** In 2008, changes made to the Government Accounting Standard Board requirements mandated that institutions report the future cost of other post-employment benefits (OPEB).**

Teachers' Retirement System -- Summary of Operations

Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
SOURCE OF FUNDS										
Employee Contributions	$ 21,884,140	$ 22,533,479	$ 22,918,798	$ 20,937,686	$ 25,315,397	$ 32,062,253	$ 31,827,995	$ 32,343,368	$ 32,558,584	$ 34,863,531
Employer Contributions	24,446,282	37,341,609	39,549,097	35,960,934	40,545,321	47,134,361	51,731,875	63,646,240	71,869,736	72,908,805
Other Income	1,180,606	2,093,219	1,628,242	3,754,020	1,817,540	3,341,877	4,505,246	1,733,033	1,209,177	830,887
Investment Income (Reduction)	130,835,585	244,437,213	(110,019,634)	(307,382,559)	208,723,610	261,886,311	24,726,665	120,403,030	212,338,194	(7,566,697)
APPLICATION OF FUNDS										
Retirement Benefits	66,272,471	74,368,306	82,157,642	89,825,986	96,448,102	106,930,467	117,801,002	129,416,052	138,484,665	148,074,836
Refunds	1,290,197	1,625,140	1,280,715	1,420,776	1,183,659	1,218,955	1,521,099	1,604,283	1,870,988	1,833,058
Health/Life Insurance Expenses	11,233,854	13,040,783	15,081,847	16,421,176	17,203,669	18,749,675	20,620,144	22,459,219	24,640,986	-
Administrative Expenses	1,679,883	817,052	866,473	1,249,774	1,078,762	1,399,732	1,604,735	1,680,722	1,474,827	2,551,845
Other Expenses	580,403	203,444	542,665	606,434	303,741	609,091	391,832	233,735	491,184	824,951
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 97,289,805	$ 216,350,795	$ (145,852,839)	$ (356,254,065)	$ 160,183,935	$ 215,516,882	$ (29,147,031)	$ 62,731,660	$ 151,013,041	$ (52,248,164)

Municipal Retirement System -- Summary of Operations

Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
SOURCE OF FUNDS										
Employee Contributions	$ 8,744,718	$ 9,769,882	$ 9,906,709	$ 9,557,973	$ 10,711,600	$ 11,702,728	$ 11,337,926	$ 15,060,665	$ 13,233,728	$ 13,587,975
Employer Contributions	7,926,436	8,535,396	-	8,008,862	10,592,919	11,117,363	11,532,230	12,014,186	12,805,737	14,136,067
Other Income	228,746	206,101	124,132	1,321,919	203,549	266,425	118,191	170,381	2,142,868	384,009
Investment Income (Reduction)	27,697,371	46,637,360	(19,472,654)	(56,937,342)	47,598,096	66,957,781	7,671,464	34,838,507	64,346,116	(2,358,518)
APPLICATION OF FUNDS										
Retirement Benefits	7,120,325	7,969,703	9,064,725	10,228,263	11,073,098	12,298,902	14,214,160	16,101,187	18,153,649	20,593,892
Refunds	1,102,940	1,389,583	1,143,397	1,223,465	1,127,574	1,275,979	1,664,687	1,587,311	1,673,188	1,780,091
Health/Life Insurance Expenses	-	-	-	-	-	-	-	-	-	-
Administrative Expenses	439,983	687,382	623,619	798,458	393,947	569,603	672,851	749,447	588,022	1,056,094
Other Expenses	1,101,883	560,473	506,817	588,899	795,522	886,709	469,599	999,434	774,543	941,191
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 34,832,140	$ 54,541,598	$ (20,780,371)	$ (50,887,673)	$ 55,716,023	$ 75,013,104	$ 13,638,514	$ 42,646,360	$ 71,339,047	$ 1,378,265

Financial Literacy

Overview

The State Treasurer's Office has actively worked to promote financial literacy for eight years. The goals of the program are (1) advocacy—working to promote the adoption of fiscally sound money management practices by Vermonters of all ages; (2) collaboration—working with local, state and national groups to build support for and participation in activities that promote and teach personal finance; and (3) development—creating new financial education programs and resources for Vermont citizens. New in 2015, the Treasurer's office developed an adult financial literacy series for the Vermont National Guard and organized the first meeting of the legislatively created Vermont Financial Literacy Commission. The commission held their first meeting in December, 2015.

Financial Literacy
(802) 828-3706

Lisa Helme
Financial Literacy & Communications Director

ACCOMPLISHMENTS IN 2015

- **The 2014-2015 school term marked the fifth year of the Reading is an Investment program. There were 137 Vermont elementary schools participating in the program. At the conclusion of the school term, 67 school evaluations were received and evaluators indicated that the program materials were used with 9,194 students. There were 5,634 completed student reading logs returned--the largest number since the program began.**

- **Ten Vermont high schools participated in the 2015 Vermont Treasury Cup Challenge. The Challenge is an academic competition that tests student knowledge of personal finance and economics. The winning high school was Mount Mansfield Union High School. The tournament was held on May 8.**

- **There were 324 posters entered in the 2015 statewide Be Money Wi$e Financial Literacy poster competition. The 2015 theme was "To build a money plan, I will . . . " The purpose of the competition is to promote financial education instruction and student discussion of core financial concepts.**

- **Working with the Vermont National Guard, the Treasurer's office developed and tested an adult financial literacy series. The four-session series aimed to touch on foundational money management topics. A dozen adults completed the pilot series. The series was positively reviewed. A second, larger class, is planned for central Vermont in 2016.**

- **The Treasurer's office and the Vermont Department of Libraries partnered to promote Money Smart Week , April 18-25, at public libraries throughout the state. Libraries received a DVD of the public television documentary, "Thinking Money--The Psychology Behind Our Best and Worst Financial Decisions" and encouraged to hold a public viewing and discussion session.**

- **The Treasurer's office promoted April as financial literacy month by holding a recognition ceremony in Montpelier on April 9. Student winners from the Reading is an Investment program and poster contest were recognized. Several hundred students, teachers and parents attended the event.**

UPDATES

Reading is an Investment

The Reading is an Investment program was started by the Treasurer's office as a means of promoting financial literacy among elementary-age children. Personal finance concepts are taught using children's literature. Each year, participating schools receive three new hardback books for their library, a curriculum guide and promotional materials. A personal reading program challenges students to read books about money. Students who completed their reading logs are entered into a statewide drawing for one of twenty $250 college savings accounts.

During the 2014-2015 school term the program was used in 137 schools. There were 5,634 students who completed reading logs. Evaluations indicated that more than 9,000 students were directly involved in some aspect of the program. The curriculum theme was "Building a Money Plan."

Students winning college savings accounts were: Payden Garthaffner, Addison Central School; Corinne White, Barnard Academy; Owen Dube-Johnson, Barstow Memorial School; Isaac Russ, Bradford Elementary School; William Harvey, Cambridge Elementary School; Sean Shangraw, Central Elementary School; Aydon White, Essex Elementary School; Hayden Wright, Franklin Central School; Marlea Busier, Hinesburg Community School; Collin Farrell, Johnson Elementary School; Jude Hermansky, Manchester Elementary School; Alex Field, Mary Hogan Elementary School; Asher Dixson-Boles, Montgomery Elementary School; Roy Powers, Richmond Elementary School; Lila Jones, Samual Morey Elementary; Brady Farrar, Sheldon Elementary School; Hayden Mabey, South Royalton School; Arianna Bourdeau, Swanton Central School; Oscar Howard, Underhill Central School; and Gabriel Dexter, Williamstown Elementary.

Johnson Elementary School and Essex Elementary School each won a four-foot-tall Vermont Teddy Bear for their school libraries. The schools were chosen from a random drawing of 40 schools which had one-third or more of the student body complete the reading challenge. There were seven schools that had 100 percent participation in the reading challenge. Those schools and the librarian or administrator running the program are: Barstow Memorial, Heidi Webster; Bradford Elementary, Gail Trede; Franklin Central, Joyce Hakey; Lunenburg Schools, Nancy Croteau; Montgomery Elementary, Robin Bryce; Orange Center School, Lis Zwick; and Sunderland Elementary, Melody Troy. The program is made financially possible through the support of the TD Bank Charitable Foundation and Windham Foundation. Additional financial support is provided by Comcast. All college savings accounts are donated by the Vermont Student Assistance Corporation.

State Treasurer Beth Pearce congratulates Essex Elementary School Librarian Carol Scrimegeour and student Aydon White on winning a teddy bear for their school library.

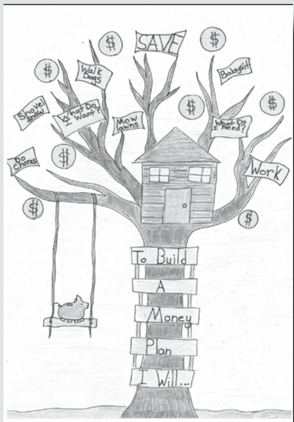
"We just received yet another wonderful package of Reading is an Investment books and materials. I look forward to another year of introducing our students to the world of financial literacy."
– Fair Haven Grade School

(my favorite part) "Engaging students in conversation about making smart financial decisions and having a plan for money. The books were great for getting these conversations moving."
– Underhill Central School

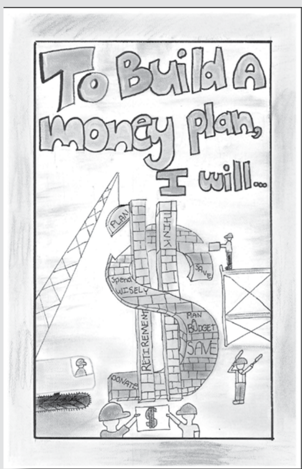
Vermont Treasury Cup Challenge

It took 17 rounds of competition and two championship matches for the winner of the 2015 Vermont Treasury Cup Challenge to be determined. With just one correct answer separating the two teams, the Mount Mansfield Union High School Cougars beat defending champs South Burlington to take the tournament victory. The day-long high school competition tests student knowledge in personal finance and economics and is directed by the Vermont State Treasurer's Office. This is the seventh year for the Challenge which was held May 8 in Montpelier. Ten high schools competed. It is designed as a tool to help teachers promote student interest in economics and personal finance. Four-person student teams compete in a quiz-show style contest. Each member of the championship team received a $500 college savings account and members of the second place team a $250 account, donated by the Vermont Student Assistance Corporation.

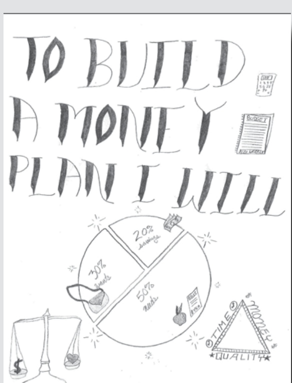
2015 Poster Winners



William Hill
Saint Michael School
Elementary - 1st Place



Maggie Warren
Williston Central School
Middle School - 1st Place



Norma Careau
Milton High School
High School - 1st Place

Third place was won by Bellows Free Academy in Fairfax. Individual trophies were awarded to students in the first through third place teams. The tournament is underwritten by the TD Bank Charitable Foundation with support from the Vermont JumpStart Coalition.

Financial Literacy Poster Contest

For the eighth year in a row, the Treasurer's office, in partnership with the Vermont Bankers Association, has sponsored the Be Money Wise financial literacy poster competition. The contest is open to students in grades 3-12. The contest encourages adults to discuss the annual poster theme with students and provides a creative outlet for students to demonstrate their knowledge. The 2015 theme was, "To build a money plan, I will . . ." There were 324 posters entered this year.

Winning first place in the elementary school division was William Hill of Saint Michael School in Brattleboro. Second and third place finishers were both from Williston Central School. Griffin Cote won second place and Karina Bushweller placed third. In the middle school division, Maggie Warren of Williston Central won first place. The second place winner was Caleb Meagher of Windsor Jr/Sr High School and third place was won by Maura Duval of Browns River Middle School. In the high school division, only a single winner was named. Norma Careau of Milton High School won first place.

Other Financial Literacy Projects

The Treasurer's office continues to partner with other organizations to promote financial literacy.

Maintaining Your Money Edge: The State Treasurer's Office partnered with the Vermont National Guard to provide Guard members with a new adult financial literacy series that covers foundational money management topics. The four-part workshop was held in October. A dozen adults participated in the pilot series that was offered in the evenings at Colchester High School. Topics covered included attitudes toward money, goal setting, budgeting, tracking spending, wise credit use, repaying debt, and saving for retirement. Based on the positive feedback of the workshop participants, the Guard hopes to make the series available in central Vermont in 2016. The following is a list of the specific two-hour workshops offered.

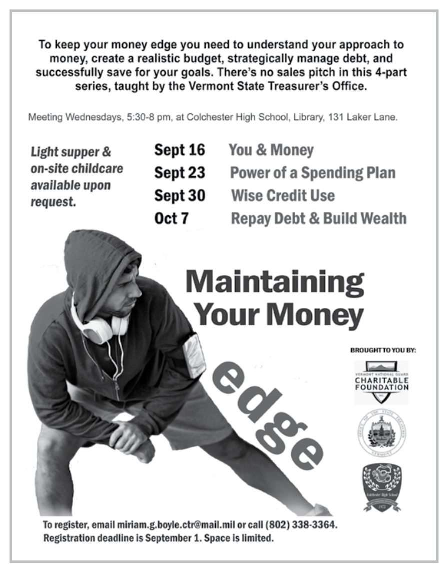
Session 1: You and Money
Session 2: Power of a Spending Plan
Session 3: Wise Credit Use
Session 4: Repay Debt and Build Wealth

Money Smart Week: The Treasurer's office and the Vermont Department of Libraries teamed up to promote Money Smart Week. Vermont public libraries were urged to promote financial literacy April 18-25. Libraries were supplied with promotional materials and urged to highlight individual financial resources in their local communities. A DVD of the public television documentary, "Thinking Money--The Psychology Behind Our Best and Worst Financial Decisions" was sent to libraries throughout the state.

