2011 Annual Report

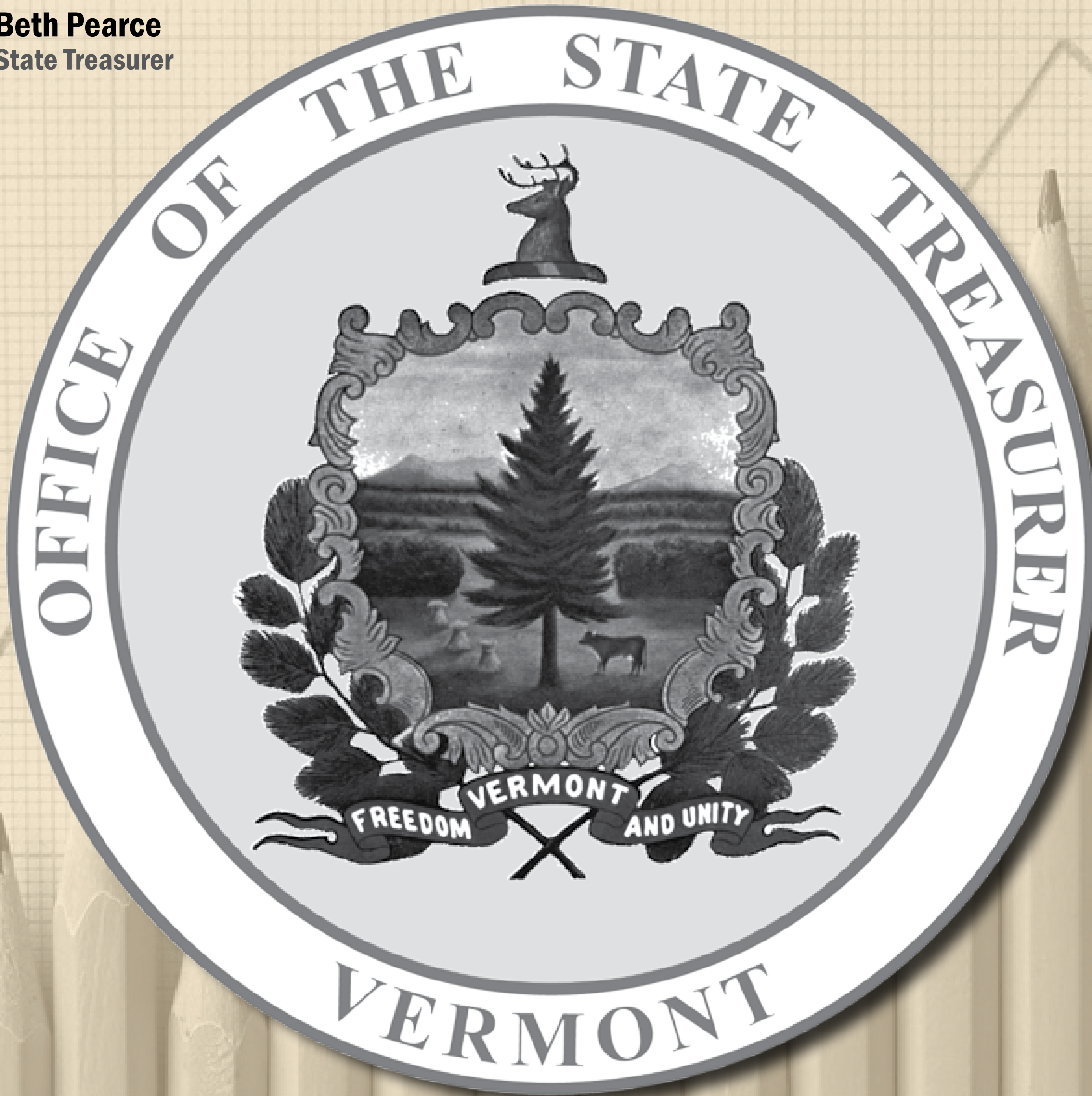
Office of the State Treasurer

State of Vermont

Issued January 2012

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 the highest quality operational services.
- Create a productive employee 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.

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.

Beth Pearce
State Treasurer

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

I am pleased to submit my first annual report as your State Treasurer. The State Treasurer's Office serves the citizens of Vermont. We do this in a number of ways. We serve as the State's banker and invest State funds in a prudent manner, protecting taxpayer assets. We manage the State's debt, finding the most cost effective way to borrow funds that provide needed infrastructure and jobs. We disburse more than $4.9 billion each year to vendors, State employees, retirees and other Vermonters. We promote economic well-being through our financial literacy programs and administer retirement programs for more than 45,900 active, vested and retired members of our public pension systems. As you read this report, you will find useful information on these and many other Treasury-related activities and initiatives.

Vermont has faced many economic and fiscal challenges over the past few years and, more recently, the devastating impacts of Tropical Storm Irene. The economic and credit crisis of the Great Recession impacted Vermonters in all walks of life and placed significant strain on the State budget. More recently, financial markets have been impacted by the impasse in Washington, the lack of a decisive strategy to deal with the nation's debt, and debt worries in Europe. This has required the State to make adjustments to its short-term and long-term cash management and investment strategies. Irene resulted in significant loss for Vermont citizens, damaged infrastructure, and created financial stresses in our communities. While more work is required, Vermont has emerged from these challenges stronger because of our resiliency, fiscal discipline and collaborative spirit. The initiatives cited in this report are just a small part of the Vermont success story. We also recognize that these steps would not have happened without the hard work of all of the Treasury staff and our partners, in government and business, and our citizens.

Vermont has emerged from these challenges stronger because of our resiliency, fiscal discipline and collaborative spirit.

Key Accomplishments

- The Treasurer's office worked with State employees, the Vermont State Employees' Association, the Vermont Troopers' Association and the General Assembly to address pension funding changes that resulted in an increase in employee contributions totaling $5.3 million—making the pension system more secure. This is in addition to more than $15 million in teacher pension benefit changes enacted in the prior year which became effective in fiscal year 2011.

SERVE VERMONTERS
PROTECT TAXPAYER ASSETS
MANAGE STATE DEBT
ADMINISTER RETIREMENT PROGRAMS
PROMOTE FINANCIAL LITERACY

- Working with the State Employees' Retirement Board trustees, a number of key changes were made to the State's deferred compensation program. These changes included the addition of a socially responsible investing (SRI) bond fund alternative and a self-directed brokerage option. At the same time, the administrative fees paid by participants were reduced.

- The Treasurer's office, working with the State and Teachers' retirement boards, designed and implemented an overhaul of the investment portfolio for the Single Deposit Investment Account, which provides retirement benefits for more than 1,900 State employees and teachers. The changes resulted in increased fund performance and provided a more stable investment product.

- The State successfully negotiated cost reductions for banking services that resulted in reducing fees to levels lower than those authorized in 2001 and also incorporated a depository agreement that increases the potential investment return by more than $400,000.

- Under the federal Early Retirement Reinsurance Program, the Treasurer's office prepared an application on behalf of the Teachers' Retirement System and received approximately $4.5 million in one-time federal funds to reimburse retiree health care expenditures.

- Responding to Tropical Storm Irene, the Treasurer's office advanced payments to municipalities and schools totaling more than $155 million to assist cash-strapped communities. The Treasurer's office also worked with the Vermont Bankers Association, local banks, the Municipal Bond Bank, and FEMA to assist in short-term financing and develop intermediate and long-term borrowing options.

- The first year of the State's "Reading is an Investment Program" concluded in April 2011 and was a success with 109 schools and more than 7,600 students actively participating in the program. Continuing our financial literacy activities, the Money Smart Child Initiative was introduced, providing guidance to parents on how to teach children about money.

- Vermont was a leader in a nation-wide unclaimed property project to initiate an audit of insurance companies to determine whether money was due to Vermonters from previously unreported life insurance accounts. To date, more than $700,000 has been remitted to the State and efforts are underway to re-unite these funds with their rightful owners. More proceeds are expected as the audits continue.

- Working with the Professional Fire Fighters of Vermont, the IRS, and the General Assembly, changes were made to the Survivors of Emergency Personnel Fund to make these payments tax-exempt for federal and State tax purposes. I join all Vermonters in thanking both the emergency personnel and their families for their service.

- The State pension funds, under the authority of the Vermont Pension Investment Committee, continued a portfolio restructuring effort that resulted in reduced portfolio risk and improved performance within challenging markets.

Vermont was a leader in a nation-wide unclaimed property project to initiate an audit of insurance companies for previously unreported life insurance accounts.

SERVE VERMONTERS
PROTECT TAXPAYER ASSETS
MANAGE STATE DEBT
ADMINISTER RETIREMENT PROGRAMS
PROMOTE FINANCIAL LITERACY

- The Treasurer's office is committed to financing renewable energy and energy efficiency. We continue to advocate for the Property Assessed Clean Energy (PACE) program and assisted Efficiency Vermont, the General Assembly and various statewide organizations in drafting legislation that was enacted in 2011. The Treasurer's office has participated in informational sessions for local officials to encourage participation in the program.

- The Treasurer's office assisted the Secretary of Administration in completing a report to the Governor and General Assembly regarding the State's utilization of its private activity bond volume cap. As a result, a Private Activity Bond Advisory Committee was created with the objective of increasing the use of this allocation to spur economic development and job creation.

Working with our partners, the Treasurer's office advanced payments of more than $155 million to municipalities and schools that were temporarily cash-strapped from Irene recovery efforts.

Going forward, the State is planning a bond offering in March 2012 and has worked to increase its "Citizen Bond" retail opportunity for Vermont investors. The State's debt management program also will take advantage of refunding opportunities to lower debt service costs. Using a conservative debt management policy has helped the State maintain its AAA bond rating by Moody's and Fitch. We remain vigilant to respond to ongoing external stresses resulting from the historical first downgrade of U.S. debt from AAA to AA+ by S&P and the continued impasse in Washington D.C. related to resolving our national debt. It is incumbent on the Administration, Treasurer's office, and the General Assembly to maintain a disciplined approach to debt issuance during these challenging times.

On the pension front, we remain committed to policies that support full actuarial funding and that utilize periodic valuations with reasonable assumptions to assure that the pension systems are achieving the dual goals of benefit security and fiscal responsibility to both members and taxpayers. Our office will continue to review the changes to the benefit system to assess their impact. We will remain disciplined investors, in partnership with VPIC, and will continue to develop proactive strategies.

We will continue to advocate for policies supporting full actuarial funding of the pension system.

I am privileged to serve as Vermont's State Treasurer and am proud of the contribution my office makes to the financial health and well-being of the state. We will continue our work to provide Vermont taxpayers an excellent value, offer the best customer service possible, and meet the fiscal challenges that lie ahead.

Sincerely,

Beth Pearce
State Treasurer

SERVE VERMONTERS
PROTECT TAXPAYER ASSETS
MANAGE STATE DEBT
ADMINISTER RETIREMENT PROGRAMS
PROMOTE FINANCIAL LITERACY

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 honestly, efficiently, responsibly, and professionally. The Treasurer's office operates as a business, serving the needs of Vermonters while working to save the taxpayers money and earn the highest possible investment returns in its funds within acceptable risk parameters.

About the Treasurer's Office

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

Executive Office
(802) 828-1452

Beth Pearce
State Treasurer

Stephen Wisloski
Deputy Treasurer

J.P. Isabelle
Executive Staff Assistant

Office Organization

The State Treasurer's 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.

The Treasury Operations Division is responsible for the State's banking, cash management, and financial transaction services. The Retirement Division administers three public retirement systems authorized by the legislature (see report section on Vermont Retirement Systems). Investment Services provides cash and investment management for the State of Vermont and the three pension systems administered by the office. The Unclaimed Property Division serves as the caretaker of abandoned or unclaimed financial property, while seeking to return it to its proper owner. Technology Services is 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 2011 was Lane Safford, a technology services network administrator. He has worked for the Treasurer's Office for 14 of his 23 years of employment with the State. Lane was honored for his exemplary work in moving the Treasurer's Office data center from 133 State Street to the data center based at National Life. He managed the details of a complex and challenging project that required partnerships with an outside vendor and coordination with DII. The scope included the setup of a High

Availability server environment utilizing a SAN and upgrading the office's virtual server environment to the latest version of VMWare. This project was successfully completed on time without negatively impacting users. The results were a much improved Continuity of Operations (COOP) environment for the Treasurer's Office.

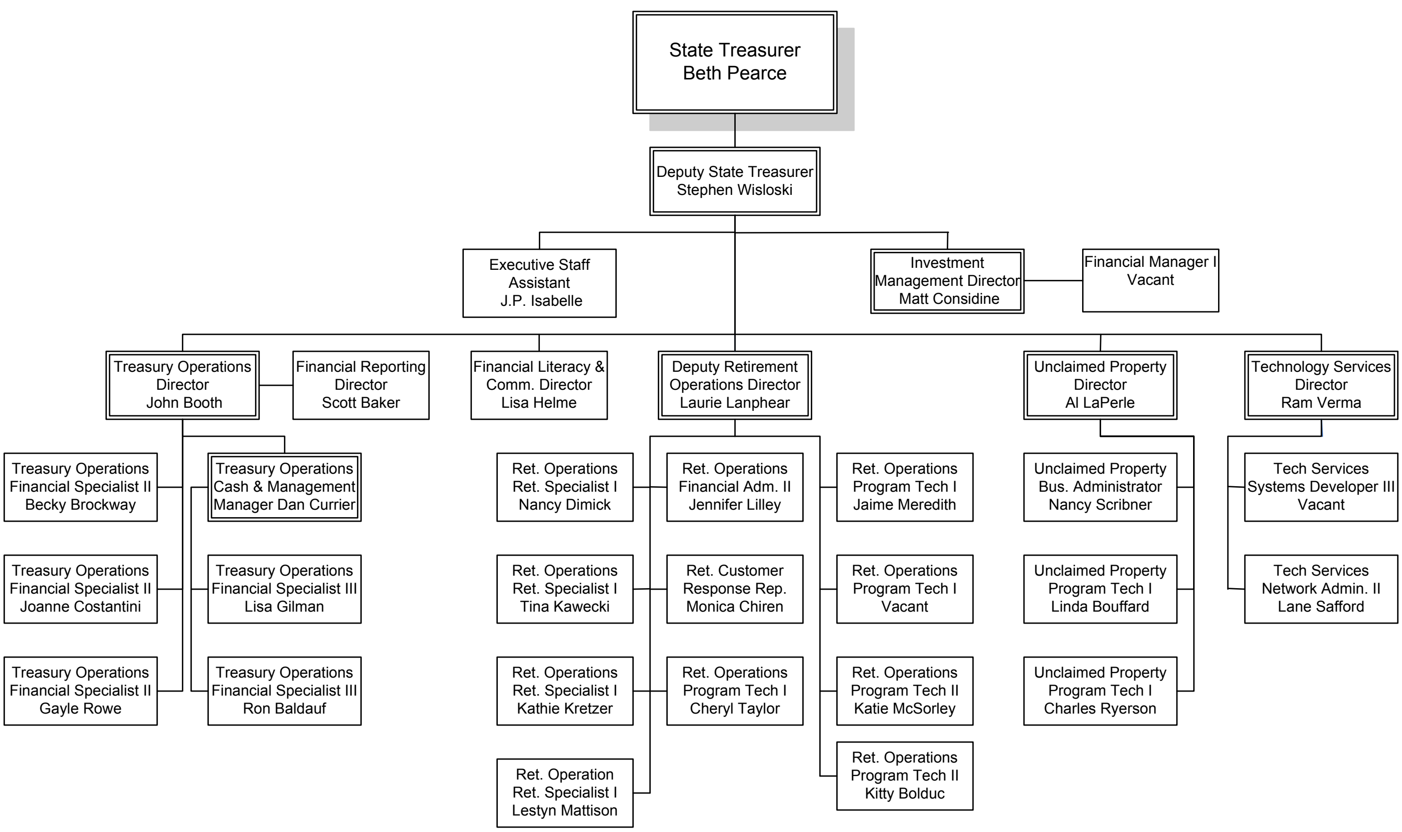
"Lane is both very knowledgeable and extremely helpful in fixing every ailment that our hardware and software throws at us. His attitude is consistently `can do.' He is a tremendous asset to the Treasurer's Office," said State Treasurer Beth Pearce.

Lane Safford
Technology Services Network Administrator

Organizational Chart

There are 33 staff positions within the State Treasurer's Office. The following organizational chart and staff listing are effective as of December 20, 2011.

Vermont State Treasurer's Office



Vermont Retirement Systems

Retirement plans administered by the State Treasurer's Office serve approximately 45,900 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 statutorily overseen by a board of trustees.

Boards' Accomplishments & Updates

The boards have a great responsibility that entails balancing the needs of their members with the escalating cost of addressing those needs, while providing secure and adequate benefits after retirement. It is a challenging task. As of June 30, 2011 there were 14,159 retirees receiving pensions totaling more than $216 million annually.

The Boards of Trustees

The boards of trustees are statutorily charged with establishing rules and regulations for the administration of their systems and for the transaction of their business. The 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

Boards Administration
(802) 828-2305

Monica Chiren
Assistant to the Boards

ACCOMPLISHMENTS IN 2011

- The teachers' board (VSTRS) continued to expand the 403(b) Investment Program implemented in 2009 for school employees across the state. The initial enrollment endeavor resulted in 25 supervisory unions adopting the VSTRS 403(b) program, which grew to 30 by the end of 2011. At the end of September, 2011, the participant count had grown to 1,626, up from 1,398 at the end of September, 2010 and assets had grown to $23.31 million, as compared to $15.24 million as of September 30, 2010.

- With the assistance of the Vermont Education Health Initiative, through which the teachers' board obtains the medical insurance that is offered to retired teachers, premiums for the medical plans available to retirees increased by just 3 percent for both Medicare eligible and non-Medicare eligible retirees. For the past three years, the rate of increase for VSTRS has been zero to 3 percent, well below the national healthcare inflation rate. U.S. Bureau of Labor Statistics show from August 2000 to August 2010, health care inflation rose 48 percent, while the overall Consumer Price Index rose 26 percent for the same period.

- The State and teachers' boards successfully combined efforts to negotiate an attractive contract with a new investment manager for the Single Deposit Investment Accounts.

- The State board (VSERS) voted to implement a Self-Directed Brokerage Account for the 457 Deferred Compensation Plan.

- The municipal board (VMERS) approved requests to join the system from the governing bodies of four municipal entities. The municipal board also voted to continue the $25 retiree health stipend for another year.

not agree with a decision made by staff, they may appeal to their board for reconsideration.

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. The boards are required to keep a record of their proceedings, which are open to the public. 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.

Retirement plans administered by the State Treasurer's Office serve approximately 45,900 active and retired members. There are currently 14,159 retirees receiving pensions totaling more than $216 million annually.

Board Changes in 2011

Cynthia Webster, who served as the Secretary to all three boards, retired December 1, 2011 after more than 31 years as a State employee. Elizabeth Pearce was appointed as State Treasurer in January 2011 after the resignation of Jeb Spaulding. Treasurer Pearce then became an ex officio member of all three boards.

The Vermont State Employees' Retirement Board voted to appoint Nancy Dimick, Retirement Specialist from the Retirement Division, as the Secretary to the Board effective December 1, 2011. In January 2011 Kate Duffy joined the board as the new Commissioner of the Department of Human Resources.

The Vermont State Teachers' Board voted to appoint Kathie Kretzer, Retirement Specialist from the Retirement Division, as the Executive Secretary to the Board effective December 1, 2011. In June 2011, Justin Norris was appointed as Alternate Trustee to the board.

The Vermont Municipal Employees' Retirement board voted to appoint Tina Kawecki, Retirement Specialist from the Retirement Division, as the Secretary to the Board effective December 1, 2011. In November 2011, David Rowlee was appointed as the Employee Representative.

*Membership of the Three Boards of Trustees

(As of Dec. 20, 2011)

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
Kate Duffy, Commissioner Dept. of Human Resources
Richard Johannesen, Governor's Appointee
Jeff Briggs,VSEA
Paul White, VSEA
Tom Hango, Alternate-VSEA
Al Blake, Alternate-VRSEA

Vermont State Teachers' Retirement System

Executive Secretary Kathie Kretzer

Jon Harris, Chair, Active Teachers
Joe Mackey, Vice Chair, Retired Teachers' Association
Tom McConnell, Active Teachers
Justin Norris, Active Teachers Alternate
Linda Deliduka, Alternate, VRTA
Beth Pearce, State Treasurer
Thomas Candon, Banking, Insurance, Securities & Health Care Administration
Vaughn Altemus, Department of Education

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

** The State Treasurer is an ex officio member of all three boards.*

Retirement Division Operations

Overview

The vast majority of State employees, teachers, and municipal employees participate in a defined benefit pension plan. Under such a plan, upon retirement the employee receives a monthly benefit, based on years of employment and salary history. The largest expenditure for all three defined benefit plans is the retirement benefit. During fiscal year 2011, the three retirement systems paid out more than $203 million in monthly benefit payments. As noted in the appendices, pages 60-61, the benefit payout number continues to rise as more employees retire and as retirees live longer. This will put a continued burden on the systems and increases the need to meet annual funding requirements. In addition, both the Vermont State Employees' Retirement System (VSERS) and the Vermont State Teachers' Retirement System (VSTRS) have traditionally offered health insurance to their

Retirement Operations

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

Laurie Lanphear
Deputy Retirement Operations Director
Kitty Bolduc
Program Technician II
Monica Chiren
Retirement Customer Service
Nancy Dimick
Retirement Specialist I
Tina Kawecki
Retirement Specialist I
Kathleen Kretzer
Retirement Specialist I
Jennifer Lilley
Financial Administrator II
Lestyn Mattison
Retirement Specialist I
Katherine McSorley
Program Technician II
Jaime Meredith
Program Technician I
Cheryl Taylor
Program Technician I

ACCOMPLISHMENTS IN 2011

- The Retirement Division staff met with 1,054 individual members to provide retirement counseling during fiscal year 2011. It is noteworthy to point out that the staff conducted these counseling appointments while at the same time devoting significant time to testing the new VPAS pension administration system.

- The staff calculated more than 7,019 retirement estimates for prospective retirees and conducted 45 member informational sessions across the state with 1,000 individuals in attendance.

- The months of June, July and August are typically the busiest months of the year for the staff in the Retirement Division. This year was exceptionally busy as the office retired 515 individuals effective July 1. Of this number, teachers made up the greatest share of new retirees at 408, followed by 63 municipal employees and 44 State employees. The office currently averages approximately 900 new retirees in total each year across all three systems. The 515 retirees for July 1 accounted for more than half of all new retirees in one year.

- The 457 Deferred Compensation Plan administrative fees were reduced from 15 basis points to 12 basis points.

- The legislature approved changes to the index used to determine the annual cost of living adjustment from the US CPI-U to the Northeast Region CPI-U effective July 1, 2011. The new index will be used to determine the COLAs made on January 1, 2012.

