2014 Annual Report

Office of the State Treasurer

State of Vermont

Issued January 2015

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

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

I am pleased to submit my fourth annual report to you as your State Treasurer. In fiscal year 2014 we continued to address our core issues of fiscal responsibility and at the same time worked with the General Assembly and the Administration to address some unique challenges. I am proud of the work we have accomplished in the areas of local investment, maintaining our strong bond rating, consumer protection, financial literacy, and improving the foundation for our public retirement systems. Some of these accomplishments, as well as recommendations for the coming year, are outlined below and throughout the report.

Commitment to Our Core Responsibilities

The Office of the State Treasurer serves the citizens of Vermont. We do this in a number of ways. We serve 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, teacher, and municipal) for over 48,000 active, vested, inactive and retired members. In 2014, we paid $258 million to over 16,425 retirees. We administer investment policies and strategic oversight for more than $4 billion in assets within the combined retirement plan portfolios. We act as steward of the approximately $67 million in unclaimed financial property and actively work to return those 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.

I am proud of the work we have accomplished in the areas of local investment, maintaining our strong bond rating, consumer protection, financial literacy, and improving the foundation for our public retirement systems.

Maintaining Fiscal Discipline

Vermont continues to maintain the highest general obligation bond ratings of any New England state, and one of the highest in the country. Vermont bonds are rated triple-A by Moody's Investor Service and Fitch Ratings, the highest rating available to government issuers, and AA+ by Standard & Poor's Ratings Service. These excellent ratings are an acknowledgement of our fiscal prudence and underscore the need to exercise budgetary discipline in 2015.

The Capital Debt Affordability Advisory Committee (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 and this trend is considered a positive factor by the rating agencies. The CDAAC met five times over the past several months and has recommended a reduction of roughly 9.9 percent in debt authorization for the next biennium (fiscal years 2016 and 2017). We believe this is a prudent level of debt and I urge the Governor and the

General Assembly to continue to follow the CDAAC recommendation. Maintaining a manageable debt load has and will continue to have a positive effect on the long-term fixed costs of running government. We must be diligent and not turn to the credit card in these challenging economic times.

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—conservative financial management, fully funding our required actuarial contributions, a balanced approach to debt management and maintaining, and even improving, its stabilization and rainy day reserves.

Long-Term Security for Our Retirement Plans

Pension plans are compensation for services rendered by the state, teacher and municipal employees participating in the plan. These benefits are also a partnership, since both employers and employees make ongoing contributions to the plan. Properly funded, the plans also are a cost-effective way of meeting these benefits. On average, roughly 70 cents out of every dollar paid to retirees is paid from investment income. The plans are also an economic generator. When retirees have adequate and reliable income in retirement, they buy goods and services. That in turn creates jobs and economic activity. Therefore, a well-constructed pension system, that is affordable to both the taxpayer and the employee, is not just good for the individual, but is good public and fiscal policy.

A well-constructed pension system, that is affordable to both the taxpayer and the employee, is not just good for the individual, but is good public and fiscal policy.

Over the years, the pension plans were not adequately funded—in many years the State failed to appropriate the actuarially determined required contribution. This was especially true of the teachers' retirement system, which was characterized by sizeable underfunding of the actuarially recommended contributions through 2006. Not surprisingly, the funded status of the teachers' plan was negatively impacted. While the State began making the full actuarial required contributions beginning in 2007, both plans were also hard hit by the Great Recession in 2008 and 2009.

In 2010 and 2011, both the teachers and State employees agreed to a series of benefit changes (teachers) and contribution increases (State and teachers plans) that lowered the cost to the taxpayer by roughly $20 million per year. The State has also adopted a commitment to fund the contribution levels recommended by the State's independent actuary and these amounts are now consistently included in the Governor's budget and adopted by the General Assembly. We also implemented a series of steps over the past several years that have lowered health care costs to the State, including a tiered retiree health care subsidy based on years of service; the conversion to the Employer Group Waiver Plan (EGWP); the use of the predecessor Retiree Drug Subsidy; and taking advantage of one-time federal dollars though the Early Retirement Reinsurance Program (ERRP). These steps have saved millions, although overall health care costs continue to rise for all Vermonters.

All of this has had the effect of putting the plans on the road to retiring the unfunded liabilities by 2038. The teachers plan continued, however, to be impacted by the way health care costs were paid though the pension plans without adequate and explicit funding. Essentially the retiree health care costs were put on the credit card. The system was not sustainable. As retiree health care took a bigger bite out of available funds, the teachers' pension funded position deteriorated and the actuarial required contributions were rising at an accelerated rate. Every dollar not paid today was costing the taxpayers three dollars in the long run.

While incremental changes had been adopted by the General Assembly over the past few years, a bold and comprehensive approach was needed. After a collaborative effort involving the State Treasurer's Office, the Administration, General Assembly, the Vermont NEA and other educational constituencies, a long-term financial remedy was adopted. A Retired Teachers' Health and Medical Benefit Fund was established that is dedicated to exclusively paying retired teacher health and medical benefits. A variety of funding sources, including the general fund, as well as commitments by employees and employers was adopted. By paying for these services on a current basis rather than putting them on the credit card, it is estimated that the State will save $480 million in interest costs over the next 24 years, while at the same time providing for retirement security for the teachers' systems.

I want to thank the Administration and the General Assembly for taking this important step. It was not easy, especially in a tough budget year, but the commitment to a long-term funding plan is ultimately in the interest of both teachers and taxpayers.

Unclaimed Property & Consumer Protection Initiatives

During fiscal year 2014, the Treasurer's office returned approximately $5.3 million in unclaimed property to 14,055 claimants.

During fiscal year 2014, the Treasurer's office returned approximately $5.3 million in unclaimed property to 14,055 claimants. I remain committed to working both in Vermont and nationally to ensure that the rightful owners of financial property are reunited with their funds.

As the past president of the National Association of Unclaimed Property Administrators (NAUPA), I worked with administrators across the country, insurance regulators and the National Council Of Insurance Legislators (NCOIL) to develop model legislation to assure that rightful beneficiaries of insurance policies receive their funds in a timely manner. In 2013, we worked with the General Assembly to become the eighth state in the nation to adopt this model legislation, a consumer protection measure that will require life insurance companies to make a good faith effort to contact beneficiaries when a policy holder has died. In 2014, we continued to work with NCOIL (which is well represented with Vermont legislators), to continue these efforts and also to incorporate these provisions in a revision of the national Uniform Unclaimed Property Act.

In 2014, the Uniform Law Commission (ULC) has continued its effort to update the Uniform Unclaimed Property Act. The Uniform Law Commission is one of the oldest state organizations designed to promote uniformity of laws among the states. I serve as one of two state advisors to the ULC as it considers revisions to the Uniform Unclaimed Property Act.

I regard the Unclaimed Property Act as an important issue of consumer protection, protecting the rightful owners interest in his/her list property. The majority of unclaimed property are held in the owners' names by other entities called holders. As noted by the ULC, some entity other than the owner actually possesses the property when and if it is lost or abandoned by its rightful owner. That entity is therefore in a position to benefit from the property by doing nothing except to continue to hold it, doing as little as possible to communicate with the owner. The ULC called that "lucrative silence." Its remedy is the basis of this law, and all revisions and updates, going back to 1954. The Unclaimed Property Act is there to protect citizen's rights to their property and to prevent lucrative silence. Over the next two years I will continue to serve the interests of Vermonters and citizens across the county through NAUPA as the revisions to the Act are considered.

Led by AARP, Vermont became the first state in the nation to adopt a law protecting retirees from predatory practices often associated with "pension advances" or cash advances on pensions, usually with high interest rates and hidden fees. The Treasurer's office was proud to join with AARP and members of the General Assembly to advocate for enactment of a model law requiring lenders to be licensed, limiting the amount of interest they can charge and providing additional consumer protections.

Local Investments

The LIAC has met nine times since its formation and has received input from over 80 municipal, housing, energy, transportation and education funding experts and concerned citizens. As a result of these efforts, more than $25 million has been committed to local investments, with additional commitments expected by June 30, 2015.

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. The LIAC has met nine times since its formation and has received input from over 80 municipal, housing, energy, transportation and education funding experts and concerned citizens. As a result of these efforts, more than $25 million has been committed to local investments, with additional commitments expected by June 30, 2015. A separate report of the LIAC has been submitted to the General Assembly.

Commitment to Energy Financing, Investment & Constructive Engagement

While the Treasurer's office does not set state energy policy, we have made considerable effort to leverage state dollars to assist in meeting the State's established energy goals. Much of our efforts in the area of local investment have been in the areas of energy efficiency and renewable energy. This includes work in 2013 to establish a $10 million credit facility with VEDA to lower the cost of commercial energy financing, a $2 million investment with Neighborworks of Western Vermont for residential energy efficiency retrofits and a $2.8 million investment with VHFA to conduct energy efficiency improvements in multi-family projects with 329 housing units. All of these credit facilities/investments will provide needed dollars to reduce annual carbon emissions, while providing a competitive rate of return to the State.

In 2014, we increased this commitment with the establishment of a mechanism to make energy improvements in State buildings. Up to $8 million has been allocated, pursuant to the 2014 Capital Bill (Act 178 if 2014, Section 41) to create a State energy revolving fund. The loans will be used to make cost-effective energy improvements that focus on bringing older facilities up to Energy Star standards or better. Improvements could save the State between 5 percent to 10 percent on its energy bills. Individual projects are reviewed for technical specifications, as well as a financial review to assure that the necessary savings can be generated. The first such proposal is currently under review and we look forward to working with the Administration as additional projects are identified and implemented. This is an effective financing plan to capitalize efficiency improvements in our State buildings that will cut energy costs and save taxpayer dollars.

__Through the adoption of both domestic and international proxy voting policies, we are able to use our position as an institutional investor to challenge corporate and governmental entities to respond to our concerns on environmental, social and governmental issues.__

I requested, and the retirement boards of trustees approved, the inclusion of a fossil-fuel free, carbon neutral mutual fund, in our lineup of socially responsible investments (SRI) in our supplemental retirement funds, such as deferred compensation and the teachers' 403(b) investment program and our defined contribution plans. Over the past year the Pax World Global Environmental Markets fund has been added to the investment programs.

Using the guidelines established in the Environmental, Social & Governance (ESG) policy, the Vermont Pension Investment Committee and the Treasurer's office took action on several important environmental disclosure measures. As part of the Asset Risk Campaign, VPIC and the State Treasurer's Office were part of a group of 70 global investors for the first-ever coordinated effort to spur 45 of the world's top oil and gas, coal and electric power companies to assess the financial risks that climate change poses to their business plans. We continue to work with Ceres, a nonprofit organization mobilizing business and investor leadership on climate change, water scarcity and other sustainability challenges, on this and other efforts. The State Treasurer's Office was a founding member of the Ceres' Investor Network on Climate Risk, organized in 2003. We have used this vehicle to promote sustainability issues, while maintaining our commitment as fiduciaries to both the taxpayer and the beneficiaries of the retirement funds on whose behalf we invest.

Through the adoption of both domestic and international proxy voting policies, we are able to use our position as an institutional investor to challenge corporate and governmental entities to respond to our concerns on environmental, social and governmental issues. Our partnerships have enabled us to join coalitions of international investors to encourage meaningful change.

At my request, the Vermont Pension Investment Committee recently approved the co-filing of a shareholder resolution asking ExxonMobil to adopt quantitative goals for reducing total greenhouse gas emissions from its products and operations and to report to shareholders by the end of November on its plans to achieve these goals. Previously, in my capacity as State Treasurer, I joined investors in a letter to Krispy Kreme to encourage the company to adopt a more sustainable palm oil policy in their operations. I joined other investors in asking the company to verify that their palm oil had been produced by third parties in a sustainable manner that avoids deforestation. Krispy Kreme has since adopted a zero deforestation policy. Using our influence as an investor, we can request a level of accountability from the companies we invest in.

We will be summarizing our sustainable investment activities in a report later this fiscal year.

Promoting Financial Literacy

A robust economy requires financially literate citizens that can manage their resources effectively for a life time of financial well-being.

Financial security for all Vermonters is an important concern for the State Treasurer's Office. A robust economy requires financially literate citizens that can manage their resources effectively for a life time of financial well-being. Our office remains committed to offering a series of programs to assist in these efforts which are outlined later in this report. This fall, we started the fifth year of the Reading is an Investment program with a record high number of 137 Vermont elementary schools signed on to participate. This followed a productive 2013-2014 school term whereby 131 schools participated and a record number of Vermont students, 4,188, completed and returned reading logs. The program promotes financial literacy among young children by teaching personal finance concepts through literature. New library books, a curriculum guide and a personal money book reading challenge encourage students, librarians, teachers and parents to teach children about finances. Also in 2014, the Treasurer's office participated in a Financial Literacy Task Force sponsored by Champlain College. The Treasurer's office will be assisting in 2015 to implement several of the 13 recommendations proposed by the task force to enhance financial literacy in Vermont.

Vermont Pension Administrative System

I am pleased to report that we implemented the final phases of the multi-year retirement information technology conversion this year and went live with all remaining components in February 2014. The final deliverables include automated benefit calculations. The majority of the functionality (including database, benefits, and payroll) from VPAS has been in use since 2009. I am also pleased to report that the project was completed more than $1.8 million, or approximately 13 percent, below budget.

Trust Investment Account

This fund of approximately $70.5 million is invested by the Treasurer's office. Last year we reported that we completed a review of the fund's fees and asset allocation. I am pleased to report that we completed the transition to a passive asset allocation strategy, resulting in a significant reduction in fees and a greater diversification of assets.

Financial Disclosure

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. The ten interim disclosure areas are: tax revenue; budget updates; cash flow; debt outstanding; economic forecasts; pensions and other post-employment benefits;

interest rate swaps and bank liquidity; investment; debt management policies; and filings with the Electronic Municipal Market Access system. NASACT recognized Vermont as the first state to create a financial reporting website adopting all ten of the NASACT's financial disclosure best practices.

Conclusion

The above accomplishments cover a wide range of activities, from computer system upgrades, transparency, and consumer protections, as well as advocacy and a commitment to use our resources to enhance our energy and environmental goals. As we move forward, we recognize that budgets will be tight and taxpayers will expect more from its public servants. I believe we can manage these financial concerns, as well as improve the lives of our citizens through shareholder engagement, financial literacy, consumer protection and responsible local investment. To do so, we need to effectively utilize our existing resources with an eye toward long-term economic prosperity for all Vermonters.

Through hard work, resiliency, fiscal prudence, fairness, and partnership we can accomplish gains in overcoming the fiscal challenges that face our State. I am privileged to serve as Vermont's State Treasurer and look forward to working hard for Vermonters in the year ahead.

Through hard work, resiliency, fiscal prudence, fairness, and partnership, we can accomplish gains in overcoming the fiscal challenges that face our State.

Sincerely,

Beth Pearce

Beth Pearce
State Treasurer

Table of Contents

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.

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.

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

Stephen Wisloski
Deputy Treasurer

Tim Lueders-Dumont
Executive Staff Assistant

- **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' Retriement 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.

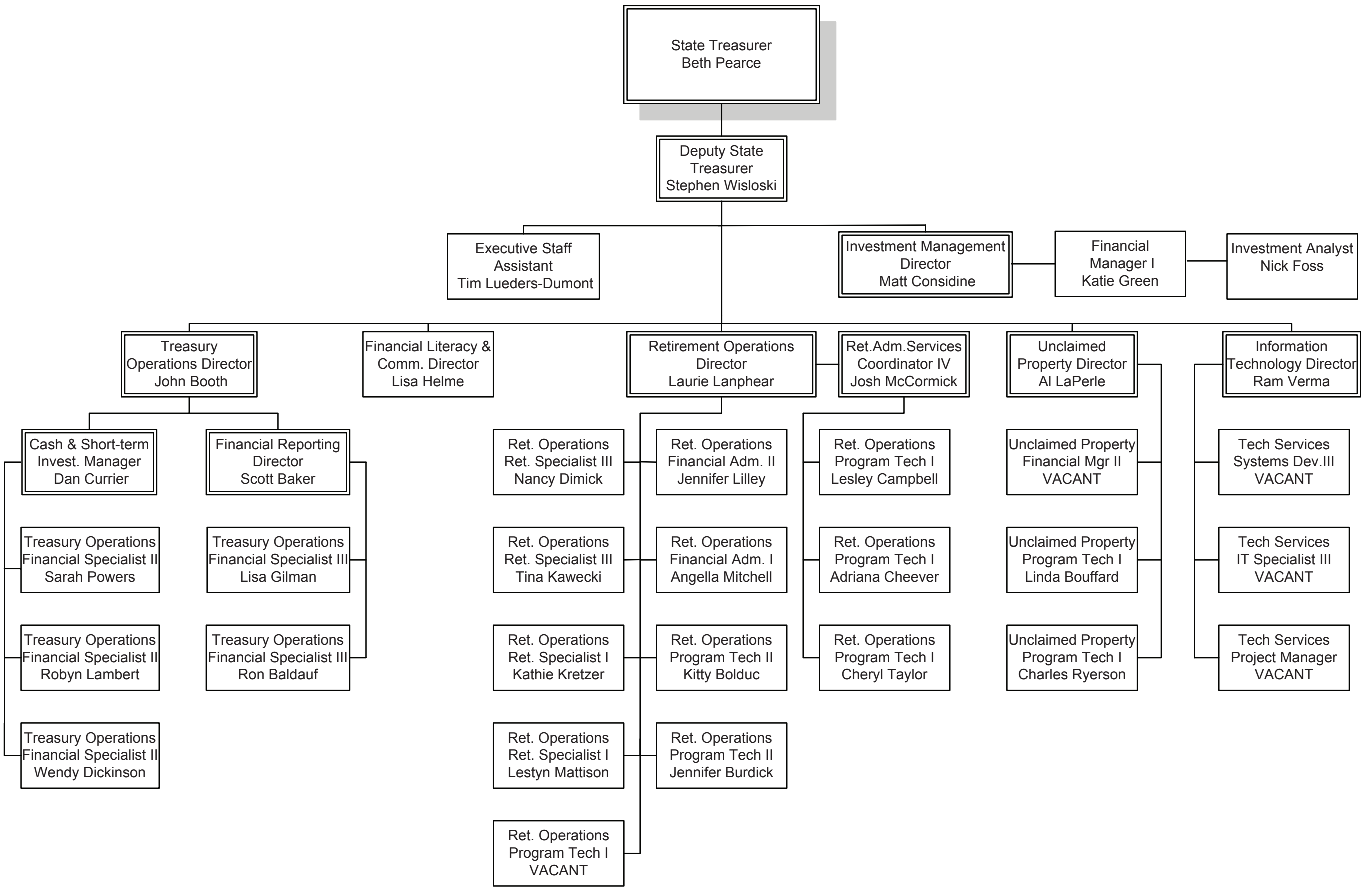
Employee of the Year

The State Treasurer's Office, "Employee of the Year" selection for 2014 was Monica Chiren. Monica is an administrative services coordinator and the assistant to the three retirement boards. Monica retired from State service in June 2014 and is greatly missed. As the Treasurer's Office Outstanding Employee for 2014, she was recognized for her technical proficiency and discretion in preparing confidential disability and retirement materials.

Monica Chiren was named the 2014 Employee of the Year for the State Treasurer's Office.

"Monica performed absolutely essential behind-the-scenes work to prepare for and support the meetings of the State employees, State teachers and municipal employees of the boards of trustees, and the Vermont Pension Investment Committee," said State Treasurer Beth Pearce. "Her careful diligence in warning meetings, preparing and posting agendas and minutes, and recording proceedings to ensure rigorous compliance with State statutes was much appreciated. Her courtesy and efficiency when communicating with board members enhanced the professional reputation of the Treasurer's office."

Vermont State Treasurer's Office



The State Treasurer's Office is comprised of a team of 37 individuals. The organizational chart and staff listing above are effective as of December 31, 2014.

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 major pension 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 48,630 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.