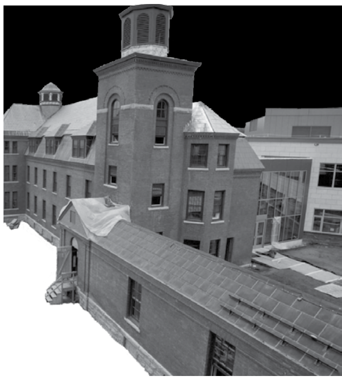
Vermont Financial Literacy Commission: The State Treasurer's Office organized the first meeting of the 11-member commission that was established by the

State Legislature during the 2015 session. The commission was created to measurably improve the financial literacy and financial capability of Vermont's citizens. The first formal recommendations by the commission are due to the legislature in January, 2017. The following people were appointed to the commission.

- **Beth Pearce**, State Treasurer, co-chair, or designee, legislated
- **John Pelletier**, Champlain College Director of the Center for Financial Literacy, co-chair, Governor's appointment from the Vermont State Colleges, University of Vermont or an independent Vermont college
- **Mark Perrin**, designee from the Agency of Eduction, member State Board of Education, legislated
- **Martha Reid**, Vermont State Librarian, Governor's appointment representing the Executive Branch
- **Courtney Poquette**, Business Educator at Winooski High School, appointed by the Vermont-NEA
- **Justin Brown**, Assistant Principal at Colchester High School, Governor's appointment based on nominations from the Vermont School Board Association, Vermont Superintendents Association and the Vermont Principals Association
- **Scott Giles**, President and CEO of the Vermont Student Assistance Corporation, or designee, legislated
- **Lisa Falcone**, Working Bridges Project Director for the United Way of Chittenden County, Governor's appointment from a nonprofit entity
- **Thomas Leavitt**, President and CEO of Northfield Savings Bank, appointed by the Vermont Bankers Association
- **Yvonne Garand**, Senior Vice President at VSECU, appointed by the Association of Vermont Credit Unions
- **Linda Tarr-Whelan**, Consulant with Tarr-Whelan & Associates, Governor's appointment representing the public



The focus of the pilot project was to encourage adults to fine-tune their money management skills and put in place financial goals and a working budget .



Debt Management

Overview

The State of Vermont's approach to debt management is characterized by conservative debt issuance and debt management policies that adhere to rigorous disclosure practices. These policies include moderate levels of bond issuance; careful consideration of debt affordability; strict adherence to credit rating agency guidelines; and strong fiscal budget policies to ensure that the State has funds readily available for bond principal and interest payments. Years of attention to rating agency and investor interest and concerns, has earned the State a high debt rating and correspondingly very low borrowing costs. Vermont has steered clear of financial and regulatory concerns thanks to the State's disciplined practices and uncomplicated debt profile. With the exception of transportation infrastructure bonds, Vermont issues general obligation debt. All of our debt is fixed-rate debt.

In looking at the capital budget and the use of bonds, a distinction should be made between financing and funding. Bond financing leverages the value of a stream of revenue and then pays over time for the current use of those future revenues. In cases where there are significant inflationary costs, this can also result in increased net resources, but as a general rule they add little or no new resources to the funding gap and are not solutions to meet budgetary shortfalls.

Funding refers to the generation of revenue, through various means such as taxes and fees, that provides needed services or capital infrastructure. The bonds to

Debt Management
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Scott Baker
Financial Reporting Director

(Above) The finishing touches to the LEED, or Leadership in Energy and Environmenal Design, Gold Standard-level work for the rebuilt Waterbury Office complex is just one of the projects funded with Green Bonds. In October, 2015, the State successfully sold $28.5 million in Green Bonds–the first time Vermont has sold such bonds targeted toward investors with socially responsible investment (SRI) objectives. Green Bonds are used to fund projects that have positive environmental and/or climate benefits. Proceeds from these bonds are earmarked for green projects. The sale of the Green Bonds will be used to fund drinking water and water pollution control projects for the Agency of Natural Resources; Best Management Practices financial assistance to Vermont farmers through the Vermont Agency of Agriculture; and water quality improvement through the Housing Conservation Board.

ACCOMPLISHMENTS IN 2015

- **In October, the Treasurer's office conducted a $115.58 million General Obligation bond sale in three different offerings, including $28.5 million in Green Bonds, the first time that Vermont has sold bonds targeted toward investors with socially responsible investment objectives. The offerings were a series of Vermont Citizen Bonds (2015 Series A), a series of competitively-sold tax-exempt bonds (2015 Series B), and a competitive refunding (2015 Series C). The Series C bonds will refinance existing bonds sold in 2009 and will save the State almost $1.9 million in interest costs over the next 14 years. Moody's and Fitch maintained their top ratings of Aaa and AAA, respectively, and S&P reaffirmed its rating of AA+ , all with stable outlooks.**

- **In September, the Treasurer's office, along with members of the Administration and the State's financial advisor and economist, hosted the three rating agencies (Moody's, Standard & Poor's and Fitch) for a tour of several Vermont employers and to provide updates on the State's finances ahead of the bond offering, resulting in affirmation of the State's bond ratings, the best in New England.**

- **The Capital Debt Affordability Advisory Committee (CDAAC) met twice in September to review the State's debt affordability guidelines; analyze Vermont's critical debt ratios; and discuss capital needs. The committee reaffirmed its recommendation of net tax-supported debt authorization of no more than $144 million for fiscal years 2016 and 2017, a reduction of $15.9 million or 9.9 percent from the previous biennium.**

2015 Bond Issues - Calendar Year

- **$28,515,000** par amount of 2015 Series A Vermont Citizen Bonds (Green Bonds), which were sold via negotiated transaction with Morgan Stanley. Green Bonds are used to fund projects that have positive environmental and/or climate benefits. This marks the first time that Vermont has sold such bonds targeted toward investors with socially responsible investment objectives. The true interest cost or TIC of the bonds was 2.27 percent and the average life was 7.93 years.

greenbonds

- **$61,345,000** par amount of 2015 Series B bonds, which were sold via competitive bid to Wells Fargo, which provided the lowest TIC of 2.68 percent. The average life of the bonds was 11.42 years and the State received bids from eight banks.

- **$25,720,000** par amount of 2015 Series C refunding bonds, competitive bid to Morgan Stanley, which provided the lowest TIC of 2 percent. The average life was 8.21years. The State received bids from 10 banks and the refinancing reduced the State's interest payments by $1.88 million through 2029.

finance these must be repaid through future revenue flows. We, therefore, urge caution when issuing bonds. Borrowing makes sense when:

- The costs saved through accelerated construction (inflation and preventative maintenance) exceed the interest paid on the funds; and/or
- Quantifiable economic benefits exceed the cost of borrowing; and
- A future identifiable and available revenue source exists to pay for the bonds.

Private Activity Bond Allocations

The Private Activity Bond Advisory Committee met twice during the year to explore potential uses and specific projects for private activity bonds and to provide recommendations to the Governor in connection with the reallocation of the State's 2015 volume cap totaling $299.6 million. The committee also provided the Emergency Board with its recommended initial allocation for Vermont's 2016 volume cap totaling $302.9 million.

Vermont's Bond Ratings

Vermont was upgraded to a Aaa rating by Moody's in February of 2007 and Fitch "recalibrated" Vermont's rating from AA+ to AAA in April 2010. Combined with a AA+ bond rating from S&P, Vermont enjoys the highest general obligation bond ratings of any New England state (see bond rating chart on next page). The triple-A ratings by Moody's and Fitch and the excellent rating from S&P are reflective of sound fiscal practices that include: (1) budgetary discipline; (2) an economy with significant breadth; (3) strong debt management practices; and (4) effective State governance reflecting sound statutes and legislative history. Since a higher rating enhances the State's reputation in the municipal marketplace, Vermont's bonds are very marketable to a broad range of individual and institutional investors. As noted previously, this generally results in a lower interest rate or cost of capital for borrowing. It also is likely to reduce borrowing costs for municipalities that issue debt through the Vermont Municipal Bond Bank or other borrowers relying on the state's moral obligation. This includes authorities providing affordable housing (Vermont Housing Finance Agency or VHFA), economic development (Vermont Economic Development Agency or VEDA), and selected

Aaa

A higher bond rating enhances the State's reputation in the municipal marketplace.

issuance for student loans (Vermont Student Assistance Corporation or VSAC). The bottom line is that the State's bond rating is important to every citizen, each community, non-profits, and businesses.

New England General Obligation Bond Ratings

STATE	FITCH	MOODY'S	S&P
Vermont	AAA	Aaa	AA+
Connecticut	AA	Aa3	AA
Maine	N/A	Aa2	AA
Massachusetts	AA+	Aa1	AA+
New Hampshire	AA+	Aa1	AA
Rhode Island	AA	Aa2	AA

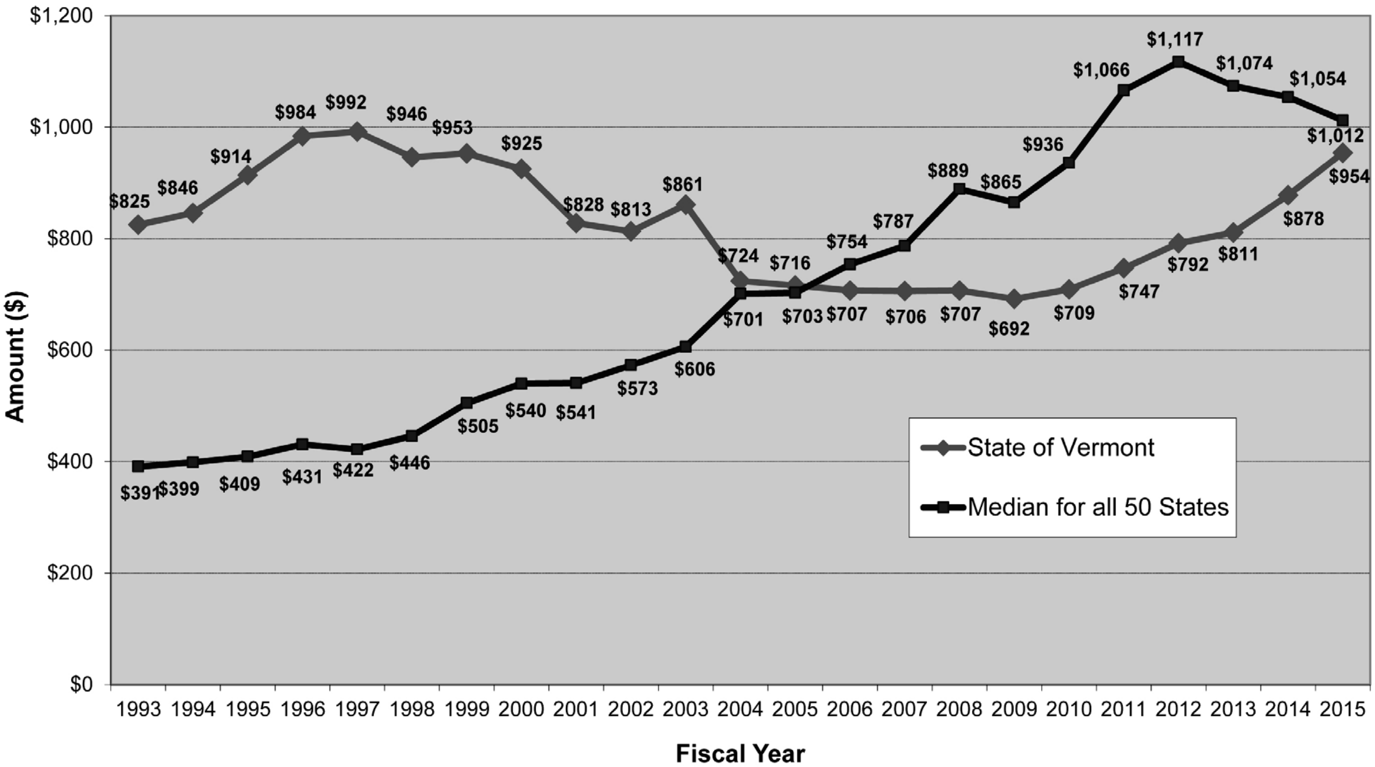
Debt Affordability

The Capital Debt Affordability Advisory Committee (CDAAC) is made up of the State Treasurer (chair), three ex officio members, two appointees of the Governor, one appointee of the State Treasurer, and an appointee of the Vermont Municipal Bond Bank. The CDAAC completes an annual review of the size and affordability of the State tax-supported general obligation debt and submits to the Governor and to the General Assembly an estimate of the maximum amount of new long-term general obligation debt that prudently may be authorized for the next fiscal year. The estimate of the committee is advisory, but historically has been adopted by the State as a bonding limit.