- The legislature approved changes to the Vermont State Employees' Retirement System through passage of Act 22 .The Act became effective on the first full pay period after July 1, 2011. Changes included the increase in the employee contribution rates for all group plans by 1.3 percent. The new rates are due to sunset on July 1, 2016. The rates are as follows: 6.4 percent for Group F, 8.28 percent for Group C, and 6.4 percent for Group D. This increase not only will result in a $5 million savings for the administration, but also will pay for the cost of H.139. The legislature passed H.139 last year which stipulated that for purposes of calculating final compensation, Group F members retiring on or after July 1, 2011 will have their fiscal year 2011 and fiscal year 2012 salaries be no less than that paid in 2010.

Retirement Division Performance Indicators

Activity	2011	2010	2009	2008	2007	2006
Estimates	7,019	7,231	7,999	6,377	8,213	8,672
Individual Counseling	1,054	1,077	1,196	1,136	1,173	1,050
Retirements	1,008	1,023	907	867	788	785
Withdrawals	1,312	1,386	937	945	1,507	1,485
Deaths	376	291	316	368	333	278
Seminars	45	64	90	61	88	51
Seminar Attendance	1,000	1,496	1,623	1,285	1,881	1,381

members by picking up a large portion of the premium – 80 percent for retired teachers and 80 percent for retired State employees and their dependents. (See changes to benefits discussion on pages 21-22.) In fiscal year 2011, these health care expenses for the two retirement systems totaled more than $43.6 million. The Vermont Municipal Employees' Retirement System (VMERS) does not offer a health insurance plan, but instead instituted a health retirement savings plan in fiscal year 2008.

UPDATES

Retirement Re-engineering Project

The Retirement Division has been engaged in a multi-year reengineering project to address its business organization and processes and to develop a state-of-the-art retirement software product to support retirement operations for more than 45,900 active, vested and retired members in three systems (State, teachers and municipal employees). The project began with a business reorganization phase, followed by a document imaging project design, and implementation of new retirement payment and benefit system modules in a phased implementation.

The project was developed in response to an anticipated increase in retirement population. With the "baby boomers" reaching retirement age the staff has begun to experience an increased workload putting undue stress on the system. Of further challenge was the use of old technology, including a 30-year-old mainframe system with shadow systems running on the Treasurer's network. It is estimated that workloads will increase at a rate of 12 to 15 percent per year over the next several years. The key to meeting this demand is through the development of increasingly more efficient operations and supporting IT systems. Subsequent to restructuring the division to streamline processes and improve customer service, we have completed several components of the technology phase and are working to implement the remaining phases.

The first technology phase, a back file and imaging system, was completed in October 2005 and has been in use since that time. Approximately 2 million documents in a paper-based system were imaged, increasing operational efficiency and improved safeguards for records retention. Benefit payments were converted to the new system in November 2009 and all payments to retirees, IRS reporting and year end statements to retirees have been completed on the new system since that date. The database for all members was converted in November 2010 and the new VPAS (Vermont Pension Administration System) became the system of record, including member data collection and balancing for the retirement system on July 1, 2011. This past year, a new system was put into place to administer retirement data received from more than 600 municipal and school entities participating in the teacher and municipal retirement systems. Further enhancements to systems

Serving Members' Needs

The primary function of the Retirement Division staff is to serve the needs of the active contributing members and retired members receiving benefit payments. On the active member side, the Retirement Division oversees enrollments, transfers, refunds, processing of employee and employer contributions, and adjustments to members' accounts. On the retiree side, the division oversees the issuance of payroll, changes to dependents, adjustments to payments, and replacement checks. Other responsibilities include employee re-instatements, calculation of buy-backs and refunds, disability retirements, and determination of survivor benefits. The division manages an extremely high volume of inquiries by phone, e-mail, and face-to-face appointments. The division's accountant maintains all retiree data and ensures the timely processing of approximately 14,500 pension payments each month. The division staff continues to respond to member inquiries regarding the security of their retirement benefits, as the performance of the national and state economies remain a concern. The table above provides an update of division activities. With 45,900 active, vested and retired members, our staff-to-member ratio is one staff person for every 3,800 members.

Vermont Recognized in National Case Study Review

Vermont's reform efforts were recognized by the Center for State and Local Government Excellence. In a recent case study, they cite Vermont's reforms and note that success was based on several factors including:

- **Fiscal prudence & collaborative problem solving**
- **Well-versed and supportive Administration & Legislature**
- **Strong research & analysis**
- **Well-organized employee & retiree representatives**
- **Transparency**

for participating entities are now taking place. We are currently working on the next phase, benefit calculation, to automate the calculation of benefit estimates for active employees in all systems and groups. This will improve timeliness of data to active employees contemplating retirement. Once this is completed, additional phases will include a workflow system tied to the imaging system and a web based self-service system for members of the system to provide our customers greater access to services.

We believe this long-term effort will assist us in continuing to deliver pensions, related benefits and services that promote financial security for our customers. At the same time, we believe we can meet the growing demand and provide our customers with easy access to information. Much of this work has been completed by our current staff, who also continues their daily work of serving our customers. Their efforts are greatly appreciated.

Pension Overview

The Treasurer's office has taken several steps over the past several years to reduce the cost of benefits by reviewing both the actuarial funding process and recommending benefit changes, subsequently adopted by the General Assembly. In doing so, the attempt is to provide a meaningful retirement to employees and at the same time make the system more affordable to taxpayers and employees. We recognize that the investment losses of the Great Recession have put additional stress on the systems. In approaching reforms to our retirement system, we have utilized the following guiding principles:

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

The Treasurer's office, the Administration, General Assembly and the employee union groups have worked collaboratively on these changes. The result has been a "win-win" for the taxpayer and employees, resulting in significant reductions of more than $20 million in costs to the employer.

Funding Overview

Pension benefits accumulate for an employee while they are working and are cashed in at the time of retirement. These benefits represent a partnership, since

Comparaship Information--Vermont Retirement System

Vermont State Employees' Retirement System (VSERS)

Active Members	June 30, 2011	June 30, 2010	% Change
Vested	5,693	5,628	1.15%
Not Vested	2,075	2,154	-3.67%
Total Active members	7,768	7,782	-0.18%
Average Age	47.02	47.01	0.02%
Average Service	12.57	12.57	0.00%
Average Compensation	$ 51,270	$ 50,608	1.31%
Retired Members and Beneficiaries			
Number	5,375	5,201	3.35%
Annual Retirement Allowances	$ 86,681,452	$ 80,723,060	7.38%
Inactive Members	849	857	-0.93%
Terminated Vested Members	774	765	1.18%

State Teachers' Retirement System of Vermont (VSTRS)

Active Members	June 30, 2011	June 30, 2010	% Change
Vested	7,780	7,994	-2.68%
Not Vested	2,343	2,515	-6.84%
Total Active members	10,123	10,509	-3.67%
Average Age	46.94	47.10	-0.34%
Average Service	13.75	13.80	-0.36%
Average Compensation	$ 54,109	$ 53,492	1.15%
Retired Members and Beneficiaries			
Number	7,005	6,146	13.98%
Annual Retirement Allowances	$ 117,019,135	$ 95,664,775	22.32%
Inactive Members	2,675	2,853	-6.24%
Terminated Vested Members	647	718	-9.89%

Vermont Municipal Employees' Retirement System (VMERS)

Active Members	June 30, 2011	June 30, 2010	% Change
Vested	3,838	3,777	1.62%
Not Vested	2,637	2,828	-6.75%
Total Active members	6,475	6,605	-1.97%
Average Age	48.47	48.05	0.87%
Average Service	8.13	7.77	4.63%
Average Compensation	$ 31,751	$ 30,644	3.61%
Retired Members and Beneficiaries			
Number	1,779	1,644	8.21%
Annual Retirement Allowances	$ 12,395,422	$ 10,609,198	16.84%
Inactive Members	1,821	1,842	-1.14%
Terminated Vested Members	645	585	10.26%

employees make ongoing contributions to the plan with the expectation that the employer will meet its obligations. The VSERS, VSTRS and VMERS plans are defined benefit systems. As a defined benefit plan, there is a promise to provide its members with a monthly benefit beginning at 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 employees' life spans lengthen and health care expenses rise. Each system must accumulate funds now to meet future funding needs. This is an ongoing challenge for the systems.

As more members approach retirement, it's anticipated that significant increases in benefit payouts will occur as employees' life spans lengthen and health care expenses rise. Each system must accumulate funds now to meet future funding needs.

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.

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

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. 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 method effectively reset the starting

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	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%
	1996	560,659	664,173	103,514	84.4%	226,792	45.6%
VSTRS	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%
	1996	570,776	700,377	129,601	81.5%	355,895	36.4%
VMERS	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%
	1996	81,396	73,401	(7,995)	110.9%	68,700	-11.6%

A Few Terms Defined

Actuarial Report:
A document prepared as a formal means of conveying an actuary's professional conclusions and recommendations; recording and communicating the methods, procedures, and assumptions; and ensuring that the parties addressed are aware of the significance of the actuary's opinion or findings.

Amortization:
The gradual elimination of a liability in regular payments over a specified period of time.

Average Final Compensation:
AFC is the average of an employee's three highest consecutive years of earnings and is used in calculating an individual's pension benefit.

Funded Ratio:
The ratio of the value of benefits members have earned to the value of the retirement systems' assets. There are several acceptable methods of measuring assets and liabilities. Using the Government Accounting Standards Board (GASB) definition, the funded ratio of a system is the actuarial value of assets over its actuarial accrued liability.

Normal Retirement Eligibility:
Normal cost represents the present value of benefits attributed by the funding method to service rendered during the valuation year. Under the Entry Age Normal method, the attribution is made by taking the cost of the full projected benefit for each participant and spreading it as a level percentage of payroll from year of hire to the assumed retirement date.

balance. Under the previous method, set by State 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.

Actuarial Accrued Liability Determinations

In the case of VSERS, the actuarial accrued liability for current retired members, terminated vested members, and beneficiaries is $953,911,779. The actuarial accrued liability for current active and inactive members is $741,388,749. Together, the total actuarial accrued liability comes to $1,695,300,528. The actuarial value of assets is $1,348,762,790, resulting in an unfunded accrued liability of $346,537,738.

The actuarial accrued liability for current retired members, terminated vested members and beneficiaries of VSTRS is $1,307,685,859 and the actuarial accrued liability for current active and inactive members is $1,024,120,469. The total actuarial accrued liability is $2,331,806,328. The actuarial value of assets is $1,486,698,448, resulting in an unfunded accrued liability of $845,107,880.

Benefit Changes

In 2010, significant changes were made to the benefit structure of the VSTRS system. These changes resulted in a decrease in the **actuarial required contribution** (ARC) of more than $15 million per year, with savings expected to grow annually. These changes included the lengthening of service requirements and/or age for retirement. For employees more than five years from normal retirement eligibility (less than 25 years of service or less than 57 years old), normal retirement will be 65 or rule of 90 (combination of years of service and age). This replaced the previous service requirement of 62 years old or with 30 years of service at any age. Early retirement was kept at 55, but the reduction became an actuarial calculation. Employees more than five years from normal retirement eligibility (see sidebar definition) will be eligible for a maximum benefit of 60 percent of the **average final compensation** (AFC), instead of the current 50 percent AFC. Upon completion of 20 years of service, a higher multiplier (2 percent instead of 1.67 percent) is applied. Multipliers are legislatively set through State statute and are applied in calculating an individual pension benefit. Employees within five years of normal retirement eligibility will be eligible for a maximum benefit up to 53.34 percent of AFC instead of the current 50 percent maximum, using the 1.67 percent multiplier, in recognition of years earned after July 1, 2010. The benefit changes accounted for $6.7 million in savings, growing annually. An increase in employee contributions from 3.54 percent to 5 percent also was enacted. This accounted for $8.6 million in savings, also expected to grow each year. In addition, significant changes, creating a tiered health care benefit were enacted.

For the VSERS system, there have been two major changes to the benefits for members enacted since 2008. Under legislation enacted in fiscal year 2008, VSERS benefits were modified in three respects for members hired on or after July 1, 2008. First, the maximum benefit payable was increased from 50 percent to 60 percent of the average final compensation (AFC). Second, the eligibility condition for an unreduced benefit changed from the attainment of age 62 or 30 years of service to a "rule of 87." Third, for members not eligible for an unreduced benefit, the reduction for early retirement changed from a uniform 6 percent per year to one determined on a service-based schedule. The remaining significant provision of the same legislation made changes to retiree cost of living (COLA) adjustments. The annual COLA applicable to the benefits of Group F members retiring after July 1, 2008, rose from 50 percent of the annual increase of the Consumer Price Index (CPI) to 100 percent of the annual increase in the CPI index, up to a ceiling of 5 percent effective January 1, 2014. Only current Group F members who were actively contributing into the system on June 30, 2008 and retire on or after July 1, 2008, are eligible for the enhanced COLA in 2014. Group F members who terminated service or transferred to another group plan prior to June 30, 2008 are not eligible for the new COLA, unless they return to active Group F service after July 1, 2008, and prior to retirement. The package also included a tiered health care benefit structure, reducing those costs. At the time of enactment, it was estimated that saving for the entire package, including health care, would approximate $265 million over thirty years. The Treasurer's office is currently requesting updated data.

In addition, another major change was enacted by the General Assembly, based on negotiations conducted by the Treasurer's office in 2010. A rate increase, adding 1.30 percent to the existing employee contribution, for all participating groups in the VSERS system, was enacted, effective July 1, 2011. This had resulted in an increase in over $5.3 million in employee contributions and a corresponding reduction in employer (state contributions) on an annual basis.

Annual Actuarial Required Contributions (ARC)

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 ARC for the current fiscal year and the next two fiscal years. Budgeted appropriations to fund the ARC 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 ARC calculation for the current fiscal year may increase or decrease relative to the ARC used for appropriation in that fiscal year. Appropriations, however, are not adjusted to reflect the true-up ARC calculation, but rather remain based on the projected ARC calculated in the prior fiscal year's October report. Using this framework, the fiscal year 2010 actuarial report is used to set the ARC for fiscal year 2012, the fiscal year 2011 for fiscal year 2013 and so on.

An actuarial valuation is the deterimination, as of a valuation date, of the normal cost, actuarial accrued liability, actuarial value of assets, and related actuarial present values for a pension system.

The VSTRS appropriation is made from general fund appropriations to the pension fund. In the case of VSERS, the various State cost centers/funds are assessed and employer contribution based on the payroll associated with the cost center/fund. VSERS funding requirements are then calculated as a percentage of the State payroll and are remitted to the pension fund as an employer contribution with each bi-weekly payroll. As actual payroll for the year may vary from estimated totals and from pay period to pay period, reconciliation is completed by Finance & Management each year, and an adjustment to the subsequent appropriation calculation is made to assure that all funds required to meet the projected ARC are remitted to the pension fund.

Single Deposit Investment Account Update

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. 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. As of June 30, 2011, there were 1,098 SDIA members, with net assets of $78,627,851. 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. This past year, the investment structure of the SDIA plan was changed and two fixed income managers were replaced with a comingled investment pool. Further information is provided in the investment section of this report. The changes will provide greater liquidity for disbursements as more members reach retirement age and is also expected to enhance investment performance.

In the case of VSERS, current year health care expenses are expressly funded, separate from the pension actuarial contribution. In the case of VSTRS, the health care expenses are paid through a sub-fund of the pension fund, but are not explicitly budgeted and are treated as an amortized actuarial loss. Therefore, they are not included in the health care or other post-employment benefit obligation, or net OPEB Obligation ("NOO") calculation. Rather, they are reflected as part of the Net Pension Obligation ("NPO").

This year's reports showed increases to the dollar amounts of the fiscal year 2013 annual actuarially required contributions (ARCs) for both VSERS and VSTRS when compared against last year's actuarial reports. In reviewing this increase it should be noted that most of the increase is due to changes in the interest rate assumption as the retirement boards and the Vermont Pension Investment Committee have opted for a more conservative approach to the assumed investment return. While the benefit changes noted above still have had the effect of reducing the overall ARCs, the change to a more conservative investment assumption has "reset" the starting point.

There has been significant discussion on the national level relative to the appropriate interest rate assumptions used by public pension plans. The Vermont retirement systems, in concert with its investment and actuarial consultants, believed that the interest assumption should be viewed as part of an interrelated set of actuarial assumptions and thus evaluated in a comprehensive, formal experience study rather than in isolation. The trustees for each system opted to accelerate the existing schedule for conducting experience studies and complete such studies for each of the systems this past fiscal year. This was a more disciplined and methodologically sound approach than simply making an arbitrary change to the interest rate based on subjective data.

Benefit changes cannot replace the need for a permanent funding source to pay benefits. Lacking an explicit funding source creates an actuarial loss each year that adds to the unfunded liability and increases the ARC each year to pay for the prior year's costs.

In the course of reviewing the interest assumptions, the boards of the systems also opted to move to a new method of developing interest rate assumptions called "select-and-ultimate." While largely used in the private sector, this marked a significant, and more accurate, innovation in the development of rate-of-return assumptions for public sector plans. In this method, rate of return forecasts were developed by the systems' actuary using a sophisticated capital market model. The most recent asset allocation established by the Vermont Pension Investment Committee (VPIC) was the basis of the data inputs into the model. Our independent investment advisors, NEPC LLC, were also consulted. Their independent review tracks closely to the actuary's numbers in the aggregate.

As noted by our actuary, "differences between near-term and long-term expectations of rates of return on assets may be incorporated in the assumed rate of return by setting it on a select-and-ultimate basis. A select-and-ultimate return assumption posits different rates for an initial number of years (called a select period) before stabilizing at an ultimate rate. A select-and-ultimate rate structure can be used to reflect expectations of unusually strong or weak returns in near-term years, followed by a trending to a long-term equilibrium. In this sense, it is a more elaborate and complete specification of future return assumptions than is a single rate used in all future years." All three systems adopted a uniform interest rate assumption based on the application of this model, staring with an interest rate of 6.25 percent in year one and building out to more historical levels by

	VSERS	VSTRS
Unfunded actuarial accrued liability, June 30, 2010	293,902,094	711,823,061
Normal cost	38,979,778	35,846,531
Contributions	(60,584,812)	(82,538,491)
Interest on unfunded liability, normal cost & contribution	25,013,153	58,345,495
Actuarial (gains) and losses/experience	22,780,068	67,563,552
Assumption changes	26,425,205	54,067,732
Changes in plan provisions	22,252	n/a
Unfunded actuarial accrued liability, June 30, 2011	$ 346,537,738	$ 845,107,880

year 17. Over a 20-year period, the 50th percentile rate of return forecast for such a portfolio is approximately 7.9 percent, assuming equal liabilities in each year. Since the cash flows associated with each system varies, however, for computational or administrative ease, it is preferable to set the assumed interest rate equal to the single rate (expressed to the nearest multiple of 0.1 percent) that produces the same funding results as the select-and-ultimate rate set. The effective rate for VSERS is 8.1 percent and 7.9 percent for VSTRS. The systems employ smoothing, which reduces the impact of short-term asset volatility and reflects market value changes over a five-year period. At the end of fiscal year 2011, the actuarial value of assets was less than the market value, impacting the calculation of the accrued liability.

The ARC for the teacher's system for fiscal year 2013 is $60,182,755 and the funding percentage is 63.8 percent. For the state system (VSERS) the ARC is $37,081,933 and the funding percentage is 79.6 percent. If the ARC were calculated using the previous interest rate assumption of 8.25 percent for VSTRS and VSERS, the numbers would be revised downward to $54,927,226 and $33,780,177 respectively, according to the State's independent actuaries. Again, savings from the 2010 and 2011 changes of over $20 million are reflected in these numbers.

The major issue for the teachers' system is the funding of health care expenses. The new benefit structures have had a positive impact on the overall liabilities of the system. However, benefit changes cannot replace the need for a permanent funding source to pay benefits. Lacking an explicit funding source creates an actuarial loss each year that adds to the unfunded liability and increases the ARC each year to pay for the prior year's costs. The result is a continuing spiral upwards in the ARC and an inability to make-up ground in the unfunded liability. This "retrospective funding" is costing the system millions of dollars. Health care premiums in fiscal year 2011 totaled $18.7 million. By absorbing this as an actuarial loss over the remaining amortization period of the plan, the "cost'" absorbed in the unfunded liability grows to well over $50 million. This is compounded each year, and with the lack of funding, it creates an escalating problem. This funding shortfall represents the single greatest risk to the financial integrity of the system.

The General Assembly made some incremental increases in funding in fiscal year 2012 and additional funds have been requested for fiscal year 2013. In addition, the VSTRS system has benefited from the receipt of more than $4.4 million through an application filed by the Treasurer's office for the federally funded Early Retiree Reinsurance Program. The program is intended to provide health care relief in a transition to the national health care program, but additional steps are needed.

The other issue of note within the teachers' system is the reduction in active employees over the past two years. The number of active teachers as of June 30th of each year reached a high of 10,799 in 2009, declining to 10,509 in 2010 and 10,123 in 2011. At the same time, total annual compensation of active teachers participating in the pension plan, as reported by local education agencies, grew only

Deferred Compensation 457 & 403(b) Plans

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. The program is administered by Great-West Retirement Services. 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. On June 30, 2011, the plan had 6,594 participants. Total assets in the plan were valued at $284.29 million. Participating employees made contributions in the amount of $16.51 million to the plan during fiscal year 2011.

A 403 (b) Investment Program for public school districts was implemented on January 1, 2009. 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 administered by Great-West Retirement Service. The initial enrollment endeavor resulted in 25 supervisory unions adopting the 403(b) program. Participation in the 403(b) Investment Program for public school districts continued to grow in 2011. There are currently 30 supervisory unions that have adopted the program. As of September, 2011, 1,626 school employees were participating in the program and assets had grown to $23.31 million.

modestly from 2009 to 2010 and declined by more than $14 million from 2010 to 2011. While it is premature to view this as a trend, it may have some impact on overall education spending at the local and state level.

Defined Contribution Plan

State Defined Contribution Plan

Established in 1999, the State's defined contribution plan had 643 participants and net assets of $45,121,860 as of June 30, 2011. 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; an intermediate term bond fund; a balanced fund of stocks and bonds, large-, mid- and small-capitalization domestic equity funds; and an international equity fund. 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. In calendar 2007, the State modified and renewed its contract with the plan's administrator following a lengthy RFP (Request for Proposals) process. The new contract provides for increased flexibility to change investment options when warranted, and the plan continues to be provided to participants without costs above the fund investments' intrinsic expense ratios.

Participation in the 403(b) Investment Program for public school districts continued to grow in 2011.

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. 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. As of June, 30, 2011, there were 70 contributing municipalities with 566 participants and net assets of $16,083,093.