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,

ACCOMPLISHMENTS IN 2014

- **As of June 30, 2014 there were 16,425 retirees and beneficiaries receiving pensions totaling more than $258 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.**

- **Boards for the Vermont State Employees' Retirement System, Vermont State Teachers' Retirement System, and the Vermont Municipal Employees' Retirement System, added a Fossil Fuel-Free Fund to the 457 Deferred Compensation, Defined Contribution and State teachers' 403(b) plans.**

- **The VSTRS-board-approved Employer Group Waiver Plan (EGWP) went into effect on January 1, 2014. The implementation went smoothly and costs were reduced without sacrificing benefits.**

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

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

Fossil Fuel-Free Fund Investment Option Offered

Upon the recommendation of the State Treasurer, all three boards of trustees approved the addition of a new fossil-free mutual fund investment option for employees contributing to the State's deferred compensation plan. The 457(b) plan is a supplemental retirement savings option that allows an individual to save money for retirement by havings the funds contributed to the plan before taxes. Employees interested in Socially Responsible Investments (SRI) may now choose from five investment options. The new SRI option is the Pax World Global Environmental Markets (PGINX), which excludes fossil-fuel companies from the fund portfolio. SRIs are specialized funds that invest only in companies that meet a defined criteria of ethical operations, social benefits and environmental standards. The same fossil-free option is available to participants in the State and municipal defined contribution plans. Defined contribution plans are modeled after private sector 401(k) plans. A defined contribution plan is offered to State and municipal employees within the Vermont State Retirement System who are either ineligible to participate in a traditional defined benefit pension plan or are in positions where they elect to place their retirement savings in the plan. The VSTRS board also approved the addition of the same option for the 403(b) plan offered through the State of Vermont.

The newly offered fossil fuel-free mutual fund investment option is available in both the 457(b) and 403(b) plans offered through the State and managed by Great-West.

NOTE: As of January 1, 2015, Great-West officially changed its company name to Empower Retirement.

Membership of the Three Boards of Trustees

(As of Nov. 20, 2014)

Vermont State Employees' Retirement System

Secretary Nancy Dimick

Kevin Gaffney, Chair, VSEA
Roger Dumas, Vice Chair, VRSEA
Beth Pearce, State Treasurer
James Reardon, Commissioner, Dept. of Finance & Management
Maribeth Spellman, Commissioner, Dept. of Human Resources
Jay Wisner, Governor's Appointee
Jeff Briggs,VSEA
Tom Hango, VSEA
Paul White Jr., 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
Thomas Candon, Department of Financial Regulation
Vaughn Altemus, Department of Education
Linda Deliduka, Alternate, VRTA
Vacant, Active Teachers Alternate

Vermont Municipal Employees' Retirement System

Secretary Tina Kawecki

Steve Jeffrey, Chair, Employer Representative
Peter Amons, Vice Chair, Employee Representative
Beth Pearce, State Treasurer
David Rowlee, Employee Representative
Tom Golonka, Appointed Employer Representative

Retirement Division Operations

Overview

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). There are more than 48,630 active, vested and retired members. The largest expenditure for all three defined benefit plans is the retirement benefit. During fiscal year 2014, the three retirement systems paid out more than $258 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 2014, these health care expenses for the two retirement systems totaled more than $47.12 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 2014

- The Retirement Division staff calculated approximately 6,196 retirement estimates for prospective retirees and met with 824 individual members to provide retirement counseling during fiscal year 2014. The staff conducted 33 member informational sessions across the state with 752 individuals in attendance.

- The Treasurer's office, along with a wide range of stakeholders, worked to compose a comprehensive financial plan for retired teachers' health benefits. A new state law established a Retired Teachers' Health and Medical Benefit Fund dedicated exclusively to paying retired teacher health and medical benefits, including prescription drug benefits.

- The Treasurer's office implemented an Employee Group Waiver Plan (EGWP) effective on January 1, 2014 for retired teachers. The State also will implement EGWP in 2015 for 4,781 retired Medicare-eligible State employees receiving health care services.

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
Angella Mitchell
Financial Administrator I
Kitty Bolduc
Program Technician II
Jennifer Burdick
Program Technician II
Vacant
Program Technician I
Cheryl Taylor
Program Technician I
Adriana Cheever
Program Technician I
Lesley Campbell
Program Technician I

Retirement Division Performance Indicators

Activity	2014	2013	2012	2011	2010	2009	2008
Estimates	6196	6,344	6,028	7,019	7,231	7,999	6,377
Individual Counseling	824	751	889	1,054	1,077	1,196	1,136
Retirements	1081	1,082	1,068	1,008	1,023	907	867
Withdrawals	1,198	1,257	1,393	1,312	1,386	937	945
Deaths	329	377	349	376	291	316	368
Seminars	33	42	26	45	64	90	61
Seminar Attendance	752	1,243	783	1,000	1,496	1,623	1,285

These numbers are for the fiscal year, not calendar year.

UPDATES

Comprehensive Financing Plan for Retired Teachers' Healthcare

A new comprehensive financing plan for retired teachers' health benefits went into effect in July. The State Legislature established a Retired Teachers' Health and Medical Benefit Fund dedicated to exclusively paying retired teacher health and medical benefits, including prescription drug benefits. Previously, teacher health benefit costs were paid from a pension fund sub-trust, with no explicit funding. The law was the result of cooperative work between a variety of stakeholders including the State Treasurer's Office, legislative and administrative leaders, and the teachers' union. The creation of a dedicated fund and an infusion of more money will allow the State to pay retired teacher health care costs as they occur and not rely on borrowing from the pension fund to pay it.

Actuarial projections indicated that, without a new financing plan, a $20 million shortfall in teacher health benefits in 2015 would grow to a liability to the pension fund of more than $50 million in 2037. That would be the result of just one year's underfunding. The new plan allows for the State to avoid paying interest on the funds borrowed to pay for health care. If this law had not passed, actuarial figures indicated the State could potentially have paid as much as $480 million in interest payments by 2038.

The General Assembly intends future shortfalls to be covered through increases in general fund appropriations, increased contributions from non-vested Vermont teachers and newly hired teachers, increased contributions from school districts from federal grants funding teacher positions, and annual savings from the Employer Group Waiver Plan for retired teachers on Medicare. The following measures went into effect on July 1, 2014:

- An appropriation of $10.35 million toward teacher health care, representing $3.1 million in new General Fund dollars;
- $2.5 million from the Supplemental Property Tax Relief Fund;
- The realization of an estimated annual savings of up to $4 million in Medicare retiree prescription drug costs resulting from the implementation last year of an Employer Group Waiver Plan; and
- A 1 percent increase in the contribution rate for non-vested teachers.

Providing a designated source for retiree health care funding is key to keeping both the pension system and retirees healthy.

Under the new law, the contribution rate for teachers who were not vested as of July 2014 changed from 5 percent to 6 percent of their salary. Teachers already vested in the system were not affected. A vested teacher has five years of service credit in the retirement system as of July 1, 2014.

Effective July 1, 2015 the law requires school districts that use federal dollars to pay for teacher salaries to include long-term pension costs for those positions in the grant. School districts also are required to prefund the health benefits for new teachers. That payment will be calculated annually. For fiscal year 2016, it is estimated that this will garner an estimated $1,097 per teacher for a statewide contribution of $383,950. The Treasurer's office will work with school officials on any additional coordination needed to ensure these payments meet the provisions of the law.

EGWP Implementation for VSTRS and VSERS Retirees

The implementation of an Employer Group Waiver Plan (EGWP) for Medicare-eligible VSTRS retirees began on January 1, 2014. In 2013, the Treasurer's office worked in partnership with the Vermont National Education Association and the Vermont Health Educational Initiative to implement EGWP. Under EGWP, VEHI, in partnership with Blue Cross Blue Shield of Vermont, is providing prescription drug benefits to Medicare-eligible retirees that matched the previous plan, but at a lower cost to the state. The expected savings to the State of Vermont is up to $4 million annually, depending on overall prescription expenditures and claimant utilization rates, in Medicare retiree prescription drug costs (net $2.5 million over previous retiree drug subsidy program).The cost savings come from leveraging pharmaceutical discounts and government subsidies. Employer group waiver plans are being adopted through the Centre for Medicare and Medicaid Service to make the program easier to implement and more cost-effective for employers and retirement systems. The EGWP also provides a direct subsidy to low income retirees.

On January 1, 2015, Medicare-eligible VSERS retirees and their Medicare-eligible dependents, enrolled in either the TotalChoice or Selectcare plans, will obtain prescription drug coverage through EGWP Plus. In this instance, the State will partner with a Pharmacy Benefit Manager, in this case Express Scripts, that have contracted directly with Medicare to be a Part D provider. This plan differs from a pure Medicare Part D plan in that it is not open to individuals, but is rather a specific plan only available to employers. The State included a "wrap" (the PLUS in the title) with the move to EGWP, which offers a comparable level of benefits identical to that previously offered without the EGWP. Discounts on prescriptions are negotiated at the pharmacy level, potentially resulting in significant additional annual savings for each covered member. The expectation is that this move will help stabilize the rising costs of prescription drugs.

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. In order to fulfill the promise of paying employees future retirement benefits, each system has developed a funding plan. This plan aims at accumulating funds, that when properly invested, will fund member retirements. The funds come from three sources: employee contributions, employer contributions and investment income. See the historical summary of operations charts in this report's appendices. Interest earned on investments from the retirement fund is the largest source of funds used to pay benefits. Investments vary from year to year and are based on market conditions. Investments produce interest income to fund retirement 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 now to meet future funding needs. This is an ongoing challenge for the systems.

Currently, the State's contribution to VSERS and VSTRS is based on

CONSUMER PROTECTION
Pension Lending Law

The State Treasurer supported the passage of a new pension lending regulation that requires any lender offering a loan secured by a pension to be licensed with Vermont's Department of Financial Regulation. The bill, S.223, was passed by the State Legislature in the 2014 session. It is the first of its kind to pass a state legislature in the nation. The law helps protect Vermonters from being exploited by companies that work to persuade pensioners to sign over the rights to some or all of their future monthly payments in return for a lump-sum amount. By regulating the practice, companies will be subject to the State's consumer protection laws and can face fines up to $10,000 per violation for any unlicensed loans or solicitations. According to the U.S. Securities and Exchange Commission there is a growing problem nationwide of people entering into such loans and being charged exorbitant interest and fees. The lump-sum amount that these companies offer is frequently significantly lower than the present value of that future income stream. Given the business model of these companies, it is unlikely such lenders can become licensed in Vermont. The State's strong consumer protection laws will subject these companies to enforcement action if they continue to do business in Vermont without a license.

Comparative Information--Vermont Retirement System

Vermont State Employees' Retirement System (VSERS)

Active Members	June 30, 2014	June 30, 2013	% Change
Vested	5,637	5,763	-2.19%
Not Vested	2,688	2,395	12.23%
Total Active members	8,325	8,158	2.05%
Average Age	45.21	46.17	-2.08%
Average Service	11.77	12.15	-3.13%
Average Compensation	$ 52,574	$ 51,087	2.91%
Retired Members and Beneficiaries			
Number	5,980	5,795	3.19%
Annual Retirement Allowances	$ 104,452,793	$ 98,932,427	5.58%
Inactive Members	867	796	8.92%
Terminated Vested Members	732	741	-1.21%

Vermont State Teachers' Retirement System (VSTRS)

Active Members	June 30, 2014	June 30, 2013	% Change
Vested	7,720	7,822	-1.30%
Not Vested	2,232	2,279	-2.06%
Total Active members	9,952	10,101	-1.48%
Average Age	46.53	46.61	-0.17%
Average Service	13.15	13.09	0.46%
Average Compensation	$ 56,981	$ 55,799	2.12%
Retired Members and Beneficiaries			
Number	8,086	7,743	4.43%
Annual Retirement Allowances	$ 147,409,221	$ 138,079,875	6.76%
Inactive Members	2,416	2,322	4.05%
Terminated Vested Members	740	751	-1.46%

Vermont Municipal Employees' Retirement System (VMERS)

Active Members	June 30, 2014	June 30, 2013	% Change
Vested	4,129	4,102	0.66%
Not Vested	2,535	2,475	2.42%
Total Active members	6,664	6,577	1.32%
Average Age	48.87	48.76	0.23%
Average Service	9.13	9.10	0.33%
Average Compensation	$ 34,659	$ 33,506	3.44%
Retired Members and Beneficiaries			
Number	2,359	2,146	9.93%
Annual Retirement Allowances	$ 19,065,769	$ 16,532,859	15.32%
Inactive Members	1,817	1,765	2.95%
Terminated Vested Members	692	652	6.13%

Actuarially Determined Employer Contribution (ADEC)

Under State law, an approved actuary is required to make a valuation of each system's assets and liabilities annually. This report valuation is delivered in late October of each year. It contains an actuarial valuation of the system as of the end of the most recent fiscal year, as well as recommendations for the ADEC for the current fiscal year and the next two fiscal years. In previous years this was referred to as the Annual Actuarially Required Contribution or ARC. While the ARC calculation was eliminated from the new GASB pension standards, the Government Finance Officers Association recommended that governments adopt a funding policy that incorporates a contribution calculation that fully funds the long-term costs over time. Budgeted appropriations to fund the ADEC for the system are determined based on the actuarial report that is completed and delivered in October of the prior fiscal year. When the next actuarial report is delivered the following October, the ADEC calculation for the current fiscal year may increase or decrease relative to the ADEC used for appropriation in that fiscal year. Appropriations, however, are not adjusted to reflect the true-up ADEC calculation, but rather remain based on the projected ADEC calculated in the prior fiscal year's October report. Using this framework, the fiscal year 2013 actuarial report is used to set the ADEC for fiscal year 2015, the fiscal year 2014 for fiscal year 2016, and so on. The ADEC for the teachers' system for fiscal year 2016 is $76,102,909. For the State system (VSERS) the ADEC is $46,237,853.

a percentage rate of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate. These rates are calculated based upon the liabilities of each system as determined by actuarial valuations. 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, set by statute, 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. However, the 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective July 1, 2008.

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	2013	2014
Actuarial Accrued Liability	$2,566,834,655	$2,687,049,333
Actuarial Value of Assets	$1,552,924,370	$1,610,285,523
Unfunded Liability	$1,013,910,285	$1,076,763,810
Funding percentage	60.5%	59.9%
State Plan		
Actuarial Accrued Liability	$1,914,299,984	$2,010,089,866
Actuarial Value of Assets	$1,469,169,902	$1,566,075,540
Unfunded Liability	$445,130,082	$444,014,326
Funding percentage	76.7%	77.9%
Municipal Plan		
Actuarial Accrued Liability	$528,426,358	$580,972,276
Actuarial Value of Assets	$446,235,922	$500,557,919
Unfunded Liability	$82,190,436	$80,414,357
Funding percentage	84.4%	86.2%

The State plan improved slightly this year. The teachers' plan was negatively impacted by the treatment of teacher health care, essentially putting it on our credit card. The legislature, however, took a bold step this past year and worked with the Treasurer and the Administration to address this issue, developing a new funding strategy that will eliminate this drag on the system and save the taxpayer more than $480 million by 2038. The drag on the teacher pension system

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

for payment of health care premiums will be eliminated. In both cases, the plans use a "smoothing method" so assets in this year are at roughly 94.4 percent and 94.5 percent of market value for the teacher and State systems respectively. For the municipal system, smoothed assets are at 93.6 percent of market value. In other words, gains in the funding progress are deferred to future years.

Recently the Governmental Accounting Standards Board (GASB) implemented new standards for accounting for pensions. These are intended for accounting purposes and not for funding decisions, but will produce comparable data across the country using one actuarial method. The GASB 67 reports are based on a roll-forward of fiscal year 2013 census data to fiscal year 2014, taking into account actual benefit and expense payments made during the year, any benefit and contribution plan changes and the market value of assets on June 30, 2014. One significant change is that they are based on market value of assets. The first reports, for the year ended June 30, 2014 on the new standards, develop a number called a net pension liability and a funding percentage. The net pension liability for the teachers system is $958,436,990 and the funding percentage is 64 percent. For the State system, the net pension liability is $351,642,081 and the funding percentage is 82.5 percent. We are looking forward to seeing how these numbers compare to other state systems. For VMERS the net pension liability is $9,126,613, with a funding percentage of 98.32 percent.

Because both the State and teachers systems use the entry age normal actuarial method for funding, and it is the required method for GASB 67, there were not a lot of surprises. We expected some improvement using market values and there is some impact on how the interest rate calculation for the amortization is handled. For the municipal system, however, the variance between the funding valuations and the GASB 67 numbers are significant. For VMERS, the GASB 67 method produces very different results due to the change to entry age normal method that is not aligned with our current funding strategy or actuarial method.

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, 2014, there were 1,676 SDIA members, with net assets of $62.29 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 Great-West Retirement Services. Great-West 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.

GASB 67/68 Update

GASB 67 and 68 are the new pension accounting standards. GASB 67 impacted the State's reporting in fiscal year 2014. GASB 68 is effective in fiscal year 2015 and will then impact the financial statements. The Governmental Accounting Standards Board (GASB) is an organization whose main purpose is to improve and create accounting reporting standards or generally accepted accounting principles (GAAP). These standards make it easier for users to understand and use the financial records of both state and local governments. There are many misconceptions about the new standards. While the accounting standards will have an impact on the fiscal year 2015 financial statements, the basic financial realities of pensions have not changed. Financial statements do not create pension obligations. Instead, they make existing obligations more transparent and comparable. There have been more auditing and actuarial requirements as a result of these changes. There are also requirements to break out data by individual communities participating in VMERS, but these requirements do not change the fundamental funding procedures, which are already in place as approved by trustees of the three retirement boards. One thousand dollars owed to a retired employee in ten years under the current standards will remain $1,000 owed in ten years under the new standards. The first reports impacting the plan disclosures were issued for fiscal year 2014 and are on the Treasurer's office web site in the retirement section. In fiscal year 2015, the standards will require incorporation of results in the entity-wide financial statements. To learn more, visit the Treasurer's office GASB information page at:

www.VermontTreasurer.gov/retirement/gasb

Deferred Compensation 457 & 403 (b) Plans

NOTE: As of January 1, 2015, Great-West officially changed its company name to Empower Retirement.

As of June 30, 2014, the plan had 6,730 participants. Total assets in the plan were valued at $386.9 million. During fiscal year 2014, participating employees made contributions in the amount of $20 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. Since the deferred compensation plan qualifies as a Section 457 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 Great-West Retirement Services. The Treasurer's office collects 12b-1 fees from Great-West, 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 Great West. This is a more transparent method of payment and has permitted the state to reduce fees to member in past years.

A 403(b) Investment Program for public school districts was implemented on January 1, 2009. There are currently 30 supervisory unions that have adopted the program. As of June 30, 2014, 2,061 school employees were participating in the program and assets had grown to $59.28 million. Participating employees made contributions in the amount of $9.88 million to the plan during fiscal year 2014. 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. The program is also administered by Great-West.

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 455 participants and net assets of $57.9 million as of June 30, 2014. 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, 2014, there were 70 contributing municipalities with 293 participants and assets of $20.1 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, 2014, 4,375 retirees were enrolled in the medical plan in the single, spouse, and family plan options. The retirees contributed $5.8 million in premiums and incurred $36.3 million in claims expenses for the fiscal year ending June 30, 2014. The State's fiscal year 2014 contributions to this trust fund totaled $24.3 million, which included a $1.5 million Medicare D reimbursement received from the federal government. The trust fund then paid premium payments of $22.5 million (calculated on a pay-as-you-go basis) to the State's Medical Insurance Fund. At June 30, 2014, the trust fund had total net assets of $18,904,148 being held in trust for post-employment benefits other than pension benefits.

During the lifetime of the retiree, currently only 20 percent of the cost of the premium is paid by the retiree. 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

Vermont Retirement Systems -- Year Ended June 30, 2014
Summary of Operations

	Vermont State Retirement System	Vermont State Retirement System-OPEB	State Teachers' Retirement System	Municipal Employees' Retirement System
SOURCES OF FUNDS				
Employee Contributions	$ 31,745,692	-	32,558,584	13,233,728
Employer Contributions	56,482,985	24,272,144	71,869,736	12,805,737
Other Income	453,852	-	1,209,178	2,142,868
Investment Income	203,721,748	1,455,290	212,338,195	64,346,116
APPLICATION OF FUNDS				
Retirement Benefits	101,436,005	-	138,484,665	18,153,649
Refunds	2,461,242	-	1,870,988	1,673,188
Health/Life Insurance Expenses	-	22,485,894	24,640,986	-
Administrative Expenses	1,158,183	175	1,474,828	588,022
Other Expenses	595,306	-	491,184	774,543
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 186,753,541	3,241,365	151,013,042	71,339,047

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 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, 2014, 5,726 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $16.9 million in premiums and the system contributed $20.4 million in premiums and paid $24.6 million on a pay-as-you-go basis, during fiscal year 2014. VEHI incurred $30.5 million in retiree claims expense for the fiscal year ending June 30, 2014. 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.