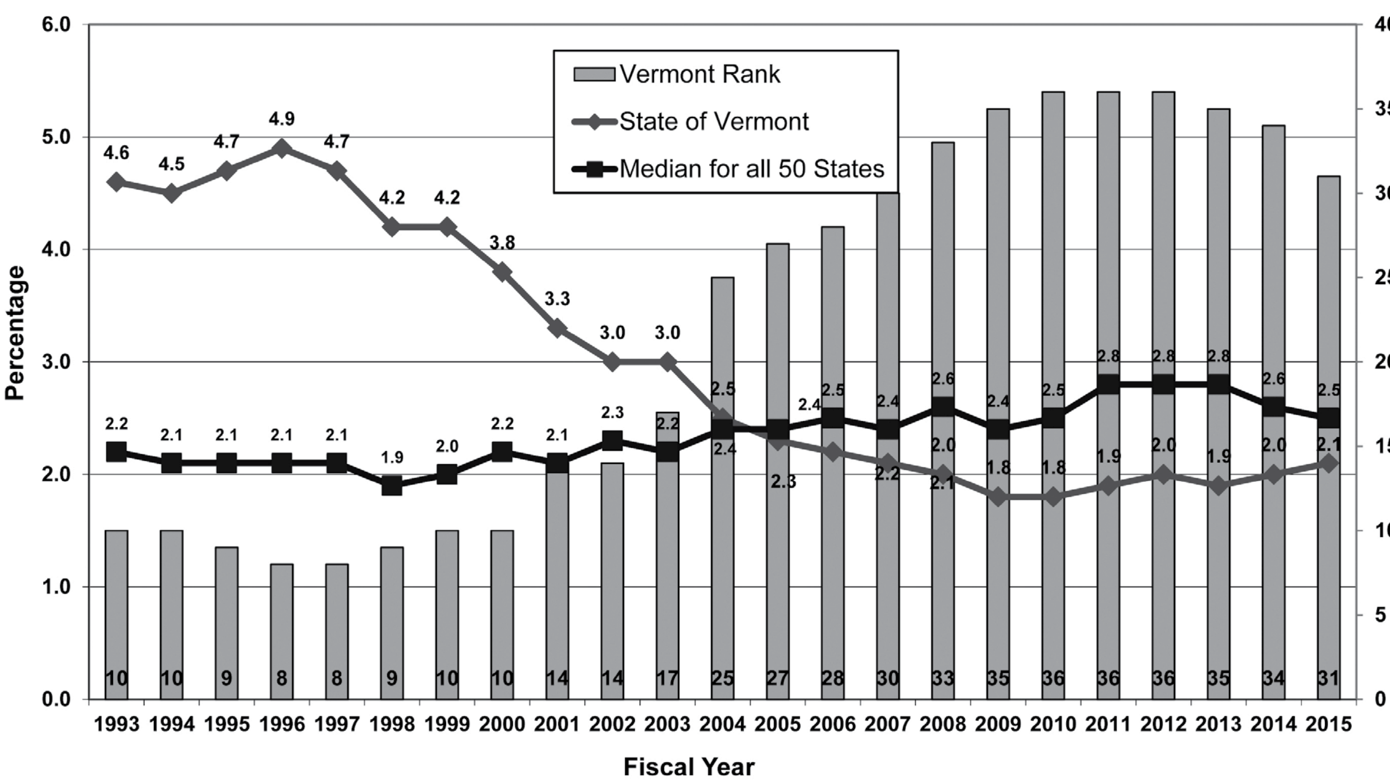
The Treasurer's office, in conjunction with the Governor and General Assembly, has historically set a course of maintaining modest levels of new authorizations of long-term debt and net tax-supported debt outstanding. A major contributing factor to Vermont's respected debt management is the work of CDAAC. In 2015, the CDAAC re-affirmed their recommendation for a two-year maximum net tax-supported debt authorization of $144 million for fiscal years 2016 and 2017, a reduction of $15.9 million or 9.9 percent from the previous biennium. The committee's recommendation was based on downward revisions to 10-year projections both of Vermont's population (which increased projected debt per capita ratios) and general and transportation fund revenues (which increased projected debt service as a percent of revenues).

Bond issuance is currently at substantially lower levels than in the early and mid-1990s. Reduction in debt, plus continued improvement in the State's economic indices and financial condition over recent years, has improved the State's debt ratios to those among the highest-rated states. The State's practice of issuing debt with level annual principal installments has also resulted in a favorable amortization rate. At a rate of almost 70 percent retirement within 10 years, the State's bond payoff ratio continues to be favorably received by the rating agencies.

Net Tax Supported Debt Per Capita - Vermont Versus 50 States Median



Net Tax Supported Debt as a Percent of Personal Income - Vermont Versus 50 States Median



Debt Ratios

Vermont's debt ratios rank favorably among triple-A rated states. Key to maintaining or obtaining other triple-A ratings is to demonstrate continued diligence in the areas previously discussed. As noted in the CDAAC report submitted for fiscal year 2015, debt issuance among Vermont's peer triple- A rated states and the fifty states generally has continued to decline in 2014, and for the first time in almost three decades, total debt outstanding declined as well. This has resulted in a noticeable impact on Vermont's debt ratio rankings compared to other states. Preliminary data for 2015 indicates some uptick in overall issuance, but also some cautionary trends. While issuance exceeded 2014 levels, reports state that 55 percent of new issues were refundings. Moreover, reports state that issuance was low for the last four months of 2015, down 41 percent year over year and below the ten year average. Vermont's relative position vis-à-vis other states could continue to decline.

Vermont's current levels of debt issuance, if continued, will result in increases in total outstanding debt, now and over the ten year projection period reviewed by the CDAAC committee. As we try to maintain favorable ratios and maintain a debt profile affordable to the taxpayer, the committee may see pressure to consider further reductions in their recommendations for bond issuance in the next biennium.

In the sections below, the mean and median for all fifty (50) states, as a part of an annual series most recently released by Moody's Investor Service on June 24, 2015, is noted. This provides an understanding of our current relative position. In addition, CDAAC calculates debt per capita and debt as a percentage of personal income based on the annual Moody's Report, using a five-year median and mean for triple-A states. In the case of debt service as a percentage of revenues, Vermont uses an absolute guideline rather than a comparison to the peer triple-A states. This forms the basis for guidelines for the State in shaping its CDAAC recommendations. The graphs and charts on pages 37, 39 and 41 identify components of these measures.

Debt Per Capita

Debt as a percentage of personal income and debt service as a percentage of revenues are generally understood to be the better credit indicators of the State's ability to pay; however, the rating agencies continue to calculate and monitor the State's debt per capita as an indicator and it is included as a factor in CDAAC's deliberations. In 2015, the State's debt per capita was $954 versus the Moody's five-year triple-A median and mean of $1,012 and $1,419, respectively (see charts on pages 37 and 39). The State's ranking versus all 50 states improved steadily from 28th in 2007 to 37th in 2011, but slipped to 34th in 2012, 33rd in 2013, 30th in 2014, and further declined to 28th in 2015. The higher the ranking figure, the lower a state's debt per capita is relative to all other states.

For the purposes of establishing CDAAC guidelines the five year average of our peer triple –A states is used. At present, we are below the guidelines. Vermont has a five year average of $836 versus a mean of $1,013 and a median of $904 for the same five year period for our peer triple-A states. The State's net tax-supported debt per capita is forecast to grow to $1,199 by 2026. That forecast assumes a steady level of debt authorization and the issuance of $99.7 million in fiscal year 2016, $72.5 million in fiscal year 2017, and $72 million per year beginning in fiscal year 2018. Under this scenario, the debt per capita would exceed the projected state guideline through 2025, but would revert to a level lower than the projected five–year median for peer triple-A group by 2026. Given the weight

Moody's Investors Service -- Debt Per Capita -- State of Vermont

Triple-A Rated States--5-Year Average Mean and 5-Year Median Excluding Vermont
MEAN: $1,013 MEDIAN: $904 5-Year Average - VERMONT: $836

Triple-A Rated States[1]	Moody's Ratings[2]	S&P Ratings[2]	Fitch Ratings[2]	Moody's Debt Per Capita 2011	2012	2013	2014	2015
Alaska	Aaa/Negative	AAA/Negative	AAA/Stable	1,257*	1,454*	$1,251	$1,573	$1,489
Delaware	Aaa/Stable	AAA/Stable	AAA/Stable	2,676	2,674	2,536	2,485	2,438
Florida	Aa1/Stable	AAA/Stable	AAA/Stable	1,150	1,167	1,087	1,008	973
Georgia	Aaa/Stable	AAA/Stable	AAA/Stable	1,103	1,099	1,061	1,064	1,043
Indiana	Aaa/Stable	AAA/Stable	AAA/Stable	471	446	424	533	474
Iowa	Aaa/Stable	AAA/Stable	AAA/Stable	270	310	287	275	250
Maryland	Aaa/Stable	AAA/Stable	AAA/Stable	1,681	1,742	1,799	1,791	1,889
Minnesota[3]	Aa1/Stable	AA+/Positive	AA+/Stable	1,159	1,148*	1,315*	1,402*	1,538*
Missouri	Aaa/Stable	AAA/Stable	AAA/Stable	775	741	699	668	606
North Carolina	Aaa/Stable	AAA/Stable	AAA/Stable	782	815	853	806	739
South Carolina	Aaa/Stable	AA+/Stable	AAA/Stable	887	827	780	749	672
Tennessee	Aaa/Stable	AA+/Stable	AAA/Stable	345	343	343	324	327
Texas	Aaa/Stable	AAA/Stable[4]	AAA/Stable	612	588	580	614	406
Utah	Aaa/Stable	AAA/Stable	AAA/Stable	1,222	1,393	1,275	1,187	1,060
Virginia	Aaa/Stable	AAA/Stable	AAA/Stable	1,058	1,169	1,315	1,302	1,356
MEAN[5]	___________	___________	__________	**1,014**	**1,024**	**1,021**	**1,027**	**980**
MEDIAN[5]	___________	___________	__________	**973**	**827**	**957**	**907**	**856**
VERMONT	Aaa/Stable	AA+/Stable	AAA/Stable	747	792	811	878	954

[1] Carry at least two triple A ratings.
[2] Ratings as of August 18, 2015.
[3] Minnesota was downgraded by Fitch to AA+ from AAA on July 7, 2011 and it was downgraded by Standard and Poor's to AA+ from AAA on September 23, 2011. Minnesota is included in calculating the means and medians in the years from 2010 to 2011.
[4] Texas was upgraded by S&P to AAA from AA+ on September 27, 2013.
[5] These calculations exclude all Vermont numbers.
* Indicates that the state was not rated triple-A thereby two or more of this rating agencies during the year shown. Amount not used in calculating the mean or median for the year.

placed on this ratio versus the other debt ratios noted below, the CDAAC limited the constraining impact of this in its recommendations.

Debt as a Percentage of Personal Income

Another credit factor for assessing a state's relative ability to pay its general obligation debt is the ratio of net tax-supported debt as a percent of personal income. As of the last Moody's Report, Vermont had a ratio of 2.1 percent as compared to a fifty state mean of 3.1 percent and a median of 2.5 percent. Since 2005 Vermont has been below the fifty-state median although its ranking has decreased slightly in the most recent year. Again, the CDAAC guideline was to perform better than the Moody's five-year mean (2.5 percent) and median (2.4 percent) for triple-A rated states and the State has done so (2 percent) to date. Projecting forward using the current CDAAC projection (described previously) this ratio will improve.

Debt as a Percentage of Revenue

The guideline used for this ratio states that projected annual State debt service on bonds should not be in excess of 6 percent of projected revenues in the combined general and transportation funds. The debt service as a percentage of revenues ratio was 4.2 percent for fiscal year 2015. This percentage is expected to rise to 4.9 percent by fiscal year 2026. Given the potential for wide variances in State revenues at various points in the economic cycle, CDAAC proposed a significant buffer between the recommended level and the guideline. During the Great Recession, this ratio jumped from 5 percent in 2008 to 5.5 percent in 2009 and 5.7 percent in 2010.

Additional Factors Affecting Bond Ratings

There are many other factors considered in a state's bond rating.

Budget Stabilization Reserves

The State has budget stabilization reserve levels required by statute for each of the State's General Fund, Transportation Fund, and Education Fund. Required reserves for the General Fund and Transportation Fund are 5 percent and for the Education Fund are 3.5 percent to 5 percent of the previous year's appropriations. Currently, all three funds are at their statutory requirements and as stated above, have not yet been tapped in response to the recent economic conditions. The combined effect of full budget stabilization reserves, plus the caseload reserves, is positive for the State's ratings. Additionally, both the Governor and the State Treasurer have recommended a long-term goal to increase the general fund reserve to 8 percent and in its 2012 session the State Legislature created a General Fund Balance Reserve (or "Rainy Day Fund"). The Treasurer's office recommends building to a target of 3 percent for the Rainy Day Fund, which, combined with the budget stabilization reserves, would match the rating agencies' preferred 8 percent total reserves level.

Pension Funding

Of the three State-level pension funds, two receive State contributions—the Vermont State Employees' Retirement System (VSERS) and the Vermont State Teachers' Retirement System (VSTRS). Inasmuch as State contributions derive from taxes, as is the case in other states, the rating agencies are very concerned with the percentage of future pension liabilities that are funded in these plans. As of June 30, 2015, the VSERS funding level is at 75.1 percent and the VSTRS funding level is 58.6 percent. These levels are changed from 77.9 percent and 59.9 percent, respectively in 2014. However, the State is also required to report pension liabilities in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, which requires reporting of pension assets based upon market value as opposed to actuarial value. The funded ratios as reported under GASB No. 67 were 74.88 percent and 58.22 percent, respectively.

Perhaps most importantly, the Governor and General Assembly have a sustained track record of fully funding the annual actuarially required contributions to both the VSERS and VSTRS systems. According to a national study by PEW Charitable Trusts, state pension contributions in 2013 totaled $74 billion dollars, but were $18 billion short of what was needed based on the actuarial recommendations, with only 24 states setting aside at least 95 percent of the ARC at full levels. Vermont is one of those states and continues to fund the ARCs. In comparing percentage of contributions, Vermont has outperformed all but one of its triple-A peer states. While budgets are squeezed, continued discipline in fund-

State of Vermont - Historic and Projected Debt Ratios

	Net Tax-Supported Debt Per Capita (in $)			Net Tax-Supported Debt as Percent of Personal Income			Net Tax-Supported Debt Service as Percent of Revenues (5)		
Fiscal Year (ending 6/30)	State of Vermont	Moody's Median	State's Rank (4)	State of Vermont	Moody's Median	State's Rank (4)	State of Vermont (5)	Moody's Median	State's Rank (4)
Actual (1)									
2002	813	573	18	3.0	2.3	14	6.5	n.a.	n.a.
2003	861	606	16	3.0	2.2	17	6.7	n.a.	n.a.
2004	724	701	24	2.5	2.4	25	6.0	n.a.	n.a.
2005	716	703	25	2.3	2.4	27	5.4	n.a.	n.a.
2006	707	754	29	2.2	2.5	28	5.1	n.a.	n.a.
2007	706	787	28	2.1	2.4	30	5.1	n.a.	n.a.
2008	707	889	32	2.0	2.6	33	5.0	n.a.	n.a.
2009	692	865	34	1.8	2.5	35	5.5	n.a.	n.a.
2010	709	936	36	1.8	2.5	36	5.7	n.a.	n.a.
2011	747	1066	37	1.9	2.8	36	5.1	n.a.	n.a.
2012	792	1117	34	2.0	2.8	36	4.9	n.a.	n.a.
2013	811	1074	33	1.9	2.8	35	4.6	n.a.	n.a.
2014	878	1054	30	2.0	2.6	34	4.7	n.a.	n.a.
2015	954	1012	28	2.1	2.5	31	4.2	n.a.	n.a.
Current (2)	947	n.a.	n.a.	1.9	n.a.	n.a.	4.2	n.a.	n.a.
Projected (FYE 6/30) (3)		State Guideline (6)			State Guideline (7)			State Guideline	
2016	1,029	929		2.0	2.4		4.2	6.0	
2017	1,061	955		2.0	2.4		4.3	6.0	
2018	1,091	982		2.0	2.4		4.3	6.0	
2019	1,117	1,009		1.9	2.4		4.5	6.0	
2020	1,140	1,037		1.9	2.4		4.6	6.0	
2021	1,156	1,066		1.9	2.4		4.8	6.0	
2022	1,171	1,095		1.9	2.4		4.8	6.0	
2023	1,183	1,126		1.8	2.4		4.8	6.0	
2024	1,193	1,157		1.8	2.4		4.8	6.0	
2025	1,197	1,189		1.8	2.4		4.9	6.0	
2026	1,199	1,222		1.7	2.4		4.9	6.0	

Note: Shaded figures in fiscal years 2016-2025 represent the period when Vermont's debt per capita is projected to exceed the projected State Guideline consistent with the current debt per capita guideline calculation methodology and the assumption that the State will issue bonds consistent with the proposed two-year authorization (footnote (3)). See Section 5, "State Guidelines and Recent Events, Debt Per Capita State Guideline – Future Debt Capacity Risk."