Other Post-Employment Benefits (OPEB): Health Care

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. During the lifetime of the retiree, currently only 20 percent of the cost of the premium is paid by the retiree. (See changes detailed below for Group F employees hired after 2008.) 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, generally the surviving spouse must pay 100 percent of the cost of the premium. In addition, once

At June 30, 2011, the trust fund had total assets of $11,215,536 being held in trust for postemployment benefits other than pension benefits.

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

As of June 30, 2011, 4,011 retirees were enrolled in the medical plan in the single, spouse, and family plan options. The retirees contributed $6.3 million in premiums and incurred $34.4 million in claims expenses for the fiscal year ending June 30, 2011. The State's fiscal year 2011 contributions to this trust fund totaled $27.4 million which included a $2 million Medicare D reimbursement received from the federal government, and $400,000 from the Federal Early Retiree Reinsurance Program. The trust fund then paid premium payments of $24.9 million (calculated on a pay-as-you-go basis) to the State's Medical Insurance Fund. At June 30, 2011, the trust fund had total assets of $11,215,536 being held in trust for postemployment benefits other than pension benefits.

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. VEHI partners with Blue Cross Blue Shield to provide health insurance to retired and active teachers. VSTRS members have access to three plans in retirement that are identical to those offered to active teachers in Vermont's public school systems. Members may pick up medical coverage under one of the plans for themselves and all eligible dependents at the time of retirement, or anytime thereafter during semi-annual open enrollment periods. 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

Retiree Health Savings Plan Update

In July of 2007, the Vermont Municipal Employees' Retirement Systems (VMERS) Board of Trustees created a Retiree Health Savings (RHS) Plan administered by ICMA-RC. The RHS Plan was designed to provide members and retirees with funds which could be used on a tax-free basis to reimburse medical expenses and insurance premiums incurred and paid for after retirement. The VMERS board determined that all active and retired members that had paid contributions into the VMERS for a minimum of five years as of June 30, 2006, would be eligible to participate in the RHS plan. On July 2, 2007, the board distributed more than $5 million into 3,545 active member accounts and 1,159 retired member accounts. The RHS Plan money is invested into individual, age appropriate Milestone accounts at ICMA-RC. Active members cannot use the RHS Plan funds until they begin to draw their VMERS pension benefits. Retired members may use the money at any time for medical and insurance expenses incurred and paid after July 1, 2007. A second contribution of $3.5 million was made into the RHS accounts on August 1, 2008, and a third contribution of approximately $2.5 million was made in February of 2009, for a total combined deposit of $11 million. From January 1, 2008, through December 31, 2009, more than $1.15 million was disbursed to retired members seeking reimbursement for their medical and premium expenses. On June 30, 2011, there were 5,226 active and retired members participating in the VMERS RHS plan. Investments in member accounts as of June 30, 2011 totaled $10,994,855. Comments from retirees who have used their RHS money continue to be very positive and appreciative. Many feel it makes a very real difference in being able to pay for their medical care and in their decision-making to obtain medical care.

the cost of the "standard plan" as defined by statute. The retiree pays the full cost of the premium for all covered dependents.

As of June 30, 2011, 4,601 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $11.8 million in premiums and the system contributed $14 million in premiums and paid $18.7 million on a pay-as-you-go basis, during fiscal year 2011. VEHI incurred $29.8 million in retiree claims expense for the fiscal year ending June 30, 2011.

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, 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's medical plans become the secondary insurer. Two of the plans offered become "carve-out" plans to coordinate with Medicare, and one of the plans is replaced with a true Medicare supplemental plan. The premiums for all plans are reduced in accordance with the decrease in liability once Medicare becomes the primary insurer.

Vermont Retirement Systems -- Year Ended June 30, 2011
Summary of Operations

Category	Vermont State Retirement System	Vermont State Retirement System-OPEB	State Teachers' Retirement System	Municipal Employees' Retirement System
SOURCES OF FUNDS				
Employee Contributions	$ 22,269,041	-	32,062,253	11,702,728
Employer Contributions	37,572,599	24,963,027	47,134,361	11,117,363
Other Income	743,172	2,431,447	3,341,877	266,425
Investment Income (Reduction)	238,386,383	802,020	261,886,311	66,957,781
APPLICATION OF FUNDS				
Retirement Benefits	84,716,513	-	106,930,467	12,298,902
Refunds	1,731,375	-	1,218,955	1,275,979
Health/Life Insurance Expenses	-	24,878,272	18,749,675	-
Administrative Expenses	1,147,576	68	1,399,732	569,603
Other Expenses	613,899	-	609,091	886,709
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 210,761,832	3,318,154	215,516,882	75,013,104

OPEB Funding Status

The State's independent actuary has prepared valuations of the OPEB liabilities for VSERS and VSTRS as of June 30, 2011. This is the sixth annual OPEB valuation for each system. 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 previous page for a chart that details the funding status of the plans, with amounts in thousands of dollars, as of June 30, 2011.

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. The schedule of funding progress, presented as required supplementary information immediately following these notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

What is an OPEB?

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 health-care 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.

- Taken from GASB (Governmental Accounting Standards Board) Other Postemployment Benefits: A Plain-Language Summary of GASB Statements No. 43 and No. 45

OPEB Actuarial Valuation: Methods and Assumptions

For VSERS, the actuarial accrued liability for OPEB obligations earned through June 30, 2011 is approximately $1 billion. With pension fund assets totaling $11.2 million, the unfunded actuarial liability is $998.6 million. This is an increase as compared to the June 30, 2010 unfunded actuarial liability of $917.3 million. The net increase in liability was due to expected increases over time and differences in demographic experience, as well as updates to mortality assumptions.

The health care trend cost rate assumption was modified to extend the period until the ultimate trend rate is reached from two years to eight years in order to reflect general market expectations. Age morbidity factors were adjusted, eliminating the assumed increase in cost for ages above 65 for prescription drug

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)
*1 **VSERS**						
2011	$ 11,216	$ 1,009,792	$ 998,576	1.1%	$ 420,321	237.6%
*2 **VSTRS**						
2011	$ -	$ 780,032	$ 780,032	0.0%	$ 547,748	142.4%

*1 Reflects blended discount rate of 4.25% in 2011.

*2 Discount rate for 2011 at 4.0%, reflecting no prefunding.

costs for Medicare-eligible participants in light of recent internal studies of claims experience for credible retiree populations comparable to the population covered by the system. Assumed costs for pre-65 medical and prescription drug and Medicare-eligible medical costs continue to reflect age adjustments. All other assumptions, including the assumed discount rate, were the same as those used in 2010.

Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

An OPEB trust has been established, as required by statute, for VSERS that is funded in part through the deposit of Medicare-D subsidies received for State employees' prescription programs. Therefore, the VSERS system reflects a "blended rate" reflecting some level of prefunding, resulting in an assumed discount of 4.25 percent instead of the pay-as-you-go liability calculated at 4 percent.

An OPEB valuation also was completed for VSTRS. An OPEB trust has not been created for VSTRS and no prefunding has been made. As noted above, an experience study was completed for the VSTRS retirement 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 are 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 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, 2011 is $780 million. This is an increase compared to the unfunded actuarial liability of $703.8 million as of June 30, 2010. The net increase in the liability was primarily due to expected increases over time and an increase in the number of retirees, consistent with the pension valuations. In addition, updates to the demographic assumptions in the pension valuation were incorporated.

(PAGE LEFT INTENTIONALLY BLANK)

Financial Literacy

Overview

The Treasurer's Office completed its fourth year of concentrated work in promoting and furthering financial literacy efforts in Vermont. The office continued several statewide student competitions for students in grades Kindergarten through 12th grade in an effort to underscore the importance of teaching our children money management skills. Work within adult communities included hands-on support for an annual financial literacy educator's conference and ongoing instruction in retirement planning.

Overall, the Treasurer's Office financial literacy work is focused in three areas: (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

ACCOMPLISHMENTS IN 2011

- Completed first year and introduced second year curriculum for the Reading is an Investment program for Vermont elementary school children. In the first year, there were 109 schools using Reading is an Investment, with more than 7,600 students directly participating in some facet of the program. There were 1,366 students who completed the personal reading component and mailed in their reading logs. In year two, the program has expanded to 124 elementary schools.

- Introduced a new statewide financial literacy effort – the Money Smart Child Initiative. The Treasurer's Office, Vermont Jump$tart Coalition and People's United Bank partnered to distribute more than 11,000 copies of a guide for parents on teaching children about money. Fifty-seven elementary, middle schools and high schools requested copies of the guide to distribute to families. The program also features six regional parent workshops. The workshops will be presented throughout the 2011-2012 school term.

- Hosted and organized the annual Vermont high school Reserve Cup competition in partnership with the Federal Reserve Bank of Boston. Five high schools participated in the challenge. Student teams demonstrated their knowledge of economics and personal finance in a bid to represent Vermont at the regional tournament in Boston. South Burlington High School repeated as state champions.

- More than 180 students in grades 3-12 entered posters in the annual Be Money Wise Financial Literacy poster contest. Grade division winners were from Bethel Elementary School, St. Johnsbury Academy and a home-schooled student.

UPDATES

Reading is an Investment

The conclusion of the first year of the Reading is an Investment program was celebrated April 14, 2011 when the Treasurer's Office sponsored a State House recognition ceremony of April as Financial Literacy for Youth Month. The Reading is an Investment program aims to increase school book collections in personal finance; give teachers and librarians related curricular resources; and encourage students to read books that teach money concepts. There were 109 Vermont elementary schools that participated in the first year of the program, representing approximately 21,000 students. Based on the evaluations received by 48 school librarians and administrators, more than 7,600 students directly participated in some facet of the program. The Treasurer's Office also received more than 1,366 completed reading logs. The 2010-2011 personal finance theme was "The Value of Money and Personal Choice."

The program takes a two-prong approach to promoting financial literacy—class or library instruction and personal reading. Each fall, participating elementary schools receive two or three new hardback books. A curriculum guide is sent with the books that have lesson plans and activities linked to the books. Teachers and librarians can use the materials to teach students personal finance concepts. At the same time, students are encouraged to participate in a personal financial literacy reading program. School librarians received a recommended reading list for the year of titles that focus on basic financial concepts. Students who read at least three books from the list and complete personal reading requirements can send a completed reading log to the Treasurer's Office for entry in a statewide drawing for one of ten $250 accounts in the Vermont Higher Education Investment Plan—Vermont's official 529 college savings plan.

Above,some of the winning students from the first year of the program were recognized at a State House ceremony on April 14, 2011. State Treasurer Beth Pearce, Lt. Governor Phil Scott, and VSAC VP for Operations, Social Marketing & Strategy Scott Giles congratulate the students.

For the 2011-2012 school term there are 124 Vermont elementary schools participating in the program.

The ten students winning college savings accounts were: Isadora Beck, Bristol Elementary School; Hannah Bertrand, Franklin Central School; Aaron Cole, Readsboro Central School; Eva Frazier, Hinesburg Community School; Korbin Hughes, Bristol Elementary School; Emma Medor, Swanton Elementary School; Ian Parent, Williston Central School; Gianna Pezzetti, Rutland Town School; Myah Rocheleau, Swanton Elementary School; and Mariah Witham, Swanton Elementary School.

The second year of the program began in September. For the 2011-2012 school term there are 124 Vermont elementary schools participating in the program. The personal finance theme is "Earning and Saving Money." The featured program books are Pitching in for Eubie by Jerdine Nolen; Rock, Brock and the Savings Shock by Sheila Bair; and Give a Goat by Jan West Schrock.

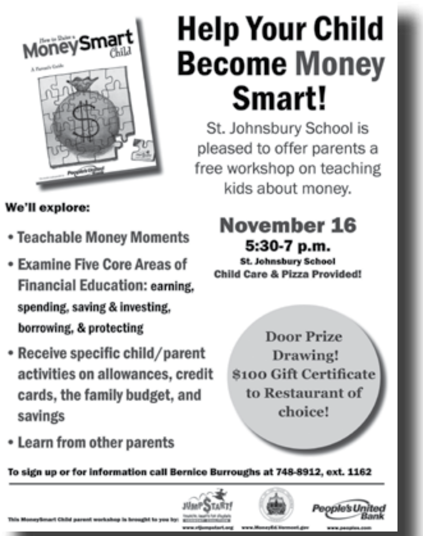
Curricular resources and student activities are available on-line by going to www.MoneyEd.Vermont.gov. The program is underwritten by TD Bank and the Windham Foundation. Below and at right are comments by school librarians about their experience with the first year of the program.

"Many students were checking out books about money – an area that doesn't normally circulate well. My favorite part was the interest it generated in the students!"
– Jericho Elementary School

My favorite part of the program was: "having the opportunity to focus on financial literacy and receiving great books for our library."
– Franklin Central School

"I feel this program may encourage student to be creative in earning their own money and saving it. It is very important for children to begin to have an understanding of financial literacy."
– Molly Stark Elementary School

"Thanks for doing this important work." – Rick Marcotte Central School



The program was what I expected, "and more, some common sense ideas, especially about budgeting. Well done." - Parent

"I'm eager to read the booklet and learn more specifics to teach. It is written at a great level to apply right away." - Parent

"The small groups were a good experience. I learned a lot from the other parents." - Parent

St. Johnsbury Academy student Jaime Cherem designed this poster to win the high school division of the 2011 financial literacy poster contest.

"I did many of the lessons during December. Teachers and parents comment on the appropriate timing of teaching wants and needs before holiday shopping."
– Hinesburg Community School

Money Smart Child Initiative

Through a three-way partnership between the State Treasurer's Office, Vermont Jump$tart Coalition, and People's United Bank, the groundwork has been laid to reach more than 11,000 Vermont families with resources parents can use to instruct their children in personal finance. Fifty-seven elementary, middle school and high schools located throughout the state have requested copies of the booklet, "How to Raise a Money Smart Child—A Parent's Guide." The schools will distribute the guides to parents during the 2011-2012 school term. In addition to the distribution of the guide, the partnership will conduct six regional Money Smart Child parent workshops around the state. The free workshops will examine five core areas of financial education; explore how parents can use teachable moments; provide specific parent/child exercises in spending choices, budgeting, credit, and saving; and promote parents supporting one another in working with their children. Regional workshops are scheduled for Barre Technical Center, Black River Middle and High School, Colchester High School, St. Johnsbury School, Salisbury Community School, and Swanton Elementary School.

The groundwork has been laid to reach more than 11,000 Vermont families with resources parents can use to instruct their children in personal finance.

The Money Smart Child initiative is underwritten by People's United Bank. The 14-page guide was written by the national Jump$tart Coalition, a non-profit organization dedicated to improving the financial literacy of pre-kindergarten through college-age youth by providing advocacy, research, standards and educational resources. The State Treasurer's Office developed the parent workshop curriculum.

The first parent workshop was held on November 16, 2011 at St. Johnsbury School. More than a dozen parents attended the workshop. The majority of parents rated the workshop as very helpful and the remaining ranked the workshop as somewhat helpful. To the question: as a result of this workshop, I plan to talk to my kids about (name subject areas), parents responded – budgeting, saving strategies, what credit is, wants vs. needs, earning money, allowances, and simply communicate more. Some specific comments are featured on the left side of this page.

Other K-12 Financial Literacy Projects

Financial Literacy Poster Contest

The State Treasurer's Office has promoted Vermont participation in the National Foundation for Credit Counseling poster competition for the past four years. The contest is open to all students in grades 3-12. The competition encourages adults to discuss the annual poster theme with students and provides a creative outlet for the students to demonstrate their knowledge. The theme of the 2011 contest was: "Be a Superhero! Save Money!" This year, 182 students entered the competition. Students placing in the elementary school division were: first place, Savannah Chism, Bethel Elementary School; second place, Zach Schaw, Williston Central School; and third place, Brittany Caron, Good Shepherd

Catholic School, St. Johnsbury. Students placing in the middle school division are: first place, Acacia Wheeler, home-schooled student, Swanton; second place, Anna Dieffenbach, Bethel Elementary School; and third place, Kristen Tirrito, Waterville Elementary School. High school division winners are: first place, Jaime Cherem, St. Johnsbury Academy; second place, Zach Cochran, St. Johnsbury Academy; and Tamar Wheeler, home-schooled student, Swanton.

Reserve Cup Challenge

The third annual Vermont State Reserve Cup Challenge was held April 29, 2011. Five schools fielded teams for the day-long competition designed to test student knowledge in economics and personal finance. The State Treasurer's Office, in partnership with the Federal Reserve Bank of Boston, began holding a state tournament to select a school to represent the Vermont at the annual regional competition in Boston. The purpose of the challenge is to promote student interest in and knowledge of personal finance, economics and consumer affairs topics. The five schools participating were a combined team from the Green Mountain Technology and Career Center and Lamoille Valley Union High School, Fair Haven Union High School, Montpelier High School, Mt. Mansfield Union High School and South Burlington High School. South Burlington High School walked away with the academic trophy for the second year in a row.

Adult Financial Literacy

The Treasurer's Office continues to maintain a financial literacy section on its web site. The pages are meant to give people a discrete way to investigate personal finance subjects and connect with reliable resources. Data supplied through Google Analytics indicates that unique visitors to these pages continue to grow. In 2011, 5,836 unique visitors visited these pages with total page views of 8,103. This is considerable growth from the first year the section was made live. In 2009 there were just a thousand unique visitors. As opportunities arise, we will continue to promote the financial literacy web section through the url www.MoneyEd.Vermont.gov.

The Treasurer's Office continues to maintain a financial literacy section on its web site to connect Vermonters with local resources.

Since 2008, the Treasurer's Office has offered a retirement planning workshop titled, "Keeping the Gold in Your Golden Years." The session is designed to train people how to complete a personal retirement needs assessment. In 2011, we conducted seven workshops serving 150 participants. To date a total of 731 people have taken this class.

In an effort to increase awareness of financial literacy work going on throughout Vermont, the State Treasurer's Office conducted a legislative briefing on January 26, 2011 for members of the House and Senate education committees. Financial literacy partners from the non-profit, financial, and governmental sectors attended the briefing. The hope is that as legislators need information in this area, they will be better informed as to what is happening in Vermont and know whom to contact for information.

Financial Fluency

Four Vermont public schools joined more than a dozen schools located throughout New England to test a new financial fluency program that teaches financial concepts within a math-based curriculum. The aim was to help educators develop new approaches to offering students instruction in personal finance. Teachers at Bellows Falls Union High School, St. Albans City School, Twinfield Union High School and U32 High School started testing a six-lesson curriculum in late April. The lessons focused on budgeting, including ratios and proportions, and the power of compounding interest as applied to credit cards and investments. The financial fluency pilot project is a joint effort of the non-profit Valmo Villages and an economics education team from the Federal Reserve Bank of Boston. The State Treasurer's Office assisted in the effort by working with partners to alert schools to the opportunity to participate in the pilot project. Program organizers are continuing work in this area, with the hope of bringing training opportunities to Vermont for teachers interested in incorporating personal finance into their mathematics instruction.

Debt Management

Current Environment

The municipal bond market has changed dramatically since the 2008-2009 financial crisis. Events since that time have caused continued market volatility. Going into 2012 the outlook for the market remains as uncertain as it has been in decades. Significant features of the market and notable events during calendar year 2011 include:

- **Very low levels of bond issuance.** Less than $297 billion of bonds were sold during 2011, the lowest annual volume since 2001, and a 31.5 percent reduction in volume from 2010's record issuance of over $433 billion. This large

ACCOMPLISHMENTS IN 2011

The Treasurer's Office stayed very busy in calendar year 2011, despite not issuing any bonds during the year.

- In March, a delegation from Vermont including Governor Shumlin, Treasurer Beth Pearce, Secretary of Administration Jeb Spaulding, Capital Debt Affordability Advisory Committee (CDAAC) founding member David Coates, and Deputy Treasurer Steve Wisloski traveled to New York to meet with the three rating agencies, Moody's, Standard & Poor's and Fitch. The purpose of the meetings was to introduce the State's new officers, provide a financial outlook for the State, discuss the Governor's major policy initiatives, and to affirm that Vermont would continue its tradition of prudent debt management.

- In April and May, the Treasurer's office conducted a search for a new financial advisor to replace the State's long-standing advisory firm of Government Finance Associates (GFA). GFA's principals, Chester and Freda Johnson, announced their retirement after serving the State of Vermont for 20 years. During their tenure they provided irreplaceable debt management advice to the State, and played a key role in helping Vermont achieve its two triple-A ratings from Moody's and Fitch. After evaluating proposals from six firms and conducting in-person interviews with three finalists, the Treasurer's office selected Public Resources Advisory Group (PRAG) of New York. The Treasurer's office invited representatives from the Agency of Administration, Department of Finance and Management, the CDAAC and GFA to assist in the interview process.

- From June to September, the CDAAC met five times to review the State's debt affordability guidelines, analyze Vermont's critical debt ratios compared to those of triple-A rated peer states, and evaluate the effectiveness of the State's first-ever two-year debt authorization. For this latter task, the committee invited members of the General Assembly and the Department of Buildings and General Services to comment on whether the additional flexibility provided by the two-year authorization enables critical and large-dollar projects, such as the State Health Laboratory and State Police Barracks, to be accelerated. The committee recommended affirming the two-year authorization of $153,160,000 for fiscal years 2012 and 2013.

- Also over the summer, the Treasurer's office conducted a request for proposals for underwriting firms for the State's Citizen Bond program.

Debt Management
(802) 828-5197

Stephen Wisloski
Deputy State Treasurer

Scott Baker
Financial Reporting Director

Fourteen investment banking firms submitted proposals, four finalists were interviewed, and three firms – Citi, Bank of America Merrill Lynch, and Wells Fargo – were selected as senior and co-managers for the next bond sale. The remaining eleven firms were also invited to participate in the selling group, to assist in marketing the bonds to Vermont residents.

- In August, the State experienced twin storms – the first financial, and the second meteorological – that required immediate response and that vindicated Vermont's continued efforts to maintain its triple-A rating. On August 5, after months of brinkmanship between Congress and the Administration over the country's debt limit, Standard & Poor's downgraded the credit rating of the United States from AAA to AA+; this marked the first time since 1917, when the U.S. was first rated, that it was rated below triple-A. In the months leading up to the downgrade, several rating agencies also warned of collateral damage to the states, and Moody's placed five of Vermont's triple-A peer states – Maryland, New Mexico, South Carolina, Tennessee and Virginia – on review for downgrade in the event of a U.S. downgrade by that agency.

Aaa

- At the end of August, Tropical Storm Irene caused widespread devastation to lives and property in the State, including numerous State and municipal roads and bridges. The Treasurer's office had planned to sell bonds in October, but decided to postpone the sale due to uncertainty of both the final repair costs, which made disclosure to investors a "moving target," and the extent to which needed infrastructure repairs might cause reprioritization of the State's capital projects. However, the Treasurer's Office still conducted calls with the rating agencies, as these had been scheduled prior to Irene, and used the opportunity to brief the three agencies on the State's efforts to recover from the storm, and to assure them that the State's finances remained very strong.