OPEB Funding Status

The State's independent actuary has prepared valuations of the OPEB liabilities for VSERS and VSTRS as of June 30, 2014. 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 on the previous page for details on the funding status of the plans, with amounts in the thousands of dollars, as of June 30, 2014.

OPEB Actuarial Valuation: Method and Assumptions

For VSERS, assuming no prefunding, the actuarial accrued liability for OPEB obligations earned through June 30, 2014 is $1,092.7 million with an unfunded actuarial liability of $1,073.8 million. 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 VSERS 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

Role of the Actuary

A key to determining how much money the system should have in the retirement fund to pay current and future benefits is the recommendation made by an actuary. An actuary is a specialist in the mathematics of risk, in which assumptions are made and evaluated. Each year an independent actuary (Buck Consultants) makes a recommendation as to the amount of funds that the employer(s) must contribute to keep the system on a funding plan. In the case of VMERS, this is in the form of a recommendation for employer rates for the various options available for participating municipalities. The State was statutorily responsible for contributions to the VMERS' pension accumulation fund prior to July 1, 1987. However, since July 1, 1987, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. In the case of VSERS and VSTRS, the calculation of the employer share is in the form of an annual actuarial required contribution (ARC) appropriated by the General Assembly. The other key indicators are the percentage to which the plan is funded, the unfunded accrued liability and the plan to achieve full funding. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

OPEB - Schedule of Funding Progress

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 *						
2014	$ 18,904	$ 1,092,728	$ 1,073,824	1.7%	$ 464,517	231.2%
VSTRS *						
2014	$ -	$ 776,775	$ 776,775	0.0%	$ 565,658	135.6%

*** Based on discount rate of 4 percent for 2014.**

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, 2014 is $766.8 million. This is an increase compared to the unfunded actuarial liability of $712.7 million as of June 30, 2013. The net increase in the liability was primarily due to the expected increases and a reduction in the expected savings in prescription drug costs as a result of the implementation of EGWP in 2014.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of future events. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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	8.10%	4.0%
Actuarial Value of Assets	$ 18,904,148	$ 18,904,148
Actuarial Accrued Liability		
- Active Participants	$ 328,321,072	$ 641,246,523
- Retired Participants	$ 317,265,272	$ 451,481,714
- TOTAL	$ 645,586,344	$ 1,092,728,237
Unfunded Actuarial Liability	$ 626,682,196	$ 1,073,824,089
Funded Ratio	2.9%	1.7%
Annual Covered Payroll	$ 464,517,262	$ 464,517,262
Unfunded Actuarial Liability (as % of covered payroll)	134.9%	231.2%
Normal Cost for FY 2015	$ 17,012,205	$ 41,186,839
Amortization of Unfunded Actuarial Liability for FY 2015 (30 yr)	$ 30,865,115	$ 31,050,012
Interest on expected net retiree claims	$ (1,485,858)	$ (740,989)
Annual Required Contribution (ARC) for FY 2015 *	$ 46,391,462	$ 71,495,862
Expected Benefit Payments	$ 37,416,308	$ 37,416,308
Increase in Annual Cost to Fund Plan	$ 8,975,154	$ 34,079,554

* *ARC calculation has been modified to reflect interest on expected net retiree claims during the fiscal year.*

VSTRS -- Other Post-Employment Benefits Funding Analysis

	Pre-Funding Basis	Pay-As-You-Go Basis
Assumed Investment Return	7.9%	4.0%
Actuarial Value of Assets	$ -	$ -
Actuarial Accrued Liability		
- Active Participants	$ 147,861,187	$ 319,008,121
- Retired Participants	$ 293,664,691	$ 447,767,357
- TOTAL	$ 441,525,878	$ 766,775,478
Unfunded Actuarial Liability	$ 441,525,878	$ 766,775,478
Funded Ratio	0.0%	0.0%
Annual Covered Payroll	$ 565,658,407	$ 565,658,407
Unfunded Actuarial Liability (as % of covered payroll)	78.1%	135.6%
Normal Cost for FY 2015	$ 7,971,140	$ 19,381,093
Amortization of Unfunded Actuarial Liability for FY 2015 (30 yr)	$ 21,251,642	$ 22,171,590
Interest on expected net retiree claims	$ (1,104,166)	$ (564,315)
Annual Required Contribution (ARC) for FY 2015 *	$ 28,118,616	$ 40,988,368
Expected Benefit Payments	$ 28,495,158	$ 28,495,158
Increase in Annual Cost to Fund Plan	$ (376,542)	N/A

* *ARC calculation has been modified to reflect interest on expected net retiree claims during the fiscal year.*

(PAGE LEFT INTENTIONALLY BLANK)

Financial Literacy

Overview

For the past seven years, the State Treasurer's Office has actively worked to promote financial literacy in Vermont. 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.

Financial Literacy
(802) 828-3706

Lisa Helme
Financial Literacy & Communications Director

(Above) High schools compete each year to win the right to display the large gold Vermont Treasury Cup Challenge trophy at their school. The traveling trophy and individual $500 college savings accounts were won in 2014 by the four-member student team from South Burlington High School.

ACCOMPLISHMENTS IN 2014

- **The 2013-2014 school term marked the fourth year of the Reading is an Investment program. There were 131 Vermont elementary schools participating in the program. At the conclusion of the school term, 63 school evaluations were received and evaluators indicated that the program materials were used with 9,975 students. A record number of Vermont students, 4,188, completed reading logs.**

- **Ten Vermont high schools participated in the 2014 Vermont Treasury Cup Challenge. The Challenge is an academic competition that tests student knowledge of personal finance and economics. The winning high school was South Burlington High School. The tournament was held on May 2.**

- **The Treasurer's office and the Vermont Department of Libraries partnered to promote Money Smart Week , April 5-12, at public libraries throughout the state. A collection of 20 books, DVDs and CDs were purchased and placed at the State's Midstate Library Service Center for access via interlibrary loan. Promotional materials were sent to all public libraries in the state and a promotional web page highlighted the new book collection.**

- **Working cooperatively with the CASH Coalition of Chittenden County, the Treasurer's office managed a Chittenden County Saves Night at a Vermont Lake Monsters game. The event was held on June 17. The event promoted saving money for college. Several thousand fans attended the game. VSAC distributed banks to the first 250 children who attended the game.**

- **There were 387 posters entered in the 2014 statewide Be Money Wi$e Financial Literacy poster competition. The 2014 theme was "Think . . . before you spend." The purpose of the competition is to promote financial education instruction and student discussion of core financial concepts.**

- **The Treasurer's office promoted April as financial literacy month by holding a recognition ceremony in Montpelier on April 10. Student winners from the Reading is an Investment program and poster contest were recognized. Several hundred students, teachers and parents attended the event.**

- **Conducted four "Keeping the Gold in Your Golden Years" adult retirement workshops for 62 people. Conducted two "How to Raise a Money Smart Child" workshops in St. Johnsbury and Barre. Twenty-six people attended. The Treasurer's office also sponsored a financial literacy table for teen girls at the "Women Can Do" conference at Vermont Tech on October 16.**

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 complete their reading logs are entered into a statewide drawing for one of twenty $250 college savings accounts.

During the 2013-2014 school term the program was used in 131 schools. There were 4,188 students who completed reading logs. Evaluations indicated that almost 10,000 students were directly involved in some aspect of the program. The curriculum theme was "Choices Have Costs and Benefits." Students winning college savings accounts were: Izick Greenwood, Albany Community; Jaedon Beardsley, Barnard Academy; Jacob Gilman and Liam Shaw, Chelsea School; Griffin Larson and Isaac Wargo, Essex Elementary; Thane Gill, Gabe Kadric and Tori Scott, Ferrisburgh Central; Brandi Paradis and Maggie Rouleau, Franklin Central; Olivia Geoffroy, Lowell Graded School; Clare Monahan, Manchester Elementary; Chase Stokes and Alixis Williams, Mary Hogan School; Jacob Barnes, Montgomery Elementary; Lily McKitty, North Hero; Austin Bunn, Readsboro Central; Wyatt Jones, Tunbridge Central; and Jonas Keim, Williston Central.

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.

"I love the focus on financial literacy. Using stories is an amazing way to teach concepts and the chosen books have truly accomplished this task." – Westford School

"As always, the donation of the materials, particularly the books, is a wonderful thing for a small school. I also appreciate the thought that is put into the collection." – Weybridge Elementary School

(my favorite part) "Referring to the guide for an executable lesson off the shelf." - Champlain Elementary School

"Thank you for enriching the lives of our students, making one smart saver at a time." – Waterville Elementary

Vermont Treasury Cup Challenge

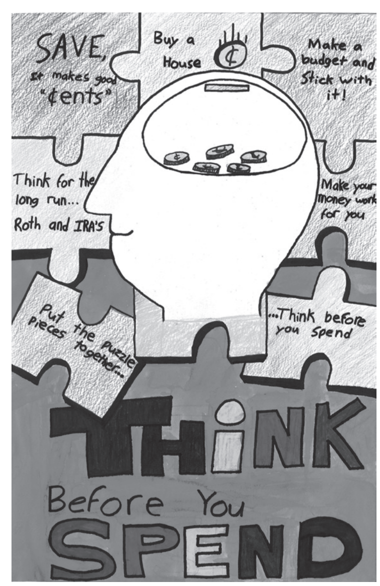
Ten Vermont high schools squared off in the sixth annual Vermont Treasury Cup Challenge. At stake were thousands of dollars in college savings funds and bragging rights as the 2014 Challenge champ. Following a day-long tournament, it was the South Burlington High School Rebels who were awarded the large gold Challenge cup. Each student also received a $500 college savings account donated by the Vermont Student Assistance Corporation. Four-person student teams competed against each other in Montpelier on May 2 in a quiz-show style contest that tested individual and team knowledge. A $250 college savings account was awarded to each member of the second place team, Burlington High School. Third place was won by U32 High School. Individual trophies were awarded to students on the first through third place teams. The event is supported by the TD Bank Charitable Foundation and the Vermont Jump$tart Coalition.

"The Challenge is meant to give schools a tool they can use to promote student interest in economics and personal finance." – State Treasurer Beth Pearce

Financial Literacy Poster Contest

For the seventh 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 2014 theme was, "Think . . . before you spend." There were 387 posters entered this year.

Students placing in the elementary division were: first place, Evan Forrest, Williston Central School; second place, Alan Rivers, Franklin Central; and third place, Isabella Gaffney, Robinson Elementary. Student placing in the middle school division were: first place, Esther Mackenzie, Middletown Springs Elemen-



1st Place Entry-Elementary Division, Be Money Wise poster contest.

tary; second place, Dakohta Sanderson, Windsor Jr/Sr High School; and third place, Adelle Woodcock, Grace Christian School in Bennington. High School division winners were: first place, Julian Kelly, Montpelier High School; second place, Jordan King, Milton High School; and third place, Brittany Savage, Fair Haven Union High School.

Other Financial Literacy Projects

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

Chittenden County Saves Week: The CASH Coalition of Chittenden County is a non-profit organization that promotes financial literacy. On June 17, the Treasurer's office organized, "Chittenden County Saves Night" at the Vermont Lake Monsters home game. The event aimed to raise awareness of the many free money management workshops offered June 15-21 as part of Chittenden County Saves Week. This is the second year the Treasurer's office has supported the event, including offering a retirement savings workshop during the week. The event also promoted saving for college. The Vermont Student Assistance Corporation distributed banks to the first 250 children who entered the gate.

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 5-12. Libraries were supplied with promotional materials for the event. A collection of books, DVDs and CDs were purchased and housed at the State's Midstate Library Service Center for loan via the interlibrary loan system. A promotional web site was created to promote the materials. In 2015, the Treasurer's office will again work with the department of libraries to promote resources for Money Smart Week.

Financial Literacy Task Force: Champlain College organized a statewide Financial Literacy Task Force to examine issues pertaining to financial literacy in the state. The Treasurer's office participated in the task force, serving on the K-12th grade steering committee. A report on the task force recommendations was released in December 2014. The Treasurer's office will continue financial literacy work with several task force stakeholders in the upcoming year.

Community Workshops: The Treasure's office continued offering the retirement planning workshop titled, "Keeping the Gold in Your Golden Years." The workshop was offered twice in calendar year 2014. Since the workshop was offered in 2008, the Treasure's office has taught the class to 979 people. Another workshop, offered in partnership with the Vermont Jump$tart Coalition, aims to encourage parents to teach their children about money. The workshop, "How to Raise a Money Smart Child," was offered twice in calendar year 2014 to groups in St. Johnsbury and Barre.

Above, young Lake Monsters fans crowd the Chittenden County Saves table to get a free pink piggybank.

Thank You to Our Program Supporters!

Reading is an Investment: **The Windham Foundation, TD Bank Charitable Foundation, Comcast, & the Vermont Student Assistance Corporation.** Be Money Wi$e Poster Contest: **Vermont Bankers Association**

(At left) Twenty elementary school students were awarded $250 college savings account. Their names were selected through a random drawing of more than 4,100 completed reading logs! Program supporters included: Tuck Rainwater, Comcast Community Relations Director; Deborah Unica, Administrator of the Vermont Higher Education Investment Plan, VSAC; State Treasurer Beth Pearce; and TD Bank Vermont President Phil Daniels.

Sixteen winner attended the ceremony. Pictured from left to right are:

- Olivia Geoffroy, Lowell Graded
- Wyatt Jones, Tunbridge Central
- Austin Bunn, Readsboro Central
- Thane Gill, Ferrisburgh Central
- Jacob Barnes, Montgomery Elem.
- Gabe Kadric, Ferrisburgh Central
- Griffin Larson, Essex Elementary
- Jacob Gilman, Chelsea School
- Liam Shaw, Chelsea School
- Tori Schott, Ferrisburgh Central
- Chase Stokes, Mary Hogan
- Jonas Keim, Williston Central
- Isaac Wargo, Essex Elementary
- Clare Monahan, Manchester Elem.
- Brandi Paradis, Franklin Central
- Lily McKitty, North Hero

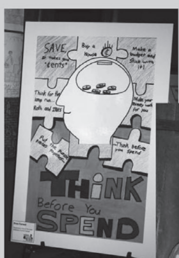
Reading is an Investment Winners!

The Reading is an Investment program was used in 130 Vermont elementary schools this year. It promotes both financial literacy and reading literacy through classroom and library instruction and through a personal reading program.

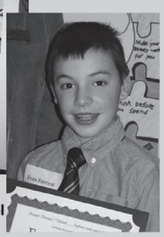
Be Money Wise Poster Contest!

There were 387 posters entered in the 2014 Be Money Wise contest. Students designed around the theme of "Think ... before you spend!"

State Treasurer Beth Pearce congratulates Tunbridge Central School student Wyatt Jones on winning a college savings account.



1st Place
Elementary Division



Evan Forrest
Williston Central School

Lt. Governor Phil Scott reads the Gubernatorial proclamation before presenting it to Vermont Jump$tart President Judy Ribolini.

1st Place
Middle School Division

Esther Mackenzie
Middletown Springs Elem.

Students from Founder's Memorial School in Essex Junction received a 4-foot-tall teddy bear for their library after their school name was draw from among those schools that submitted completed reading logs from more than one-third of their enrollment. The bear was donated by the Vermont Teddy Bear Company.

State Treasurer Beth Pearce and Chris D'Elia, President of the Vermont Bankers Association, recognized each student individually who placed 1st through 3rd in each division. (From left to right):

- Esther Mackenzie, 1st MS, Middletown Springs
- Jordan King, 2nd HS, Milton High School
- Adelle Woodcock, 3rd MS, Grace Christian School
- Alan Rivers,2nd ES, Franklin Central School
- Isabella Gaffney, 3rd ES, Robinson Elementary
- Julian Kelly, 1st HS, Montpelier High School
- Dakohta Sanderson, 2nd MS, Windsor Jr./Sr. High School
- Evan Forrest, 1st ES, Williston Central School

1st Place
High School Division

Julian Kelly
Montpelier HS

Honorable Mention artist Zachary Gary, St. Johnsbury School.

Thanks to our volunteer photographer Scott Baker!

There's more information on the student programs directed by the Treasurer's office on our web site. The web feature at left shows pictures from the April 10 recognition ceremony in Montpelier. To see more, go to: MoneyEd.Vermont.gov and visit the Reading is an Investment program page.

Debt Management

Overview

Conservative debt issuance and debt management policies that adhere to rigorous disclosure practices are hallmarks of the State of Vermont's approach to debt management. 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.

Debt Management
(802) 828-5197

Stephen Wisloski
Deputy State Treasurer

Scott Baker
Financial Reporting Director

(Above) The Lake Champlain Bridge is one example of projects that are funded through the sale of bonds. Bond sales provide the funding for capital projects that include major maintenance to state buildings, school construction, bridges and many other individual projects.

ACCOMPLISHMENTS IN 2014

- **In August, the National Association of State Auditors, Treasurers and Comptrollers (NASACT) recognized Vermont as the first state to create a financial reporting website adopting all ten of the NASACT's financial disclosure best practices. Also in August, the Treasurer's office communicated the Administration's budget rescission plan to the rating agencies as soon as it was released.**

- **In November, the Treasurer's office conducted a General Obligation bond sale in three parts, including a series of Vermont Citizen Bonds (2014 Series A), a series of competitively-sold tax-exempt bonds (2014 Series B), and a competitive refunding (2014 Series C). The Series C bonds will refinance existing bonds sold in 2005 and 2007 and will save the State almost $3.5 million in interest costs over the next 13 years. Moody's and Fitch maintained their top ratings of Aaa and AAA, respectively, both with stable outlooks, and S&P reaffirmed its rating of AA+ but revised its outlook from positive to stable.**

- **In May, the Treasurer's office, along with members of the Administration and the State's financial advisor and economist, briefed the three rating agencies (Moody's, Standard & Poor's and Fitch) on the just-concluded legislative session and the status of the State's finances.**

- **From June through November, the Capital Debt Affordability Advisory Committee (CDAAC) met five times to review the State's debt affordability guidelines; analyze Vermont's critical debt ratios; and discuss capital needs. Owing to reduced debt capacity stemming from lower revenue and population growth forecasts, CDAAC recommended a two-year 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.**

- **The Private Activity Bond Advisory Committee met three times 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 2014 volume cap totaling $296.8 million. The committee also provided the Emergency Board with its recommended initial allocation for Vermont's 2015 volume cap totaling $301.5 million.**

Municipal Bond Market Update

Calendar year 2014 saw a continuation of many of the same concerns as 2013, including a stepped-up federal regulatory environment, continued reductions to federal interest subsidies and discussions of limiting or eliminating tax exemption, and muted bond issuance. However, in contrast to 2013, interest rates fell steadily during the year and decreased issuance of bonds for new projects was partially offset by an increase in refinancing bond issues. The following are significant market features and notable events during 2014.

Aaa

A higher bond rating enhances the State's reputation in the municipal marketplace. **More on Vermont on page 34.**

Steadily falling interest rates: Interest rates began 2014 near their highest levels in over two years, but declined steadily throughout the year based upon weaker-than-forecast economic growth both in the United States and around the world. The 10-year triple-A rated benchmark bond rate, which started the year near 3 percent, declined steadily to around 2 percent by mid-December, only about 0.5 percent above the all-time low of 1.47 percent in late November 2012 and well below historical averages in the 4 percent to 5 percent range.

Continued low bond issuance: Despite lower interest rates, State and local governments continue to eschew borrowing for new projects. Through November 30, only $295 billion of municipal bonds had been sold nationwide, a decrease of almost 4 percent compared to the first 11 months of 2013 and the second-lowest volume since 2003 (only 2011 was lower). The sustained reduction in issuance carried through to Vermont's forward-looking debt projections, which are benchmarked against other states, and resulted in a lower estimate of Vermont's future debt capacity in the Capital Debt Affordability Advisory Committee's 2014 report.