(1) Actual data compiled by Moody's Investors Service, reflective of all 50 states. Moody's uses states' prior year figures to calculate the "Actual" year numbers in the table.

(2) Calculated by Public Resources Advisory Group, using outstanding G.O. debt of $595.8 million as of 6/30/15 divided by Vermont's 2015 population of 627,477 as projected by EPR.

(3) Projections assume issuance of $99.735 million in FY 2016 and $72.515 million of G.O. debt in FY2017 and $72.000 million in FY 2018 through FY2026.

(4) Rankings are in numerically descending order (i.e., from high to low debt).

(5) Revenues are adjusted reflecting "current law" revenue forecasts based on a consensus between the State's administration and legislature. Current debt service is net of the 35% federal interest subsidies on the Build America Bond issues, and projected debt service is based on estimated interest rates ranging from 5% to 6.5% over the project period. Calculated by Public Resources Advisory Group.

(6) State Guideline equals the 5 year average of Moody's median for States with two triple-A ratings $904 increasing annually at 2.78% (average increase for these states over the last 10 years).

(7) The 5-year Moody's median for triple-A States (2.4%) has not been increased for the period 2016-2026 since the annual number is quite volatile, ranging from 2.2% to 2.6% over the last five years.

ing the actuarial required contribution (ARC) is an important factor in maintaining our bond ratings

Vermont has also made significant steps to limit the growth in liabilities. In 2010, the Vermont National Education Association (Vermont-NEA) worked with the Treasurer's office to help pass some of the most progressive pension reforms in the country, significantly improving the sustainability of the teachers' pension system. In addition, changes to other post-employment benefits (OPEBs) significantly reduced the unfunded liability associated with retired teacher health care costs. In 2011, the State enacted employee rate increases improving the long-term stability of State employee pension benefits. In 2013, the teachers' system enacted changes to retiree drug subsidies that further reduced unfunded liabilities. Finally, in 2014, the Governor and legislature, working with many other stakeholders, created a Retired Teachers' Health and Medical Benefits Fund to provide a dedicated funding source for these benefits. In 2016, the Treasurer will be recommending changes to the way that we pay down the unfunded liability to both improve the funded stratus of the plans and reduce the interest cost borne by the taxpayer.

Other Factors and Summary

The rating agencies also consider the breadth of the economy; the level and condition of the State's transportation, utilities and other infrastructure; personal income levels; fiscal responsibility; employment levels; workforce size and training; population demographics and trends; internal controls and auditing standards; need for short-term borrowings; and other factors. There are many external world and national economic factors that put stress on our ratings. Vermont needs to continue to be diligent in managing things under its control. The State must continue a collaborative, disciplined approach to financial management; continue with a record of producing on-time, balanced budgets; proactive budget management using consensus revenue forecasting; fully fund the required actuarial contributions; and maintain and even improve its stabilization and rainy day reserves.

Moody's Investors Service -- Debt as % of Personal Income -- Vermont

Triple-A Rated States--5-Year Average Mean and 5-Year Median Excluding Vermont
MEAN: 2.5% MEDIAN: 2.4% 5-Year Average VERMONT: 2%

Triple-A Rated States	Moody's Debt as % of 2013 Personal Income				
	2011	2012	2013	2014	2015
Alaska	3.0%*	3.3%*	2.8%	3.2%	3.0%
Delaware	6.8	6.8	6.2	5.7	5.5
Florida	3.0	3.0	2.8	2.5	2.4
Georgia	3.3	3.1	3.0	2.9	2.8
Indiana	1.4	1.3	1.2	1.4	1.2
Iowa	0.7	0.8	0.7	0.6	0.6
Maryland	3.5	3.6	3.6	3.4	3.5
Minnesota	2.8	2.7*	3.0*	3.0*	3.2*
Missouri	2.2	2.0	1.8	1.7	1.5
North Carolina	2.3	2.3	2.4	2.1	1.9
South Carolina	2.7	2.5	2.3	2.2	1.9
Tennessee	1.0	1.0	0.9	0.8	0.8
Texas	1.6	1.5	1.5	1.5	1.0
Utah	3.9	4.4	3.8	3.4	3.0
Virginia	2.4	2.6	2.9	2.7	2.8
MEAN[1]	**2.7**	**2.7**	**2.6**	**2.4**	**2.3**
MEDIAN[1]	**2.6**	**2.5**	**2.6**	**2.4**	**2.2**
VERMONT	1.9	2.0	1.9	2.0	2.1

[1] These calculations exclude all Vermont numbers and include only states rated triple-A by two or more of the rating agencies during the periods shown, year ended June 30th.

* Indicates that the state was not rated triple-A by two or more of the rating agencies during the year shown. Amount not used in calculating the mean or median for the year.

Investments

Overview

The State Treasurer's Office is responsible for the investment of funds that can be generally divided into three groupings: 1) operating and restricted funds; 2) non-retirement related trust funds; and 3) post-retirement funds including pensions, heath care/other post employment benefits and supplemental retirement programs.

For operating funds and restricted funds (those funds identified as having certain federal restrictions, grant restrictions, or must be segregated by statute), the State

ACCOMPLISHMENTS IN 2015

- **The net asset value of the Vermont Pension Investment Committee (VPIC) portfolio at the end of FY 2015 was $3.94 billion. VPIC made some modest changes to certain allocations and continued its semi-annual rebalancing program. At year end, the target asset allocation of the portfolio was 32 percent allocated to equities, 35 percent to fixed income, 16 percent to multi-strategies and 17 percent to alternatives.**

- **The per participant fee for the State of Vermont 457 Deferred Compensation Plan was reduced by 30 percent. The reduction is part of the Treasurer's office ongoing work to implment cost saving measures wherever available. It was determined that fees could be reduced based upon future projections of fee collections and expenses. Total assets in the plan, administered by Empower Retirement, are valued at $401 million.**

- **VPIC and the Treasurer's office took action on several measures, under the Environmental, Social & Governance policy, to support initiatives related to corporate and social responsibility. These actions included: co-filing on a resolution with other institutional shareholders to urge oil and gas firm BP to aim for an "A" grade on the CDP scale of climate change risk disclosure; and joining as a signatory on a letter to the SEC requesting the commission disclose in comment letters material risks absent from several oil and gas companies' filings since the disclosure rule was put into effect in 2010.**

- **VPIC continued to build on its private equity allocation during FY 2015. VPIC voted to allocate $50 million to the HarbourVest Partners Fund X, a private equity commingled account with a weighting to Buyout and Venture strategies. In addition, the VPIC started funding its $15 million allocation to the HarbourVest HIPEP VII fund (an international private equity commingled account) and continued to fulfill capital calls for its $40 million allocation to the HarbourVest Partners IX fund (a commingled account with exposure to domestic Credit Opportunities, Buyout, and Venture strategies) and $25 million allocation to the Dover VIII fund (a commingled account dedicated to sourcing private equity deals on the Secondary market).**

- **Additional allocations to local investments of varying maturities has provided competitive rates of return and diversification while maintaining liquidity. Local investments also promote economic development.**

Investments
(802) 828-3668

Matt Considine
Director of Investment

Katie Green
Investments Manager

Nick Foss
Investments Analyst

Dan Currier
Cash & Investments Manager

has an investment policy with an overriding goal of minimizing exposure to risk and maintaining liquidity necessary for future cash needs, while maximizing the return on investments. Types of investments allowed include obligations of the United States and its agencies and instrumentalities; certificates of deposit issued by banks and savings and loan associations approved by the State Treasurer; domestic money market funds; and other money market instruments. The State Treasurer's Office issues additional formal guidance that is reviewed periodically to assure that the three investment objectives -- safety, liquidity, and yield -- are met.

A portion of these funds is permitted by State statute to be invested for longer maturity periods to provide the ability to obtain additional return consistent with liquidity needs. Beginning in 2013, local investment initiatives were implemented to develop a diversified portfolio of varying maturities.

Certain trust funds are contained in 32 V.S.A. 434, referred collectively as the Trust Investment Account. These include the Tobacco Trust Fund, the Higher Education Trust Fund, the ANR Stewardship Fund, two Veterans' Home trusts, the Fish and Wildlife Trust, Vermont State Retirement OPEB Fund, and various small trusts. The State Treasurer may invest funds in accordance with the standard of care established by the prudent investor rule and apply the same investment objectives and policies adopted by the Vermont State Employees' Retirement System, where appropriate, to the investment of funds in the Trust Investment Account.

As noted in the retirement operations section of this report, certain optional pension plans (deferred compensation, SDIA) and defined benefit plans are managed through third party contracts with investment authority resting with the retirement boards, or in the case of the State defined contribution plan, the Treasurer. Please reference that section for details on these programs.

The funds of the defined benefit pensions plans (VMERS, VSERS, and VSTRS) are invested under the authority of the Vermont Pension Investment Committee (VPIC), of which the Treasurer is a member. The Treasurer's office also provides administrative support to the plans and conducts day-to-day activities with investment managers, custodians and other service providers. The combined assets of the retirement plan portfolios were approximately $3.94 billion as of June 30, 2015. In 2015, VPIC oversaw the transition of the Burlington Employees' Retirement System assets, valued at approximately $145 million on December 30, 2015, back to management by the City of Burlington. In October 2007, the City of Burlington requested to become a participating investor with the VPIC, but opted to withdraw as a participating investor in 2015.

VPIC acts as the trustee for the defined benefit plan investments, while the board of trustees for each system maintains its fiduciary role in the area of benefits administration and actuarial recommendations.

UPDATES

Pension Fund Investments

The VPIC board has made significant efforts to restructure the asset allocation since 2009 to reduce portfolio risk and improve diversification. Such moves should enable the portfolio to perform better during down markets or periods of high volatility. Part of this diversification has been achieved by incorporating a number of additional total return investment strategies, while reduc-

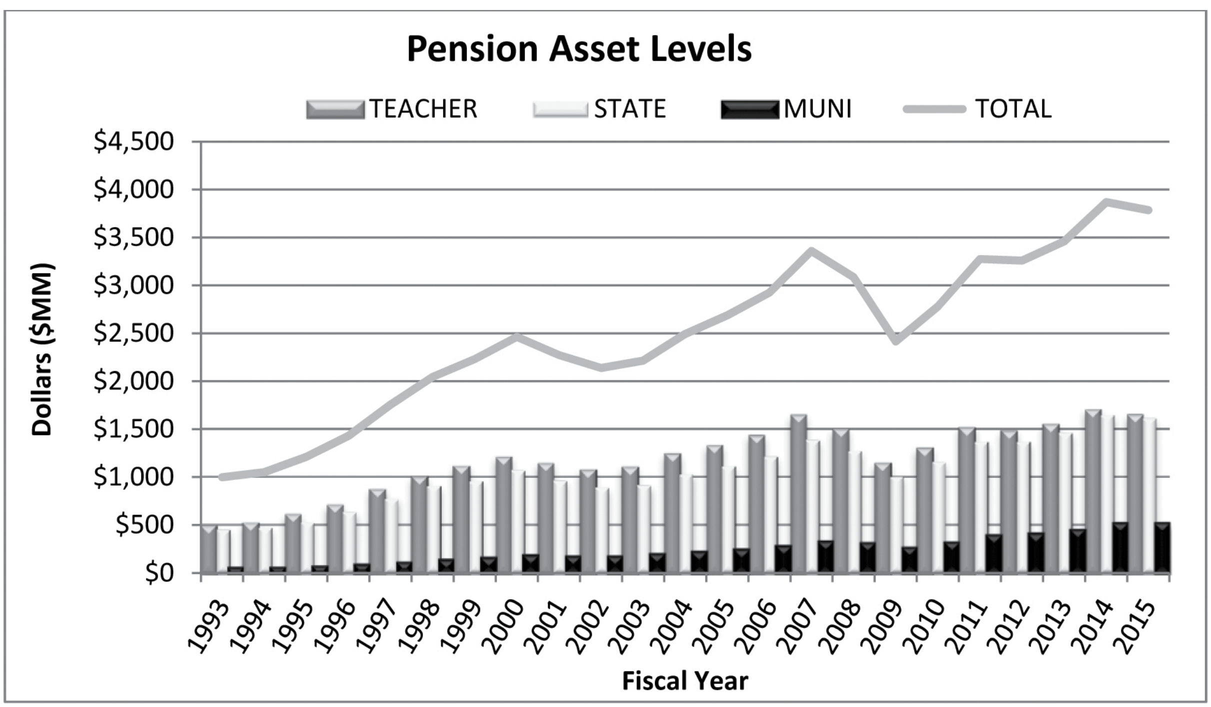
VPIC Membership

The 11-member Vermont Pension Investment Committee consists of six voting members and the VPIC Chair. The VPIC Chair is a seventh, non-voting member, and is elected by the six voting VPIC members and four alternates. The active and retired employee members of the Vermont State Employees' Retirement System and Vermont State Teachers' Retirement System boards of trustees each appoint one member and one alternate. The employee and municipal official members of the board of the Vermont Municipal Employees' Retirement System appoint one member and one alternate. In addition, two members and one alternate are appointed to the VPIC by the Governor. The sixth member is the State Treasurer or designee. In considering appointments, the legislation directs that the experience and knowledge of potential appointees be considered in light of the purpose of the committee. The members serve staggered four-year terms with no term limits. As of December, 2015, individuals appointed to the committee are: Chair, Stephen Rauh; Vice-Chair and State Treasurer Beth Pearce; VSERS voting member, Robert Hooper; VSERS alternate member, Jeff Briggs (appointment beginning August 14, 2014); VMERS voting member, Tom Golonka; VMERS alternate member, Mel Hawley; VSTRS voting member, Joseph Mackey; VSTRS alternate member, Linda Deliduka; Governor's appointees, Karen Paul (appointment beginning July 1, 2014) and Vaughn Altemus; and Governor's alternate appointee, David Starr (appointment beginning July 24, 2014). In 2015, Steve Rauh, chair, tendered his resignation and left after more than seven years of service. We thank Steve for his dedication and work on behalf of Vermont pensions.

ing exposure to equity risk, leading to a portfolio expected to be more resilient in periods of equity declines. In fiscal year 2015, one-year investment returns were 0.1 percent for VSERS, -0.2 percent for VSTRS, and 0.1 percent for VMERS versus the median public fund return of 3.2 percent. On a more granular level, the VPIC portfolio has tended to have a larger allocation to international securities and commodities than many public plans. During the fiscal year, both of these asset classes underperformed domestic equities as exposures that have historically been viewed as inflation hedges responded to worries over deflation (rather than inflation).