- Finally, in November, the Treasurer's office assisted the Secretary of Administration in completing a report to the Governor and General Assembly regarding the State's utilization of its private activity bond volume cap. The report's recommendations included the formation of a Private Activity Bond Advisory Committee, which the Governor created through Executive Order 14-11 on November 2. The five-member Committee convened a public hearing in December to fulfill its mandate to explore alternative uses for the Vermont's volume cap in light of reduced issuance by traditional issuers.

year-over-year reduction was due in part to "front-loaded" issuance as issuers raced to take advantage of American Recovery and Reinvestment Act's Build America Bonds program before it expired December 31, 2010. However, issuers also canceled or delayed capital projects in the face of continued economic uncertainty. This reduced issuance impacts Vermont because our forward-looking debt projections are benchmarked against other states, and lower issuance could constrain estimates of Vermont's future debt capacity.

- **Even lower record-low interest rates.** Continued economic uncertainty, exacerbated by political gridlock in the United States and sovereign credit concerns in Europe, continued to drive low interest rates lower. The 10-year triple-A rated benchmark bond rate, which set record lows of 2.57 percent in 2009 and 2.17 percent in 2010, finished 2011 at a new record low of 1.86 percent. Vermont is expected to benefit from these lower rates, due to both a lower cost of capital for new projects, and greater ability to refinance existing bonds.

BOND RATING

Vermont was assigned an Aaa rating by Moody's in February of 2007. Vermont shares its Moody's triple-A rating with fifteen other states. As of September 2011, eighteen states had a triple-A rating from at least one rating agency. In addition, Fitch "recalibrated" Vermont's rating from AA+ to triple-A 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 next page). With all three ratings carrying a "Stable" outlook, Vermont continues to work toward achieving its last triple-A rating from S&P, although this will be difficult after the downgrade of the United States to AA+ by that agency. 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. A high credit rating also is attractive to business development because it is a sign of economic and fiscal stability.

- **Further U.S. credit downgrades could impact on states.** After the failure of the deficit "Super Committee" to come to a budget agreement in November, the United States was given a negative credit outlook by all three rating agencies, meaning downgrades are possible if political gridlock persists. The rating agencies have also indicated that states are unlikely to maintain ratings more than one "notch" above the U.S. As such, if the U.S. is downgraded below AA by S&P, AA+ by Fitch, or Aa1 by Moody's, then Vermont's ratings could be negatively impacted.

- **Municipal bond tax exemption under review.** President Obama's American Jobs Act, presented in September, proposed limiting the municipal bond federal tax exemption to 28 percent, versus the current 35 percent for the top income tax bracket. Further, the deficit Super Committee targeted the tax exemption of municipal bonds as potential "tax expenditure" to be eliminated. Either measure, if enacted, would substantially increase Vermont's borrowing costs.

- **Pension and other post-employment benefits (OPEB) funding concerns.** States continued to wrestle with large unfunded liabilities for pensions and OPEBs (primarily healthcare costs), and faced concerns that the growing related annual costs were crowding out spending in other areas. Moody's also began to include pension liabilities in calculations of state indebtedness.

During this time frame, the State of Vermont has continued to benefit from disciplined debt issuance and debt management policies. 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. These efforts are the result of years of attention to rating agency and investor interests and concerns and have resulted in the high debt rating that the State currently enjoys. In addition, Vermont has avoided the recent problems in the municipal markets. Because of its excellent credit ratings, Vermont has not needed to rely upon expensive bond insurance. Vermont's exclusive use of fixed-rate debt has enabled the State to avoid any complications arising from the failed auction rate and disrupted variable rate securities markets. Vermont has also benefitted from its reputation for rigorous and thorough financial disclosure, and has steered clear of financial and regulatory concerns.

Overview

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. As a result, bond issuance is currently at substantially lower levels than in the early and mid-1990s.

New England General Obligation Bond Ratings

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

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 70.45 percent retirement within ten years, the State's bond payoff ratio continues to be favorably received by the rating agencies.

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.

A major contributing factor to Vermont's respected debt management is the work of the Capital Debt Affordability Advisory Committee (CDAAC). 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.

In September of 2011 the CDAAC recommended continuing the two-year recommended debt authorization level $153.160 million for fiscal years 2012 and 2013, which is the highest level that allows for adherence to CDAAC guidelines, notwithstanding creation of higher levels of debt outstanding. In addition, this will enable the State to take advantage of lower construction costs and interest rates during the economic downturn. The committee continues to believe that debt issuance moderation is appropriate in uncertain economic times.

The State's disciplined approach to debt management is paying off in today's tax-exempt marketplace. By practicing debt issuance moderation and compliance with well-defined guidance standards that have the clear goal of Vermont being a triple-A rated state, Vermont has the ability under current challenging credit market conditions to issue debt at attractive interest rates to meet infrastructure and other capital spending needs. Providing for a significant level of transportation expenditures within the capital budget is, with regard to recent history, a change for the State, and welcome in the context of needed transportation projects spending.

Debt Ratios

The fiscal discipline of recent years has paid off as Vermont's debt ratios rank favorably among triple-A rated states. The key to maintaining and obtaining other triple-A ratings will be to demonstrate continued diligence in the areas just discussed while making improvements on other major 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

One of the key debt factors monitored by the CDAAC and the rating agencies is the State's net tax-supported debt per capita. The guideline adopted by the CDAAC establishes a target debt per capita at Moody's median and means

UPDATE: Bond Issues

The State Treasurer's Office issued $72 million aggregate principal amount of new money G.O. bonds in fiscal year 2010, and $75 million in fiscal year 2011. The Treasurer's office also sold $38.83 million of refunding bonds in fiscal year 2010, which provided present value debt service savings to the State of $2.37 million. Finally, the Treasurer's office sold $14.4 million of Vermont's first-ever Special Obligation Transportation Infrastructure Bonds (TIB) at the beginning of fiscal year 2011, just in time for peak construction season.

The Treasurer's office plans to sell the General Obligation Bonds and Vermont Citizen Bonds that were originally scheduled for sale in October 2011 but delayed by Irene, in March of 2012. If rates remain favorable, the State will also sell Refunding Bonds at that time. The State also plans the second sale of Transportation Infrastructure Bonds in summer 2012, and another General Obligation Bond sale in October of 2012.

for triple-A rated states. In 2011, the State's debt per capita was $747 versus the Moody's five-year triple-A median and mean of $973 and $964, respectively (see charts on pages 35 & 37). The State's ranking versus all 50 states improved steadily, from 28th in 2007 to 37th in 2011. 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 $1,162 by 2022. That forecast assumes a steady level of debt authorization and the issuance of $76.58 million in future years starting in fiscal year 2013, and employs the population forecast developed by Economic Policy Resources. This increase, over a significant period of time, is expected to remain consistent with the State's debt per capita guideline (triple-A states five-year median and mean) each year through 2022.

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 2011 increased slightly to 1.9 percent versus Moody's triple-A median and mean ratios of 2.6 percent (see chart on page 38). The State's ranking in its debt as a percentage of personal income improved steadily from 30th highest among all states in 2007to 36th highest in 2011.

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 5.1 percent for fiscal year 2011. This percentage is expected to fall to 4.7 percent by fiscal year 2015 and then rise to 5.3 percent by fiscal year 2022. This is based on the assumption of the issuance of $76.58 million of debt from fiscal year 2013 through fiscal year 2022.

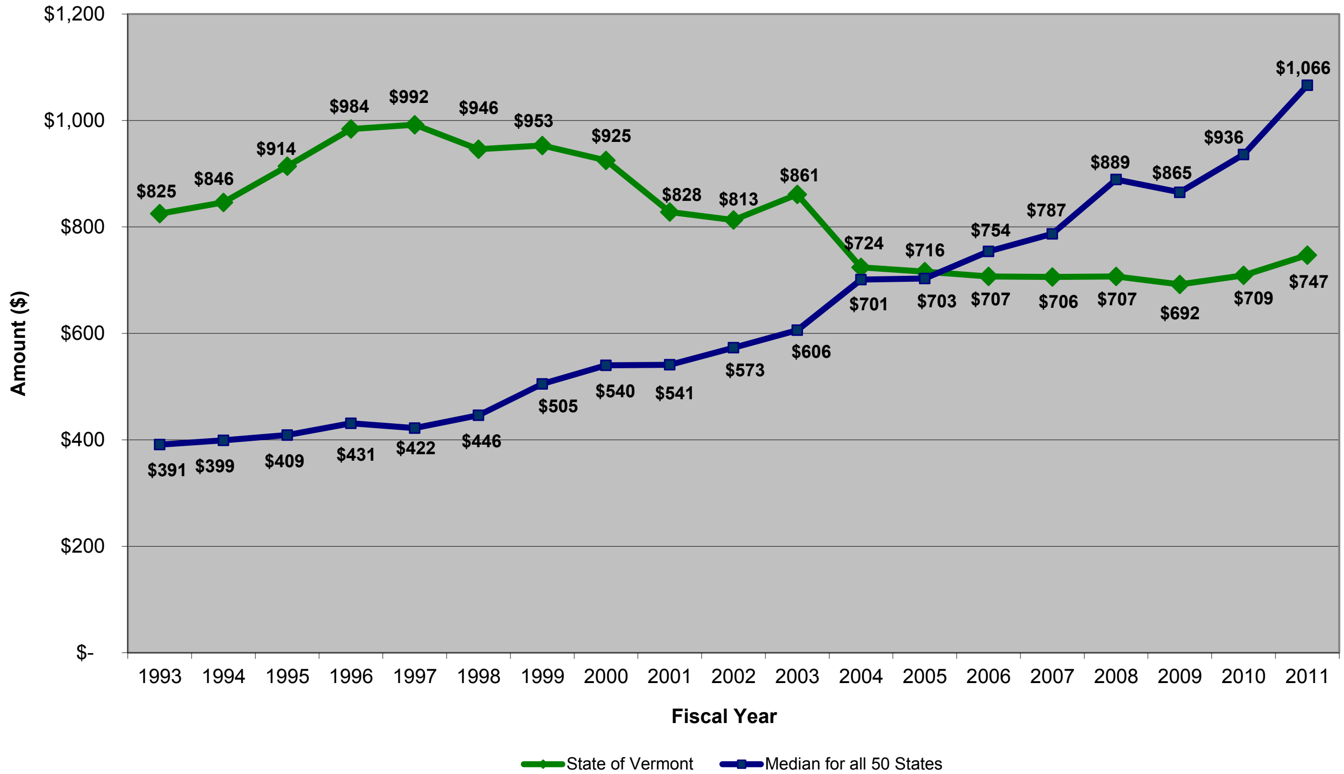
Additional Factors Affecting Bond Ratings

There are many other factors considered in a state's bond rating besides ratio analysis. These include:

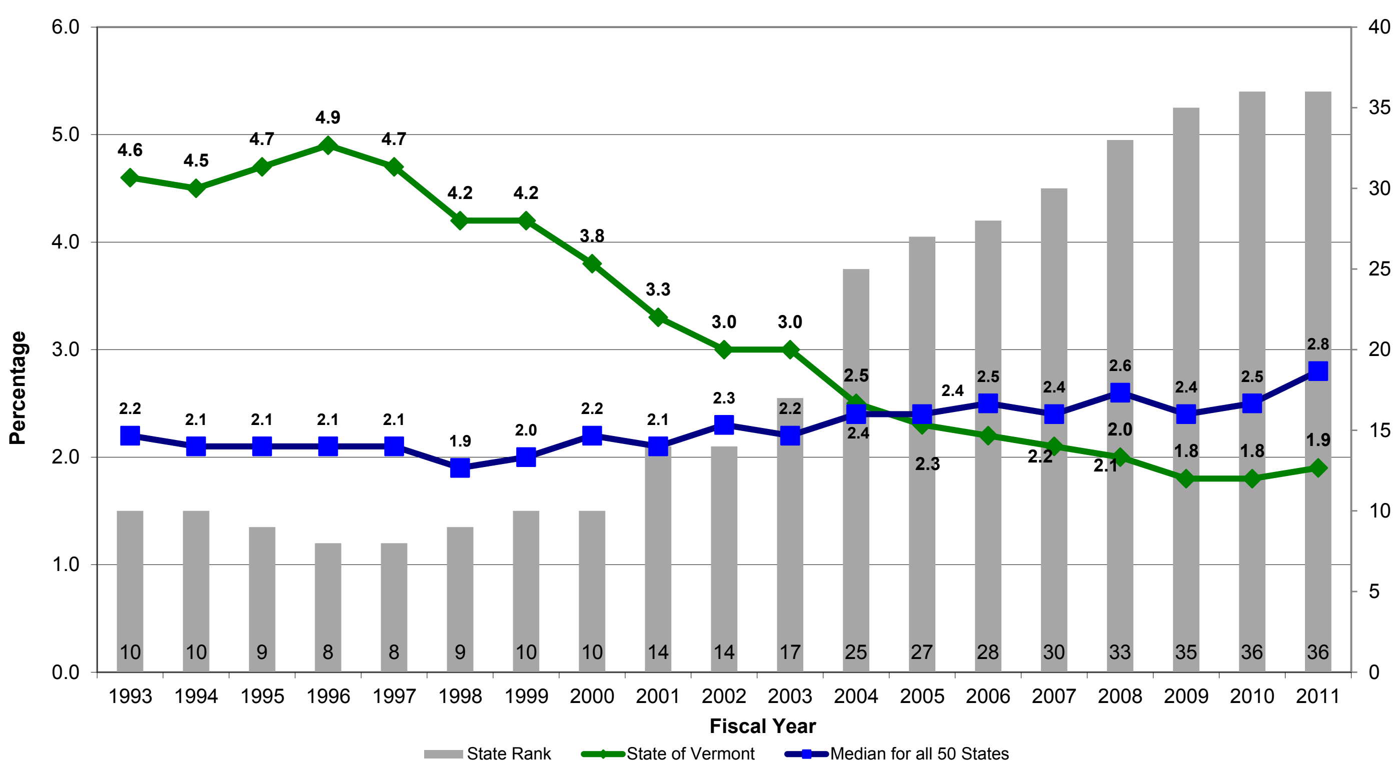
Budget Stabilization Reserves: The State has budget stabilization reserve levels required by statute for each of the State's General Fund, Transportation Fund, and Education Fund. Required reserves for the General Fund and Transportation Fund are 5 percent, and for the Education Fund are 3.5 percent to 5 percent of the previous year's appropriations. Currently, all three funds are at their statutory requirements and as stated above, have not yet been tapped in response to the current economic downturn. 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.

Pension Funds Funding Percent: 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, 2011, the VSERS funding level is at 79.6 percent and the VSTRS funding level is 63.8 percent. These levels are down from 81.2 percent

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



and 66.5 percent, respectively in 2010. This reduction is due primarily to a decrease in the actuarially assumed rate of return for each system from 8.25 percent. In the case of VSERS, the assumption was reduced to approximately 8.1 percent, and for VSTRS, to approximately 7.9 percent. 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 (VNEA) 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.

Other Factors: 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.

Short-Term Borrowing

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. While the State has had a line of credit available to it during the last seven years, it has not had to access it, a continuing sign of fiscal health.

The State has been diligent in managing expenditures according to revised projections and has not needed to borrow short-term funds since 2003.

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 2012. 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 RANs, which would generate higher interest costs for the State. The State began fiscal year 2012 with approximately $445.3 million in unrestricted cash and investments on hand, and maintained $176.4 million in unrestricted cash and investments as of December 31, 2011. 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 2012.

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: $940 VERMONT: $712 MEDIAN: $898 VERMONT: $707

Triple-A Rated States[1]	Moody's Ratings[2]	S&P Ratings[2]	Fitch Ratings[2]	Moody's Debt Per Capita 2007	2008	2009	2010	2011
Alaska	Aaa/Stable	AA+/Stable	AA+/Stable	$939*	$924*	$861*	$1,345*	$1,257
Delaware	Aaa/Stable	AAA/Stable	AAA/Stable	1,998	2,002	2,128	2,489	2,676
Florida	Aa1/Stable	AAA/Stable	AAA/Negative	1,020	1,005	1,115	1,123	1,150
Georgia	Aaa/Stable	AAA/Stable	AAA/Stable	916	954	984	1,120	1,103
Indiana	Aaa/Stable	AAA/Stable	AA+/Stable	657*	478	482	492	471
Iowa	Aaa/Stable	AAA/Stable	AAA/Stable	104*	98*	79	73	270
Maryland	Aaa/Negative	AAA/Stable	AAA/Stable	1,171	1,297	1,507	1,608	1,681
Minnesota[3]	Aa1/Stable	AAA/Stable	AAA/Stable	827	879	866	1,037	1,159
Missouri	Aaa/Stable	AAA/Stable	AAA/Stable	613	675	670	780	775
Nebraska	Not Rated	AAA/Stable	Not Rated	24*	22*	17*	15*	13
New Mexico	Aaa/Negative	AA+/Stable	Not Rated	1,435*	1,429*	1,394*	1,398	1,827
No. Carolina	Aaa/Stable	AAA/Stable	AAA/Stable	728	898	832	765	782
So. Carolina	Aaa/Stable	AA+/Stable	AAA/Stable	630	966	899	917	887
Tennessee	Aaa/Negative	AA+/Positive	AAA/Stable	213*	221*	233*	318	345
Texas	Aaa/Stable	AA+/Stable	AAA/Stable	415*	481*	520*	520	612
Utah	Aaa/Stable	AAA/Stable	AAA/Stable	621	542	447	957	1,222
Virginia	Aaa/Negative	AAA/Stable	AAA/Stable	692	764	782	895	1,058
Wyoming	Not Rated	AAA/Stable	Not Rated	97*	91*	84*	77*	71
MEAN[4]	___________	___________	__________	**922**	**951**	**899**	**966**	**964**
MEDIAN[5]	___________	___________	__________	**778**	**898**	**849**	**917**	**973**
VERMONT	Aaa/Stable	AA+/Stable	AAA/Stable	706	707	692	709	747

[1]Indiana carries a Municipal Issuer Rating from S&P, assigned in 2008 and it is first reflected in 2008 numbers – this is a GO bond equivalent rating. Moody's rated Indiana triple-A in 2010 as part of their Ratings Recalibration effort. The Fitch rating for Indiana (AA+) is for lease revenue bonds. Iowa carries a Municipal Issuer Rating of triple-A from Fitch – an implied G.O. rating. S&P assigned its respective rating on Iowa in 2009 and it is first reflected in 2009 numbers. Fitch raised Florida, Iowa, Vermont, Tennessee and Texas all to triple-A in 2010 as part of their Ratings Recalibration effort. Moody's raised Indiana, Iowa, New Mexico, Tennessee and Texas to triple-A in 2010 as part of their Ratings Recalibration effort. S&P raised no state ratings in 2010. Nineteen states are currently rated triple-A by one or more of the nationally recognized rating agencies: Triple-A ratings assigned as follows: Delaware and Florida (2005), Georgia, Maryland, Minnesota, Missouri, North Carolina, South Carolina, Utah, Virginia and Vermont (2007), Indiana (2008), Iowa (2009), New Mexico, Tennessee and Texas (2010), Alaska, Nebraska and Wyoming (2011).

[2]Ratings as of June 30, 2011.

[3]Minnesota was downgraded by Fitch to AA+ from AAA on July 7, 2011, its Outlook was changed to Negative by Moody's on August 1, 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 or medians for each of the years from 2007 to 2011.

[4]These calculations exclude all Vermont numbers.

[5]These calculations exclude all Vermont numbers.

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

Mean Debt Ratios -- State of Vermont

Per Capita	2007	2008	2009	2010	2011
All States	$1,101	$1,158	$1,195	$1,297	$1,408
Triple-A[1]	922	951	899	966	964
VERMONT	**706**	**707**	**692**	**709**	**747**

% of Personal Income.	2007	2008	2009	2010	2011
All States	3.2%	3.2%	3.1%	3.2%	3.2%
Triple-A[1]	2.7	2.8	2.4	2.6	2.6
VERMONT	**2.1**	**2.0**	**1.8**	**1.8**	**1.9**

[1]These calculations exclude all Vermont numbers and include only states rated triple-A by any one of the three rating agencies during the year shown. See chart on "Debt Per Capita" for complete listing of triple-A states and respective ratings and triple-A time periods.

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% VERMONT: 1.9% MEDIAN: 2.6% VERMONT: 1.9%

Triple-A Rated States	Moody's Investors Service				
	2007	2008	2009	2010	2011
Alaska	2.7%	2.4%	2.2%	3.2%	3.0%
Delaware	5.5	5.2	5.4	6.2	6.8
Florida	3.1	2.8	2.9	2.9	3.0
Georgia	3.0	3.0	3.0	3.3	3.3
Indiana	2.1	1.5	1.5	1.5	1.4
Iowa	0.3	0.3	0.2	0.2	0.7
Maryland	2.8	3.0	3.3	3.4	3.5
Minnesota	2.2	2.3	2.1	2.4	2.8
Missouri	1.9	2.1	2.0	2.2	2.2
Nebraska	0.1	0.1	0.0	0.0	0.0
New Mexico	5.3	4.8	4.6	4.4	5.6
North Carolina	2.4	2.8	2.5	2.3	2.3
South Carolina	2.3	3.3	2.9	2.9	2.7
Tennessee	0.7	0.7	0.7	0.9	1.0
Texas	1.3	1.4	1.4	1.4	1.6
Utah	2.3	1.9	1.5	3.2	3.9
Virginia	1.8	1.9	1.9	2.1	2.4
Wyoming	0.3	0.2	0.2	0.2	0.1
MEAN[1]	**2.7**	**2.8**	**2.4**	**2.6**	**2.6**
MEDIAN[1]	**2.3**	**2.8**	**2.3**	**2.6**	**2.6**
VERMONT	2.1	2.0	1.8	1.8	1.9

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

(PAGE LEFT INTENTIONALLY BLANK)

Investments

Overview

The State Treasurer's Office is responsible for investment of the State's short-term and operating funds and certain trust funds, and is the administrative arm for the retirement boards and the Vermont Pension Investment Committee. Short-term operating funds are invested by the Treasury Operations Division, which also is responsible for banking and cash management and projections. These funds are invested based on the Treasurer's authority in State statute. The State Treasurer has issued further guidelines for these investments, consistent with statute. The guiding principles for these investments are safety first and foremost, followed by liquidity and yield. Certain trusts, including the Higher Education Trust Fund, Tobacco Trust Funds, a State OPEB Trust Fund and other trusts are pooled and invested in a Trust Investment Account (TIA) that has a longer maturity horizon than operating funds. The State Treasurer serves as trustee for these funds. The State Treasurer is also the trustee for the state employers defined contribution fund.