Unfavorable federal policies and further uncertainty: The federal government increased its automatic budget cuts, or "sequestration" in federal fiscal year 2014, which cut Vermont's federal interest subsidy associated with Build America Bonds (BABs) by 7.3 percent or more than $100,000 in fiscal year 2014 and another $90,000 in fiscal year 2015. Also, Congress continued to float proposals to reduce or eliminate the exemption of municipal bond interest from income tax. If enacted, this change could cost the State millions in additional interest payments.

2014 Bond Issues - Calendar Year

- **$20,310,000** par amount of 2014 Series A Vermont Citizen Bonds, which were sold via negotiated transaction with Morgan Stanley. The true interest cost or TIC of the bonds was 2.20 percent and the average life was 6.3 years.

- **$53,245,000** par amount of 2014 Series B bonds, which were sold via competitive bid to Wells Fargo, which provided the lowest TIC of 3.04 percent. The average life of the bonds was 11.65 years and the State received bids from eight banks.

- **$36,205,000** par amount of 2014 Series C refunding bonds, competitive bid to Morgan Stanley, which provided the lowest TIC of 2.19 percent. The average life was seven years, the State received bids from 10 banks, and the refinancing reduced the State's interest payments by $3.48 million through 2028.

Increased federal regulatory presence: The Securities and Exchange Commission (SEC) continued to insert itself into the municipal bond market during 2014 requiring issuers, including Vermont, to certify that the State has engaged an "independent registered municipal advisor." In addition, the SEC launched its Municipal Continuing Disclosure Cooperation or MCDC initiative, requiring all municipal bond issuers to submit a filing detailing failures to comply with representations made in bond documents over the past five years. Vermont did not identify any material instances of non-compliance and therefore did not file.

Vermont's Bond Ratings

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

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 at left). Vermont's Moody's and Fitch ratings carry a stable outlook and S&P revised its outlook for Vermont from stable to positive. 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, it makes Vermont's bonds 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 issuing State moral obligation debt through other State agencies, as the State's rating supports these bond issues.

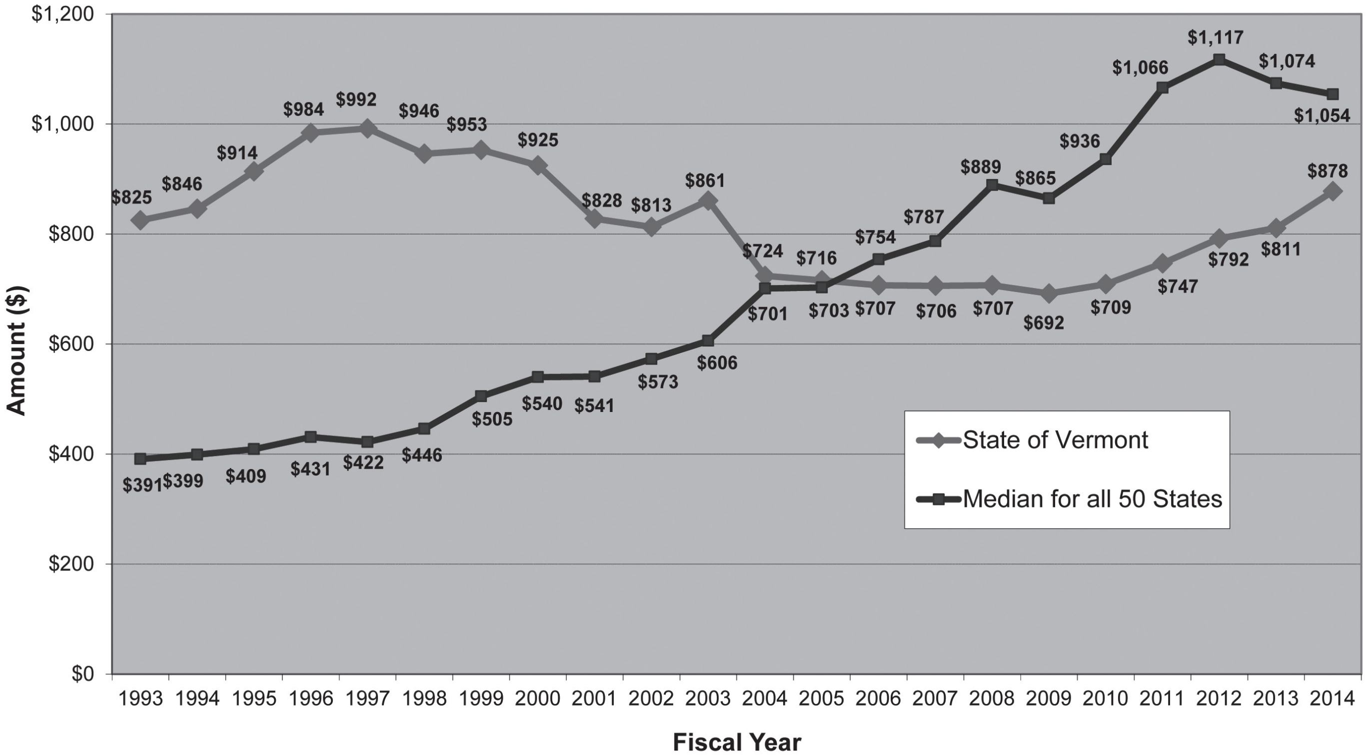
Debt Affordability

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 the Capital Debt Affordability Advisory Committee (CDAAC). In 2014, the CDAAC recommended 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).

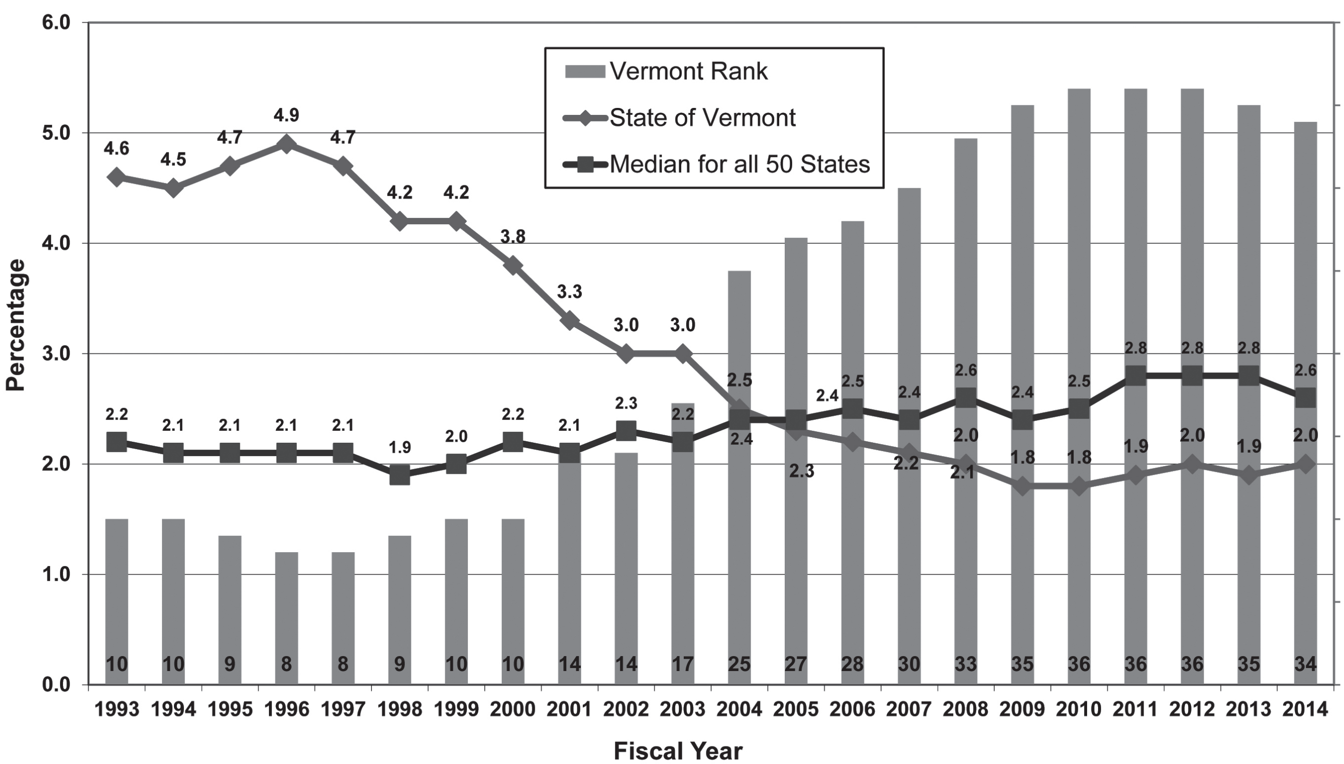
Bond issuance is currently at substantially lower levels than in the early and mid-1990s. Reduction in debt, plus continued improvement in the State's economic indices and financial condition over recent years, has improved the State's debt ratios to those among the highest-rated states. The State's 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.

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 CDAAC is made up of 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 State Treasurer serves as chair of the committee.

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



Many other factors are considered in a state's bond rating besides ratio analysis. Those factors include budget stabilization reserves; pension funding; and the breadth of the economy.

Debt Ratios

Vermont's debt ratios rank favorably among triple-A rated states thanks to the fiscal discipline of recent years. Key to maintaining an obtaining other triple-A ratings is to demonstrate continued diligence in the areas previously discussed. The State also must make improvements on other sustainability issues. Those issues are: Medicaid funding; State employees' and teachers' pension funding; the funding of other post-employment benefits (OPEBs); and preservation and development of the State's infrastructure. Summarized below are some of the key debt indicators for Vermont.

Debt Per Capita

In 2014, the State's debt per capita was $878 versus the Moody's five-year triple-A median and mean of $907 and $1,027, 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 and 30th in 2014. The higher the ranking figure, the lower a state's debt per capita is relative to all other states. The State's net tax-supported debt per capita is forecast to grow to $1,189 by 2026. That forecast assumes a steady level of debt authorization and the issuance of $72 million in future years starting in fiscal year 2016 and employs the population forecast developed by Economic Policy Resources. This increase is expected to remain consistent with the State's debt per capita guideline (triple-A states' five-year median and mean) each year through 2025. The State's net tax-supported debt per capita is one of the key debt factors monitored by CDAAC. The guideline adopted by the CDAAC establishes a target debt per capita at Moody's median and means for triple-A rated states.

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. The guideline adopted for this ratio is again to target Moody's five-year median and mean for triple-A rated states. The State has steadily improved in this area. The State's ratio of debt to personal income for fiscal year 2014 increased slightly to 2 percent versus Moody's triple-A median and mean ratios of 2.6 percent (see chart on page 40). The State's ranking in its debt as a percentage of personal income improved steadily from 30th highest among all states in 2007 to 36th highest in 2010 through 2012, slipping slightly to 35th in 2013 and again to 34th in 2014.

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 4.7 percent for fiscal year 2014. This percentage is expected to fall to 4.3 percent by fiscal year 2015 and then rise to 4.9 percent by fiscal year 2025. This is based on the assumption of the issuance of $72 million of debt from fiscal year 2016 through fiscal year 2025.

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.

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: $1,004 MEDIAN: $914 5-Year Average - VERMONT: $787

Triple-A Rated States[1]	Moody's Ratings[2]	S&P Ratings[2]	Fitch Ratings[2]	Moody's Debt Per Capita 2010	2011	2012	2013	2014
Alaska	Aaa/Stable	AAA/Stable	AAA/Stable	$1,345*	1,257*	1,454*	$1,251	$1,573
Delaware	Aaa/Stable	AAA/Stable	AAA/Stable	2,489	2,676	2,674	2,536	2,485
Florida	Aa1/Stable	AAA/Stable	AAA/Stable	1,123	1,150	1,167	1,087	1,008
Georgia	Aaa/Stable	AAA/Stable	AAA/Stable	1,120	1,103	1,099	1,061	1,064
Indiana	Aaa/Stable	AAA/Stable	AAA/Stable	492	471	446	424	533
Iowa	Aaa/Stable	AAA/Stable	AAA/Stable	73	270	310	287	275
Maryland	Aaa/Stable	AAA/Stable	AAA/Stable	1,608	1,681	1,742	1,799	1,791
Minnesota[3]	Aa1/Stable	AA+/Stable	AA+/Stable	1,037	1,159	1,148*	1,315*	1,402*
Missouri	Aaa/Stable	AAA/Stable	AAA/Stable	780	775	741	699	668
North Carolina	Aaa/Stable	AAA/Stable	AAA/Stable	765	782	815	853	806
South Carolina	Aaa/Stable	AA+/Stable	AAA/Stable	917	887	827	780	749
Tennessee	Aaa/Stable	AA+/Stable	AAA/Stable	318	345	343	343	324
Texas	Aaa/Stable	AAA/Stable[4]	AAA/Stable	520	612	588	580	614
Utah	Aaa/Stable	AAA/Stable	AAA/Stable	957	1,222	1,393	1,275	1,187
Virginia	Aaa/Stable	AAA/Stable	AAA/Stable	895	1,058	1,169	1,315	1,302
MEAN[5]	____________	____________	____________	**935**	**1,014**	**1,024**	**1,021**	**1,027**
MEDIAN[5]	____________	____________	____________	**906**	**973**	**827**	**957**	**907**
VERMONT	Aaa/Stable	AA+/Stable	AAA/Stable	709	747	792	811	878

[1] Carry at least two triple A ratings.

[2] Ratings as of September 30, 2014.

[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.

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.

Short-Term Borrowing

Current economic conditions and declining State revenues require monitoring in the context of short-term borrowing needs. The State has been diligent in managing expenditures according to revised revenue projections and has not needed to borrow short-term funds since 2003. At this point, the Treasurer's office is reasonably confident it will not need to borrow during the balance of fiscal year 2015. If the State is required to borrow funds, such needs are planned to be met using the letter of credit, which can be repaid immediately. Using the letter of credit is preferable to longer-term financing alternatives such as revenue anticipation notes (RANs), which would generate higher interest costs for the State. The State began fiscal year 2015 with approximately $324 million in unrestricted cash and investments on hand, and maintained $141 million in unrestricted cash and investments as of December 31, 2014. While these cash balances do not bear a direct one-to-one relationship to fund balance, they indicate a stable and solid position as of fiscal year 2015.

The seasonal nature of the revenue and expenditure cycles occasionally requires the use of short-term borrowing. Typically, education payments to local towns and school districts occur in the first half of the fiscal year, while tax revenues are collected later in the year, primarily April. By April, the revenue flow is generally positive. In the early 1990s, Vermont was issuing approximately $150 million of short-term debt obligations annually, not including $65 million in deficit notes. The State did not require the issuance of short-term debt in fiscal years 1999-2002. With the economic decline in 2002, the State issued $75 million in revenue anticipation notes (RANs) for part of 2003 and $48 million in September to early March 2004.

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, the rating agencies are very concerned with the percentage of future pension liabilities that are funded in these plans. As of June 30, 2014, the VSERS funding level is at 77.9 percent and the VSTRS funding level is 59.9 percent. These levels are changed from 76.8 percent and 60.5 percent, respectively in 2013. However, in 2014 the State was also required to report pension liabilities in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, which among other provisions required reporting of pension assets based upon market value as opposed to actuarial value. Since the VSERS and VSTRS market values were considerably higher than their actuarial values, the funded ratios as reported under GASB No. 67 were 82.5 percent and 64 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.

While budgets are squeezed as a result of the recent economic downturn, continued discipline in funding the actuarial required contribution (ARC) is an important factor for the rating agencies. In 2010, the Vermont National Education Association (Vermont-NEA) worked with the Treasurer's office to help pass some of the most progressive pension reform 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.

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; fully fund the required actuarial contributions; and maintain and even improve its stabilization and rainy day reserves.

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.
Current [2]	894	n.a.	n.a.	1.9	n.a.	n.a.	4.7	n.a.	n.a.
Projected (FYE 6/30) [3]		State Guideline [6]			State Guideline [7]			State Guideline	
2015	985	943		2.0	2.5		4.3	6.0	
2016	1,018	974		1.9	2.5		4.4	6.0	
2017	1,051	1,005		1.9	2.5		4.5	6.0	
2018	1,081	1,037		1.9	2.5		4.5	6.0	
2019	1,107	1,070		1.9	2.5		4.6	6.0	
2020	1,130	1,105		1.8	2.5		4.7	6.0	
2021	1,147	1,140		1.8	2.5		4.9	6.0	
2022	1,162	1,177		1.7	2.5		4.8	6.0	
2023	1,174	1,215		1.7	2.5		4.9	6.0	
2024	1,184	1,254		1.6	2.5		4.8	6.0	
2025	1,189	1,294		1.6	2.5		4.9	6.0	
5-Year Average of Moody's Mean for Triple-A States		1,004			2.4			n.a.	
5-Year Average of Moody's Median for Triple-A States		914			2.5			n.a.	

Note: Shaded figures in fiscal years 2015-2021 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 $560.85 million as of 6/30/14 divided by Vermont's 2015 population of 627,286 as projected by EPR.

(3) Projections assume issuance of $105.505 million of authorized but unissued G.O. debt in FY2015, and $72.0 million of G.O. debt annually from FY2016 through FY2025.

(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 $914 increasing annually at 3.21% (average increase for these states over the last 10 years).

(7) The 5-year Moody's median for triple-A States (2.5%) has not been increased for the period 2015-2025 since the annual number is quite volatile, ranging from 2.2% to 2.6% over the last five years.

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: 2.6% MEDIAN: 2.5% 5-Year Average VERMONT: 1.9%

Triple-A Rated States	Moody's Debt as % 2012 Personal Income				
	2010	2011	2012	2013	2014
Alaska	3.2%*	3.0%*	3.3%*	2.8%	3.2%
Delaware	6.2	6.8	6.8	6.2	5.7
Florida	2.9	3.0	3.0	2.8	2.5
Georgia	3.3	3.3	3.1	3.0	2.9
Indiana	1.5	1.4	1.3	1.2	1.4
Iowa	0.2	0.7	0.8	0.7	0.6
Maryland	3.4	3.5	3.6	3.6	3.4
Minnesota	2.4	2.8	2.7*	3.0*	3.0*
Missouri	2.2	2.2	2.0	1.8	1.7
North Carolina	2.3	2.3	2.3	2.4	2.1
South Carolina	2.9	2.7	2.5	2.3	2.2
Tennessee	0.9	1.0	1.0	0.9	0.8
Texas	1.4	1.6	1.5	1.5	1.5
Utah	3.2	3.9	4.4	3.8	3.4
Virginia	2.1	2.4	2.6	2.9	2.7
MEAN[1]	**2.5**	**2.7**	**2.7**	**2.6**	**2.4**
MEDIAN[1]	**2.4**	**2.6**	**2.5**	**2.6**	**2.4**
VERMONT	1.8	1.9	2.0	1.9	2.0

[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.

(PAGE LEFT INTENTIONALLY BLANK)

Investments

Overview

The State Treasurer's Office administers the investment policies and strategies adopted by the Vermont Pension Investment Committee (VPIC) for the benefit of the Vermont State Employees' Retirement System, Vermont State Teachers' Retirement System, and the Vermont Municipal Employees' Retirement System. The combined assets of the retirement plan portfolios were approximately $4.02 billion as of June 30, 2014. VPIC also oversees the investment assets of the Burlington Employees' Retirement System. The Burlington Employees' Retirement System, which became a participating investor with the VPIC at the end of October 2007, had assets of approximately $152 million as of June 30, 2014.