In 2015, the VPIC board reviewed and voted to maintain its current international and domestic proxy policy. Changes adopted on May 28, 2013 when the VPIC voted to strengthen its policies on social, environmental and sustainability issues remained in effect for the 2015 proxy season. The revision was largely aimed at implementing more robust and transparent wording for environmental and social voting guidelines. This included the addition of new language specific to companies that perform hydraulic fracturing ("fracking"), whereby the guideline stipulates votes in favor of proposals that support the use of alternative approaches in lieu of harmful chemicals to extract natural gas and in support of requiring companies to report on the environmental impact of the practice. In addition, the international proxy policy section on director elections was revised to introduce more clarity on voting related to board chair independence. These policies can be viewed on the State Treasurer's web site under the cash and investments section. Select the Vermont Pension Investment Committee link located in the menu on the right side of the page.

While the VPIC diversified portfolio will not perform as well in bull equity markets as other plans more heavily invested in equities, the VPIC believes the downside market protection is important to safeguarding the fund. That said, VPIC members, including the State Treasurer, have requested changes, or investigation of change, to the asset allocation that will result in fee reductions, more transparency and a reallocation of certain multi-strategy assets to their underlying security classes. We anticipate additional changes to the asset allocation during the first quarter of 2016.



Asset Allocation of Pension Funds as of June 30, 2015

Investment Category	Allocation
Equity	
Domestic Large Cap	10.0%
Domestic Mid Cap	2.5%
Domestic Small Cap	2.5%
International Established	10.0%
Emerging Market	6.0%
Total Equity	**31.0%**
Fixed Income	
Diversified Bonds	21.0%
High Yield Bonds	4.0%
Global Bonds	3.0%
Emerging Market Debt	5.0%
TIPS	3.0%
Total Fixed Income	**36.0%**
Alternatives	
Real Estate	6.0%
Private Equity	3.0%
Hedge Fund-of-Funds	5.0%
Commodities	3.0%
Total Alternatives	**17.0%**
Multi-Strategy	
Risk Parity	8.0%
Global Asset Allocation	8.0%
Total Multi-Strategy	**16.0%**
Cash	**0.0%**
Grand Total	**100.0%**

Long-Term Investment Performance of Vermont's Retirement Systems

As of June 30 of Fiscal Year 2015 - Gross of Fees

Retirement System:	Calendar YTD	Last 3 Years**	Last 5 Years**	Last 10 Years**
Teachers Composite	2.0%	7.4%	8.9%	5.8%
State Composite	2.3%	7.6%	9.0%	6.0%
Municipal Composite	2.3%	7.7%	9.1%	6.2%
Median Public Fund	2.4%	10.2%	10.3%	6.6%

* As of fiscal year 2013, the peer fund universe ICC Public Defined Benefit Median was replaced with the Investor Force Public Defined Benefit Gross Median

** Annualized

Source: NEPC, LLC

Summary of Interfund Loans, Credit Facilities & Local Investment: *Status as of November 30, 2015*

Vermont State Treasurer's Office
Summary of Interfund Loans, Credit Facilities and Local Investment Initiatives
Status as of November 30, 2015

Authorizing Legislation and Agency	Statutory Description	Amount Authorized	Remaining Capacity	Amount Utilized	Maturity Date	Rate
Act No. 179 of 2014, Sec. E.131 (2014 Appropriations Bill):	**Investment**	**$500,000**	**$0**	**$500,000**		
1. Vermont Community Loan Fund				$500,000	7/15/2016[1]	0.85%
Act No. 87 of 2013, Sec. 8, as amended by Act No. 199 of 2014, Sec. 22	**Credit Facility**	**$10,000,000**	**$0**	**$10,000,000**		
2. Vermont Economic Development Authority (Note VEDA-003)				$10,000,000	1/31/2025[2]	2.43%
Act No. 87 of 2013, Sec. 8a:	**Credit Facility**	**$6,500,000**	**$1,831,087**	**$4,668,913**		
3. NeighborWorks of Western Vermont (Note A-001)				$220,721	10/15/2023	2.00%
4. NeighborWorks of Western Vermont (Note A-002)				$159,975	4/15/2024	2.27%
5. NeighborWorks of Western Vermont (Note A-003)				$250,000	10/15/2024	2.35%
6. NeighborWorks of Western Vermont (Note A-004)				$238,217	1/15/2025	2.00%
7. NeighborWorks of Western Vermont (Note A-005)				$250,000	10/15/2025	2.00%
8. NeighborWorks of Western Vermont (Note A-006)				$250,000	10/15/2025	2.26%
9. NeighborWorks of Western Vermont (Remaining Authorization)				$500,000	TBD	TBD
10. Vermont Housing Finance Agency (Note VHFA-001)				$2,800,000	2/15/2024	2.76%
Act No. 178 of 2014, Sec. 41 (2014 Capital Bill Adjustment):	**Credit Facility**	**$8,000,000**	**$7,475,828**	**$524,172**		
11. BGS - Costello Courthouse, Burlington - HVAC Lighting and Controls				$524,172	TBD	2.00%
Act No. 199 of 2014, Sec. 23: [3]	**Credit Facility**	**$8,200,000**	**$4,450,000**	**$3,750,000**		
12. NeighborWorks of Western Vermont (Note B-001)				$400,000	7/15/2025	2.10%
13. NeighborWorks of Western Vermont (Remaining Authorization)				$1,350,000	TBD	TBD
14. Champlain Housing Trust (Pending)				$2,000,000	TBD	TBD
	TOTALS:	**$33,200,000**	**$13,756,915**	**$19,443,085**		

Notes:
1. Subject to annual review and renewal.
2. Subject to a "put" provision enabling the Treasurer's Office to demand full or partial repayment within 60 days if the State's unrestricted cash balance falls below $75,000,000.
3. Total Amount(s) Authorized prior to Act No. 199 of 2014 are included in, and not in addition to, the amount up to 10% of the State's average cash balance. The Treasurer's Office determined that $8,200,000 was available for additional Local Investments in its Request for Proposals circulated February 2, 2015 (i.e., that 10% is approximately $33,200,000).

Local Investments

In November 2012, the Treasurer's office convened a capital gaps/local investment working group to identify areas where capital was not matched to needs and then take steps to address these barriers with substantial proposals. This group met regularly over the next two years and included members of the Vermont General Assembly, VEDA,VHFA, staff from the Gund Institute, Montpelier Community Development, Bond Bank, VSAC, the Vermont Bankers Association, Efficiency Vermont, NeighborWorks of Western Vermont, and many others. A number of successful proposals were developed as a result. These successes led to an expansion of the program with the mandate to invest "up to 10 percent of the State's average cash balance on terms acceptable to the Treasurer consistent with the provisions of the Uniform Prudent Investor Act, 14A V.S.A. chapter 9." (Section 23, Act 199 of 2014). As a result of the adoption of Act 199, the working group was provided additional structure and codified as the Local Investment Advisory Committee (LIAC). As with the predecessor working group, the advisory committee was structured to assure significant input from subject matter experts and the community.

LIAC met six times during the past year. From February 2, 2015 to

Environmental, Social & Governance Policy Action

In May 2013, the VPIC board updated their policies to include an ESG policy. The ESG policy sets forth guidelines for evaluating opportunities to either make or divest from investments for the purpose of achieving certain environmental, social or governance goals that do not appear to be primarily investment related. Below are some of the actions taken during calendar year 2015.

- In April, the VPIC co-filed on a resolution with other institutional shareholders urging the oil & gas firm BP to aim for an "A" grade on the CDP scale of climate change risk disclosure. This resolution received 98.28 percent support from shareholders. The company is currently working with shareholders to produce in 2016 an annual report that fulfills the resolutions request for reporting on ongoing operational emissions management; asset portfolio resilience to the IEA's scenarios; low-carbon energy research and development and investment strategies; relevant strategic key performance indicators and executive incentives; and public policy positions relating to climate change.
- The VPIC and the Treasurer's office were signatories on a letter to the SEC requesting the commission disclose in comment letters material risks that have been absent from several oil and gas companies' filings since the disclosure rule was put into effect in 2010.
- The Treasurer's office was a signatory on a letter to the SEC requesting it review the disclosure of political contributions made by publicly traded corporations. "Dark money" spending jumped to $170 million since the previous mid-term election and shareholders are demanding greater accountability from firms. To date, 43 percent of S&P 500 companies disclose payments made to trade associations that engage in political spending and 61 percent disclose direct political spending. This letter was sent to encourage the SEC to create a rule for uniform disclosure that would eliminate cloaked donations.
- In May, the VPIC co-filed on a resolution to request ExxonMobil to create a business plan with clear greenhouse gas emission reduction goals. Treasurer Pearce attended Exxon's annual general meeting to present the shareholder resolution and speak in her capacity as Treasurer about her concern with Exxon's emission practices and risks associated with climate change. In August, the Treasurer's office held a conference call directly with Exxon representatives to discuss their future plans to increase visibility of the company's climate change risks in its operations and streamline the disclosed scenarios published by the oil and gas industry to ensure streamlined disclosure throughout the industry.
- The Treasurer was a signatory on a letter organized by the New York State Common Retirement Fund and Green Century Capital Management firm, along with investors of $1.5 trillion assets under management, which expressed support for the Board of the Roundtable on Sustainable Palm Oil (RSPO) in its efforts to address market expectations through its proposed RSPO Next initiative that would strengthen standards to support deforestation-free and exploitation-free palm oil.
- In July, the Treasurer's office and VPIC signed on to a letter sent to the SEC regarding its review of its past interpretation of Rule 14a-8(i)(9) provided to Whole Foods Market, Inc. that could undermine future efforts of significance raised by shareholders on a variety of topics. In addition, the Treasurer sent a letter directly to the SEC on this topic praising them for their decision to review their former position and urging them to issue new guidance. The SEC in October 2015 issued Staff Legal Bulletin No. 14H providing additional guidance on the scope and application of Rule 14a-8(i)(9), which has been interpreted as being likely favorable for future shareholder proxy access proposals.
- The Treasurer's office was a signatory to a letter sent on behalf of several public pension funds overseeing $1 trillion in assets to the SEC requesting they consider a new rule requiring private equity firms to provide comprehensive, consistent and comparable fee disclosures. SEC guidance would aid in standardizing how private equity fees are determined and disclosed, which would help public pension limited partners better meet their fiduciary obligations.
- In November, the Treasurer was a signatory on a letter coordinated by Green Century Capital Management, along with institutional investors with nearly $2 trillion in assets, urging the Indonesian President to continue support of private-sector forest conservation policies, which are part of the Palm Oil deforestation-free movement. The President's continued support is critical to maintaining pressure on private companies to migrate their business plans to include sustainable practices.
- The Treasurer is preparing to serve as a Convener at the 2016 Investor Summit on Climate Risk at the UN Headquarters in NYC, hosted by the United Nations Foundation, the United Nations Office for Partnerships, and Ceres. The event serves as a forum for institutional investors, thought-leaders and companies to discuss the implications of climate change on the capital markets.
- To date, seventeen of the twenty-two managers and five vendors that VPIC contracts with are signatories to the UN Principles for Responsible Investment (UN PRI). The UN PRI is an international initiative that requires a pledge to uphold six Principles for Responsible Investing designed by the United Nations. It expects its network of signatories to incorporate these Principles into their investment decision making and ownership practices.

March 2, 2015, LIAC considered a first round of proposals. From the first round, $3.75 million was obligated for housing, energy and neighborhood revitalization projects and $350,000 was set aside for a municipal infrastructure project that is still pending as of December 22, 2015. A second round of proposal solicitations opened on December 7, 2015 and will remain open until May 13, 2016. Available dollars for financing are expected to be up to $7 million. Municipalities, school districts, social services providers, State agencies and authorities, regional planning commissions and similar organizations are eligible to apply.

LIAC recommends to the General Assembly, during the 2016 legislative session, to extend the sunset of the Treasurer's credit facility and the work of the LIAC for two years to July 1, 2018. (Specifically to amend ACT 51, Section E.3 of the 2016 session)

A summary of the interfund loans, credit facilities and local investment through November 30, 2015 is on the previous page.

Trust Investment Account

The 2000 Vermont State Legislature authorized the establishment of a Trust Investment Account (TIA) administered by the State Treasurer for purposes of investing restricted funds with non-expendable principal balances and other long-term funds. As of June 30, 2015, the fund had a principal balance of approximately $68.3 million, of which $30.9 million was allocated to the Higher Education Endowment Trust Fund, $18.8 million to the VSERS OPEB, $5.3 million to the Tobacco Trust Fund, and the remainder to various smaller trust funds. The current target allocation of the Trust Investment Account is 60 percent fixed-income securities and 40 percent equities.

During fiscal year 2015, the fund's investment return was 2.4 percent net of fees. This return reflects a +7.4 percent performance of the S&P 500 during the fiscal year, which was particularly strong relative to international and emerging market stocks. Domestic equities benefited during the year from an accommodative Federal Reserve, while the latter equity classes were flat to down for the year based on concerns over slowing growth in China and uncertainty over the European economy. Also reflected in the results is a +1.7 percent contribution from bonds, which spent much of the year discounting an expected hike in interest rates from the U.S. Federal Reserve. Over the long-term, we expect the portfolio to outperform a traditional 60/40 bond-stock portfolio, particularly as international valuation differentials narrow.