The various retirement boards (state, teachers, municipal) act as trustees for various benefit-related trusts including the municipal defined contribution plan, a single deposit investment account or SDIA (State and teachers), a deferred compensation fund (open to teachers, municipal, and State members, with the State

Investments
(802) 828-3668

Matt Considine
Investment Management Director

John Booth
Treasury Operations Director

Dan Currier
Cash & Investments Manager

ACCOMPLISHMENTS IN 2011

- Following a year when substantial progress was made in diversifying the retirement portfolios, the Vermont Pension Investment Committee continued refining the asset allocation and manager exposures. The prior year's allocations were maintained (equities at 36 percent, fixed income at 37 percent, alternatives at 12 percent and risk parity and global asset allocation strategies at 15 percent), resulting in absolute returns to the composite portfolio of approximately 21 percent. Three hedge fund-of-fund managers were given allocations during the year and reviews were undertaken of securities lending activities, foreign exchange transaction costs, and the custodian bank agreement.

- During the fiscal year, the Treasurer's office completed the rollover of the Single Deposit Investment Account (SDIA) assets into a commingled stable value fund (managed by ICMA-RC). This change will ensure that the SDIA funds will continue to be invested at a competitive interest rate, with protection of invested principal, and provide needed liquidity as more participants in the fund reach retirement age.

- Finally, the funds available for investment within the teacher's 403(b) plan were expanded to include socially-responsible options with the addition of the Calvert Equity and PIMCO Total Return III funds. These additions will help provide opportunities for plan members to invest in funds for which corporate policies of good governance, environmental management and human rights are important.

Retirement Board acting as trustee), and a Municipal Employees' Health Benefit Fund. All employ outside managers.

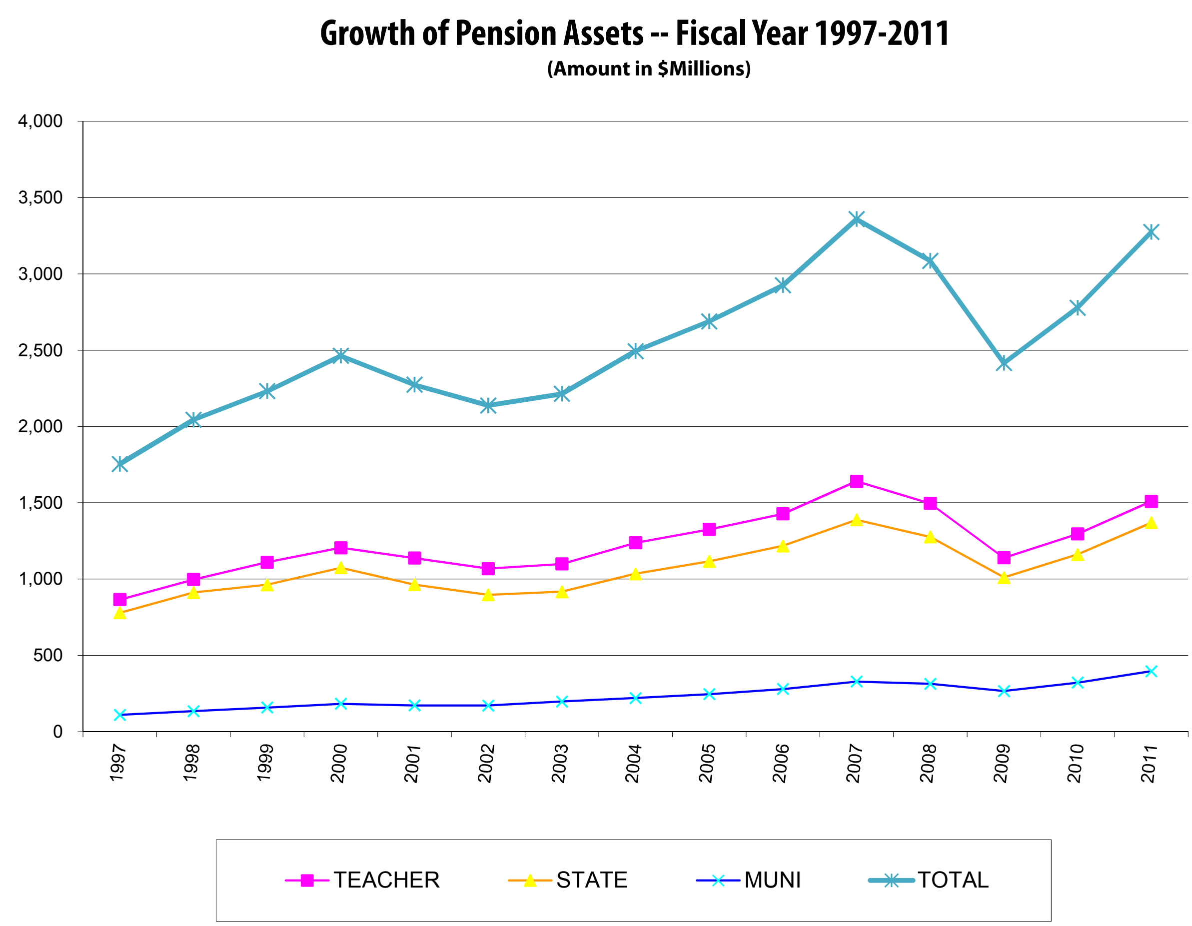
The Vermont Pension Investment Committee (VPIC) acts as the trustee for the defined benefit plan investments, while the board of trustees for each system maintains its fiduciary role in the area of benefits administration and actuarial recommendations. The State Treasurer serves on the retirement boards and the VPIC and is also the custodian of the funds, providing administrative support and oversight.

With respect to pensions, the VPIC employs an outside investment consultant, NEPC LLC, to assist them in their fiduciary responsibility, including development of investment policies and objectives; risk management assessment and asset allocation plans; investment manager and custodian searches; monitoring of management performance; industry issues; SEC compliance; and on-going due diligence on investment managers, performance measurement, and education on various issues (asset classes, alternative investments, risk assessment).

UPDATES

Short-Term Investments

The Office of the State Treasurer remains committed to meeting the cash needs of State operations while protecting the value of its assets, and approaches these responsibilities in a prudent, deliberate way. This past fiscal year presented a number of challenges including a low interest monetary policy, federal deficit impasses and a volatile economic climate.



VPIC Membership

The Vermont Pension Investment Committee is responsible for investing almost $3.3 billion in assets for the three state-level retirement systems as of June 30, 2011. Act 100, which became effective July 1, 2008, redefined the membership of VPIC to six voting members and four alternates (from seventeen members previously) Act 139, which became effective July 1, 2010, established the VPIC Chair as a seventh, non-voting member elected by the six voting VPIC members. 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 purposes of the committee. The members serve staggered four-year terms with no term limits.

As of December 2011, individuals appointed to the committee are: Stephen Rauh, Chair; Robert Hooper, VSERS voting member; Kevin Gaffney, VSERS alternate; Steven Jeffrey, VMERS voting member; Tom Golonka, VMERS alternate; Joseph Mackey, VSTRS voting member; Tom McConnell, VSTRS alternate; Richard Johannesen, Governor's appointee; Vaughn Altemus, Governor's appointee; Karen Paul, Governor's alternate; and Beth Pearce, State Treasurer.

Due to the weak economy, the Federal Reserve Board implemented some of the largest drops in monetary policy history in recent years, lowering its federal funds rate to a range between 0 percent and 0.25 percent. With the Federal Reserve Board holding the federal funds rate steady at a relatively low level, yields in money market portfolios have declined. For operating funds that include the general fund, transportation, and education fund--where preservation of principal is essential--the Treasurer's office has taken a more conservative investment approach, rather than increasing risk by chasing marginal return in leveraged or derivative instruments. In addition, the impasse in Washington on the national debt and threatened government closures has often necessitated a strategy of keeping funds short and liquid.

The State's short-term portfolio has traditionally been comprised of money market instruments, certificates of deposit, commercial paper, and money market mutual funds, consistent with the stated priority of safety of principal. On the national level, this perceived "safe" area of investments has experienced considerable upheaval beginning with the end of 2007 into 2008. Some money funds and short-term portfolios paid the price for chasing high returns. Prior to 2008, many portfolios, including so called "Prime Money Market Funds," added increasing levels of commercial paper (CP), especially more highly leveraged forms such as asset-backed commercial paper (ABCP) or other securities, such as structured investment vehicles (SIVs) or collateralized debt obligations (CDOs). The intent was to "enhance" return but this was done, in many cases, without a full understanding of the potential risks. Many states and municipalities experienced losses from this strategy. Vermont was not one of these states. In the fall of 2007 the Treasurer's Office made strategic moves in non-pension funds to the more conservative money market instruments. While continuing to review options in a changing market environment, we have maintained a conservative approach as the economy recovers from the Great Recession, while taking strategic opportunities in the Trust Investment Account (see update to follow).

The short-term portfolio earned $851,676 in interest income in fiscal year 2011 on average daily available balances of $330.8 million. Of this amount, $205,576 was credited to interest earning funds, and the balance of $646,100 remained in the general fund. The yield on the available cash in the portfolio was 0.26 percent for the year, which exceeded the average three-month Treasury Bill yield of 0.11 percent.

Extensive negotiations were completed with the State's bank of record, TD Bank, to increase the yield on overnight deposits, effective January 1, 2012. The Treasurer's office anticipates an increase in investment return of more than $400,000 over the next year.

Investments for operating funds and restricted funds and trusts, including the Trust Investment Account, but excluding pension and retirement trust funds, attained a combined interest rate return of 1.93 percent.

Pension Fund Investments

VPIC oversees all investment assets held by the Vermont State Employees' Retirement System, the Vermont State Teachers' Retirement System, and the Vermont Municipal Employees' Retirement System. The three systems had combined assets of approximately $3.3 billion on June 30, 2011(see chart page 41). In addition, the Burlington Employees' Retirement System, which became a participating investor with the VPIC at the end of October 2007, had assets of approximately $123 million as of the same date.

The two charts on the right outline VPIC performance over the past ten years. These numbers are heavily impacted by the Great Recession. Prior to the Great Recession, the rolling 10-year average returns exceeded 8 percent. These were significantly impacted by the investment markets in 2009. The 10-year rolling averages for subsequent years reflect this, but have begun to exhibit an upward trend. In fiscal year 2011, one-year investment returns were 21.2 percent for VSERS, 20.5 percent for VSTRS, and 21.0 percent for VMERS versus the median public fund return of 21.2 percent, although the first half of fiscal year 2012 has exhibited considerable volatility. These numbers should be viewed in the context of 30-year expected returns for the portfolio of 7.9 percent, based upon current asset allocations, as determined by our independent investment consultants.

Long-Term Investment Performance Of Vermont's Retirement Systems

As of June 30, 2011
Gross of Fees

Retirement System:	Last 1 Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
Teachers Composite	20.5%	4.5%	4.6%	6.1%	5.8%
State Composite	21.2%	5.1%	4.9%	6.3%	5.8%
Municipal Composite	21.0%	5.4%	5.1%	6.4%	5.9%
Median Public Fund	21.2%	4.8%	4.9%	6.3%	5.7%

10-Year Investment Performance Of Vermont's Retirement Systems

As of June 30 for each Fiscal Year
Gross of Fees

Retirement System:	2011	2010	2009	2008	2007	2006	2005
Teachers Composite	5.8%	3.7%	2.9%	6.3%	8.7%	9.1%	9.9%
State Composite	5.8%	3.1%	2.5%	5.6%	8.1%	8.6%	9.5%
Municipal Composite	5.9%	4.0%	2.8%	6.3%	9.1%	9.5%	10%
Median Public Fund	5.7%	3.4%	2.9%	6.1%	8.3%	8.5%	8.8%

Source for tables above: New England Pension Consultants

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, 2011, the fund had a principal balance of approximately $64 million, of which $25 million was allocated to the Tobacco Trust Fund, $19.7 million to the Higher Education Endowment Trust Fund, and the remainder to various smaller trust funds.

Since inception in 2000, the TIA fund has earned 8.11 percent, exceeding its benchmark of 6.18 percent.

The current target allocation of the Trust Investment Account is 70 percent fixed-income securities and 30 percent equities. For fiscal year 2011, the fund had a dollar weighted total return of 10.79 percent versus the target return of 11.68 percent, which is based on actual asset allocation, and the performance of the S&P 500 Stock Index (30.73 percent) and the Barclays (formerly Lehman) Aggregate Bond Index (3.9 percent). The lag was due primarily to riskier fixed income securities (e.g., CMBS instruments) outperforming Treasuries and a somewhat shorter duration in the portfolio versus the benchmark, in light of the expectation for annual distributions from the fund. Since inception in 2000, the TIA fund has earned 8.11 percent, exceeding its benchmark of 6.18 percent.

It is important to note that TIA funds are invested with Vermont investment managers, including Hanson & Doremus Investment Management and Prentiss Smith & Co. on the domestic equity front and Sentinel Asset Management, Inc. for the fixed income portion. The only portion not invested with a local Vermont manager is used to assist Vermont

(continued next page)

Importantly, 2011 saw the benefits of portfolio restructuring efforts that were begun in 2009 reflected in reduced portfolio risk and improved performance in challenging markets. While longer term returns until fiscal year 2008 were well above the assumed actuarial rate of return (e.g. 11.2 percent five-year returns for VSERS, versus an 8 percent actuarial rate), the financial crisis in 2008 and subsequent “Great Recession” have posed challenges for all retirement plans. In this context, the two-year annualized returns of 19.5 percent seen in fiscal year 2011 (e.g., for VSERS), accompanied by a reduction in annualized risk by approximately one-third, suggests significant progress has been made in adjustment of the portfolio. Part of this diversification has been achieved by incorporating a number of additional investment strategies, but a reduction in the exposure to equity risk has also contributed to recent improvements. As a result, the “capture” of performance in up and down markets has improved. Recent months’ portfolio performance show more resiliency than in months prior to 2010. The current asset allocation is summarized in the chart below.

Asset Allocation of Pension Funds as of June 30, 2011

Investment Category	Allocation
Equity	
Domestic Large Cap	12%
Domestic Mid Cap	2%
Domestic Small Cap	4%
International Established	12%
Emerging Market	6%
Total Equity	**36%**
Fixed Income	
Diversified Bonds	18%
High Yield Bonds	5%
Global Bonds	8%
Emerging Market Debt	3%
TIPS	3%
Total Fixed Income	**37%**
Alternatives	
Real Estate	5%
Hedge Fund-of-Funds	5%
Commodities	2%
Total Alternatives	**12%**
Multi-Strategy	
Risk Parity	5%
Global Asset Allocation	10%
Total Multi-Strategy	**15%**
Cash	**0%**
Grand Total	**100%**

Note for table above: To streamline administration and ensure greater consistency of returns across the three systems, VPIC migrated all three Vermont Retirement systems to the same asset allocation.

Through a competitive process, in fiscal year 2008 the VPIC selected a consultant and advisor to assist with its previously adopted policy relating to investing in companies involved in genocidal or terrorist states. With assistance from this advisor, the VPIC has the tools required to identify issuers that may be in conflict with its policy and proceed with engagement or divestiture as appropriate. In 2010, VPIC expanded the list to include 25 companies and continues to discuss both the policy and ways of enhancing its efficacy in engaging or divesting companies found to be in conflict with it.

In 2011, VPIC continued its review of its domestic and international proxy voting policies. Corporate responsibility and accountability guidelines in these policies include voting policies on environmental issues such as global warming, environmental reporting, and executive compensation, as well as workplace issues such as equal employment opportunities, human rights, and labor codes. These policies can be viewed on the State Treasurer's web site.

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 $11.5 million of contributions were added between fiscal years 2002 through 2011. On June 30, 2011, the fund had a market value of $18,471,131.54. In September of 2011, the State Treasurer authorized the distribution of 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 $304,014.79 to be applied as non-loan financial aid to Vermont students attending Vermont post-secondary institutions.

In fiscal year 2012, the additional endowment allocation will be $182,408.87 for each institution, provided it is matched on a two-to-one basis by external donations for endowment purposes by the end of the fiscal year.

The Higher Education Endowment Trust Fund Act further provides that contributions shall include "… in any fiscal year in which a general fund surplus exists and the general fund stabilization reserve is funded to its required statutory level, funds raised by the estate tax under chapter 190 of Title 32 which are more than 125 percent of the amount projected by the emergency board in the July annual forecast made pursuant to section 305a of Title 32." In fiscal year 2008, a substantial contribution from this provision was made of $5,223,449.94, and in fiscal year 2010 the fund received an additional contribution of $1,521,871. At the end of fiscal year 2011, approximately $11 million was received under this provision which will be reflected in fiscal year 2012. In addition, 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 is to be turned over to the Higher Education Trust Fund. Under this provision, $600,000 was added to the fund in fiscal year 2007, $51,586 in fiscal year 2009, $47,471 in fiscal year 2010, and $30,026 in fiscal year 2011.

In addition to the above disbursements from the fund, the Vermont Commission on Higher Education Funding authorized the Treasurer to make available the additional 2 percent distribution of $177,917.90 to be divided equally between the University of Vermont and the Vermont State Colleges for application to their respective permanent endowments. In fiscal year 2012, the additional endowment allocation will be $182,408.87 for each institution, provided

(continuedfrom previous page)

housing. Beginning in fiscal year 2008, the Treasurer's office invested $2.5 million of TIA assets in a mutual fund that invests in public housing and other fixed-income securities throughout the United States. The balance continues to be invested and earning interest and has grown to approximately $3.1 million. The fund manager, RBC Global Asset Management (formerly Access Capital), has an equal investment in high-grade Vermont securities that address principally underserved segments of the housing market, such as affordable housing. The aim of the investment was to increase the pool of available capital funds for affordable housing in Vermont. RBC invests in mortgages to homebuyers making less than 80 percent of an area's median income. The fund invests primarily in AAA/ credit quality community economic development investments, usually specially created mortgage-backed securities.

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, 2011, $679.65 million in CDs have been awarded. As of December 31, 2011, there no CD's outstanding. During 2011, a total of $36.60 million of CDs with varying maturities and rates well above comparable maturity Treasury rates were issued. There have been no losses associated with this program.

that it is matched on a two-to-one basis by external donations for endowment purposes by the end of the fiscal year and subject to statutory limitations on distributions exceeding contributions. A copy of the State Treasurer's Annual Report to the Commission is attached at the back of this report in the appendix section.

Trust Litigation Settlement Fund & the Tobacco Trust Fund

In November 1998, Vermont was one of 46 states to enter into a settlement agreement with four major tobacco companies. The State's estimated share of settlement payments at that time was expected to total $806 million over the first 25 years of payment, with an additional $156 million of strategic contribution payments to be paid between 2008 and 2017. Through fiscal year 2011, the State has received payments totaling $371.2 million. Fiscal year 2008 marked the first year of receipt of strategic payments, which were $14.4 million and are also included in the fiscal year 2010 total. Pursuant to the agreement, the expected settlement amounts are adjusted for inflation and the effect of any decreases in the sale of tobacco products to the base year. As of January 1, 2009, these have accounted for an 11.5 percent decrease. It remains difficult, therefore, to predict the amount of the future payments due from the tobacco settlement that will be received by the State.

The balance of the Tobacco Trust Fund investments at June 30, 2011 was $24.96 million and $25.85 million at the end of fiscal year 2010.

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 2011, $35.85 million from the settlement fund was directed to healthcare services (Medicaid; includes funds redirected to the Medicaid Global Commitment Fund). A total of $3.24 million was spent on programs in various departments for tobacco enforce-

Vermont's Expected and Actual Receipt of Tobacco Settlement Funds

Fiscal Year	Master Settlement Amount* ($millions)	Expected* ($ millions)	Actual* ($millions)
2000	$36.23	$36.23	$33.22
2001	28.47	28.47	24.68
2002	34.18	34.18	31.00
2003	34.51	34.51	30.55
2004	28.80	28.80	25.82
2005	28.80	26.10	26.21
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	36.21
2011	29.37	33.00	33.86

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

ment, prevention, and education programs. Additionally, $3.11 million funded substance abuse and youth protection programs in the Agency of Human Services. In fiscal year 2012, the legislature has appropriated $36.98 million for Medicaid health services; $3.65 million for enforcement, prevention, and education; and $1.98 million for substance abuse and youth protection programs. Any remainder of the settlement fund receipts is to remain in the fund for appropriation in fiscal year 2013. In fiscal year 2011, $7.72 million was transferred from the Tobacco Trust Fund to the Tobacco Litigation Settlement Fund per Act 156 of 2010 sec D.103 amended by Act 3 of 2011 sec 58. The balance of the Tobacco Trust Fund investments at June 30, 2011, was $24.96 million and $25.85 million at the end of fiscal year 2010. Of the $24.96 million invested, $7.72 million is committed to the above mentioned transfer to cover the deficit in the tobacco Litigation Settlement Fund as in past years.

Single Deposit Investment Account

The State Treasurer's Office, in concert with the State and Teachers' Retirement Boards, made a significant change to the structure of the Single Deposit Investment Account (SDIA) over the past eighteen months. The 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. Until fiscal year 2011 it was invested in two intermediate term bond portfolios managed by two different investment managers. The investment policy governing those portfolios included a minimum average credit quality of double-A, no bonds rated below investment grade, and limitations on asset-backed, mortgage-backed, collateralized Mortgage Obligations, corporate bonds, and single issuers of non-treasury/government agency backed bonds. The bonds were "wrapped" by an insurance policy guaranteeing the book principal value of investment to SDIA participants. This insurance wrapper required monthly adjustments of participant crediting rates based on the changing market value of the portfolio.

The State opted to transition to a new investment model. That model is a commingled stable value fund designed to combine the assets of unrelated plans.

In response to a limited wrap environment and rising fees, the Treasurer's office undertook a Request for Proposals (RFP) to identify potential wrap providers and/or explore alternate delivery mechanisms. There is concern that continued use of this investment model would be difficult to support in light of a number of SDIA members nearing retirement and the resulting significant increases in the disbursement of funds. As a result of the RFP process, the State opted to transition to a new investment model. That model is a commingled stable value fund designed to combine the assets of unrelated plans, with resulting diversity 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 (3.33 percent), 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.

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 Investment Trust Account. The funds were invested with the State's short-term investments, until a spending policy for these funds was established by the Board of Trustees for the Vermont Veterans' Home. At the board's September 2002 meeting, a spending policy was adopted that allowed for transfer of the funds to a fund in the State's Trust Investment Account ("TIA"). Of the amount transferred, $400,000 was deposited in the TIA fund as of October 1, 2002. In November and December of 2002, the Vermont Veterans' Home received a bequest of $410,000 that was deposited into the TIA fund as a second, separately-named fund pursuant to the terms of the bequest. On July 1, 2004, an additional contribution of $75,000 was credited to this second fund.