ACCOMPLISHMENTS IN 2014

- **The Vermont Pension Investment Committee maintained the asset allocation strategy that began in 2009 with some modest changes to certain allocations and a continued semi-annual rebalancing. Year-over-year, the target asset allocation of the portfolio has remained unchanged with 31.5 percent being allocated to equities, 33 percent to fixed income, 20 percent to multi-strategies and 15.5 percent to alternatives. The portfolio's total return was approximately 14.4 percent for fiscal year 2014.**

- **The addition of Guggenheim Investment Partners to the high yield fixed income allocation of the VPIC portfolio was completed on November 1, 2013. Guggenheim was awarded a 3 percent allocation of total plan assets and replaced Post Advisory Group as a complement to the existing 1 percent allocation with Vermont-based manager KDP. Additionally, in mid-April VPIC approved a $40 million allocation, to be called over the next 12 years, to Siguler Guff's Distressed Real Estate Opportunities Fund. This additional allocation has assisted in aligning the portfolio's real estate allocation with its policy target of 4.5 percent. Lastly, in late March VPIC finalized its international private equity commitment to Harbourvest Partners with a $15 million commitment to the HIPEP VII fund. This allocation is part of the original private equity allocation voted on by the board on May 22, 2012.**

- **During the fiscal year, the Treasurer's office, at the direction of the Vermont State Employees' Retirement Board, Vermont State Teachers' Retirement Board, and the Vermont Municipal Employees' Retirement Board, added a Fossil Fuel-Free Fund to the 457 Deferred Compensation, Defined Contribution and State teachers' 403(b) plans.**

- **The Trust Investment Account completed the transition into a passive asset allocation strategy. This change allowed the Trust Investment Account to not only reduce management fees, but to diversify the asset allocation across a wider breadth of investment strategies.**

- **Guided by the Environmental, Social & Governance (ESG) policy approved in 2013, the VPIC and Treasurer's office took action on several measures including signing on as signatories of the Ceres Carbon Asset Risk Campaign letter, providing input at the 2014 Investor Summit on Climate Risk, and approving a resolution asking ExxonMobil to adopt goals for reducing total greenhouse gas emissions.**

Investments
(802) 828-3668

Matt Considine
Director of Investment

Katie Green
Investments Manager

Nick Foss
Investments Analyst

John Booth
Treasury Operations Director

Dan Currier
Cash & Short-term Investments Manager

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. The State Treasurer serves on the retirement boards, the VPIC, and is the custodian of the funds, providing administrative support and oversight. Investment services within the Treasurer's office provide cash and investment management for the State of Vermont and the pension systems administered by the office.

VPIC supports and prefers the use of constructive engagement where possible to further environmental, social and governance goals and has adopted both domestic and international proxy voting policies for this purpose. As an institutional investor, VPIC maintains its standing and rights as a shareholder and the ability to influence corporate and governmental entities through constructive engagement.

UPDATES

Pension Fund Investments

In fiscal year 2014, one-year investment returns were 14.5 percent for VSERS, 14.2 percent for VSTRS, and 14.5 percent for VMERS, in each case before or "gross of" fees. Net returns, which deduct investment management fees of approximately 0.4 percent for each fund, were 14.1 percent, 13.8 percent and 14.1 respectively. These returns were substantially in excess of each fund's actuarial assumed rate of return, or target rate, of approximately 8 percent; this target rate is the required net investment return that, when combined with employee and employer contributions to the retirement funds, is projected to result in full funding of the systems over time.

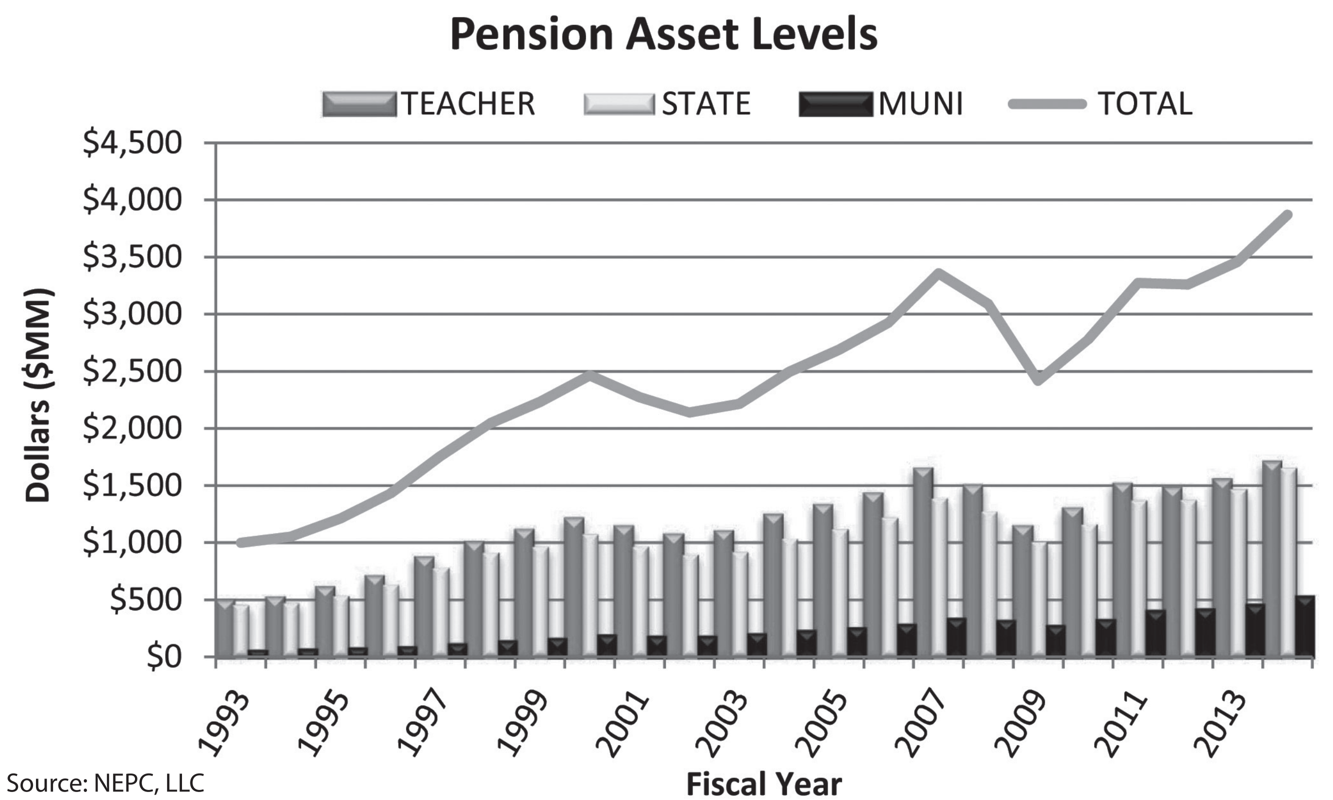
These investment returns, while very strong, were below the median public fund return for fiscal year 2014 of 16 percent gross of fees. In general,

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 since passage of the policy.

- The VPIC and the Treasurer's office were signatories of the Ceres Carbon Asset Risk Campaign letter to 45 companies encouraging oil/gas, coal and utility companies to conduct risk assessments of fossil fuel extraction and its long-term implications. Today, Ceres and the signatories are engaging 21 of the firms in further dialogues to discuss how they can conduct these risk assessments and what actions the signatories would like to see going forward.
- On January 15, Treasurer Pearce attended the 2014 Investor Summit on Climate Risk, hosted by the United Nations Foundation, the United Nations Office for Leaders. Treasurer Pearce shared ideas on how states can utilize state dollars to lower the cost of financing for thermal efficiency and clean energy projects. Constructive engagement strategies were discussed, developing the various policy approaches available to states as they press for environmental change by leveraging their assets. This was followed on April 30, when Treasurer Pearce attended the Ceres annual conference in Boston to discuss the coming year's initiatives and receive updates about the working groups of which both the VPIC and Treasurer's office are participants.
- In December, 2014, the State Treasurer requested, and VPIC approved, a resolution asking ExxonMobil to report to shareholders on steps the company will take to adopt quantitative goals for reducing total greenhouse gas emissions from its products and operations. The resolution asks for a report from ExxonMobil by the end of November, 2015.
- On June 20, Treasurer Pearce signed onto a letter sent to Krispy Kreme in an effort to encourage them to adopt a more sustainable palm oil policy in their operations. This request came after success of similar investor engagements with Nestle and Unilever corporations who made significant commitments to verify their palm oil has been produced by third parties in a sustainable manner that avoids deforestation, development on peat, and avoidance of human rights violations. It is the hope of the Treasurer's office and other signatories that the letter will encourage Krispy Kreme to follow suit.
- To date, 15 of the 24 managers 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.

See the complete ESG policy in the appendix section of this report.



Source: NEPC, LLC

Investment Performance of Vermont's Retirement Systems

As of June 30 for each Fiscal Year 2014 - Gross of Fees

Retirement System:	2014	2013	2012	2011	2010
Teachers Composite	14.2%	8.4%	2.2%	20.5%	18.0%
State Composite	14.5%	8.6%	2.4%	21.2%	17.9%
Municipal Composite	14.6%	8.8%	2.4%	21.0%	18.4%
*Median Public Fund	16.0%	11.7%	1.2%	21.2%	13.1%

Long-Term Investment Performance of Vermont's Retirement Systems

As of June 30 of Fiscal Year 2014 - Gross of Fees

Retirement System:	Calendar YTD	Last 3 Years**	Last 5 Years**	Last 10 Years**
Teachers Composite	6.7%	8.2%	12.5%	6.8%
State Composite	6.7%	8.4%	12.6%	6.9%
Municipal Composite	6.7%	8.5%	12.7%	7.0%
Median Public Fund	5.2%	9.5%	12.3%	7.1%

* 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

VPIC invests a larger percentage of its assets, than the median public fund, in international and emerging market stocks and bonds and inflation-sensitive investments such as commodities. As a result, the VPIC invested assets underperformed the median public funds that have a higher percentage allocated to U.S. equities. However, VPIC's asset allocation has performed comparably to other public funds over both five and ten year periods and has been constructed to be more resilient in periods of equity market declines. (See charts on previous page and below.)

VPIC reviews its asset allocation at the beginning of each calendar year, working with its pension consultant, NEPC LLC, to review expected risk and return characteristics for various asset classes, and correlations between those asset classes, to construct an overall portfolio that is expected to provide the most optimal risk-adjusted returns toward meeting the retirement systems' investment objectives. In addition, VPIC continually evaluates both asset classes and investment managers during the year to ensure continued alignment with overall retirement plan goals.

As part of the past year's review process, VPIC both reduced the number of investments managers and increased the use of index funds. These changes simplify the portfolio's structure and provide the opportunity for fee reductions going forward.

Asset Allocation of Pension Funds as of June 30, 2014

Investment Category	Allocation
Equity	
Domestic Large Cap	10.3%
Domestic Mid Cap	2.5%
Domestic Small Cap	3.4%
International Established	9.4%
Emerging Market	6.0%
Total Equity	**31.5%**
Fixed Income	
Diversified Bonds	18.0%
High Yield Bonds	4.0%
Global Bonds	3.0%
Emerging Market Debt	5.0%
TIPS	3.0%
Total Fixed Income	**33.0%**
Alternatives	
Real Estate	4.5%
Private Equity	2.0%
Hedge Fund-of-Funds	5.0%
Commodities	4.0%
Total Alternatives	**15.5%**
Multi-Strategy	
Risk Parity	8.0%
Global Asset Allocation	12.0%
Total Multi-Strategy	**20.0%**
Cash	**0.0%**
Grand Total	**100.0%**

65 mm was allocated to Private Equity, as voted by the VPIC board on May 22, 2012.

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. At the start of fiscal year 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, Steven Jeffrey; 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).

Local Investment

The Treasurer's office convened and organized Local Investment Advisory Committee public hearings in the fall and winter of 2014 to solicit input from experts from around the state concerning affordable housing; energy efficiency; infrastructure; wastewater and water system improvements; transportation; and higher education. The committee's meetings followed the work of the local investment working group that had met during the legislative session in 2014. The working group aimed to identify areas where capital was not matched to needs and then take steps to address these barriers with substantial proposals. The Local Investment Advisory Committee met regularly over the past year and included members of the Vermont General Assembly, VEDA, and VHFA, staff from the Gund Institute, community groups, Bond Bank, the Vermont Bankers Association, financial institutions, Efficiency Vermont, NeighborWorks of Western Vermont, and many others.

The committee's general goal 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. Investment commitments to-date total $25 million. The committee is particularly considering how best to allocate an additional lending capacity of up to $8.2 million, as suggested in Act 199 of 2014. For detailed information concerning current local investments relating to this effort, please see the Vermont State Treasurer's Office summary of Interfund Loans, Credit Facilities and Local Investment Initiatives chart in the appendix section of this report. The committee will submit their final report to the legislature in January, 2015, with hopes to bring additional proposals to the legislature in the upcoming session.

Trust Investment Account

The 2000 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, 2014, the fund had a principal balance of approximately $70.5 million, of which $31.6 million was allocated to the Higher Education Endowment Trust Fund, $16.3 million to the VSERS OPEB, $9.5 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. For fiscal year 2014, the fund had a total return of 9.9 percent. During fiscal year 2014, the fund's investment return was 9.8 percent net of fees. This return compares to the Barclays Mortgage Backed Securities Index return of 4.6 percent, the Barclays Aggregate Bond Index return of 4.4 percent, and to the S&P 500 Stock Index return of 24.6 percent for the same period. Because the portfolio transitioned from an active to a passive strategy, as well as to a different target allocation, it is not possible to succinctly provide an accurate benchmark return for the fiscal year. Note that beginning in December 2013 the investments were comprised of mutual fund positions as a result of a fund restructuring during the year. The results of the restructuring have been fees that were reduced from 38 basis points to 7 basis points annually as of September, 2014. The blended fee for fiscal year 2014 was 18 basis points. Annual returns are expected to be very close to the benchmark going forward.

The Trust Investment Account completed its transition from an actively managed portfolio into a passive strategy in mid-fiscal year 2014. This change in asset allocation came as a result of a study conducted by Treasurer's staff last year, which found that a more optimal portfolio could be achieved through the use of index funds to create a portfolio that benefited from additional diversification. This plan, which utilizes a broader range of asset classes, has helped not only decrease management fees, but also through portfolio construction, allowed the Treasurer's staff to construct a portfolio with a higher expected risk-return profile relative to the TIA return objectives.

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 $22.7 million of contributions were added between fiscal years 2002 through 2014. 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, 2014, the fund had a market value of $31,566,056. In August of 2014, 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 $502,433 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. Through fiscal year 2014, the State has received payments totaling $477.5 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 2014, $35.98 million from the settlement fund was directed to healthcare services (Medicaid; includes funds redirected to the Medicaid Global Commitment Fund). A total of $4.02 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 2015, $33.03 million from the settlement fund was directed to healthcare services (Medicaid; includes funds redirected to the Medicaid Global Commitment Fund). As in 2014, a total of $4.02 million was spent on similar programs with $1.42 million funding 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 2015. In fiscal year 2014, $6.7 million was transferred from the Tobacco Trust Fund to the Tobacco Litigation Settlement Fund per Act 50 of 2013 D.103(a). Also transfered were the 2003 disputed receipts of $2.7 million as per Act 50 of 2013 D.104(a). The balance of the Tobacco Trust Fund investments at June 30, 2014, was $9.4 million, down from $10.7 million at the end of fiscal

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 2014, there was a withdrawal from the Vermont Veterans' Home TIA fund I of $19,073 and a deposit in the Vermont Veteran's Home TIA fund II of 27,456. As of June 30, 2014, the balance of the fund first contributed to the TIA was $592,061.60, and the balance of the second (later) fund was $766,724.38, for a combined total of $1,358,785.98.

Vermont's Expected and Actual Receipt of Tobacco Settlement Funds

Vermont's Master Settlement, 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

** 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.*

year 2013. Of the $9.4 million invested, $4.3 million is committed in two ways: transfers as mentioned above to cover the deficit in the tobacco Litigation Settlement Fund (as done in past years); and the reclass of the disputed receipts. The fund is expected to be depleted in fiscal year 2016.

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 approaches these responsibilities using a prudent and deliberative process. Yields on high quality short-term fixed income securities maturing in three years or less are expected to remain near or below 1 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 $742,570 in interest income in fiscal year 2014 on average daily available balances of $315 million Of this amount, $203,145 was credited to interest earning funds and the balance of $539,425 remained in the general fund. The yield on the available cash in the portfolio was 0.24 percent for the year, which exceeded the average three-month Treasury bill yield of 0.04 percent. Long term funds in the Trust Investment Account earned 9.9 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 December, 2014, $723.5 million in CDs have been awarded. As of December 31, 2014, there were three CD's outstanding. During 2014, a total of $17.6 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 two 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, 2014 was $62,285,590.

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.

Unclaimed Property Division

Overview

Unclaimed property (sometimes referred to as abandoned) refers to accounts in financial institutions and companies that have had no activity generated or contact with the owner for one year or longer. Common forms of unclaimed property include savings or checking accounts; stocks; uncashed dividends or payroll checks; refunds; traveler's checks; trust distributions; unredeemed money orders; insurance payments or refunds and life insurance policies; annuities; certificates of deposit; customer overpayments; utility security deposits; mineral royalty payments; and the contents of safe deposit boxes. The primary goal of the Unclaimed Property Division is to reunite citizens and their unclaimed financial property. The property is sent to the Treasurer's office to protect the funds and centralize search efforts to locate property owners. 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. Every U.S. state has an unclaimed property program; more than $41 billion dollars remain unclaimed across the nation.

New financial property is collected each year. Vermonters are urged to check at least once a year to see whether their name is listed in the unclaimed property database.

UPDATES

The Treasurer's office, working with the Vermont State Legislature and the Department of Financial Regulation, adopted and passed in 2013 the National Conference of Insurance Legislators Unclaimed Life Insurance Benefits Model Act. In response to recent efforts and to this important piece of consumer protection legislation, the Treasurer's office has received $3.765 million for more than 2,520 individuals.

ACCOMPLISHMENTS IN 2014

- **During fiscal year 2014 the division paid 14,055 claimants approximately $5.387 million, with an average claim of $383.33. This is an increase of 372 percent in claimants and 216 percent in paid claims since 2002.**
- **Over the same period of time, holders of unclaimed property reported $8.64 million worth of unclaimed funds to the State.**
- **In fiscal year 2014, there were 238,473 web searches for unclaimed property on the Vermont State Treasurer's website -- with more than 12,714 searches in one day during our fall advertising campaign.**
- **Of special note, during the fiscal year 2015 fall advertising campaign, using our proven advertising methods and new social media platforms, the division had an astonishing 115,559 searches in four days and hundreds of phone calls to the office.**
- **Managed the unclaimed property database of more than $67 million and 350,000 properties.**

Unclaimed Property Division

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

Al LaPerle
Unclaimed Property Director

Vacant
Business Administrator

Linda Bouffard
Program Technician I

Charles Ryerson
Program Technician I

Claims Processing

The Unclaimed Property Division acts as custodian to safeguard financial assets until they can be claimed by the rightful owner or heirs. In fiscal year 2014, the division paid 14,055 claims worth more than $5.3 million. The average claim paid was $383.33. We continue to use our time-tested procedures, such as a publication of our annual list of names in daily newspapers; a spring and fall advertising campaign; staffing a booth at the Champlain Valley Exposition; distribution of local listings to town clerks and legislators; cross-matching our database with the Department of Taxes; and our annual mailings.

Supporting our outreach efforts, the Unclaimed Property division uses the Unclaimed Property Management System 2000. This is the most advanced, secure and reliable unclaimed property management system available to the State. This system has permitted owners of unclaimed property to receive their funds more promptly.

Claim information for the last thirteen fiscal years is shown below.