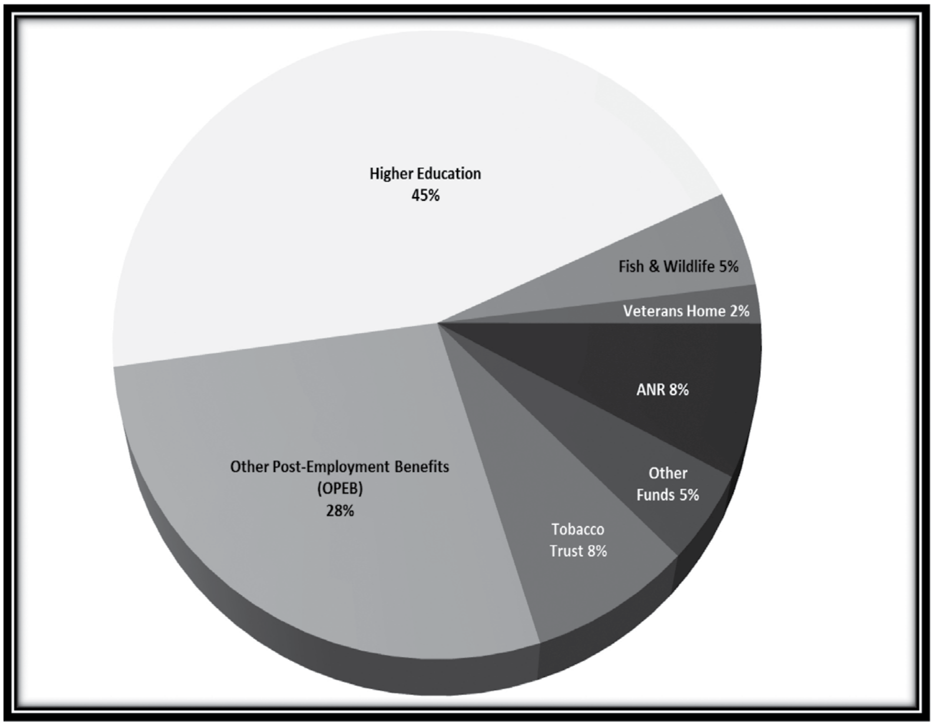
Note that as of December 2013, the investments are comprised of mutual fund positions as a result of a fund restructuring. The results of the restructuring have been fees that were reduced from 38 basis points to 6 basis points annually, along with a more diversified asset allocation that includes international and emerging market equities. At the end of the fiscal year the asset allocation included a 59 percent allocation to bonds, a 20 percent allocation to large cap domestic equities, a 15 percent allocation to international equities and a 5 percent exposure to emerging market stocks. (The remaining balance is maintained in cash for the purposes of paying account expenses.)

Below please find additional details regarding components of the Trust Investment Account:

Higher Education Trust Fund

The 1999 State Legislature established the Vermont Higher Education Endowment Trust Fund and appropriated $6 million for the creation and management of the fund by the State Treasurer. An additional $22.9 million of

Trust Investment Account Fund Composition as of June 30, 2015



contributions were added between fiscal years 2002 through 2015. This includes, pursuant to legislation introduced by the Treasurer, all unclaimed property worth less than $100 that has been under State custody for ten years or longer. On June 30, 2015, the fund had a market value of $30,888,836. In August of 2015, the State Treasurer distributed 5 percent of the average market value of the assets over the prior 12 quarters equally among the University of Vermont, the Vermont State Colleges, and the Vermont Student Assistance Corporation. Each entity received $506,785 to be applied as non-loan financial aid to Vermont students attending Vermont post-secondary institutions.

Trust Litigation Settlement Fund & the Tobacco Trust Fund

In November 1998, Vermont was one of 46 states to enter into a settlement agreement with four major tobacco companies. The State's estimated share of settlement payments at that time was expected to total $806 million over the first 25 years of payment, with an additional $156 million of strategic contribution payments to be paid between 2008 and 2017. Through fiscal year 2015, the State has received payments totaling $511 million.

In fiscal year 2000, the Vermont State Legislature established a Tobacco Litigation Settlement Fund ("Settlement Fund") to be administered by the State Treasurer and subject to further appropriations. In fiscal year 2015, $33 million from the settlement fund was directed to healthcare services (Medicaid; includes funds redirected to the Medicaid Global Commitment Fund). A total of $3.90 million was spent on programs in various departments for tobacco enforcement, prevention, and education programs. Additionally, $1.42 million funded substance abuse and youth protection programs in the Agency of Human Services. In fiscal year 2016, $28.75 million from the settlement fund was directed to healthcare services (Medicaid; includes funds redirected to the Medicaid Global Commitment Fund). A total of $3.82 million was spent on programs in various departments for tobacco enforcement, prevention, and education programs. Additionally, $1.42 million funded substance abuse and youth protection programs in the Agency of Human Services. Any remainder of the settlement fund receipts is to remain in the fund for appropriation in fiscal year 2016. In fiscal year 2015, $6.7 million was transferred from the Tobacco Trust Fund to the Tobacco Litigation Settlement Fund per Act 179 of 2014 sec D.103(a). The balance of the Tobacco Trust Fund investments at June 30, 2015, was $5.25 million and down from $9.4 million at the end of fiscal year 2014. Of the $5.25 million invested, $4.82 million is committed to the above mentioned transfers to cover the deficit in the tobacco Litigation Settlement Fund as in past years. The fund is expected to be depleted in fiscal year 2016.

Vermont's Expected and Actual Receipt of Tobacco Settlement Funds

Fiscal Year	Master Settlement Amount* ($millions)	Expected* ($ millions)	Actual* ($millions)
2000	$36.23	$36.23	$33.22
2001	$28.47	$28.47	$24.68
2002	$34.18	$34.18	$31.00
2003	$34.51	$34.51	$30.55
2004	$28.80	$28.80	$25.82
2005	$28.80	$26.10	$26.20
2006	$28.80	$24.50	$24.06
2007	$28.80	$22.60	$24.99
2008	$29.37	$39.50	$39.91
2009	$29.37	$39.91	$40.66
2010	$29.37	$36.00	$36.22
2011	$29.37	$33.00	$33.86
2012	$29.37	$31.00	$33.26
2013	$29.37	$33.86	$34.51
2014	$29.37	$33.98	$34.52
2015	$29.37	$33.98	$33.57

** Source: JFO. Master Settlement amounts shown are at time of initial settlement. Expected amount determined third quarter of Fiscal Year unless noted. Actual excludes Settlement Fund Account performance.*

Short-Term Investments

The State Treasurer's Office is committed to meeting the cash needs of State operations while protecting the value of its assets and approaching these responsibilities using a prudent and deliberative process. This past fiscal year presented a number of challenges, most notably a continuation of the Federal Reserve's "ZIRP" or zero interest rate policy for short-term investment rates, continued political uncertainty, and economic volatility. As a result, yields on high quality short-term fixed income securities maturing in three years or less are expected to remain near or below 0.25 percent. This limits the returns available on operating funds - including the general fund, transportation, and education fund - for which preservation of principal and daily liquidity are the most important objectives. The short-term portfolio earned $739,462 in interest income in fiscal year 2015 on average daily available balances of $300.79 million. Of this amount,

$170,980 was credited to interest earning funds, and the balance of $568,482 remained in the general fund. The yield on the available cash in the portfolio was 0.25 percent for the year, which exceeded the average three-month Treasury bill yield of 0.021 percent. Long term funds in the Trust Investment Account earned 2.4 percent for a blended rate of 0.85 percent.

Bank in Vermont

The Treasurer's office continues to maintain its Bank in Vermont program to invest State funds on a predictable basis through certificates of deposit (CDs) via a competitive bidding process in banks with branches in Vermont. The program is designed to be attractive to the wide range of banking institutions in Vermont and is predicated on the belief that investing Vermont funds in Vermont, consistent with earning a competitive rate of return, is a good policy. A block of funds is set aside for the scheduled bid in specified time frames. The CDs may be short duration, or have longer maturities, depending on the yield curve and cash management requirements. Between its inception in August, 2004, and June, 2015, $730.55 million in CDs have been awarded. As of June 30, 2015, there were two CD's outstanding. During fiscal 2015, a total of $7 million was invested in CDs, with varying maturities and rates well above comparable maturity Treasury rates. There have been no losses associated with this program.

Single Deposit Investment Account

The Single Deposit Investment Account (SDIA) is a non-contributory defined contribution plan. The fund was formed in 1981 and is closed to new membership and funds are not available to the members until they retire or terminate employment. The State Treasurer's Office, in concert with the State and teachers' retirement boards, made a significant change to the structure of the SDIA four years ago. Until fiscal year 2011, funds were invested in two intermediate term bond portfolios managed by two different investment managers. The bonds were "wrapped" by an insurance policy guaranteeing the book principal value of investments to SDIA participants. In response to a limited wrap environment and rising fees, the State opted to transition to a new investment model. The portfolio is now a commingled stable value fund designed to combine the assets of unrelated plans, with resulting economies of scale, within a single stable value strategy. This strategy also has the advantage of multiple wrap providers, thus, providing improved security to fund participants. The fund has demonstrated improved investment performance since that time, while still meeting its stated objectives to provide a relatively high fixed income yield with little market-related risk. Of primary importance is the preservation of principal and earned interest. Secondary to the preservation of capital is the need to generate, over time, a composite yield in excess of short-term yields available in the fixed income money market marketplace. The balance as of June 30, 2015 was $57,343,237.

Vermont Veterans Home

By legislative act in fiscal year 2001, the Vermont Veterans' Home was required to transfer its endowment fund to the State for administration by the State Treasurer. The legislation allows the State Treasurer to invest these funds, if appropriate, with the long-term investments in the Trust Investment Account. During fiscal year 2015, there was a withdrawal from the Vermont Veterans' Home TIA fund I of $12,000. As of June 30, 2015, the balance of the fund first contributed to the TIA was $590,893.20, and the balance of the second (later) fund was $780,668.97, for a combined total of $1,371,562.17.

Unclaimed Property Division

Overview

Financial property becomes "unclaimed" after a business or non-profit entity loses contact with a customer for a period of years. The property is sent to the Treasurer's office to protect the funds and centralize search efforts to locate property owners. The Unclaimed Property Division's primary goal is to reunite individuals with their unclaimed financial property. To accomplish this goal, the division uses a variety of tools. Foremost, the division must ensure that holders of the property file their annual unclaimed property report. Typically, types of property that are turned over to the division include:

- **Savings Accounts**
- **Checking Accounts**
- **Uncashed Checks**
- **Telephone/Utility Deposits**
- **Rental Security Deposits**
- **Wages**
- **Insurance Benefits/Policies**
- **Safe Deposit Box Contents**
- **Mortgage Insurance Refunds**
- **Stocks and Dividends**
- **Mutual Funds**
- **Certificates of Deposit**

The Unclaimed Property Division holds lost funds until the rightful owner(s) are found, returning the property to the owner at no cost to the owner. Every U.S. state, including the District of Columbia, Puerto Rico, the U.S. Virgin Islands - and Quebec, British Columbia and Alberta in Canada, have unclaimed property programs that actively and continuously find owners of lost and forgotten assets. Billions of dollars remain unclaimed across the nation.

ACCOMPLISHMENTS IN 2015

- **During FY 2015 the division paid 13,107 claimants approximately $5.11 million, with an average claim of $389.87.**
- **Holders of unclaimed property reported $10.5 million worth of unclaimed funds to the State in FY 2015. This is the second highest total in the history of the program, with the first being in FY 2004, when the major life insurers de-mutualized.**
- **In FY 2015, there were 382,345 web searches for unclaimed property on the Vermont State Treasurer's website, including a single day record of more than 55,400 searches during our fall 2014 advertising campaign. This number of searches represents an increase of more than 143,000 searches over FY 2014.**
- **Managed the unclaimed property database of more than $71 million and 350,000 properties.**

Unclaimed Property Division

(802) 828-2407
(800) 642-3191

Al LaPerle
Unclaimed Property Director

Vacant
Business Administrator

Charles Ryerson
Program Technician I

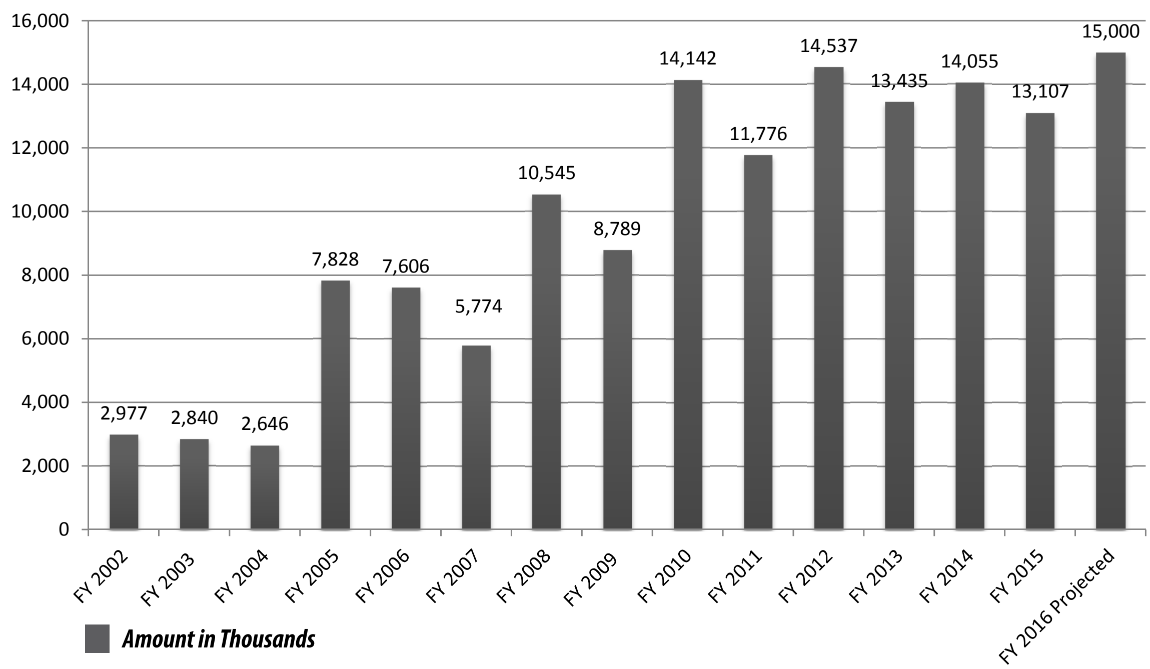
Lucas Griggs
Program Technician I

UPDATES

Claims Processing

In fiscal year 2015, the Office of the State Treasurer returned more than $5.11 million to its owners. We want that figure to continue to rise and we're working harder than ever to reunite Vermonters with their unclaimed property. This past fiscal year, the division paid 13,107 claims with the average claim being $389.87. The division uses a proven system of outreach efforts to reunite owners with their property, such as a publication of our annual list of names in daily newspapers; a spring and fall advertising campaign; staffing booths at different events around the state; distribution of local listings to town clerks and legislators; cross-matching our database with the Department of Taxes; and our annual mailings. Enhancing our ability to return property, the division uses the Unclaimed Property Management System 2000. This is the most advanced, secure and reliable unclaimed property management system available to the State. Fiscal year 2015 claims processing is currently on pace to exceed last fiscal year's total. Claim information for the last fifteen fiscal years is shown in the chart below and on the following pages.