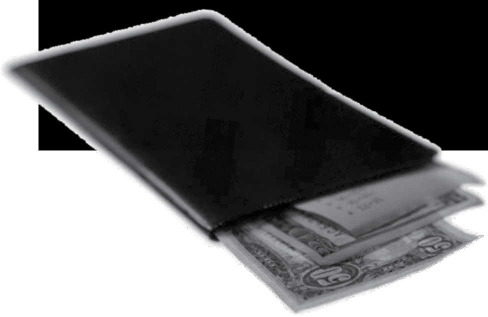
During fiscal year 2011, withdrawals from the Vermont Veterans' Home TIA funds totaled $50,000. As of June 30, 2011, the balance of the fund first contributed to the TIA was $514,145.27, and the balance of the second (later) fund was $621,607.58, for a combined total of $1,135,752.85.

Other Retirement Trusts/Funds

In 2011, the VSERS Board elected to add a socially responsible investing (SRI) bond fund alternative, the PIMCO Total Return Fund III, to the 457 Deferred Compensation Plan, and to add a self-directed brokerage option through Charles Schwab. The VSTRS Board added two SRI alternatives, the Calvert Equity Fund A (stocks), and the PIMCO Total Return Fund III (bonds). Finally, both Boards opted to explore fixed annuities to provide a guaranteed retirement income alternative in the respective plans, and the Treasurer's Office commenced a formal "request for information" or RFI process to be completed in the first quarter of 2012.

There were no changes to the State and Municipal Defined Contribution (DC) plans' investment options in 2011, however the Treasurer's Office will be conducting an RFP process for plan administrator during the first quarter of 2012.

(PAGE LEFT INTENTIONALLY BLANK)



Unclaimed Property Division

Overview

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

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

The Unclaimed Property Division holds lost funds until the rightful owner(s) are found, returning the property to the owner at no cost to the owner.

UPDATES

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 2011, the division paid 11,776 claims worth more than $4.2 million. The average

ACCOMPLISHMENTS IN 2011

- Paid 11,776 claimants approximately $4.2 million, with an average claim of $361.73.
- Managed the unclaimed property database of more than $56 million and 300,000 properties.
- Holders of unclaimed property reported $8.4 million worth of unclaimed funds to the State in fiscal year 2011.
- In fiscal year 2011, there were 265,617 web searches for unclaimed property on the Vermont State Treasurer's web site.

Unclaimed Property Division
(802) 828-2407
(800) 642-3191

Al LaPerle
Unclaimed Property Director

Nancy Scribner
Business Administrator

Linda Bouffard
Program Technician I

Charles Ryerson
Program Technician I

claim paid was $361, a slight rise over fiscal year 2010. To promote awareness of the program, 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 postcard mailing.

Fiscal year 2012 claims processing is currently on pace to pay more than 14,000 claims to Vermonters.

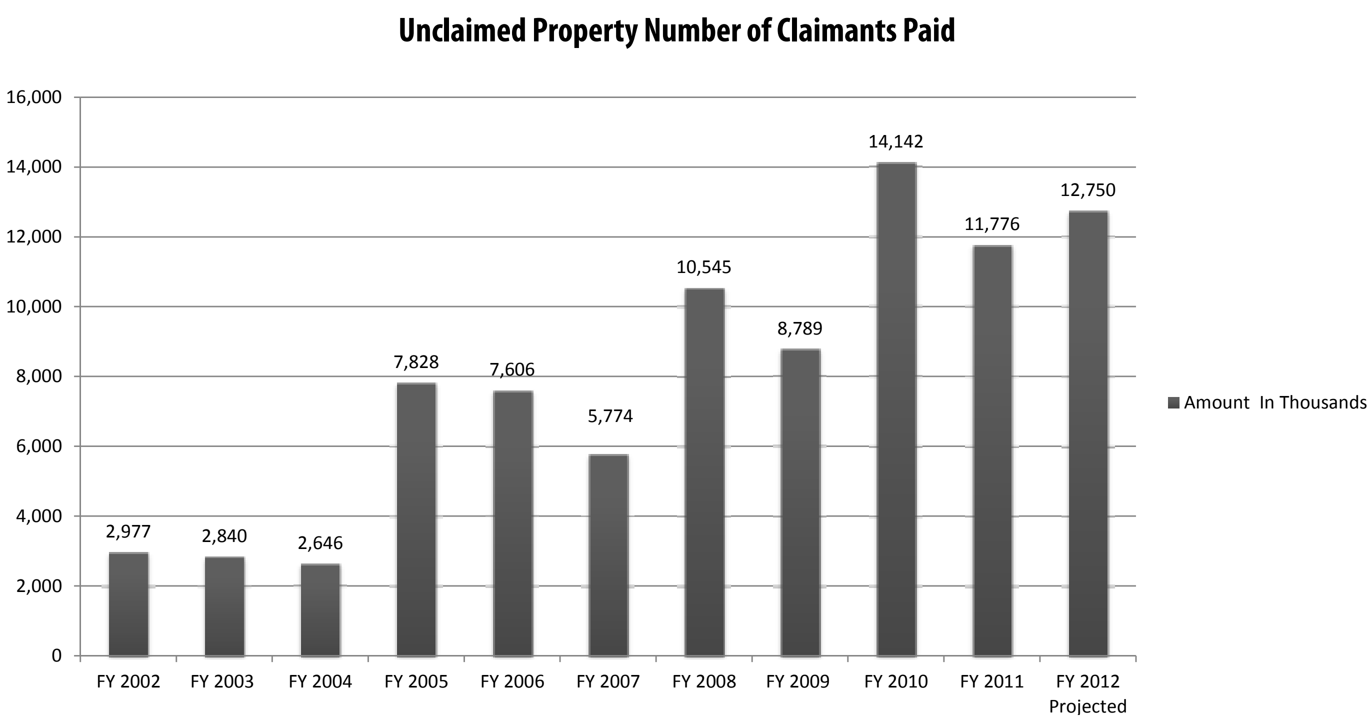
Supporting our outreach efforts, the Unclaimed Property Division uses the Unclaimed Property Management System 2000. This is the most advanced, secure and reliable unclaimed property management system available to the State. Currently, 36 other states use this product. This system has permitted owners of unclaimed property to receive their funds more promptly.

Fiscal year 2012 claims processing is currently on pace to pay more than 14,000 claims to Vermonters. From July 1 through December 1, 2011, the division had paid 5,858 claims. Claim information for the last ten fiscal years is shown in the chart below and on the next page.

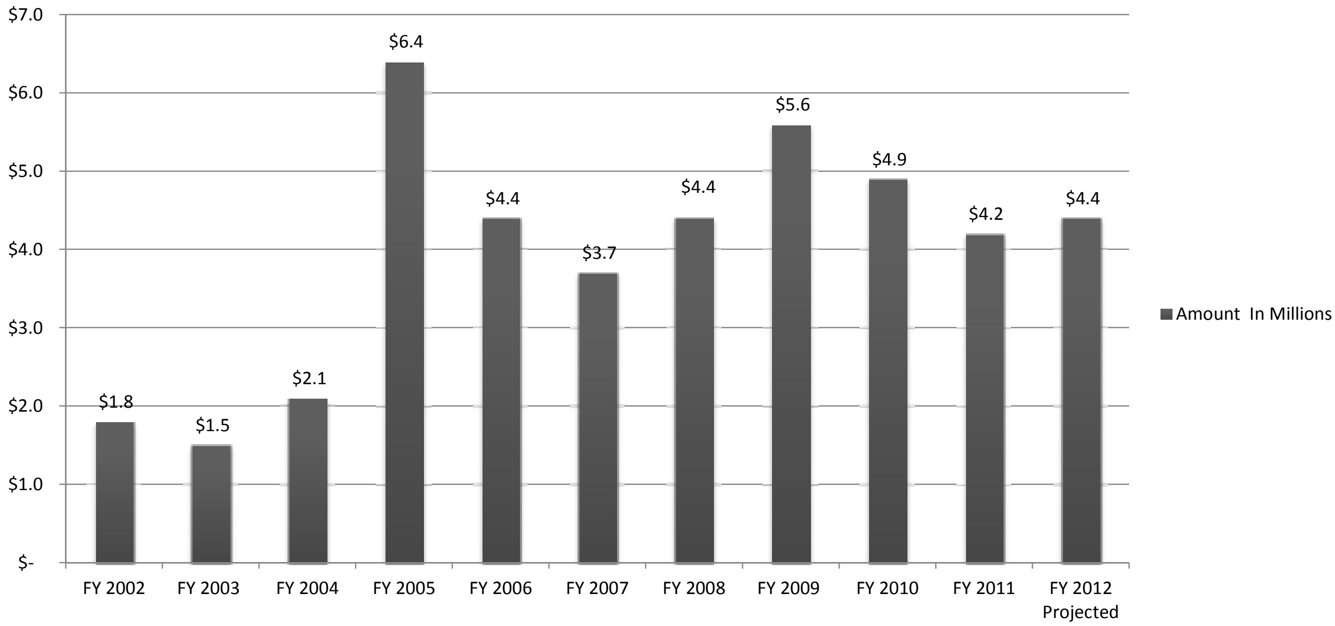
Reporting and Compliance

By law, banks, insurance companies, corporations and the courts are among the many organizations known as holders, and are required to report dormant accounts to the Unclaimed Property Division. Vermont's unclaimed property law requires organizations to annually review their records and transfer accounts that have reached certain dormancy thresholds. The State Treasurer serves as custodian of the funds until they can be returned to their rightful owners.

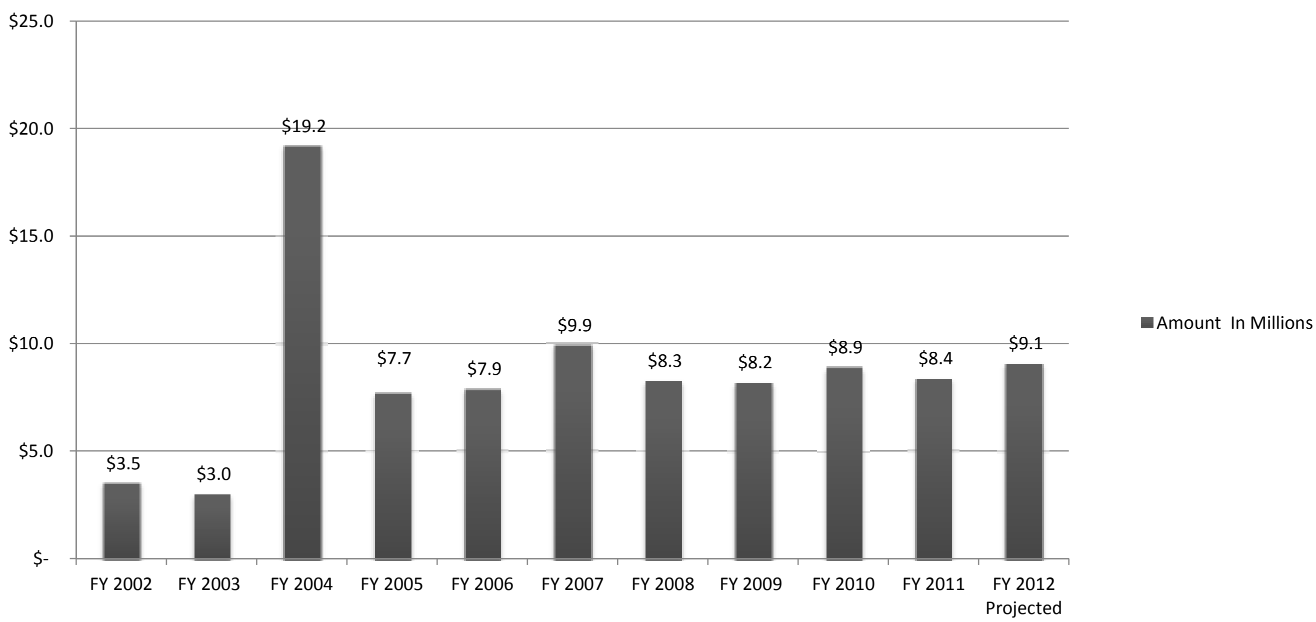
Each fall, the Unclaimed Property Division publishes an annual list of new unclaimed property turned over to the Treasurer's office in the past year and the names of potential owners. Along with newspaper inserts, the division also purchases other advertising. Above is a "sticky note" ad designed to be prominently displayed in the publication carrying the ad. Vermonters responded positively to the 2011 fall campaign. On November 2, a one-day online search record was set when 29,672 searches of the unclaimed property database were completed.



Unclaimed Property Amount Returned to Vermonters



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



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's Office.

Vermont's unclaimed property law requires organizations to annually review their records and transfer accounts that have reached certain dormancy thresholds. 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 $56 million in unclaimed property belonging to more than 300,000 individuals and organizations. Property becomes "lost" due to a company having no communication with the owner. This may be caused by an address change or change in marital status. In some cases, the owner dies and the heirs have no knowledge of the property. During fiscal year 2011, the State of Vermont received $8.4 million from holders of unclaimed property. Of particular note, was the receipt of approximately $700,000 from the insurance company, John Hancock. An audit of the company, on behalf of Vermont and 36 other states, included funds from accounts that the owners had lost track of and accounts where money was due beneficiaries who were unaware of them. We anticipate additional funds will be received by the Treasurer's office in the coming year as more similar audits are completed of other insurance companies.

Education continues to be an important part of the division's compliance effort. A division representative will visit a holder upon request to provide information on the program.

Besides using staff to conduct audits within the State of Vermont, we also use three contract audit companies to assist us in the enforcement of the statute. These companies have enabled the division to touch base with a greater number of holders of unclaimed property.

The Treasurer's office continues to allow holders to enter into a voluntary compliance program to submit to a process of disclosing and remitting property, thus avoiding costly audits, fines and penalties. Since the program's inception, $2,101,000 has been turned over to the State. Since the beginning of fiscal year 2012, 278 holders have submitted more than $979,224 in financial property, an increase of 60 percent over the same time period last fiscal year.

PLAY BALL!

Creating awareness of unclaimed property is a year-long job. In the summer, the division takes advantage of the summer crowds at the Vermont Lake Monsters games and sponsors a back-fence banner.

Treasurer Beth Pearce threw the first pitch at the August 1 game and took time to explain to baseball fans about the program. Fans could also check for unclaimed property at the game at an outreach table staffed by the division.

Treasury Operations Division

Overview

The Treasury Operations Division processed more than 1.58 million payments during the 2011 fiscal year. Approximately 64 percent of those payments were conducted electronically. The Office of the State Treasurer has an ongoing goal of increasing the proportion of transactions that occur via electronic funds transfer. The division is responsible for the banking and cash management of more than $4.9 billion annually in both receipts and disbursements; the establishment and maintenance of the State's banking 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. The 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.

In addition, the division 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 2011, more than 122 thousand deposits were processed to State accounts through a network designed to accelerate the collection of cash so that it may be used for operating needs or efficiently placed in short-term invest-

ACCOMPLISHMENTS IN 2011

- In fiscal year 2011, more than 122,000 deposits were processed to State accounts and 1.58 million payments were processed, either through paper checks or electronic fund transfers.

- Working collaboratively with other State departments and agencies, the Treasury Operations Division was able to help ensure that the flow of State aid payments and State vendor payments continued during State office closures in March for snow, in May due to flooding, and during the aftermath of Hurricane Irene. In particular, staff worked overtime during the spring storms with BGS and child support to assure essential payments were delivered to our customers.

- In response to fiscal challenges created by Hurricane Irene, the Treasury Operations Division facilitated and implemented actions aimed at aiding Vermont's impacted communities. As directed by the State Treasurer, Administration, and legislative leaders, the division processed the acceleration of certain State payments to municipalities and school districts as the result of Hurricane Irene and the deferment of education payments for impacted towns.

Treasury Operations Division: (802) 828-2301

John Booth
Treasury Operations Director

Scott Baker
Financial Reporting Director

Dan Currier
Cash & Investments Manager

Ron Baldauf
Financial Specialist III

Lisa Gilman
Financial Specialist III

Becky Brockway
Financial Specialist II

Joanne Costantini
Financial Specialist II

ments. On the disbursement side, 1.58 million payments were processed, either through paper checks or electronic funds transfers (EFT). Working cooperatively with all of the Treasury's business partners, we have been able to assure that the number and duration of reconciling items from user department entries remains low, and that reporting/review processes are in place to continually improve the accuracy and timeliness of financial reports and the supporting data.

Electronic Payments

The issuance of paper checks is labor-intensive and costly. Electronic payments reduce bank fees, printing and postage costs, the potential for fraud, as well as staff time to reconcile bank accounts. Tracking of lost checks is time-consuming and can be largely eliminated through electronic payment processing. Time spent searching for cleared payments is eliminated. Bank fees related to "stop payments" are eliminated, as are the costs associated with re-issuing payments, and inconvenience to the payees. This past year, 1,288 check payments were reissued because the original check was lost or was never received by the payee. The Treasurer's Office has an ongoing initiative to encourage State agencies and departments to use electronic payments whenever feasible.

More than 122,000 deposits were processed to State accounts and 1.58 million payments were completed.

One of the barriers to the use of electronic payments by vendors is the lack of payment remittance information received with the payment. The State currently issues and mails a remittance advice for each electronic payment. Of the more than 1.58 million payments processed during fiscal year 2011, approximately 64 percent were electronic transfers. The State Treasurer's Office rolled out a "Vendor Portal" secure web site during fiscal year 2009. This web site allows vendors that receive payments electronically to view payment information online, which reduces the number of information requests received.

In November of 2011, 96.4 percent of monthly benefit payments to retired State employees were made via direct deposit, for the retired teachers, the percentage of monthly benefit payments via direct deposit was 97.2 percent, and for retired municipal employees it was 92.3 percent. This is an increase from the November 2010 percentages of 95.5 percent-State; 96.5 percent-teachers; and 91.1 percent-municipal.

Hurricane Irene Response Support

In a team effort, the division helped with several initiatives aimed at assisting Vermont communities impacted by the storm.

- Accelerated local highway aid payments, current use, and payment-in-lieu-of taxes to towns totaling $30.7 million.
- Accelerated education payments totaling $125 million.
- Worked with Vermont banks on financing options for communities in need.
- Assisted in efforts by the Municipal Bond Bank to offer low-interest loans and stop-gap funding as needed to local banks.
- Assisted in request to FEMA to initiate Community Disaster Loan program to assist towns with low-interest loans.
- Administered one-time deferment program for impacted communities of Act 68 education fund payments.

These measures were intended to give towns relief and options as they worked to rebuild.

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 Department of Education. In fiscal year 2011, all municipalities made their Act 68 principal payments.

Recovering from the damage caused by Hurricane Irene has caused fiscal concerns and cash flow issues for some Vermont towns. Working cooperatively, the State Treasurer's Office, administration, and legislative leaders initiated an effort of State government to assist towns that are net payers of education tax to the State with these cash flow issues. Towns were offered a one-time deferral of the education tax payment due to the State on December 1, 2011. The payment due, up to the amount of unreimbursed, estimated municipal repair and replacement costs, could be deferred to February 28, 2012. The deferred amounts will be considered timely paid if received by the State Treasurer's Office by the close of business on February 28, 2012. Eleven towns requested full or partial deferrals, which totaled $7.1 million, or 9.24 percent of the $76.9 million semi-annual billing cycle due on December 1, 2011. As of December 6, 2011, all $69.8 million of the principal receivable for the payment due on December 1, 2011, which is net of the deferred amounts explained above, had been collected. All payment amounts due on December 1, 2011, were received timely. Under statute, in the event of a late payment the State Treasurer's Office would bill interest on a per diem basis, calculated at 8 percent per annum, beginning on the due date.

Legislative Reporting Requirements

Brandon Training School/Vermont Veterans' Home

Section 23 of Act 62 of the Public Acts of 1995 specifies that the State Treasurer shall notify the chairs of the Senate and House Institutions committees upon receipt of monies from the sale of the Brandon Training School property, as well as certain federal receipts associated with the Vermont Veterans' Home. For fiscal year ending June 30, 2011, the State has timely received amounts due from the federal government associated with the Vermont Veterans' Home. The last three buildings belonging to the Brandon Training School were sold on February 9, 2010, and the final receipt for this sale was received in fiscal year 2011.

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 2011, the fund received deposits of $500. The fund earned $35.50 in interest. There was $11,014.01 expended from the trust fund during fiscal year 2011. Of that amount, approximately $9,675 was expended in support of the first year of the Reading is an Investment program, $1,080 was expended for the state tournament of the Reserve Cup Challenge, and the remainder expended for the annual financial literacy poster competition.

Survivors of Emergency Personnel

Originally established by the legislature in 2002 as the Firefighters' Survivors Benefit Fund, this fund was expanded during the 2005 legislative session to include not only firefighters, but ambulance service, emergency medical, first responder service and volunteer personnel. A review board administers the grant of a one-time monetary benefit to the survivor or survivors of emergency personnel employed by or who volunteer for the State of Vermont, a county or municipality of the state, or a nonprofit entity which provides services in the state, who die in the line of duty or of an occupational-related illness. From July 1, 2010 through November 30, 2011, two payments have been made related to the deaths of emergency personnel in the line-of-duty. As of November 30, 2011, this fund has assets of $6,808.29. In addition, the Treasurer's Office has requested that the Commissioner of Finance add a $100,000 appropriation to this fund to the fiscal year 2012 budget adjustment act, to be funded by a reversion from the Treasurer's Office budget.

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.

Credit Card Payments

The Treasurer's Office contracts with TD Bank Merchant Services Group, a division of TD Bank, N.A., to provide credit and bank card services. Acceptance of credit and debit card payments is broadly practiced in many agencies and departments as a method of payment of registration fees, licenses, penalties, fines, durable goods, park reservations, interest, and payment of taxes. Credit and debit card acceptance provides our customers, the citizens of Vermont, with a more convenient method of payment. In addition to public convenience, electronic processing of consumer and business purchases improves governmental cash flows, offers greater financial security, and reduces the overhead costs associated with the handling of currency. In addition, the State has a contract with the Vermont Information Consortium (VIC) to provide internet-based credit and debit card acceptance services to Vermont agencies and departments.

Credit and debit card acceptance provides our customers, the citizens of Vermont, with a more convenient method of payment.

The Court Administrator has worked with VIC since February, 2007, to allow for the payment of fines and fees via the internet and by credit card. In the fiscal year ending June 30, 2011, approximately 37,065 such transactions were processed, with 31,153 conducted by users over the internet, and the remaining 5,912 transactions processed either in person, at a district court, or over the phone. A convenience fee of $3.75 is currently charged to users of the service each time a person pays Judicial Bureau judgments with a credit or debit card. In order to market the on-line credit card payment option for Judicial Bureau judgments, the Judiciary has added the web site address for the service to payment envelopes, the judgment form, and the collection notice. The judgment form and the collection notice also include a tear-off credit card payment stub that can be mailed.

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.