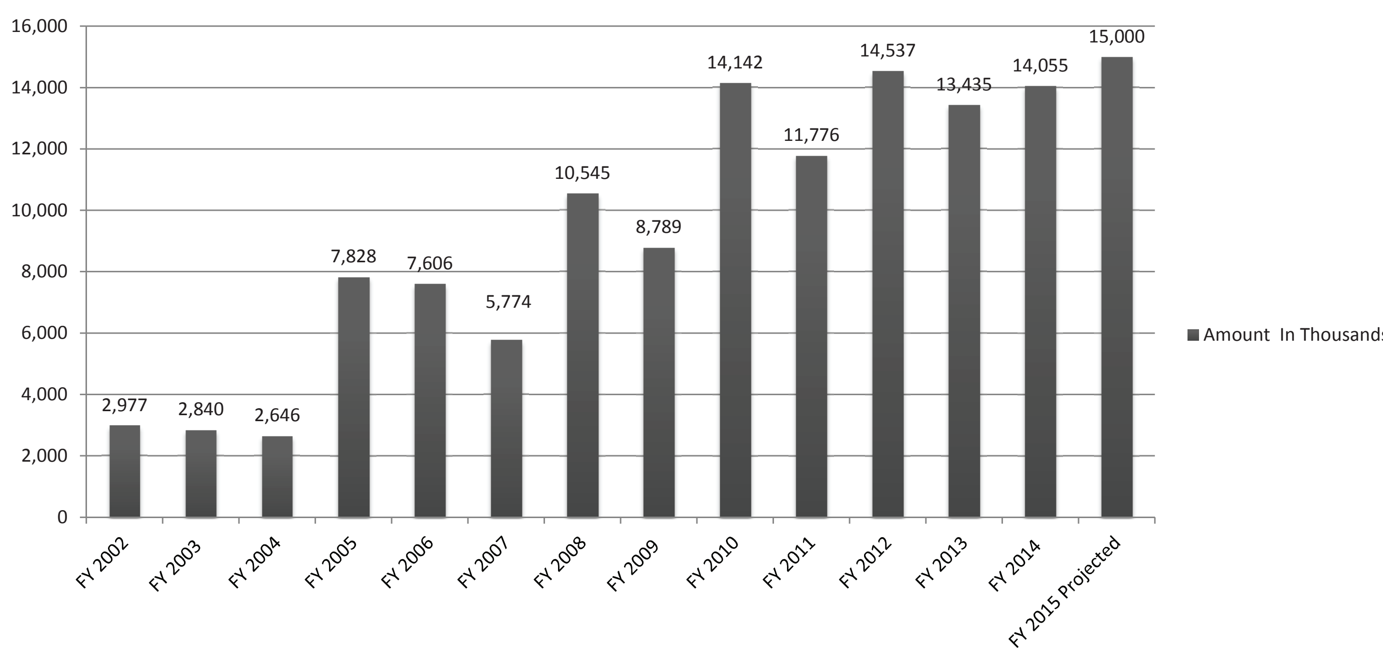
Each fall, the Treasurer's office publishes an insert of recently surrendered unclaimed property. The insert publication is supported by other advertising and outreach activities. On November 14, outreach activities combined to result in the highest online search day in the history of the program. There were 55,496 searches recorded. On an average day, there are 300-400 searches for unclaimed property.

Reporting and Compliance

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.

Holders of Unclaimed Property include business associations; banking and financial organizations; life insurance corporations; and other entities holding property belonging to another person. Vermont's Unclaimed Property Law states that holders are required to review their records each year to determine if they hold any property that has remained unclaimed for the required dormancy period. Once property has remained unclaimed for the required dormancy period,

Unclaimed Property Number of Claimants Paid



it becomes reportable. The State Treasurer serves as custodian of the funds until they can be returned to their rightful owners. The State of Vermont is currently in possession of more than $67 million in unclaimed property belonging to approximately 350,000 individuals and organizations.

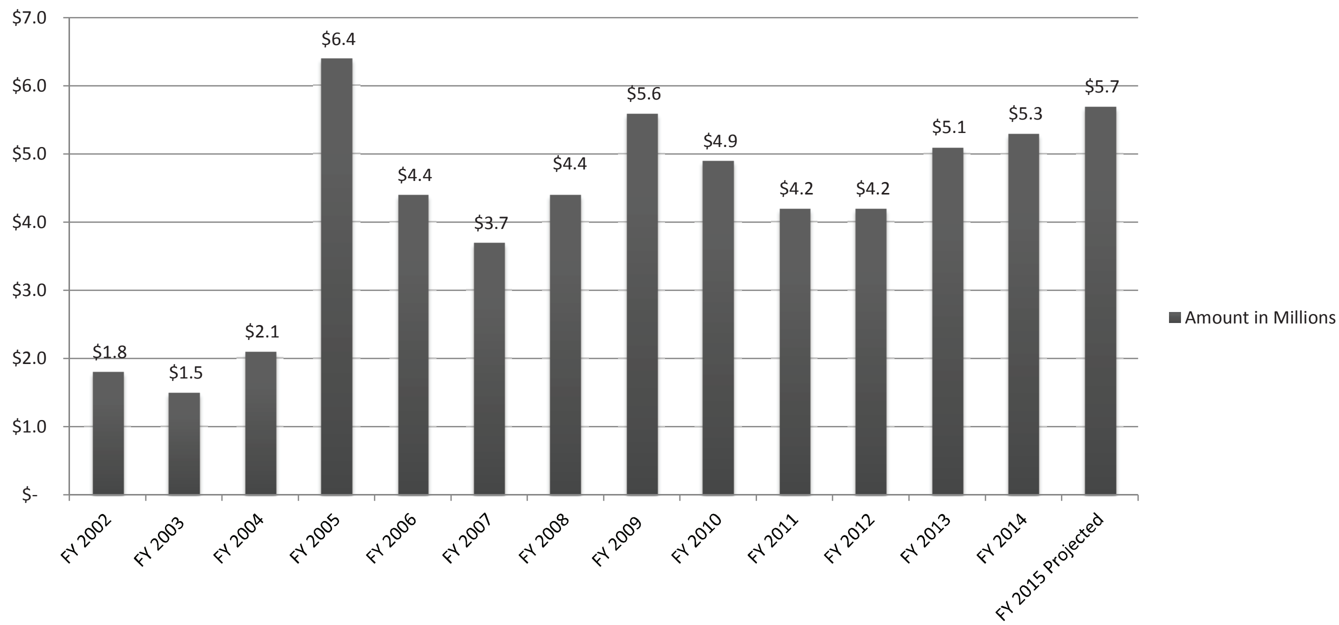
Before unclaimed funds are turned over to the State, all holders of property valued at $50 or more are mandated by law to notify the individual by mail at the last known address on record. Despite these efforts, many accounts remain unclaimed and are turned over to the State Treasurer.

The Treasurer's office continues to be very successful with our voluntary compliance program. This program allows holders to submit to a process of disclosing and remitting property and thereby avoiding costly audits, fines and penalties. Since the program's inception, $2.9 million has been turned over to the State. In fiscal year 2014, seven new holders have signed up for the voluntary compliance program.

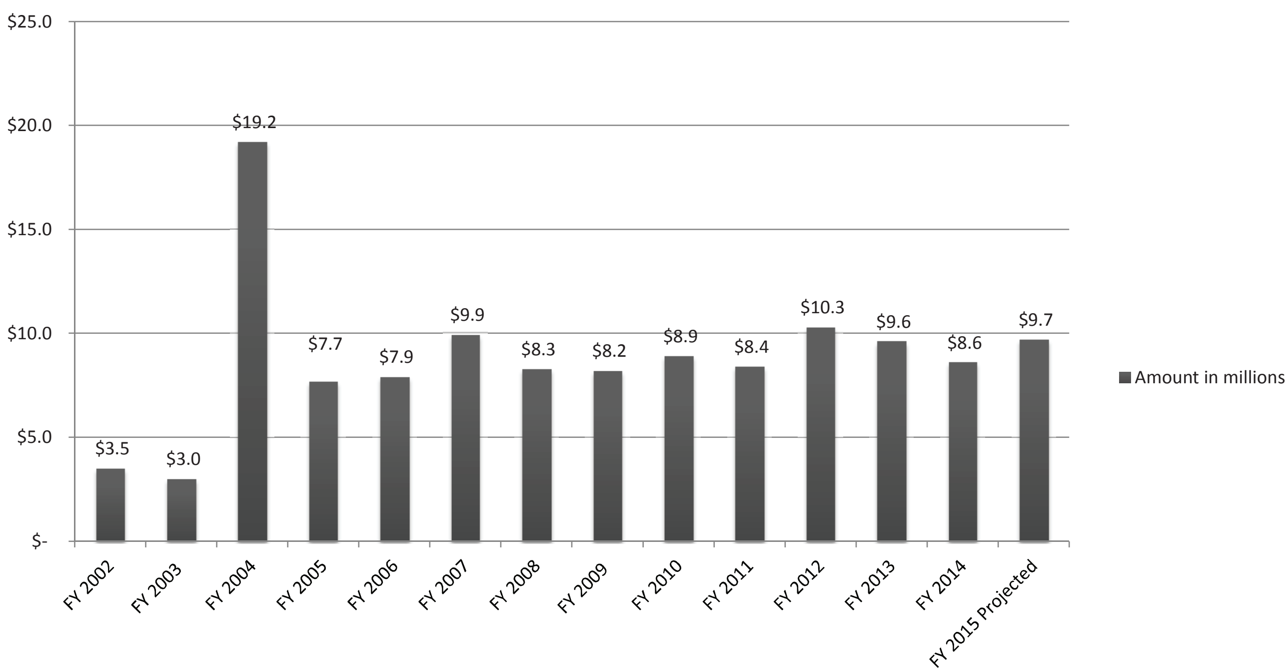
Vermonters Can Use Their Smart Phones to Search for Unclaimed Property

Starting in the spring 2014 outreach campaign and expanded in the fall 2014 effort, Vermonters could use their smart phones to search the unclaimed property database and request a claim form for a specific property number. The QR code above was placed on the front cover of the annual list of names. Vermonters could choose to search through the published listing of 6,929 entries or use their smart phones to conveniently search through the entire database.

Unclaimed Property Amount Returned to Vermonters



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



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 comprises 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 2014, more than 113,500 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 investments. On the disbursement side, 1.82 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,

ACCOMPLISHMENTS IN 2014

- **In fiscal year 2014, more than 113,500 deposits were processed to State accounts and 1.82 million payments were processed by the division, either through electronic fund transfers or check.**
- **During fiscal year 2014 the division responded to more than 1,000 informational and service requests received via the division's centralized email accounts.**

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

Lisa Gilman
Financial Specialist III

Sarah Powers
Financial Specialist II

Wendy Dickinson
Financial Specialist II

Robyn Lambert
Financial Specialist II

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 1,131 check 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 1.82 million payments processed during fiscal year 2014, approximately 78 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 2014, 97.5 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 97.8 percent and for retired municipal employees it was 95.1 percent. This is an increase from the November 2012 percentages of 97.1 percent-State employees; 97.8 percent-teachers; and 94.5 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 2014, 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 48,000 active, vested, and retired members across our State employee, municipal employee and teacher retirement systems.

Technology Services
(802) 828-2498

Ram Verma
IT Director

Vacant
IT Specialist III

Vacant
System Developer III

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 2014. Listed below are some of our major accomplishments.

ACCOMPLISHMENTS IN 2014

- **The Technology Services Division (TSD) successfully completed a 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 Retirement 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 as of February, 2014. We are currently in the warranty phase of the project where defects identified are being corrected by the vendor at no charge until February, 2015. The project has taken longer to implement, but the project has been completed under-budget with significant improved functionality over what existed in the legacy system. The project came in under-budget by approximately $1.8 million.**

- **TSD and the Retirement Division successfully completed the transition from Cigna to Blue Cross Blue Shield of Vermont for State Retirement healthcare. TSD also supported the Retirement Division in the successful transition to EGWP (Employee Group Waiver Program) for the teachers' retirement system.**

Legislative Reporting Requirements

Burma (Myanmar)

Act 13 of the Public Acts of 1999 specifies that the Treasurer shall implement the purposes of the Act by voting in favor of shareholder resolutions concerning individual companies doing business with the government of Burma. In addition, the Treasurer shall separately notify the company that Vermont wishes to convey its grave concerns regarding the company's economic ties to the government of Burma. The Treasurer complies with this Act through measures including mandating compliance through VPIC investment guidelines that must be observed by investment managers and by the proxy voting firm engaged by VPIC to vote its proxies. Proxy voting guidelines adopted by the three Vermont Retirement Systems and the Treasurer's office for U.S. domestic equity managers also specify manager voting compliance including support of labor standards in connection with a company's involvement in Burma, and reporting on Burmese operations and activities.

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 2014, the fund received deposits of $8,250. The fund earned $27.16 in interest. There was $9,734.17 expended from the trust fund during fiscal year 2014. Of that amount, approximately $8,477.18 was expended in support of the fourth year of the Reading is an Investment program, $1,235.75 was expended for the state tournament of the Vermont Treasury Cup Challenge, and the remainder expended for the annual financial literacy poster competition.

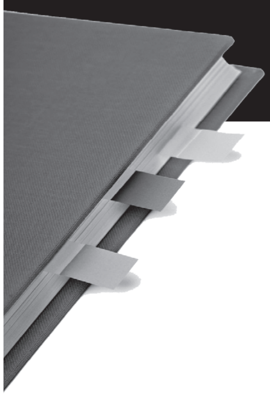
State PACE Reserve Fund

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 2014, $50,000 was deposited into this fund and $24.38 was earned on the balance in the fund. There were no claims submitted and therefore no expenditure from the fund during fiscal year 2014. The fund balance as of June 30, 2014 was $50,024.38.

MacBride Principles

Act 50 of the Public Acts of 1989 specifies that the State Treasurer and the retirement boards compile a list of corporations that conduct business in Northern Ireland in which the State Treasurer and retirement boards have invested funds. Notifications from external investment managers listing such businesses are due in the Treasurer's office on January 1 of each year, and these notifications are kept on file in the Treasurer's office. The Act further requires that the Treasurer and the boards of the trustees of the Vermont State Employees' Retirement System and the Vermont State Teachers' Retirement System shall support the MacBride Principles addressing worker equality and security issues through support of shareholder issues. The Treasurer's office and the trustees comply with Act 50 by mandating MacBride Principles compliance through Vermont Pension Investment Committee (VPIC) investment guidelines to be observed by investment managers and by the proxy firm engaged by VPIC to vote its proxies. Proxy voting guidelines approved by the three Vermont Retirement Systems and the Treasurer's office for U.S. domestic equity managers also specify manager voting compliance with MacBride principles.

(PAGE LEFT INTENTIONALLY BLANK)



Appendices

HISTORICAL SUMMARY OF OPERATIONS: *Pension Fund Operations*

State Employees' Retirement System -- Summary of Operations

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SOURCE OF FUNDS										
Employee Contributions	$ 15,112,105	$ 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
Employer Contributions	36,493,435	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
Other Income	777,792	1,171,516	205,321	169,984	1,041,870	227,524	743,172	377,562	638,736	453,852
Investment Income (Reduction)	90,452,723	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
APPLICATION OF FUNDS										
Retirement Benefits	48,893,673	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
Refunds	1,402,481	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
Health/Life Insurance Expenses	11,329,269	11,590,588	13,541,092	16,371,373	-	-	-	-	-	-
Administrative Expenses	1,255,852	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
Other Expenses	635,618	668,929	344,719	631,321	477,966	568,278	613,899	702,136	437,367	595,306
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 79,319,162	$ 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

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

Category	2008	2009	2010	2011	2012	2013	2014
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
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
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
Administrative Expenses		-	-	68	275	71	175
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

*** 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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SOURCE OF FUNDS										
Employee Contributions	$ 21,158,452	$ 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
Employer Contributions	24,446,282	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
Other Income	373,705	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
Investment Income (Reduction)	115,058,694	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
APPLICATION OF FUNDS										
Retirement Benefits	60,147,731	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
Refunds	1,104,278	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
Health/Life Insurance Expenses	10,167,601	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	1,052,772	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
Other Expenses	682,438	580,403	203,444	542,665	606,434	303,741	609,091	391,832	233,735	491,184
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 87,882,313	$ 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

Municipal Retirement System -- Summary of Operations

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SOURCE OF FUNDS										
Employee Contributions	$ 7,404,119	$ 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
Employer Contributions	8,058,810	7,926,436	8,535,396	-	8,008,862	10,592,919	11,117,363	11,532,230	12,014,186	12,805,737
Other Income	298,475	228,746	206,101	124,132	1,321,919	203,549	266,425	118,191	170,381	2,142,868
Investment Income (Reduction)	18,165,861	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
APPLICATION OF FUNDS										
Retirement Benefits	6,418,097	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
Refunds	1,140,245	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
Health/Life Insurance Expenses	-	-	-	-	-	-	-	-	-	-
Administrative Expenses	367,810	439,983	687,382	623,619	798,458	393,947	569,603	672,851	749,447	588,022
Other Expenses	423,937	1,101,883	560,473	506,817	588,899	795,522	886,709	469,599	999,434	774,543
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 25,577,176	$ 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

STATE OF VERMONT: *Pension Trust Funds—Combining Statement of Plan Net Assets—6/30/2014*

	Defined Benefit Plans			Defined Contribution Plans			Other Postemployment Benefit Funds			
	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund	Vermont State Defined Contribution Fund	Single Deposit Investment Account Fund	Vermont Municipal Employees' Defined Contribution Fund	Vermont State Postemployment Benefits Trust Fund	Municipal Employees' Health Benefit Fund	Eliminations	Total
ASSETS										
Cash and short-term investments	$ 3,053,450	$ 3,826,600	$ 2,419,054	$ 63,481	$ 998,912	$ 85,371	$ 844,479	$ 322,945	$ -	$ 11,614,292
Investments at fair value										
Pooled investments	1,649,878,805	1,698,896,108	522,132,601	-	-	-	-	-	-	3,870,907,514
Equities	62,254	-	-	-	-	-	-	-	-	62,254
Mutual and commingled funds	-	-	-	57,771,386	61,286,673	20,020,398	16,371,415	12,722,799	-	168,172,671
Total investments	1,649,941,059	1,698,896,108	522,132,601	57,771,386	61,286,673	20,020,398	16,371,415	12,722,799	-	4,039,142,439
Receivables										
Contributions - current	4,688,581	3,327,312	2,477,353	116,007	-	27,636	472,377	-	-	11,109,266
Contributions - non-current	-	-	6,878,299	-	-	-	-	-	-	6,878,299
Interest and dividends	3	1,900	352,954	-	5	-	-	-	-	354,862
Due from other funds	59,061	-	76,329	-	-	-	1,226,109	-	(135,390)	1,226,109
Other	-	71,304	29,677	-	-	-	12,409	-	-	113,390
Total receivables	4,747,645	3,400,516	9,814,612	116,007	5	27,636	1,710,895	-	(135,390)	19,681,926
Prepaid expenses	-	-	156	9,291	-	-	-	-	-	9,447
Capital assets										
Construction in progress	1,727,534	2,025,719	660,421	-	-	-	-	-	-	4,413,674
Capital assets being depreciated										
Equipment	810,703	983,448	397,661	-	-	-	-	-	-	2,191,812
Less accumulated depreciation	(437,270)	(528,550)	(216,227)	-	-	-	-	-	-	(1,182,047)
Total capital assets, net of depreciation	2,100,967	2,480,617	841,855	-	-	-	-	-	-	5,423,439
Total assets	1,659,843,121	1,708,603,841	535,208,278	57,960,165	62,285,590	20,133,405	18,926,789	13,045,744	(135,390)	4,075,871,543
LIABILITIES										
Accounts payable	2,307,822	2,884,502	534,779	24	-	198	22,641	-	-	5,749,966
Retainage payable	281,687	343,592	143,297	-	-	-	-	-	-	768,576
Due to other funds	1,555	3,793	1,429	56,510	-	76,329	-	-	(135,390)	4,226
Interfund loans payable	6,189	7,349	3,296	-	-	-	-	-	-	16,834
Total liabilities	2,597,253	3,239,236	682,801	56,534	-	76,527	22,641	-	(135,390)	6,539,602
NET POSITION HELD IN TRUST FOR EMPLOYEES' PENSION AND OTHER POSTEMPLOYMENT BENEFITS	$ 1,657,245,868	$ 1,705,364,605	$ 534,525,477	$ 57,903,631	$ 62,285,590	$ 20,056,878	$ 18,904,148	$ 13,045,744	$ -	$ 4,069,331,941

See Independent Auditors' Report.