Unclaimed Property Number of Claimants Paid



Reporting and Compliance

The law designates many organization as holders, such as, banks, insurance companies, corporations and the courts. Holders are required to report dormant accounts to the Unclaimed Property Division. Vermont's Unclaimed Property Law requires organizations to annually review their records and transfer accounts that have reached certain dormancy thresholds to the State Treasurer, who serves as sole custodian of the funds, until they can be returned to their rightful owners. Before unclaimed funds are turned over to the State, all holders of property valued at $50 or more are mandated by law to notify the individual by mail at the last known address on record. Despite these efforts, many accounts remain unclaimed and are turned over to the State Treasurer. The State of Vermont is currently in possession of more than $71 million in unclaimed property belonging to more than 350,000 individuals and organizations. Vermonters may search the listings by going to www.MissingMoney.Vermont.gov. Below are the top ten Vermont communities with the largest number of individual listings in the database. Due to ongoing changes in the database because of the processing of claims, the numbers below are rounded to the nearest hundred.

- **Burlington - 36,000**
- **Rutland - 16,500**
- **Montpelier - 14,200**
- **South Burlington - 12,900**
- **Brattleboro - 11,600**
- **Essex Junction - 11,600**
- **Colchester - 10,400**
- **St. Albans - 9,300**
- **Barre - 9,100**
- **Bennington - 8,700**

Property becomes "lost" due to a company having no communication with the owner. This may be caused by an address change or change in marital status. In some cases, the owner dies and the heirs have no knowledge of the property. During fiscal year 2015, the State of Vermont received $10.5 million from holders of unclaimed property. Education continues to be an important part of the division's compliance effort. A division representative will visit a holder upon request to provide information on the program.

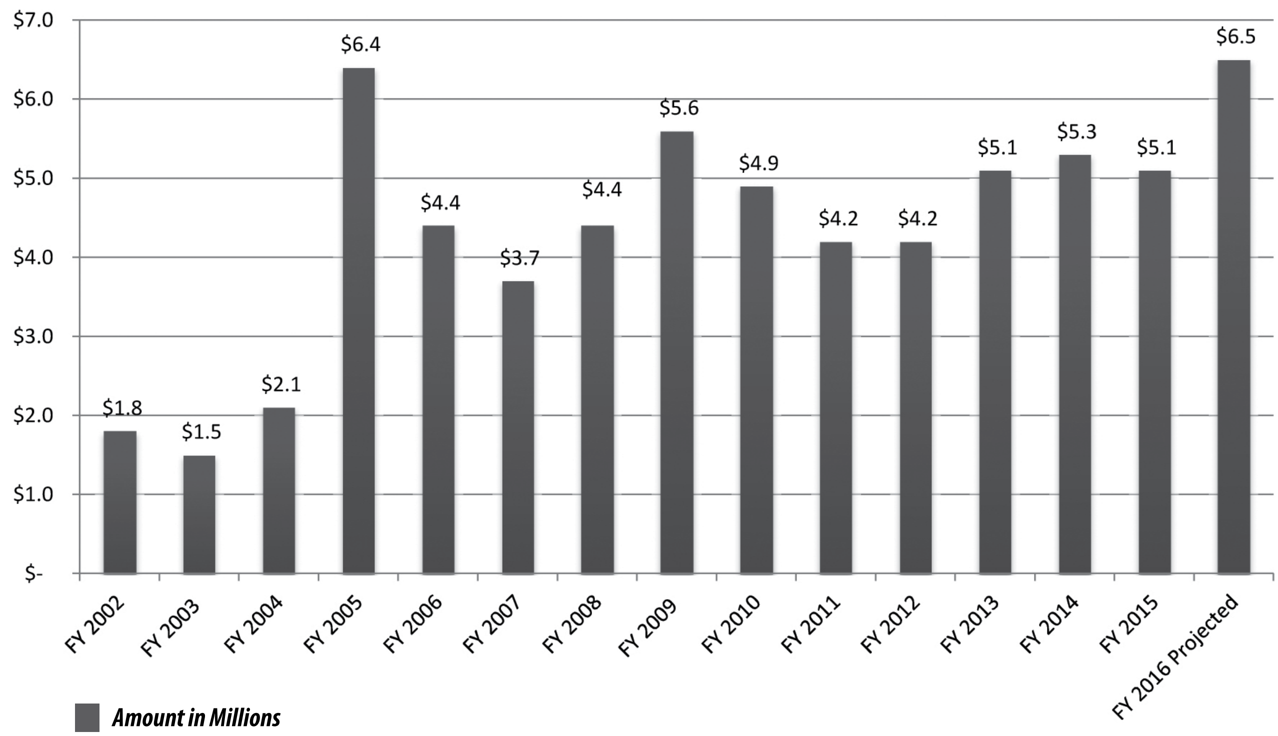
Uniform Law Commission and Unclaimed Property

Vermont laws governing unclaimed property are based on uniform laws drafted by the national Uniform Law Commission (ULC). The Uniform Law Commission, now 122 years old, is one of the oldest state organizations designed to promote uniformity of laws among the states. The ULC is comprised of commissioners from the 50 states and three U.S. territories. The ULC has drafted hundreds of uniform laws on numerous subjects and in various fields, including the Uniform Unclaimed Property Act (UUPA).

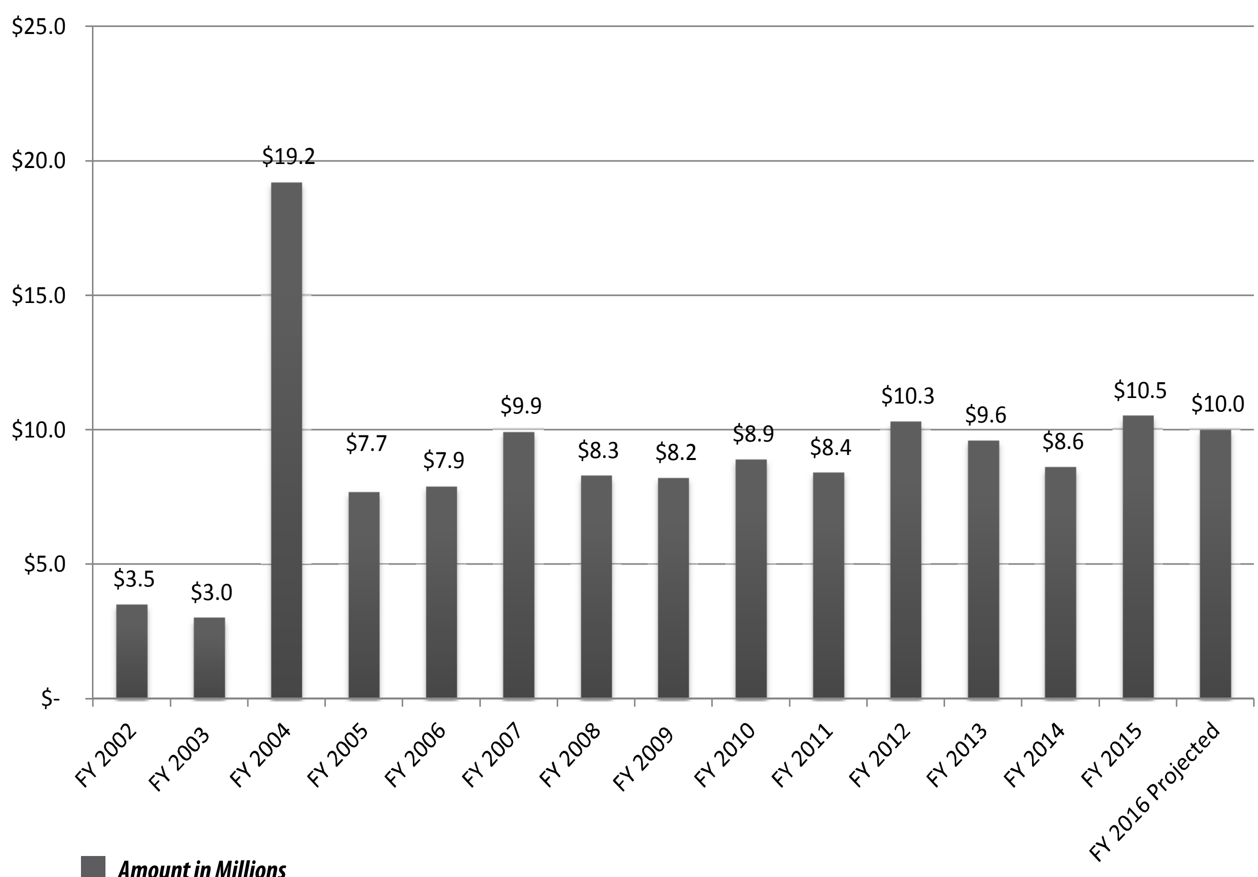
The ULC drafted the original act in 1954, the Uniform Disposition of Unclaimed Property Act, which was later revised in 1966. The ULC followed with the Uniform Unclaimed Property Act (UUPA) in 1981 and a revision in 1995. Most states have adopted one or more version of the uniform act on unclaimed property. The UUPA is not the law in any state or territory unless and until enacted into law in a particular jurisdiction. Vermont has adopted most of the provisions of the 1995 Act.

It has been 20 years since the revision of the 1995 Act and since that time there have been numerous changes in business practices affecting unclaimed property, as well as in this area of law. The ULC convened a drafting committee to address revisions to the Act. The ULC Drafting Committee is comprised of 12 Uniform Law Commissioners, a reporter/draftsperson (also a ULC Commissioner), four advisors from the American Bar Association, and two state advisors. Vermont Treasurer Beth Pearce, and Carolyn Atkinson, Deputy Treasurer and Unclaimed Property Administrator from West Virginia, are the state representatives. We have also been joined by State Treasurer Don Stenberg of Nebraska as president of the National Association of Unclaimed Property Administrators (NAUPA). This has been a bipartisan effort supported by NAUPA and the National Association of State Treasurers (NAST).

Unclaimed Property Amount Returned to Vermonters



Unclaimed Property--Property Value Turned Over to the Treasurer's Office



This committee has been meeting since 2014 to address various issues and hear testimony from holders, financial representatives, consumer advocates, and other interested parties. It is expected that the committee will complete its work in time for the ULC's annual meeting, which will be held in Vermont in July 2016. As representatives of the states, Treasurer Pearce, Treasurer Stenberg, Deputy Treasurer Atkinson, as well other members from NAUPA and NAST have taken the position that the Unclaimed Property Act is essentially an issue of consumer protection.

Unclaimed property belongs to the employees, customers, vendors, and shareholders of holders and in those situations where a holder is unable to make payment (holders are required to attempt to contact, and attempt to pay owners before their property is transferred to the state), it is the responsibility of the state to attempt to locate the missing owner, and to safeguard the assets until the owner is found. States see unclaimed property as a matter of consumer protection, and consistent with this thinking, the states collectively return billions of dollars each year to owners and their heirs. While the incidental impact on state revenues cannot be denied (which historically has been one of the dual purposes of the unclaimed property law), it is important to note that an owner can reclaim his or her property at any time, and the advent of Internet search sites (such as the states' national database, www.missingmoney.com) make it possible for citizens to seek out their property easily and at no fee.

Each fall, the Treasurer's office publishes an insert of recently surrendered unclaimed property. The inserted publication is supported by other advertising and outreach activities. In 2015, the 28-page publication was inserted into all Vermont daily newspapers between November 5-16. The publication listed new unclaimed property claims of $50 or more turned over to the Treasurer's office within the past year. There were 6,831 entries in the insert, which spanned the alphabet and included addresses statewide.

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Treasury Operations Division

Overview

The Treasury Operations Division is responsible for the banking and cash management of more than $5 billion annually in both receipts and disbursements; the establishment and maintenance of the State's banking services network; the disbursement of the State's warranted payments and debt service; the collection of certain receipts, including those related education tax payments to the State; and the recording of accounting transactions associated with these activities. Monitoring and reconciliation of internal and external accounts comprise a major portion of the division's staff time, in addition to the proper reporting and recording on the State's books for financial reporting.

The division also is responsible for preparing financial statements and schedules for the annual audit of the State's books (as it relates to cash and investment disclosures); administering the Municipal Equipment Loan Fund; and the preparation of the pension trust fund financial statements for the pension systems managed by the State Treasurer's Office. TD Bank, N.A. serves as the State's master banking contractor. Bank personnel and Treasury staff work continuously together to provide new and improved services and processes.