Credit Card Accounts Summary

DEPARTMENT	TOTAL SALES	TOTAL FEES
VT Department of Liquor Control	$23,567,402.26	496,068.91
VT Department of Motor Vehicles	$18,509,088.61	318,439.69
VT Judiciary/Courts *	$6,284,141.13	-
VT Department of Taxes	$4,786,311.81	168,390.87
VT Secretary of State	$4,494,197.69	101,656.37
VT Department of Forest, Parks & Recreation	$2,539,746.15	61,722.34
VT Department of Fish and Wildlife	$1,469,281.44	29,132.01
VT Department for Children & Family Services	$1,080,673.51	24,966.98
VT Department of Public Safety *	$609,696.50	-
VT Restitution Unit	$239,497.43	4,660.81
VT Health Department	$181,899.00	4,257.31
VT Department of Historic Perservative/Historic Sites	$103,919.36	3,563.75
Vermont Life Magazine	$44,150.36	1,132.56
Vermont Department of Labor *	$22,337.50	-
VT Department of Environmental Conservation	$11,808.25	382.15
VT Agency of Transportation	$1,628.00	104.68
Total	63,945,779.00	1,214,478.43

*** Cardholders using this service pay a convenience fee, which offsets all of the card processing fees for this service for this reporting period.**

Technology Update

Technology Services

The Technology Services Division is committed to providing programming and technical support services to the Treasurer's Office. Office personnel in this area provide support to 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 various software applications that support the retirement services for the State's approximately 45,900 active, vested, and retired members across our State Employee, Municipal Employee and Teacher retirement funds.

UPDATES

The Technology Services staff continued to implement important upgrades to the office's infrastructure to improve the speed, reliability and dependability of its systems during 2011. Listed below are some of our major accomplishments.

- The OST data center has been upgraded for improved resilience against disaster by moving to a new location at the National Life building. The data center is now out of the flood plain. In fact, we moved the data center one week ahead of the rising river in March 2011 and much ahead of the damage caused by Hurrican Irene on August 28. The hardware for our servers is now configured for high availability. That means that we can function even if one of our servers were to become disabled for some reason. We also are utilizing a storage area network for improved data redundancy and backup. That means that data saved in our servers at National Life is backed up in real time to our disaster recovery site in Barre.

- We are now able to recover our document imaging system from our disaster recovery site in Barre. Document imaging has become a critical system that required a more robust backup and recovery system. As of December 22, 2011 we had 2,723,908 pages within 1,109,416 documents stored on our system.

- VPAS (Vermont Pension Administration System) has achieved another major milestone by implementing the administration of our Employer Reporting System. The reporting of employee contributions by payroll officers is still being done using our legacy web site. A future upgrade will be done to roll out a new employer reporting website for payroll officers of the municipal employees' and teachers' retirement systems. Benefit calculation is currently being tested by our staff. Our goal is to use the benefit calculation function from VPAS in the fall of 2012.

Technology Services
(802) 828-2498

Ram Verma
Technology Services Director

Lane Safford
Network Administrator II

Appendices

HISTORICAL SUMMARY OF OPERATIONS: *Pension Fund Operations*

State Employees' Retirement System -- Summary of Operations

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011
SOURCES OF FUNDS									
Employee Contributions	$ 12,171,186	$ 13,716,264	$ 15,112,105	$ 14,561,467	$ 15,456,691	$ 18,614,102	$ 22,148,754	$ 22,840,354	$ 22,269,041
Employer Contributions	24,394,933	26,645,619	36,493,435	36,866,451	39,297,002	39,179,823	25,134,235	31,468,884	37,572,599
Other Income	813,168	695,397	777,792	1,171,516	205,321	169,984	1,041,870	227,524	743,172
Investment Income (Reduction)	40,435,216	138,426,552	90,452,723	115,146,415	192,625,279	(84,156,254)	(242,976,381)	182,593,261	238,386,383
APPLICATION OF FUNDS									
Retirement Benefits	41,614,187	44,637,116	48,893,673	53,435,617	58,859,659	64,060,488	70,043,119	79,001,908	84,716,513
Refunds	923,964	1,171,957	1,402,481	1,351,911	1,526,140	1,414,144	1,403,995	1,521,440	1,731,375
Health/Life Insurance Expenses	9,916,398	9,236,526	11,329,269	11,590,588	13,541,092	16,371,373	-	-	-
Administrative Expenses	971,394	659,447	1,255,852	1,329,081	511,435	1,254,577	1,219,287	891,477	1,147,576
Other Expenses	369,383	617,658	635,618	668,929	344,719	631,321	477,966	568,278	613,899
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 24,019,177	$ 123,161,128	$ 79,319,162	$ 99,369,723	$ 172,801,248	$ (109,924,248)	$ (267,795,889)	$ 155,146,920	$ 210,761,832

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

Category	2008	2009	2010	2011
Employee Contributions	$ -	$ -	$ -	$ -
Employer Contributions	1,444,757	19,893,129	20,888,347	24,963,027
Other Income	-	-	1,640,420	2,431,447
Investment Income (Reduction)	7,886	86,454	480,064	802,020
Retirement Benefits		-	-	-
Refunds		-	-	-
Health/Life Insurance Expenses		17,894,518	20,860,032	24,878,272
Administrative Expenses		-	-	68
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

*** 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	2003	2004	2005	2006	2007	2008	2009	2010	2011
SOURCES OF FUNDS									
Employee Contributions	$ 18,820,703	$ 21,088,345	$ 21,158,452	$ 21,884,140	$ 22,533,479	$ 22,918,798	$ 20,937,686	$ 25,315,397	$ 32,062,253
Employer Contributions	20,446,282	24,446,282	24,446,282	24,446,282	37,341,609	39,549,097	35,960,934	40,545,321	47,134,361
Other Income	438,166	267,330	373,705	1,180,606	2,093,219	1,628,242	3,754,020	1,817,540	3,341,877
Investment Income (Reduction)	52,506,838	166,325,045	115,058,694	130,835,585	244,437,213	(110,019,634)	(307,382,559)	208,723,610	261,886,311
APPLICATION OF FUNDS									
Retirement Benefits	50,409,313	55,246,342	60,147,731	66,272,471	74,368,306	82,157,642	89,825,986	96,448,102	106,930,467
Refunds	1,109,174	711,806	1,104,278	1,290,197	1,625,140	1,280,715	1,420,776	1,183,659	1,218,955
Health/Life Insurance Expenses	6,634,738	8,279,332	10,167,601	11,233,854	13,040,783	15,081,847	16,421,176	17,203,669	18,749,675
Administrative Expenses	763,527	805,495	1,052,772	1,679,883	817,052	866,473	1,249,774	1,078,762	1,399,732
Other Expenses	702,568	543,746	682,438	580,403	203,444	542,665	606,434	303,741	609,091
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 32,592,669	$ 146,540,281	$ 87,882,313	$ 97,289,805	$ 216,350,795	$ (145,852,839)	$ (356,254,065)	$ 160,183,935	$ 215,516,882

Municipal Retirement System -- Summary of Operations

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011
SOURCES OF FUNDS									
Employee Contributions	$ 5,000,479	$ 6,507,268	$ 7,404,119	$ 8,744,718	$ 9,769,882	$ 9,906,709	$ 9,557,973	$ 10,711,600	$ 11,702,728
Employer Contributions	5,707,184	7,114,813	8,058,810	7,926,436	8,535,396	-	8,008,862	10,592,919	11,117,363
Other Income	17,855,452	2,125,294	298,475	228,746	206,101	124,132	1,321,919	203,549	266,425
Investment Income (Reduction)	2,630,247	27,271,821	18,165,861	27,697,371	46,637,360	(19,472,654)	(56,937,342)	47,598,096	66,957,781
APPLICATION OF FUNDS									
Retirement Benefits	4,929,747	5,694,080	6,418,097	7,120,325	7,969,703	9,064,725	10,228,263	11,073,098	12,298,902
Refunds	639,170	1,110,243	1,140,245	1,102,940	1,389,583	1,143,397	1,223,465	1,127,574	1,275,979
Health/Life Insurance Expenses	-	-	-	-	-	-	-	-	-
Administrative Expenses	118,038	151,228	367,810	439,983	687,382	623,619	798,458	393,947	569,603
Other Expenses	546,692	668,624	423,937	1,101,883	560,473	506,817	588,899	795,522	886,709
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 24,959,715	$ 35,395,021	$ 25,577,176	$ 34,832,140	$ 54,541,598	$ (20,780,371)	$ (50,887,673)	$ 55,716,023	$ 75,013,104

STATE OF VERMONT: *Pension Trust Funds—Combining Statement of Plan Net Assets—6/30/2011*

	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	$ 5,921,353	$ 4,770,355	$ -	$ 41,356	$ 862,290	$ 75,371	$ 1,429,153	$ 247,147	$ -	$ 13,347,025
Investments at Fair Value										
Pooled investments	1,371,053,907	1,511,976,479	396,399,355	-	-	-	-	-	-	3,279,429,741
Fixed income	-	-	-	-	-	-	5,904,488	-	-	5,904,488
Equities	-	-	-	-	-	-	2,741,815	-	-	2,741,815
Real estate and venture capital	965,098	-	-	-	-	-	-	-	-	965,098
Mutual funds	-	-	-	45,042,406	77,765,434	16,049,454	513,115	10,747,708	-	150,118,117
Invested securities lending collateral	114,251,887	119,671,351	33,476,052	-	-	-	-	-	-	267,399,290
Total investments	1,486,270,892	1,631,647,830	429,875,407	45,042,406	77,765,434	16,049,454	9,159,418	10,747,708	-	3,706,558,549
Receivables										
Contributions - current	3,015,175	3,886,857	3,111,748	91,823	-	13,601	281,667	-	-	10,400,871
Contributions - non-current	-	-	6,805,308	-	-	-	-	-	-	6,805,308
Interest and dividends	73,615	78,462	318,425	-	127	-	-	-	-	470,629
Investments sold	-	-	-	-	-	-	-	-	-	-
Due from other funds	49,266	-	54,860	-	-	-	376,253	-	(104,126)	376,253
Other	41,736	984,873	94,496	-	-	-	-	-	-	1,121,105
Total receivables	3,179,792	4,950,192	10,384,837	91,823	127	13,601	657,920	-	(104,126)	19,174,166
Prepaid expenses	-	-	10,857	-	-	-	-	-	-	10,857
Capital assets										
Construction in progress	1,240,430	1,439,779	392,161	-	-	-	-	-	-	3,072,370
Capital assets being depreciated										
Equipment	810,239	982,461	395,874	-	-	-	-	-	-	2,188,574
Less accumulated depreciation	(219,566)	(259,703)	(110,228)	-	-	-	-	-	-	(589,497)
Total capital assets, net of depreciation	1,831,103	2,162,537	677,807	-	-	-	-	-	-	4,671,447
Total assets	1,497,203,140	1,643,530,914	440,948,908	45,175,585	78,627,851	16,138,426	11,246,491	10,994,855	(104,126)	3,743,762,044
LIABILITIES										
Accounts payable	2,122,507	2,821,846	446,453	4,459	-	473	30,955	-	-	5,426,693
										-
										-
Retainage payable	222,012	270,784	110,177	-	-	-	-	-	-	602,973
Due to other funds	-	-	-	49,266	-	54,860	-	-	(104,126)	-
Interfund loans payable	-	-	14,670	-	-	-	-	-	-	14,670
										-
										-
										-
Payable for investments purchased	-	-	-	-	-	-	-	-	-	-
										-
Securities lending obligations	114,251,887	119,671,352	33,476,052	-	-	-	-	-	-	267,399,291
Total liabilities	116,596,406	122,763,982	34,047,352	53,725	-	55,333	30,955	-	(104,126)	273,443,627
NET ASSETS HELD IN TRUST FOR EMPLOYEES' PENSION AND OTHER POSTEMPLOYMENT BENEFITS.	$ 1,380,606,734	$ 1,520,766,932	$ 406,901,556	$ 45,121,860	$ 78,627,851	$ 16,083,093	$ 11,215,536	$ 10,994,855	$ -	$ 3,470,318,417

See Independent Auditors' Report

STATE OF VERMONT: *Pension Trust Funds—Combining Statement of Changes in Plan Net Assets—Fiscal Year Ended 6/30/2011*

	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	$ 37,572,599	$ 33,134,361	$ 11,117,363	$ 1,601,455	$ -	$ 646,153	$ -	$ -	$ -	$ 84,071,931
Employer - healthcare benefit	-	14,000,000	-	-	-	-	24,963,027	-	-	38,963,027
Plan member	22,269,041	32,062,253	11,702,728	689,554	-	609,437	-	-	-	67,333,013
Transfers from other pension trust funds	743,172	208,107	266,425	111,102	-	16,463	-	-	(1,345,269)	-
Transfers from non-state systems	-	-	-	7,379	-	-	-	-	-	7,379
Medicare part D drug subsidy	-	1,381,587	-	-	-	-	1,999,918	-	-	3,381,505
Early Retiree Reinsurance Program	-	1,752,183	-	-	-	-	431,529	-	-	2,183,712
Total contributions	60,584,812	82,538,491	23,086,516	2,409,490	-	1,272,053	27,394,474	-	(1,345,269)	195,940,567
Investment Income										
Net appreciation in fair value of investments	485,001	5,561	72,012	7,192,492	1,162,467	2,684,041	528,985	1,774,680	-	13,905,239
Income from pooled investments	242,615,086	267,153,775	67,837,569	-	-	-	-	-	-	577,606,430
Dividends	-	-	-	957,771	942,626	286,497	74,889	-	-	2,261,783
Interest	18,765	23,927	440,086	189	1,678,303	418	197,046	1,142	-	2,359,876
Securities lending income	649,947	691,815	182,943	197	2,099	-	-	-	-	1,527,001
Other income	294,521	322,380	25,562	-	218	-	1,100	-	-	643,781
Total investment income	244,063,320	268,197,458	68,558,172	8,150,649	3,785,713	2,970,956	802,020	1,775,822	-	598,304,110
Less Investment Expenses										
Investment managers and consultants	5,516,418	6,141,125	1,555,401	-	342,888	-	-	61,547	-	13,617,379
Securities lending expenses	160,519	170,022	44,990	-	-	-	-	-	-	375,531
Total investment expenses	5,676,937	6,311,147	1,600,391	-	342,888	-	-	61,547	-	13,992,910
Net investment income	238,386,383	261,886,311	66,957,781	8,150,649	3,442,825	2,970,956	802,020	1,714,275	-	584,311,200
Total additions	298,971,195	344,424,802	90,044,297	10,560,139	3,442,825	4,243,009	28,196,494	1,714,275	(1,345,269)	780,251,767
DEDUCTIONS										
Retirement benefits	84,716,513	106,930,467	12,298,902	2,450,124	6,908,397	1,452,909	-	-	-	214,757,312
Other postemployment benefits	-	18,749,675	-	-	-	-	24,878,272	274,073	-	43,902,020
Refund of contributions	1,731,375	1,218,955	1,275,978	-	-	-	-	-	-	4,226,308
Death claims	328,623	303,237	132,570	-	-	-	-	-	-	764,430
Transfers to other pension trust funds	285,276	305,854	754,139	-	-	-	-	-	(1,345,269)	-
Depreciation	97,845	115,811	47,324	-	-	-	-	-	-	260,980
Operating expenses	1,049,731	1,283,921	522,279	49,906	-	87,439	68	-	-	2,993,344
Total deductions	88,209,363	128,907,920	15,031,192	2,500,030	6,908,397	1,540,348	24,878,340	274,073	(1,345,269)	266,904,394
Change in net assets	210,761,832	215,516,882	75,013,105	8,060,109	(3,465,572)	2,702,661	3,318,154	1,440,202	-	513,347,373
Net assets held in trust for employees' pension and postemployment benefits										
July 1	1,169,844,902	1,305,250,050	331,888,451	37,061,751	82,093,423	13,380,432	7,897,382	9,554,653	-	2,956,971,044
June 30	$ 1,380,606,734	$ 1,520,766,932	$ 406,901,556	$ 45,121,860	$ 78,627,851	$ 16,083,093	$ 11,215,536	$ 10,994,855	$ -	$ 3,470,318,417

See Independent Auditors' Report.

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 1, 2011

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 twelfth 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 2011, the Fund's dollar weighted investment return was 10.79% gross of fees. This return compares to the Barclays Aggregate Bond Index return of 3.9% and to the S&P 500 Stock Index return of 30.73% for the same period, and is less than the Fund's target allocation index rate (that is, the rate of return that would have been realized if 30% of the Fund was invested in the S&P 500 Index, and 70% in the Barclays Aggregate) of 11.68%. In general the Fund underperformed its Index due to a more conservative stance in the fixed-income space as well as due to equity market volatility in late 2010. This conservative position is consistent with the objective of providing a high likelihood of annual distributions from the Fund. It should also be noted that the Fund has outperformed since its inception in 2000, returning 8.11% on a annualized basis against 6.18% for its benchmark. The Fund has also outperformed its benchmark over the past three, five, seven and ten fiscal year periods. A detailed discussion of the Fund's performance is included in this report.

5% Distribution from Fiscal Year 2011

The statute provides that in August of each fiscal year, the State Treasurer is to withdraw 5% of up to a 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

below total contributions to principal. Total principal contributions through June 30, 2011 have been $17,500,823.36.

The 5% distribution available this year is $912,044.36 in total or $304,014.79 each for UVM, the Vermont State Colleges, and VSAC. This amount represents a 2.52% increase over the distribution made following Fiscal Year 2010 of $296,529.83 for each institution. **Appendix A** to this report includes quarterly market values and distributions for Fiscal Year 2011, and **Chart #1** shows principal contributions to date.

2% Distribution from Fiscal Year 2010

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 amount equal to 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 its meeting last year, then-Secretary Neale Lunderville and the Subcommittee authorized this 2% appropriation in the amount of $355,835.80, or $177,917.90 each for distribution to UVM and the Vermont State Colleges, dependent upon a finding by the Commissioner that the terms of this appropriation were met. Each of these institutions is in the process of establishing the required certification. Due to the Fund's positive return in Fiscal Year 2011, the Fund will be able to make the full distribution amount.

After payments of $912,044.36 and $355,835.80, the Fund balance at the end of Fiscal Year 2011 totals $18,471,131.54. An accounting of the Fund balances is provided below:

Ending balance FY 2010		$19,080,449.90
Contributions received FY 2011*		0.00
Opening balance FY 2011		$19,080,449.90
5% Distributions:	University of Vermont	(296,529.83)
	Vermont State Colleges	(296,529.83)
	Vermont Student Assistance Corp.	(296,529.83)
2% Distributions:	University of Vermont	(174,535.22)
	Vermont State Colleges	(174,535.22)
Income earned FY 2011		1,222,955.10
Appreciation (Depreciation) FY 2011		749,735.12

Fees and Other Charges FY 2011	(75,468.49)
Balance June 30, 2011	$19,739,011.70
5% of 12-Quarter Moving Average as of June 30, 2011	(912,044.36)
Distributions: University of Vermont	(304,014.79)
Vermont State Colleges	(304,014.79)
Vermont Student Assistance Corp.	(304,014.79)
2% Income Available for Endowments from FY 2010	(355,835.80)
Balance after distributions	$18,471,131.54
Total contributions as of June 30, 2011	$17,500,823.36
2% Income Available for Endowments from FY 2011 (requires institutional match in FY 2012)	$364,817.75

*Does not include $11,030,026.35 of receipts that the State collected during FY 2011 that were added to the Fund in FY 2012.

2% Distribution for Fiscal Year 2011

All principal contributions to the Fund through June 30, 2011 total $17,500,823.36, which also represents the minimum balance that must be maintained in the Fund. The 2% distribution proposed for this year of $364,817.75 would leave a balance of $18,471,131.54 excluding contributions to be received, the 5% distribution following FY 2011, and any gains from investment activity in FY 2011. If the Secretary and the Subcommittee authorize this distribution, each institution's share will be $182,408.87 with a required match to be raised by each entity in FY 2011 of $364,817.75. 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 $19.7 million (prior to cash distributions to be made in FY 2011) comprises approximately 31%. The Tobacco Trust Fund comprises 39% of the account, or $24.9 million, and the remaining 30% is made up of, in decreasing size, a State Employee's retirement benefit trust fund totaling $9.4 million, the ANR Stewardship Fund at $4.4 million, the Waterfowl Stamp Fund at $2.2 million, the Fish and Wildlife Trust Fund at $1.5 million, two Veterans' Home trusts totaling $1.1 million, and eight small trusts totaling just over $550,000. **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 2011. 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. Finally, the fund balances in both FY 2010 and FY 2011benefited from a continued equity market rebound from the 2008 financial crisis, as well as from an Estate Tax contribution during FY 2010.

Asset Allocation, Investment Managers and Performance

The Trust Investment Account's target asset allocation is 70% fixed income securities and 30% equities. As of June 30, 2011, the Account's actual allocation comprised 68.8% fixed income securities and 31.2% equities, versus 73.2% fixed income securities and 26.8% equities, respectively, on June 30, 2010. To minimize transaction costs, the Account is rebalanced annually in October, and other contributions and withdrawals from the various funds are used to "fine tune" the asset allocation during the year.

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 achieved sufficient returns to fully fund distributions in both FY 2010 and FY 2011. Given that the asset allocation has enabled the Fund to perform in both exceptionally adverse and very positive markets, the Treasurer's Office believes the current asset allocation has been appropriate. In particular, the Treasurer's Office is mindful of the need to balance the equity and fixed-income exposures in light of the expectation for annual distributions from the Fund.

The Account return underperformed its benchmark in FY 2011, due in part to conservative fixed income managers lagging their benchmark during the year. The lag was due primarily to riskier fixed income securities (e.g., CMBS instruments) outperforming Treasuries and a somewhat shorter duration in the portfolio versus the benchmark. Equity performance during the fiscal year was impacted primarily by underperformance during the fourth calendar quarter of 2010.

The Account has four investment managers, three of whom are Vermont-based and have managed Account assets for at least ten years: two equity managers, Prentiss Smith & Co. of Brattleboro, and Hanson & Doremus of Burlington, and fixed income manager Sentinel Asset Management (a National Life company), of Montpelier. Each of these managers has outperformed their benchmark in seven of the past eleven fiscal years.

The fourth manager, Minnesota-based fixed income manager RBC Global Asset Management (formerly Access Capital), manages a fund that invests in debt securities that support affordable housing, job creation and community development for low- and moderate-income individuals and communities in Vermont. RBC underperformed in FY 2008, outperformed in FY 2009, and lagged the benchmark in both FY2010 and FY 2011 but in those years has posted higher returns than Sentinel. As such, this investment is meeting its goals of capital preservation and investment return, along with providing benefits to Vermonters.

In conclusion, the Treasurer's Office believes that the Fund's asset allocation is appropriate to its goals of asset growth, capital preservation and supporting distributions, and that the investment managers have performed in a manner consistent with these goals. However, since future distributions depend upon Fund performance, and because interest rates are near fifty-year lows (limiting the upside to owning fixed-income investments), the Treasurer's office is considering changes to the asset allocation as well as asset classes going forward.