STATE OF VERMONT: *Pension Trust Funds—Combining Statement of Changes in Plan Net Assets—Fiscal Year Ended 6/30/2014*

	Defined Benefit Plans			Defined Contribution Plans			Other Postemployment Benefit Funds			
	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund	Vermont State Defined Contribution Fund	Single Deposit Investment Account Fund	Vermont Municipal Employees' Defined Contribution Fund	Vermont State Postemployment Benefits Trust Fund	Municipal Employees' Health Benefit Fund	Eliminations	Total
ADDITIONS										
Contributions										
Employer - pension benefit	$ 56,482,985	$ -	$ 12,805,737	$ 1,872,314	$ -	$ 652,570	$ -	$ -	$ -	$ 71,813,606
Employer - healthcare benefit	-	-	-	-	-	-	24,272,144	-	-	24,272,144
Non-employer - pension benefit	-	51,439,510	-	-	-	-	-	-	-	51,439,510
Non-employer - healthcare benefit	-	20,430,226	-	-	-	-	-	-	-	20,430,226
Plan member	31,745,692	32,558,584	13,233,728	762,604	-	594,790	-	-	-	78,895,398
Transfers from other pension trust funds	453,852	410,501	2,142,868	73,697	-	20,319	-	-	(3,101,237)	-
Transfers from non-state systems	-	-	-	154,242	-	1,955	-	-	-	156,197
Medicare part D drug subsidy	-	798,677	-	-	-	-	-	-	-	798,677
Total contributions	88,682,529	105,637,498	28,182,333	2,862,857	-	1,269,634	24,272,144	-	(3,101,237)	247,805,758
Investment Income										
Net appreciation (depreciation) in fair value of investments	61,363	50,055	14,369	5,615,861	1	2,044,459	1,040,297	1,643,054	-	10,469,459
Income from pooled investments	210,228,072	219,388,858	65,960,450	-	-	-	-	-	-	495,577,380
Dividends	-	6,702	1,842	2,774,468	1,541,468	1,178,131	315,094	-	-	5,817,705
Interest	12,152	13,291	470,455	195	94	174	130,081	726	-	627,168
Other income	191,353	73,738	14,484	-	1,916	-	-	-	-	281,491
Total investment income	210,492,940	219,532,644	66,461,600	8,390,524	1,543,479	3,222,764	1,485,472	1,643,780	-	512,773,203
Less Investment Expenses										
Investment managers and consultants	6,771,192	7,194,449	2,115,484	-	195,406	-	30,182	66,035	-	16,372,748
Total investment expenses	6,771,192	7,194,449	2,115,484	-	195,406	-	30,182	66,035	-	16,372,748
Net investment income	203,721,748	212,338,195	64,346,116	8,390,524	1,348,073	3,222,764	1,455,290	1,577,745	-	496,400,455
Total additions	292,404,277	317,975,693	92,528,449	11,253,381	1,348,073	4,492,398	25,727,434	1,577,745	(3,101,237)	744,206,213
DEDUCTIONS										
Retirement benefits	101,436,005	138,484,665	18,153,649	2,381,896	7,523,704	939,403	-	-	-	268,919,322
Other postemployment benefits	-	24,640,986	-	-	-	-	22,485,894	224,730	-	47,351,610
Refund of contributions	2,461,242	1,870,988	1,673,188	-	-	-	-	-	-	6,005,418
Death claims	204,111	319,988	141,231	-	-	-	-	-	-	665,330
Transfers to other pension trust funds	391,195	171,196	633,312	-	-	1,905,534	-	-	(3,101,237)	-
Depreciation	73,531	89,444	35,925	-	-	-	-	-	-	198,900
Operating expenses	1,084,652	1,385,384	552,097	57,028	-	117,723	175	-	-	3,197,059
Total deductions	105,650,736	166,962,651	21,189,402	2,438,924	7,523,704	2,962,660	22,486,069	224,730	(3,101,237)	326,337,639
Change in net position	186,753,541	151,013,042	71,339,047	8,814,457	(6,175,631)	1,529,738	3,241,365	1,353,015	-	417,868,574
Net position held in trust for employees' pension and postemployment benefits										
July 1	1,470,492,327	1,554,351,563	463,186,430	49,089,174	68,461,221	18,527,140	15,662,783	11,692,729	-	3,651,463,367
June 30	$ 1,657,245,868	$ 1,705,364,605	$ 534,525,477	$ 57,903,631	$ 62,285,590	$ 20,056,878	$ 18,904,148	$ 13,045,744	$ -	$ 4,069,331,941

See Independent Auditors' Report.

HIGHER EDUCATION ENDOWMENT TRUST FUND: *Annual Report—September 17, 2014*

ELIZABETH A. PEARCE
STATE TREASURER

RETIREMENT DIVISION
TEL: (802) 828-2305
FAX: (802) 828-5182

UNCLAIMED PROPERTY DIVISION
TEL: (802) 828-2407

ACCOUNTING DIVISION
TEL: (802) 828-2301
FAX: (802) 828-2884

STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Jeb Spaulding, Secretary of Administration, and the
Higher Education Subcommittee of the Prekindergarten-16 Council

FROM: Elizabeth Pearce, State Treasurer

RE: Annual Report on the Higher Education Endowment Trust Fund

DATE: September 17, 2014

I am pleased to present the Secretary of Administration and the Higher Education Subcommittee (Subcommittee) of the Prekindergarten-16 Council with the State Treasurer's fourteenth annual report on the Higher Education Endowment Trust Fund (Fund).

The General Assembly established the Fund in the Office of the State Treasurer in 1999 to provide non-loan financial aid to Vermont students attending the University of Vermont (UVM), the Vermont State Colleges, and other Vermont post-secondary institutions (16 V.S.A. § 2885).

Performance Summary

During Fiscal Year 2014, the Fund's investment return was 9.8% net of fees. This return compares to the Barclays Mortgage Backed Securities Index return of 4.6%, the Barclays Aggregate Bond Index return of 4.4% and to the S&P 500 Stock Index return of 24.6% for the same period. Because the portfolio was transitioned from an active to a passive strategy, as well as to a different target allocation, it is not possible to succinctly provide an accurate benchmark return for the fiscal year. However, by way of comparison a 30% S&P 500 / 70% MBS index would have returned 10.4% and a 40% S&P 500 / 60% Barclays Aggregate index would have returned 12.2% during the fiscal year (gross of fees). Note that beginning in December 2013 the investments comprised of mutual fund positions as a result of a Fund restructuring during the year. The results of the restructuring have been fees that were reduced from 38 basis points to 7 basis points annually at the time of this report. The blended fee for Fiscal Year 2014 was 18 basis points. Annual returns are expected to be very close to the benchmark going forward.

5% Distribution from Fiscal Year 2014

The statute provides that in August of each fiscal year, the State Treasurer is to withdraw up to 5% 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 appropriated, however, cannot exceed an amount that would bring the Fund balance

109 STATE STREET • MONTPELIER, VERMONT 05609-6200
TREASURER: (802) 828-1452 • TOLL-FREE (in VT only): 1-800-642-3191
www.vermonttreasurer.gov

Higher Education Endowment Trust Fund Report
September 17, 2014
Page 2

below total contributions to principal. Total principal contributions through June 30, 2014 have been $28,682,971.63.

The 5% distribution available this year is $1,507,299.38 in total or $502,433.13 each for UVM, the Vermont State Colleges, and VSAC. This amount represents a 13.8% increase over the distribution made following the Fiscal Year 2013 distribution of $441,321.64 for each institution. **Appendix A** to this report includes quarterly market values and distributions for Fiscal Year 2014, and **Chart #1** shows principal contributions to date.

2% Distribution from Fiscal Year 2014

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% 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% distribution, the amount appropriated cannot exceed an amount that would bring the Fund balance below total contributions to principal. Further, each institution is required to match the appropriation by raising private donations of at least twice the appropriated amount, to certify to the Commissioner of Finance and Management (Commissioner) that it received private donations in the requisite amount, and that the funds will be used to create or increase a permanent endowment at the respective institution.

At their September 30, 2013 meeting, the Secretary and the Subcommittee voted to forgo this 2% appropriation for distribution to UVM and the Vermont State Colleges, based upon a recognition that lower expected returns in the near term do not support a total distribution of 7% from the fund. This decision was reaffirmed at the Secretary and Subcommittee's March 18, 2014 meeting.

After payments of $1,507,299.38, the Fund balance at the end of Fiscal Year 2014 totals $30,058,756.62. An accounting of the Fund balance is provided below:

Ending balance prior FY 2013			$30,462,454.46
	Contributions received FY 2014		$55,966.17
Opening balance FY 2014			$30,518,420.63
	5% Distributions :	University of Vermont	(441,321.64)
		Vermont State Colleges	(441,321.64)
		Vermont Student Assistance Corp.	(441,321.64)
	2% Distributions :	University of Vermont	(226,445.55)
		Vermont State Colleges	(226,445.55)
	Income earned FY 2014		3,565,330.45
	Appreciation (Depreciation) FY 2014		(676,896.17)

	Fees and Other Charges FY 2014		(63,944.17)
Balance June 30, 2014			$31,566,054.71
	5% of 12-Quarter Moving Average as of June 30, 2014		(1,507,299.38)
	Distributions :	University of Vermont	(502,433.13)
		Vermont State Colleges	(502,433.13)
		Vermont Student Assistance Corp.	(502,433.13)
	2% Income Available for Endowments from FY 2013		0.00
Balance after distributions			$30,058,755.32
Total contributions as of June 30, 2014			$28,682,971.63
	2% Income Available for Endowments from FY 2014 (requires institutional match in FY 2015)		$602,919.75

2% Distribution for Fiscal Year 2015

All principal contributions to the Fund through June 30, 2014 total $28,682,971.63, which also represents the minimum balance that must be maintained in the Fund. The 2% distribution proposed for this year of $602,919.75 would leave a balance of $29,455,836.87 excluding contributions to be received, the 5% distribution following FY 2015, and any gains from investment activity in FY 2015. Because this balance is near to the minimum required balance noted above, it is possible that neither the 5% nor 2% 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 $301,459.88 with a required match to be raised by each entity in FY 2015 of $602,919.75. To re-emphasize: **any distribution in the next fiscal year is dependent upon the Fund's balance being greater than $28,682,971.63 by the end of FY 2015**. The attached **Chart #2** provides a graphical depiction of authorized distributions, including this 2% distribution subject to the Secretary's and the Subcommittee's approval.

Fund Balances

Appendix B to this report shows the total return of the entire Trust Investment Account, of which the Higher Education Endowment Trust Fund, with a balance of $31.6 million comprises approximately 45%. A State Employee's retirement benefit trust fund comprises 23% of the account, or $16.4 million, and the remaining 32% is made up of, in decreasing size, the Tobacco Trust Fund at $9.4 million, two Fish and Wildlife Trust funds at $5.5 million, the ANR Stewardship Fund at $5.3 million, two Veterans' Home trust funds totaling $1.3 million, and other small trusts totaling just over $970,000. **Chart #3** displays the relative share of the Higher Education Endowment Trust Fund compared to the entire Trust Investment Account.

Chart #4 presents the Fund's balances, inclusive of distributions, for Fiscal Years 2000 through 2014. The balance increased significantly in FY 2007 due to Estate Tax receipts of

$5,223,449.94, and a $600,000 contribution from the State's unclaimed property fund as a result of legislation proposed by the Treasurer in FY 2006. Assets decreased modestly in FY 2008 and FY 2009 due to low investment returns and minimal fund contributions and benefitted in FY 2010 and FY 2011 from a strong equity market. In FY 2010 and FY 2012 the Fund benefitted from contributions of $1.6 million and $11 million, respectively.

Asset Allocation, Investment Managers and Performance

The Trust Investment Account's target asset allocation is 60% fixed income securities and 40% equities, with the equity allocation being comprised of Large Cap US Equities (20%), International Equities (15%) and Emerging International Equities (5%). As of June 30, 2014, the Account's actual allocation was in line with this allocation, versus 66.3% fixed income securities and 33.7% equities, respectively, on June 30, 2013. This change in asset allocation represents a shift away from four active managers and towards the use of index-mimicking mutual funds, in order to take advantage of a broader range of asset classes. To minimize transaction costs, the Account is rebalanced semi-annually on March 31 and September 30, and other contributions and withdrawals from the various funds are used to "fine tune" the asset allocation during the year.

The Account currently utilizes four Vanguard mutual funds: Institutional Index (VINIX), Developed Markets Index (VTMNX), Emerging Markets Stock Index (VEMAX) and Total Market Bond Index (VBTIX), creating exposures to three equity asset classes and a broad range of fixed income. Annual fees have also been reduced by 31 basis points to 7 basis points.

Historically, the Account achieved modest positive returns in both FY 2008 and FY 2009, during some of the worst financial market conditions since the 1930s, and has achieved sufficient returns to fully fund distributions in Fiscal Years 2010, 2011, 2012 and 2013. The Treasurer's Office has been mindful of the need to balance the allocations to equity and fixed-income assets given the expectation for annual distributions from the Fund while maintaining an appropriate risk profile. In the past, the asset allocation structure has enabled the Fund to perform reasonably well in both adverse and positive markets reinforcing the belief in the appropriateness of a diversified structure. However, and as we have discussed with the Secretary and Subcommittee over the past several years, the outlook for lower returns across all asset classes over the intermediate term horizon has required us to re-evaluate this approach.

During the second fiscal quarter of 2014 the Fund was transitioned away from four active managers and into two index funds, at the same time that the equity allocation was increased. Specifically, an allocation of 30% to domestic equity and 70% to mortgage-backed securities was changed to 40% domestic equity and 60% broad fixed income. This was accomplished by investments in the Vanguard Institutional Index and the Vanguard Total Market Bond Index. Also at this time the policy benchmark was changed from an 30% S&P 500/ 70% MBS mix to 40% S&P 500/60% Barclays Aggregate Bond Index.

The actual allocation was further refined at the end of third fiscal quarter to include exposure to Developed Markets Index and Emerging Markets Stock Index funds. **Appendix B** presents a review of performance during the past fiscal year.

Higher Education Endowment Trust Fund Report
September 17, 2014
Page 5

Performance of the fund during the year reflects as a result of this change a blend of performance from active managers in the first fiscal quarter and exposure to mutual funds in the remaining portion of the year. Staff believes that despite the robust performance of the S&P 500 during a time of increased expectations for interest rate increases, the slight increase in equity exposure is reasonable in light of that exposure being accomplished by diversifying investments in foreign equities, which have lagged relative to US equities. Staff also believes that interest rate hikes would need to be much larger and sharper than expected in order for the exposure to a broad fixed income index to suffer substantial losses.

FY 2014 thereby represents a transition year, where the fund went from management by active managers and reporting of gross of fee returns to a much lower fee structure achieved by investments in mutual funds with net of fee performance reporting and a broader asset class exposure.

Fund Management Philosophy

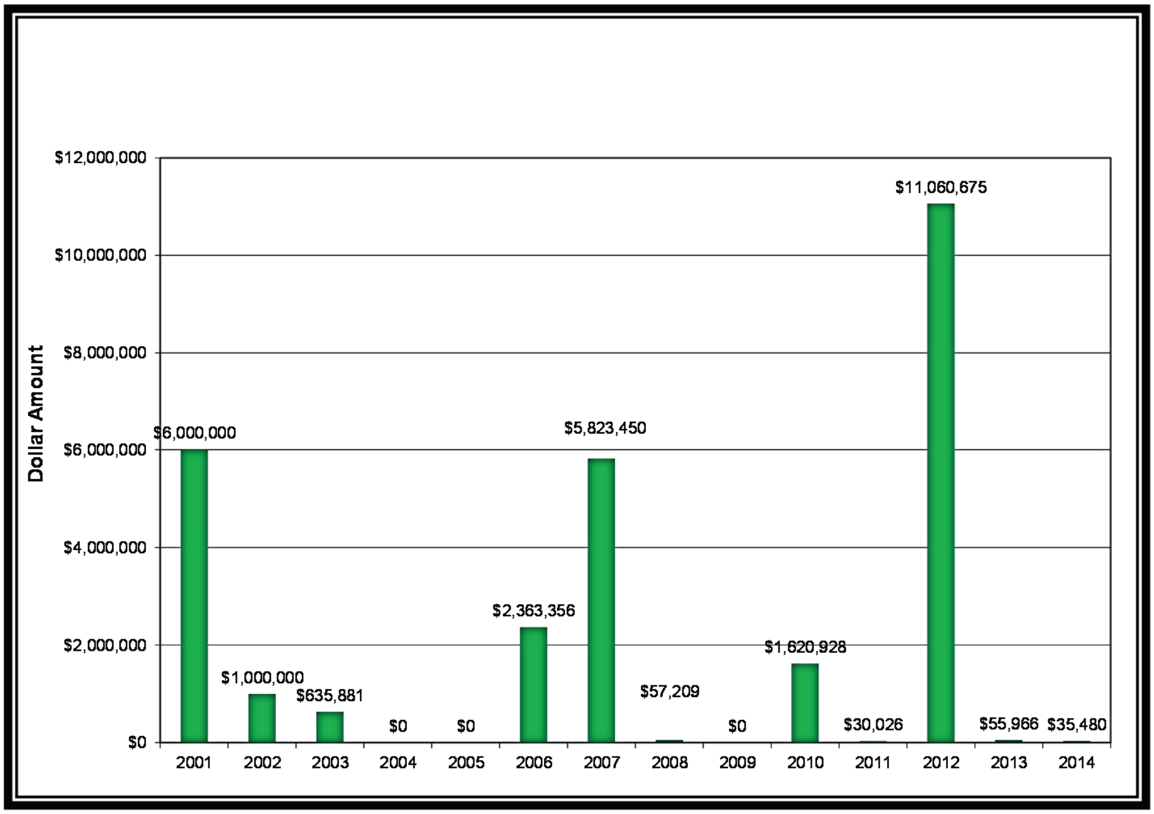
Going forward, we believe that the dependence upon manager performance relative to benchmarks, or alpha, is counterproductive, especially for relatively established asset classes. We believe that administrative effort is better spent analyzing optimal portfolio allocations using total return, standard deviation, and correlation assumptions available from professional investment advisors, and then constructing a portfolio with the lowest expected risk relative to the Account's return objectives.