UPDATES

Reconciliations

The Treasurer's office staff reconciles approximately 30 State core bank accounts. In fiscal year 2015, more than 118,700 deposits were processed to State accounts through a network designed to accelerate the collection of cash so that it may be used for operating needs or efficiently placed in short-term invest-

ACCOMPLISHMENTS IN 2015

- **In FY2015, more than 118,700 deposits were processed to State accounts and 1.78 million payments were processed by the division, either through electronic fund transfers or check.**
- **During FY2015 the division responded to more than 1,000 informational and service requests received via the division's centralized email accounts.**
- **Working with the State's financial reporting team, the division implemented new processes for meeting the financial statement and employer reporting requirements of Government Accounting Standards Board statements 67 and 68 pertaining to pension liabilities.**
- **During FY2015, the division implemented new processes to reduce the time time taken in the initial bank account reconciliation processes for several of the State's primary bank accounts. This allows more time for research and prompt clearing of outstanding items.**

Treasury Operations Division: (802) 828-2301

John Booth
Treasury Operations Director

Scott Baker
Financial Reporting Director

Dan Currier
Cash & Short-term Investments Manager

Ron Baldauf
Financial Specialist III

Wendy Dickinson
Financial Specialist III

Sarah Powers
Financial Specialist III

Vacant
Financial Specialist III

ments. On the disbursement side, 1.78 million payments were processed, either through electronic funds transfers (EFT) or check. Working cooperatively with the Treasury Operation Division's business partners, we have been able to significantly reduce the time between receipt of deposit in a State bank account and the recording of the deposits in the State's accounting systems, while assuring that the number and duration of reconciling items from user department entries remains low.

Electronic Payments

Electronic payments reduce bank fees, printing and postage costs, the potential for fraud, as well as staff time to reconcile bank accounts. In contrast, the issuance of paper checks is labor-intensive and costly. Tracking of lost checks is time-consuming and can be largely eliminated through electronic payment processing. Costs associated with searching for cleared payments and replacing lost or destroyed checks is eliminated, as is the inconvenience to the payee. This past year, the Treasurer's office reissued 548 payments. The reissued payment may be made by check or by electronic payment. The State Treasurer's Office has an ongoing initiative to encourage State agencies and departments to use electronic payments whenever feasible.

The State currently issues and mails a remittance advice for each electronic payment. Of the more than 1.78 million payments processed during fiscal year 2015, approximately 76 percent were electronic funds transfers. The State Treasurer's Office rolled out a "Vendor Portal" secure web site during fiscal year 2009 to provide payees with electronic access to remittance information. This eliminated one of the potential barriers to the acceptance of electronic payments and reduced the number of information requests received by the Treasurer's office.

In November of 2015, 98.3 percent of monthly benefit payments to retired State employees were made via direct deposit. For retired teachers, the percentage of monthly benefit payments via direct deposit was 98.5 percent and for retired municipal employees it was 96 percent. This is an increase from the November 2014 percentages of 97.5 percent-State employees; 97.8 percent-teachers; and 95.1 percent-municipal.

Act 68 Receipts

Per statute, the Treasury Operations Division monitors the receipt of education tax payments to the State mandated by Act 68. Notification and initial invoicing of the municipalities for the principal payment are completed by the Agency of Education. In fiscal year 2015, all municipalities remitted the billed education tax principal payments.

Technology Update

Technology Services

The Technology Services Division (TSD) is committed to providing technology support services to the Office of the State Treasurer. The technology support staff provides business analysis; system design; programming; help desk support; hardware maintenance; system and data security; and project management support services. TSD administers and maintains the entire range of software and hardware facilitating the operations of the office including banking reconciliation software; check and EFT issuance; unclaimed property; and the software applications that support the retirement services for the more than 49,787 active, inactive, terminated, vested, and retired members across our State employee, municipal employee and teacher retirement systems.

UPDATES

The Technology Services staff continued to implement important upgrades to the office's infrastructure and applications suite to improve the speed, reliability and dependability of its systems during 2015. Listed below are some of our major accomplishments.

ACCOMPLISHMENTS IN 2015

- **Technology Services Division (TSD) successfully completed the annual disaster recovery test of the Office of the State Treasurer's server environment. The scenario tested the loss of the primary data center and the restoration to our backup data center with no data loss. Further operational tests were conducted with Treasury Operations and the Retirement Division to confirm that mission critical systems are operational in our backup environments. This included the ability to print checks and access the Vermont Pension Administration System (VPAS) backup system in Springfield, IL.**

- **The Vermont Pension Administration System (VPAS) is officially complete. The warranty phase ended November 30, 2015.**

- **Rahul Beeram joined the Technology Services Division as a Systems Developer III. Rahul comes with 17 years of IT experience in many industries across the U.S. Rahul moved to South Burlington, Vermont with his family from Maryland.**

- **Mark Gunkel joined the Technology Services Division as IT Specialist III. Mark joins the team having recently worked for an organization supporting more than 800 employees that were geographically dispersed across the Northeast. Mark was formerly the Director of Technology at the Putney School. Mark lives with his family in Adamant, Vermont.**

Technology Services

(802) 828-2498

Ram Verma
IT Director

Rahul Beeram
Systems Developer III

Mark Gunkel
IT Specialist III

Legislative Reporting Requirements

Financial Literacy Trust Fund

The legislature authorized the establishment of a trust fund in 2008 to finance financial literacy in Vermont. According to the legislation, “the purpose of the fund is to promote the adoption of fiscally sound money management practices by Vermonters through education and outreach efforts that raise awareness of the need for and benefits of practicing such skills; and to create opportunities to build and encourage the development of new financial literacy activities and educational products for Vermont citizens.” The Treasurer is authorized to collect money from a variety of sources to fund these activities. For fiscal year 2015, the fund received deposits of $23,000. The fund earned $31.42 in interest. There was $7,367.88 expended from the trust fund during fiscal year 2015. Funds were expended in support of the fifth year of the Reading is an Investment program; to pay for expenses related to the annual state tournament of the Vermont Treasury Cup Challenge; and the remainder expended for the annual financial literacy poster competition.

Local Investment Advisory Committee (LIAC)

Pursuant to Act 199 (S.220) of 2014, and as reauthorized during the 2015 legislative session by Act 51, Section E.3, the Local Investment Advisory Committee (LIAC) met six times since during the past year. The goal of LIAC is to increase economic development activity in Vermont and create jobs by committing up to 10 percent of the Treasurer’s office average available cash in local investments. These are funds that may be committed at the discretion of the State Treasurer. From February 2, 2015 to March 2, 2015, LIAC considered a first round of proposals. From the first round, $3.75 million was obligated for housing, energy and neighborhood revitalization projects and $350,000 was set aside for a municipal infrastructure project that is still pending as of December 22, 2015. A second round of proposal solicitations opened on December 7, 2015 and will remain open until May 13, 2016. Available dollars for financing are expected to be up to $7 million. Municipalities, school districts, social services providers, State agencies and authorities, regional planning commissions and similar organizations are eligible to apply. LIAC recommends to the General Assembly, during the 2016 legislative session, to extend the sunset of the Treasurer’s credit facility and the work of the LIAC for two years to July 1, 2018. (Specifically to amend ACT 51, Section E.3 of the 2016 session)

Public Retirement Study Committee

The State Treasurer; Department of Labor Commissioner; Department of Disabilities, Aging & Independent Living Commissioner; two appointees from the Committee on Committees; and two appointees from the Speaker of the House, formed the Public Retirement Study Committee to evaluate the feasibility of establishing a public retirement plan in Vermont. (pursuant to Section C. 108 of Act 58 of the 2015 legislative session) In 2015, the committee met on six occasions and collected resources regarding retirement security from a variety of sources including: the Center for Retirement Initiatives at McCourt School of Public Policy of Georgetown University; AARP; Vermont Main Street Alliance; Vermont Businesses for Social Responsibility; Central Vermont Chamber of Commerce; American Council for Life Insurers; National Institute on Retirement Security; Vermont Bankers Association; Vermont State Employees' Association (VSEA); VSEA retirees chapter; Vermont-National Education Association; Assets & Opportunity Scorecard; Vermont business owners; U.S. Department of Labor; and other stakeholders. Following this work, the committee recommends that Act 58, Section C.108 of the 2015 legislative session be amended to extend the work of the committee for the next two years. The committee further recommends that Act 58 be amended to allow the committee to meet an unlimited number of times each year to enable proper study concerning the feasibility of a potential plan and that the committee be allowed to submit their final report on January 15, 2018.

State PACE Reserve Fund

24 V.S.A. § 3270 specifies that the State Treasurer shall administer the State PACE Reserve Fund, see Act 47 of the Public Acts of 2011. The purpose of the fund is to reduce, for certain Property-Assessed Clean Energy districts, the risk faced by an investor making an agreement with a Vermont municipality to finance such a district. Monies deposited in this fund may be invested by the State Treasurer. The balance of this fund may be expended for the sole purpose of paying claims resulting from certain losses related to a Property-Assessed Clean Energy district. During State fiscal year 2015, there were no new funds deposited into this fund. There was $63.01 earned on the balance in the fund. There were no claims submitted and, therefore, no expenditures from the fund during fiscal year 2015. The fund balance as of June 30, 2015 was $50,087.39.

Vermont Achieving a Better Life Experience (ABLE)

Vermont passed enabling Legislation (S.138) for a Vermont ABLE Savings Program in Act 51 during the 2015 legislative session. The Vermont Achieving a Better Life Experience (ABLE) Savings Program is intended to ease financial strains faced by individuals with disabilities by making federal tax-free savings accounts available to cover qualified expenses such as education, housing, and transportation. Pursuant to Act 51, the Vermont State Treasurer convened the ABLE Task Force on August 31, 2015. The task force is charged with providing recommendations to the appropriate House and Senate committees by January 15, 2016. The task force has three recommendations.

(1) The task force recommends that the Vermont Agency of Human Services and its departments conduct rulemaking and other appropriate measures to ensure that ABLE accounts are expressly exempt from consideration as an asset or resource in determining eligibility for State benefit programs. This will eliminate confusion for administrators and beneficiaries and ensure that participants in ABLE savings plans may continue participation in other benefit programs uninterrupted and without affecting their eligibility. This will also ensure consistency across public benefits programs.

(2) The task force recommends to the General Assembly that language be added to Act 51, Sec. C.7 33 V.S.A chapter 80, §8001 of the 2015 legislative session to allow the State Treasurer to enter into agreements with other states with regard to ABLE. Given the small population of Vermont and small estimated number of potential ABLE account participants, it may be beneficial to join into a multi-state agreement to take advantage of economies of scale.

(3)The task force recommends that an annual report regarding process and progress of the ABLE program in Vermont be submitted on January 15 of each year to the appropriate House and Senate committees. The Vermont ABLE Task Force will continue to function and include its present composition.

The Treasurer's office is awaiting final IRS regulations regarding ABLE accounts. After final regulations are issued, Vermont will pursue the appropriate steps to implement an ABLE program for Vermonters.

Vermont Higher Education Endowment Trust Fund

The statute provides that in August of each fiscal year, the State Treasurer is to withdraw up to 5 percent of the 12-quarter moving average of the fund's assets and divide the amount equally among UVM, the Vermont State Colleges and the Vermont Student Assistance Corporation (VSAC). The amount distributed cannot exceed an amount that would bring the fund balance below total contributions to principal. Total principal contributions through June 30, 2015 have been $28,934,417. The 5 percent distribution available this year is $1,520,355 in total of $506,785 each for UVM, the Vermont State Colleges and VSAC. This amount represents a 0.9 percent increase over the fiscal year 2014 distribution of $502,433.13 for each institution. Statute 16 V.S.A. § 2885 further provides that during the first quarter of each fiscal year the Secretary and the Subcommittee may authorize the State Treasurer to make an additional distribution of up to 2 percent of the fund's average assets available to UVM and the Vermont State Colleges for the purpose of creating, or increasing, a permanent endowment fund. Similar to the 5 percent distribution, the amount distributed cannot exceed an amount that would bring the fund balance below total contributions to principal. Further, each institution is required to match the distribution by raising private donations of at least twice the distributed amount, to certify to the Commissioner of Finance and Management that it received private donations in the requisite amount, and the funds will be used to create or increase a permanent endowment at the respective institution. At their September 30, 2014 meeting, the Secretary and the Subcommittee voted to forgo this 2 percent distribution to UVM and the Vermont State Colleges based upon recognition that lower expected returns in the near term do not support a total distribution of 7 percent from the fund. After payments of $1,520,355, the fund balance at the end of fiscal year 2015 totals $29,368,480. An accounting of the fund balance is provided on the next page.

All principal contributions to the fund through June 30, 2015 total $28,934,417, which also represents the minimum balance that must be maintained in the fund. The 2 percent distribution proposed for fiscal year 2016 is $608,142. It is possible that neither the 5 percent nor 2 percent distribution next year could be met in full unless returns during the next year are sufficient to cover these amounts. That said, if the Secretary and the Subcommittee authorize this distribution, each institution's share will be $304,071 with a required match to be raised by each entity in fiscal year 2016 of $608,142. To re-emphasize, any distribution in the next fiscal year is dependent upon the fund's balance being greater than $28,934,417 after the distributions have been made. Additional information is available on the State Treasurer's web site. Go to VermontTreasurer.gov and select the Reports section.

Higher Education Endowment Trust Fund Balance: *June 30, 2015*

Ending Balance Prior FY 2014		**$31,566,056**
Contributions received FY 2015		$286,925
Opening Balance FY 2015		**$31,852,981**
5% Distributions		
	University of Vermont	**($502,433)**
	Vermont State Colleges	**($502,433)**
	Vermont Student Assistance Corp.	**($502,433)**
2% Distributions		
	University of Vermont	**$0**
	Vermont State Colleges	**$0**
Income earned FY 2015		$908,409
Appreciation (Depreciation) FY 2015		($361,390)
Fees and Other Charges FY 2015		($3,865)
Balance June 30, 2015		**$30,888,835**
5% of 12-Quarter Moving Average (as of June 30, 2015)		($1,520,355)
Distributions		
	University of Vermont	**($506,785)**
	Vermont State Colleges	**($506,785)**
	Vermont Student Assistance Corp.	**($506,785)**
2% Income Available for Endowments from FY 2014		$0
Balance After Distributions		**$29,368,480**
Total Contributions as of June 30, 2015		**$28,934,417**
2% Income Available for Endowments from FY 2016 *(requires institutional match in FY 2016)*		$608,142

The State Treasurer's Office serves as the State's banker and chief investment officer. The office handles money that belongs to all of the citizens of Vermont. The Treasurer's office is committed to managing these funds efficiently and responsibly, and to maintaining Vermont's hard-earned reputation as a fiscally sound and disciplined state.

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