This philosophy is now reflected in the Account through the use of low-fee, highly liquid indexing vehicles, such as mutual funds (and possibly in the future, exchange-traded funds). This will allow us the opportunity to diversify the Account by evaluating additional asset classes and to structure the portfolio in a manner best suited to meeting its risk and return objectives

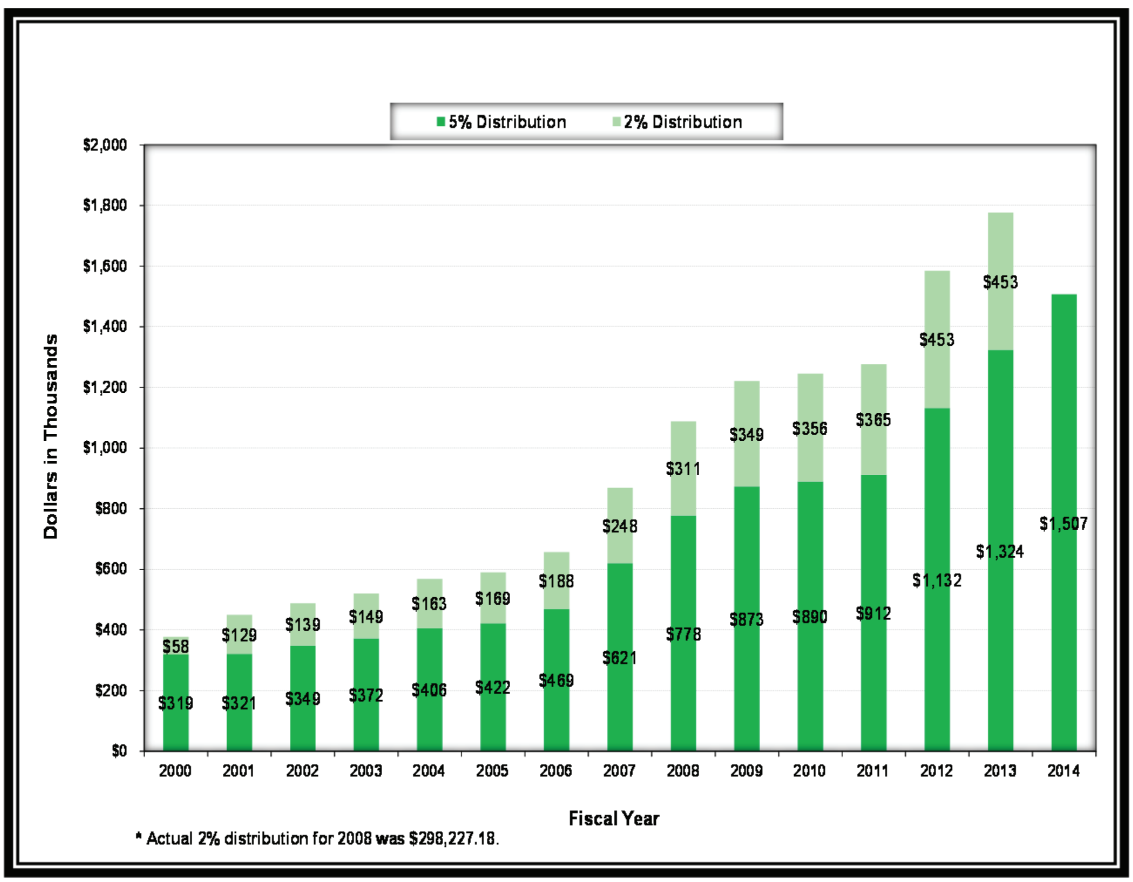
Please feel free to contact me if you have any questions or concerns regarding this report.

cc: James Reardon, Commissioner of Finance & Management
Donna Russo-Savage, Legislative Council

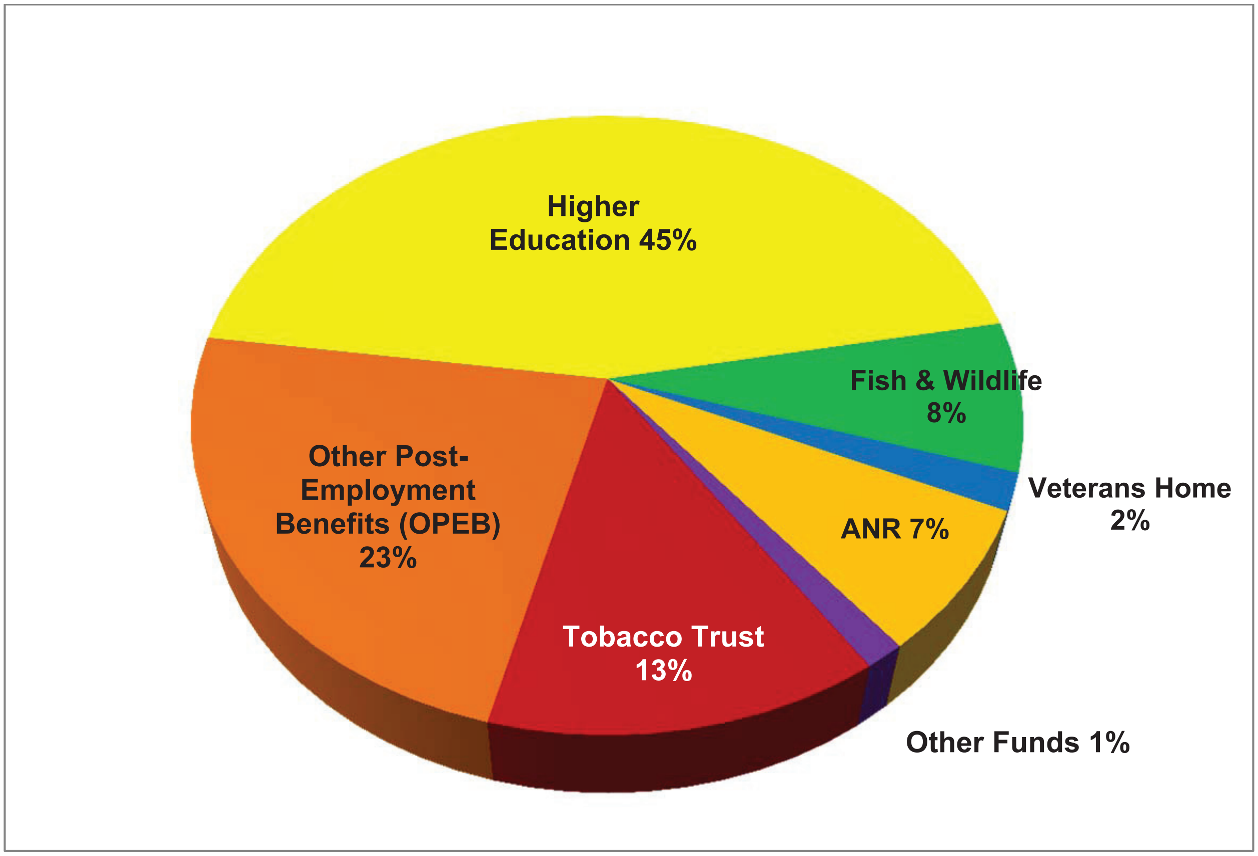
HIGHER EDUCATION ENDOWMENT TRUST FUND: *Fund Contributions—Fiscal Years*



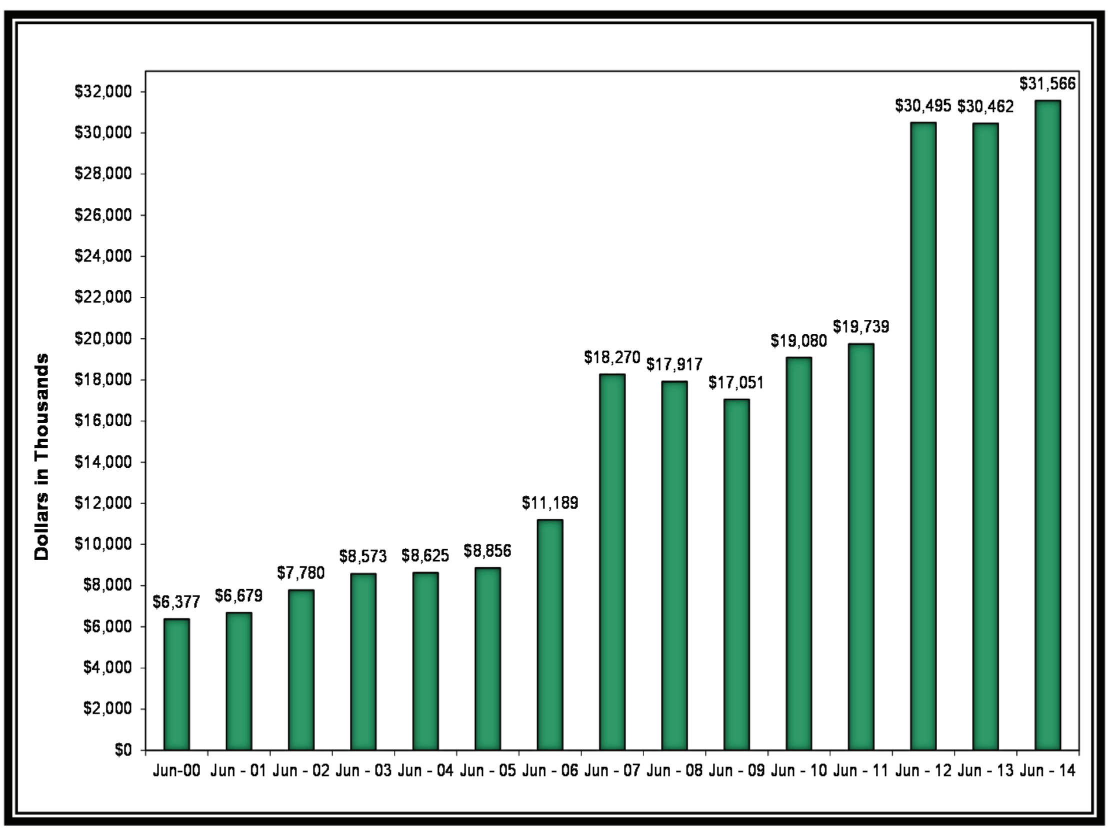
HIGHER EDUCATION ENDOWMENT TRUST FUND: *Authorized Distributions by Year and Type*



HIGHER EDUCATION ENDOWMENT TRUST FUND: *Trust Investment Account Fund Composition as of June 30, 2014*



HIGHER EDUCATION ENDOWMENT TRUST FUND: *Asset Growth—6/30/00 to 6/30/14, includes distributions*



APPENDIX A—HIGHER EDUCATION ENDOWMENT TRUST FUND: *Distributions—Year Ended June 30, 2014*

APPENDIX A
HIGHER EDUCATION ENDOWMENT TRUST FUND - DISTRIBUTIONS
For Period Ending June 30, 2014

Quarter-End Balances	September 30	December 31	March 31	June 30
Fiscal Year 2011	$28,788,444.91	$29,571,316.31	$30,642,367.21	$30,495,227.22
Fiscal Year 2012	$29,784,761.21	$29,937,373.43	$30,761,121.84	$30,462,454.46
Fiscal Year 2013	$29,129,710.40	$30,035,917.10	$30,577,101.94	$31,566,056.00
Twelve Quarter Average	**$30,145,987.67**			

			Total Contributions	
5% Distribution FY2011	**$1,507,299.38**			
VSAC		$502,433.13	2001	$6,000,000.00
UVM		$502,433.13	2002	$1,000,000.00
Vermont State Colleges		$502,433.13	2003	$635,881.49
			2004	$0.00
2% FY2011 (Projected)	**$529,585.97**		2005	$0.00
UVM		$264,792.99	2006	$2,363,355.61
Vermont State Colleges		$264,792.99	2007	$5,823,449.94
			2008	$57,208.95
2% FY2011 (Actual)	**$0.00**		2009	$0.00
UVM		$0.00	2010	$1,620,927.67
Vermont State Colleges		$0.00	2011	$30,026.35
			2012	$11,060,675.16
Balance after Distributions	**$30,058,756.62**		2013	$55,966.17
			2014	$35,480.29
2% FY2012 (Projected)	**$602,919.75**		Total:	**$28,682,971.63**
UVM		$301,459.88		
Vermont State Colleges		$301,459.88		

APPENDIX B—TRUST INVESTMENT ACCOUNT: *Total Return Analysis—Year Ended June 30, 2014*

APPENDIX B
TRUST INVESTMENT ACCOUNT - TOTAL RETURN ANALYSIS
Period Ending June 30, 2014
(In Thousands)

MANAGER	Quarter Ended 9/30/2013	Quarter Ended 12/31/2013	**Calendar Year 2013**	Quarter Ended 3/31/2014	Quarter Ended 6/30/2014	**Fiscal Year 2014**	Portfolio Value 6/30/2014	Portfolio Allocation 6/30/2014
DOMESTIC EQUITY								
Hanson & Doremus Investment Management	6.86%	4.66%		-	-		-	-
Prentiss Smith & Co.	4.62%	4.10%		-	-		-	-
INDEX FUNDS								
Vanguard Institutional Index Fund (VINIX)	-	10.50%		1.79%	5.22%		$14,406	20.43%
Vanguard Developed Markets Index Fund (VTMNX)	-	-		-	4.26%		$10,638	15.09%
Vanguard Emerging Markets Stock Index Fund (VEMAX)	-	-		-	7.43%		$3,571	5.06%
S&P 500	*5.24%*	*10.51%*	*32.39%*	*1.80%*	*5.24%*	*24.61%*	-	-
DOMESTIC FIXED INCOME								
Sentinel Asset Management, Inc.	-0.87%	-0.01%		-	-		-	-
RBC Global Asset Management (Access Capital)	0.72%	-0.03%		1.78%	-		-	-
INDEX FUNDS								
Vanguard Total Bond Market Index Fund (VBTIX)	-	-0.19%		1.91%	1.97%		$41,888	59.41%
Barclays US MBS Index [2]	*1.03%*	*-0.42%*	*-1.41%*	*1.58%*	*2.40%*	*4.65%*	-	-
Barclays Capital Aggregate Bond Index [2]	*0.57%*	*-0.14%*	*-2.02%*	*1.84%*	*2.04%*	*4.38%*	-	-
TOTAL FUND RETURN [1]	1.43%	3.03%	6.76%	1.85%	3.24%		-	-
Total Fund Policy Return	*2.31%*	*4.04%*	*9.18%*	*1.87%*	*3.29%*	*12.00%*	-	-
TOTAL FUND MARKET VALUE ($ million)	$62,601,701	$66,224,840	$66,224,840	$68,737,009	$70,503,215	$70,503,215	-	-

Notes:
1. Results reflect transition to new asset allocation as of December 31, 2013.
2. Fixed income benchmark changed on 12/31/2013 from the Barclays US MBS Index to the Barclays Capital Aggregate Bond Index.

APPENDIX C—TRUST INVESTMENT ACCOUNT: *Account Performance*

APPENDIX C
TRUST INVESTMENT ACCOUNT PERFORMANCE

MANAGER	Fiscal Year 2014	Calendar Year 2013	Last 3 Fiscal Years	Last 5 Fiscal Years	Last 7 Fiscal Years	Last 10 Fiscal Years
TOTAL FUND RETURN	9.88%	6.76%	6.2%	7.8%	6.2%	7.1%
Total Fund Policy Return	*12.00%*	*9.18%*	7.5%	8.7%	6.1%	6.2%
TOTAL FUND MARKET VALUE ($ millions)	$70,503,215	$66,224,840				

Notes:
1. Returns for periods longer than one year are annualized.
2. Total Fund Last 10 Fiscal Years Return uses quarterly reporting, as opposed to monthly, prior to June 2005.

VPIC Environmental, Social and Governance Initiatives: *May 28, 2013*

ELIZABETH A. PEARCE
STATE TREASURER

RETIREMENT DIVISION
TEL: (802) 828-2305
FAX: (802) 828-5182

UNCLAIMED PROPERTY DIVISION
TEL: (802) 828-2407

ACCOUNTING DIVISION
TEL: (802) 828-2301
FAX: (802) 828-2884

STATE OF VERMONT
OFFICE OF THE STATE TREASURER

VERMONT PENSION INVESTMENT COMMITTEE
ENVIRONMENTAL, SOCIAL AND GOVERNANCE INITIATIVES
MAY 28, 2013

The Vermont Pension Investment Committee ("Committee") Investment Policy sets forth the Committee's investment purposes and objectives. This document sets forth the Committee's policy ("ESG Policy") for evaluating opportunities to either make or divest from investments for the purpose of achieving certain environmental, social or governance ("ESG") goals that do not appear to be primarily investment-related ("ESG Initiatives").

The Committee is responsible for the investment of the assets of the three State pension systems and the assets of municipal systems with which the Committee has an agreement ("the Portfolio"). The Committee is required by law to strive to maximize total return on investment, within acceptable levels of risk for public retirement systems, in accordance with the standards of care established by the prudent investor rule under 14A V.S.A. § 902 (the "prudent investor rule"). Further, the three State pension plans are qualified plans in accordance with Section 401(a) of the Internal Revenue Code. Federal and State law prohibit the use or diversion of any part of the corpus or income of the plans at any time prior to the satisfaction of all liabilities with respect to members and their beneficiaries for purposes other than the exclusive benefit of members and their beneficiaries.

The Committee may choose to consider ESG Initiatives, provided they are consistent with the Committee's obligations to the members and beneficiaries of the participating retirement systems and with the standard of care established by the prudent investor rule. In cases where investment characteristics, including return, risk, liquidity, and compliance with the allocation policy are appropriate for the Portfolio, the Committee may consider ESG Initiatives that have a substantial, direct and measurable benefit to the economic interests of the Portfolio.

ESG Initiatives will be evaluated according to the following factors:

1.) Any ESG Initiative must add to or complement and not dilute or compromise the overall Portfolio strategy. ESG Initiatives will be evaluated within the context of the Portfolio as a whole and not in isolation. The Committee is a long-term investor that strives to maximize investment returns without undue risk of loss.

109 STATE STREET • MONTPELIER, VERMONT 05609-6200
TREASURER: (802) 828-1452 • TOLL-FREE (in VT only): 1-800-642-3191
www.vermonttreasurer.gov

2.) The ESG Initiative must target risk-adjusted, market-rate returns and provide net returns equivalent to or higher than other available investments at commensurate levels of risk. Social benefits of the ESG Initiative will not justify lower risk adjusted returns or higher investment risk for the Portfolio or any asset class within the Portfolio.

3.) ESG Initiatives must not exceed a reasonable weighting in the Portfolio, or skew a reasonable weighting in the Portfolio as a result of investment in or divestment from any one investment strategy, sector or geographic location. ESG Initiatives should maintain the overall Portfolio's compliance with its asset allocation strategy. Social benefits of an ESG Initiative will not justify deviation from the Asset Allocation Plan adopted by the Committee.

4.) ESG Initiatives requiring an investment should be managed by qualified discretionary investment managers. The Committee will not make any direct investments. Similarly, any divestment of Portfolio assets should be accomplished by a qualified discretionary investment manager in a manner designed to minimize transactional costs and minimize losses to the Portfolio.

5.) Any benefits of ESG Initiatives should be able to be quantified, reviewed and monitored by the Committee, State Treasurer's staff and third-party consultants without inappropriate expenditure of time and resources. A review of both the investment performance and the collateral benefits will be undertaken for the purpose of determining whether the Committee will maintain an ESG Initiative. The collateral benefits of an ESG Initiative shall be measured, in terms of foregone return, transaction costs and monitoring costs, alongside the estimated return of the ESG Initiative.

Evaluation of proposals for ESG Initiatives will be considered using the following criteria:

1.) Clarity of the proposed ESG Initiative and its parameters and goals.

2.) The extent to which the proposed ESG Initiative will produce the anticipated risk-adjusted return and collateral benefits.

3.) Ability to implement a proposed ESG Initiative without inappropriate expenditure of time and resources.

4.) Measurement of the opportunity cost created by the ESG Initiative, in the context of the overall Portfolio goals.

5.) The appropriateness of any terms and conditions which may be attached to the ESG Initiative.

The Committee supports and prefers the use of constructive engagement to further environmental, social and governance goals where possible and has adopted both Domestic and International Proxy Voting Policies for this purpose. As an institutional investor, we have standing and rights as a shareholder and have the ability as a shareowner to influence corporate and governmental entities to act responsibly through constructive engagement. This includes but is not limited to shareholder resolutions, shareholder sign-on letters, and supporting policy initiatives for transparency.

Summary of Interfund Loans, Credit Facilities & Local Investment: *Status as of November 15, 2014*

Vermont State Treasurer's Office
Summary of Interfund Loans, Credit Facilities and Local Investment Initiatives
Status as of November 15, 2014

Authorizing Legislation and Agency	Statutory Description	Amount Authorized	Remaining Capacity	Amount Utilized	Term	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	7/15/2014[1]	1.00%
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				$10,000,000	10/31/2014[2]	0.55%
Act No. 87 of 2013, Sec. 8a:	**Credit Facility**	**$6,500,000**	**$2,966,081**	**$3,533,919**		
3. NeighborWorks of Western Vermont				$233,919	10/15/2023	2.00%
4. NeighborWorks of Western Vermont				$250,000	4/15/2024	2.27%
5. NeighborWorks of Western Vermont				$250,000	10/15/2024	2.35%
6. Vermont Housing Finance Agency				$2,800,000	2/15/2024	2.76%
Act No. 178 of 2014, Sec. 41 (2014 Capital Bill Adjustment):	**Credit Facility**	**$8,000,000**	**$8,000,000**	**$0**		
7. Buildings and General Services, Other State Agencies				$0	TBD	TBD
Act No. 199 of 2014, Sec. 23:	**Credit Facility**	**Up to 10% of State's average cash balance (approx. $35mm), including all other credit facilities[3]**		**$0**		
8. Credit Facility for Local Investments				$0	TBD	TBD
Act No. 179 of 2014, Sec. E.514.1 (2014 Appropriations Bill):	**Interfund Loan**	**$30,000,000**	**$30,000,000**	**$0**		
9. Retired Teachers Health and Medical Benefits Fund				$0	TBD	TBD
	TOTALS:	**$55,000,000**	**$40,966,081**	**$14,033,919**		

Notes:
1. Subject to annual review and renewal.
2. Subject renewal for longer term (e.g., 7 to 10 years).
3. Credit facilities authorized by Acts 87 and 178 total $24.5 million; these amounts are included in, and not in addition to, the amount up to 10% of the State's average cash balance.

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.

Published by the Office of the State Treasurer
Phone: (802) 828-1452
Fax: (802) 828-2772