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

APPENDIX A: *Higher Education Endowment Trust Fund Distributions—Period Ending June 30, 2011*

APPENDIX A
HIGHER EDUCATION ENDOWMENT TRUST FUND - DISTRIBUTIONS
For Period Ending June 30, 2011

Quarter-End Balances	September 30	December 31	March 31	June 30
Fiscal Year 2009	$16,966,384.87	$16,320,715.01	$16,315,441.73	$17,050,798.96
Fiscal Year 2010	$18,084,136.99	$18,649,777.82	$19,114,425.82	$19,080,449.90
Fiscal Year 2011	$19,046,186.38	$19,080,907.03	$19,442,411.23	$19,739,011.70

Twelve Quarter Average	**$18,240,887.29**	
5% Distribution FY2011	**$912,044.36**	
VSAC		$304,014.79
UVM		$304,014.79
Vermont State Colleges		$304,014.79
2% FY2011 (Projected)	**$355,835.80**	
UVM		$177,917.90
Vermont State Colleges		$177,917.90
2% FY2011 (Actual)	**$355,835.80**	
UVM		$177,917.90
Vermont State Colleges		$177,917.90
Balance after Distributions	**$18,471,131.54**	
2% FY2012 (Projected)	**$364,817.75**	
UVM		$182,408.87
Vermont State Colleges		$182,408.87

Total Contributions	
2001	$6,000,000.00
2002	$1,000,000.00
2003	$635,881.49
2004	$0.00
2005	$0.00
2006	$2,363,355.61
2007	$5,823,449.94
2008	$57,208.65
2009	$0.00
2010	$1,620,927.67
2011*	$0.00
Total:	**$17,500,823.36**

*Excludes $11,030,026.15 of receipts that the State collected in FY 2011 that were added to the fund in FY 2012

APPENDIX B—TRUST INVESTMENT ACCOUNT: *Total Return Analysis—Year Ended June 30, 2011*

MANAGER	Fiscal Year 2002	Calendar Year 2002	Fiscal Year 2003	Calendar Year 2003	Fiscal Year 2004	Calendar Year 2004	Fiscal Year 2005	Calendar Year 2005	Fiscal Year 2006	Calendar Year 2006
DOMESTIC EQUITY										
Hanson & Doremus Investment Management	-7.78%	-18.01%	-1.89%	42.55%	29.10%	15.92%	22.25%	19.18%	21.10%	20.28%
Prentiss Smith & Co.	3.60%	-7.35%	7.70%	18.17%	11.47%	13.25%	11.00%	10.68%	15.77%	16.61%
S&P 500	*-17.99%*	*-22.11%*	*0.25%*	*28.69%*	*19.14%*	*10.90%*	*6.32%*	*4.91%*	*8.63%*	*15.80%*
DOMESTIC FIXED INCOME										
Sentinel Asset Management, Inc.	9.41%	9.48%	8.92%	5.43%	3.48%	5.56%	7.42%	3.07%	0.26%	5.31%
RBC Global Asset Management (Access Capital) [2]										
Barclays (formerly Lehman) Aggregate	*8.63%*	*10.25%*	*10.40%*	*4.10%*	*0.32%*	*4.34%*	*6.80%*	*2.43%*	*-0.81%*	*4.33%*
TOTAL FUND DOLLAR WEIGHTED RETURN	7.94%	5.15%	8.59%	11.24%	7.59%	8.14%	10.17%	6.64%	5.86%	9.48%
Total Fund Target	3.94%	3.29%	9.23%	9.94%	4.96%	6.23%	6.76%	3.27%	2.19%	7.96%
TOTAL FUND MARKET VALUE ($ million)	$33.3	$34.9	$37.3	$38.8	$39.3	$41.1	$43.5	$48.6	$49.7	$52.8

MANAGER	Fiscal Year 2007	Calendar Year 2007	Fiscal Year 2008	Calendar Year 2008	Fiscal Year 2009	Calendar Year 2009	Fiscal Year 2010	Calendar Year 2010	Fiscal Year 2011
DOMESTIC EQUITY									
Hanson & Doremus Investment Management	29.13%	14.32%	-14.64%	-38.44%	-28.04%	22.93%	10.42%	18.90%	32.15%
Prentiss Smith & Co.	20.09%	10.85%	-4.96%	-23.98%	-9.34%	35.30%	12.30%	11.04%	26.57%
S&P 500	*20.60%*	*5.50%*	*-13.13%*	*-37.00%*	*-26.21%*	*26.42%*	*14.43%*	*15.16%*	*30.73%*
DOMESTIC FIXED INCOME									
Sentinel Asset Management, Inc.	6.12%	7.61%	9.10%	7.81%	8.77%	5.03%	7.95%	6.67%	3.27%
RBC Global Asset Management (Access Capital) [2]		2.83%	3.52%	3.71%	8.72%	9.76%	8.67%	5.40%	3.80%
Barclays (formerly Lehman) Aggregate	*6.12%*	*6.96%*	*7.12%*	*5.24%*	*6.06%*	*5.94%*	*9.49%*	*6.54%*	*3.90%*
TOTAL FUND DOLLAR WEIGHTED RETURN	12.02%	9.47%	3.10%	-3.62%	2.40%	13.06%	9.93%	9.76%	10.79%
Total Fund Target	10.62%	6.80%	1.14%	-6.59%	-1.19%	13.18%	12.06%	9.88%	11.68%
TOTAL FUND MARKET VALUE ($ million)	$55.5	$58.8	$59.3	$55.7	$59.2	$66.1	$60.6	$61.2	$64.0

MANAGER	Quarter Ended 9/30/2010	Quarter Ended 12/31/2010	**Calendar Year 2010**	Quarter Ended 3/31/2011	Quarter Ended 6/30/2011	**Fiscal Year 2011**	Portfolio Value 6/30/2011	Portfolio Percent 6/30/2011
DOMESTIC EQUITY								
Hanson & Doremus Investment Management	14.27%	13.17%	**18.90%**	4.06%	-1.80%	**32.15%**	$9,668,127	15.1%
Prentiss Smith & Co.	12.00%	6.72%	**11.04%**	4.84%	1.00%	**26.57%**	$10,287,966	16.1%
S&P 500	*11.30%*	*10.80%*	***15.16%***	*5.90%*	*0.10%*	***30.73%***		*31.2%*
DOMESTIC FIXED INCOME								
Sentinel Asset Management, Inc.	1.43%	-1.06%	**6.67%**	0.63%	2.26%	**3.27%**	$40,935,394	64.0%
RBC Global Asset Management (Access Capital) [2]	0.65%	0.22%	**5.40%**	0.44%	2.45%	**3.80%**	$3,092,805	4.8%
Barclays (formerly Lehman) Aggregate	*2.48%*	*-1.30%*	***6.54%***	*0.42%*	*2.29%*	***3.90%***		*68.8%*
TOTAL FUND DOLLAR WEIGHTED RETURN	4.74%	2.40%	**9.76%**	1.84%	1.44%	**10.79%**		
Total Fund Target	5.02%	2.46%	**9.88%**	2.16%	1.60%	**11.68%**		
TOTAL FUND MARKET VALUE ($ million)	**$59.5**	**$61.2**	**$61.2**	**$62.4**	**$64.0**	**$64.0**	$63,984,291	**100.0%**

Notes:
1. Includes cash balances of: Hanson - $398,023, Prentiss - $460,133, Sentinel - $699,458 as of June 30, 2011.
2. Access Capital added to Trust Investment Account on October 12, 2007.

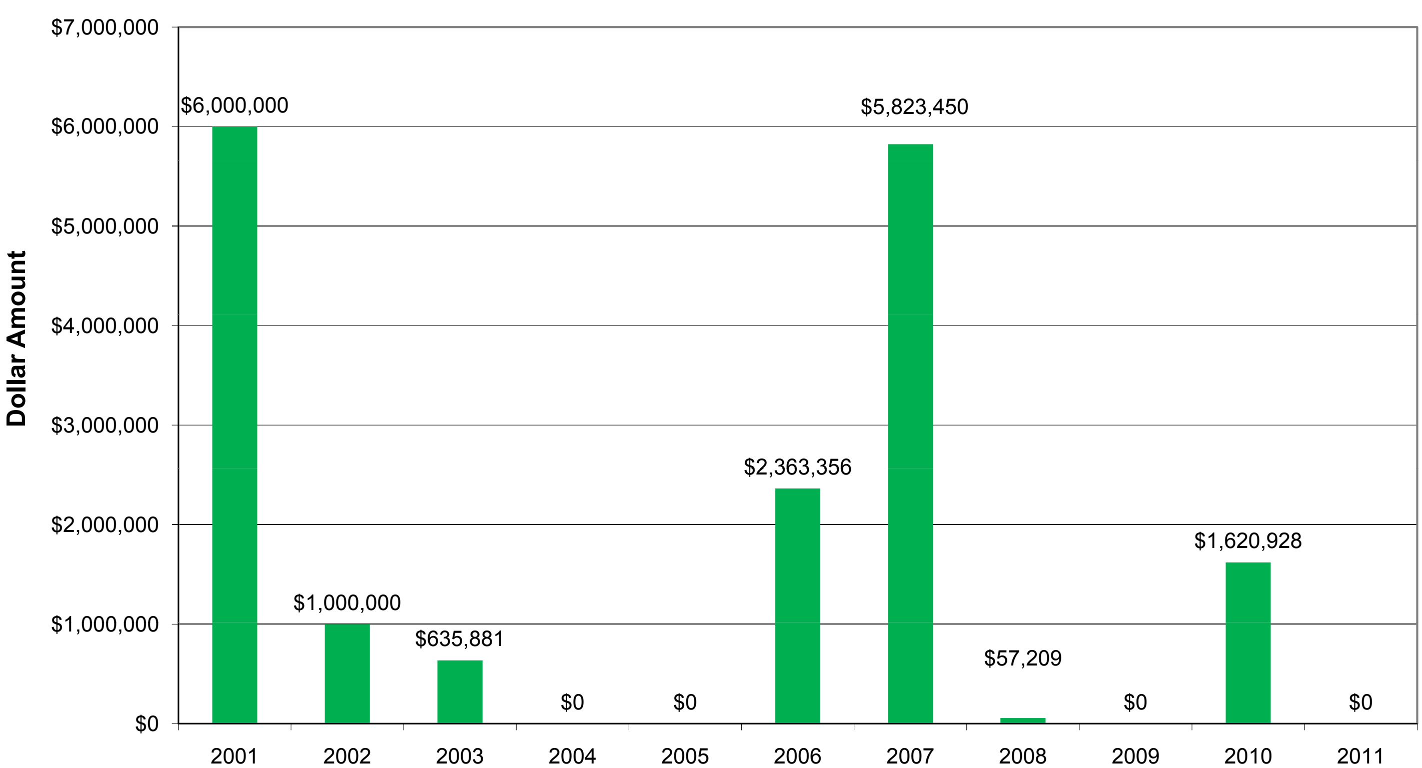
APPENDIX C—TRUST INVESTMENT ACCOUNT: *Account Performance*

APPENDIX C
TRUST INVESTMENT ACCOUNT PERFORMANCE[1]

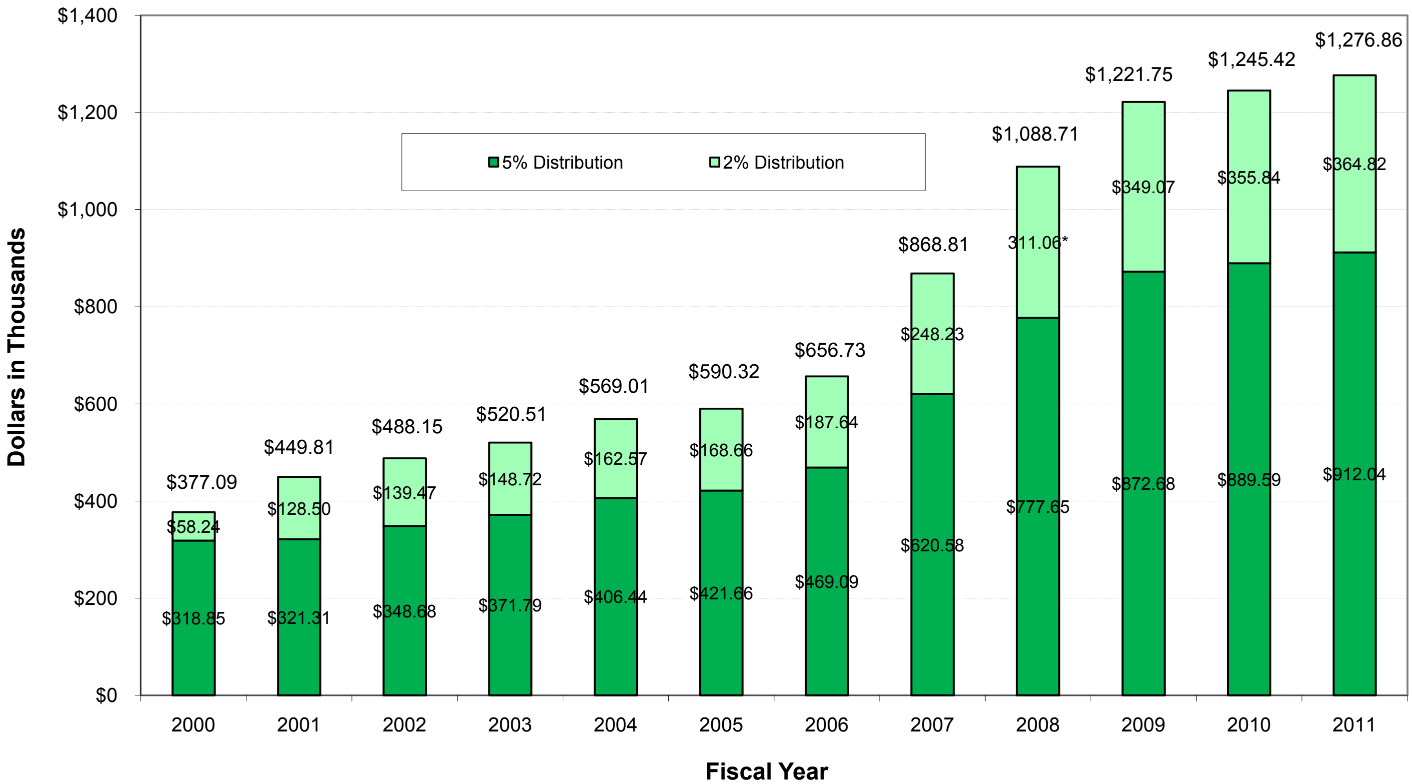
MANAGER	Fiscal Year 2011	Calendar Year 2010	Last 3 Fiscal Years	Last 5 Fiscal Years	Last 7 Fiscal Years	Last 10 Fiscal Years	Since Inception in FY2000
DOMESTIC EQUITY							
Hanson & Doremus Investment Management	32.15%	18.90%	1.64%	2.97%	8.00%	7.18%	9.04%
Prentiss Smith & Co.	26.57%	11.04%	8.82%	8.02%	9.52%	8.92%	8.80%
S&P 500	*30.73%*	*15.16%*	*3.35%*	*2.95%*	*4.22%*	*2.72%*	*1.12%*
DOMESTIC FIXED INCOME							
Sentinel Asset Management, Inc.	3.27%	6.67%	6.64%	7.02%	6.08%	6.43%	6.78%
RBC Global Asset Management[2]	3.80%	5.40%	7.04%	N/A	N/A	N/A	N/A
Barclays (formerly Lehman) Aggregate	3.90%	6.54%	6.46%	6.52%	5.48%	5.74%	6.14%
TOTAL FUND DOLLAR WEIGHTED RETURN	10.79%	9.76%	7.64%	7.57%	7.69%	7.80%	8.11%
Total Fund Target	11.68%	9.88%	7.34%	6.71%	6.06%	6.05%	6.18%
TOTAL FUND MARKET VALUE ($ millions)	**$64.0**	**$61.2**					

Notes:
1. Returns for periods longer than one year are annualized.
2. Formerly Access Capital Management, inception date of September 17, 2007.

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

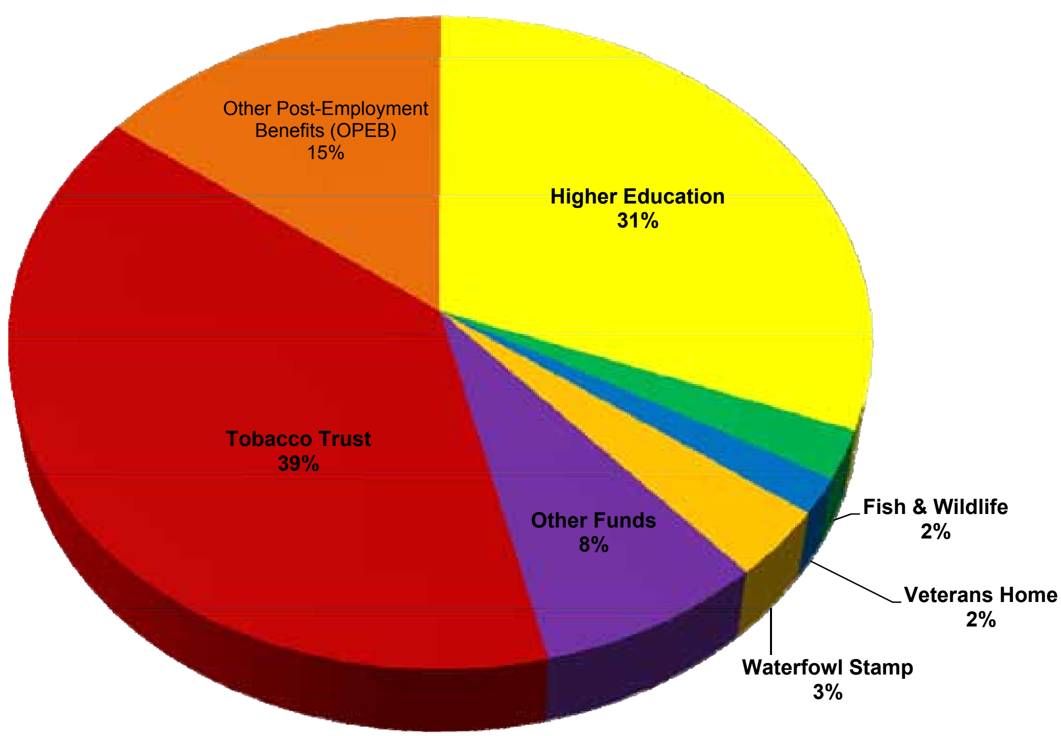


HIGHER EDUCATION TRUST FUND: *Authorized Distributions by Year and Type*

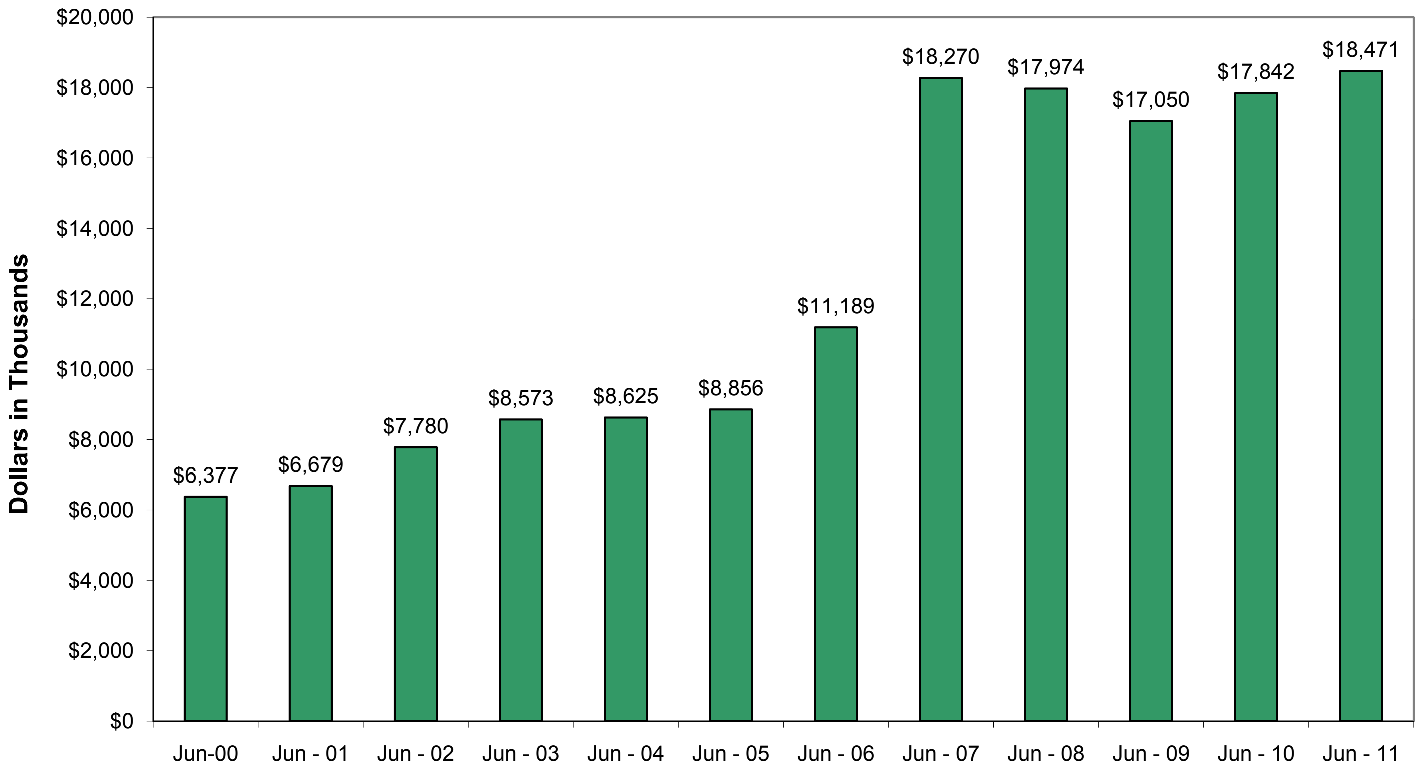


* Actual 2% distribution for 2008 was $298,227.18.

HIGHER EDUCATION TRUST FUND: *Trust Investment Account Fund Composition as of June 30, 2011*



HIGHER EDUCATION TRUST FUND: *Asset Growth—6/30/00 to 6/30/11, includes distributions*



OTHER POST-EMPLOYMENT BENEFITS FUNDING ANALYSIS—VSERS & VSTRS

VSERS -- Other Post-Employment Benefits Funding Analysis

	PRE-FUNDING BASIS	PARTIAL FUNDING
Assumed Discount Rate	8.10%	4.25%
Actuarial Value of Assets	$11,215,536	$11,215,536
Actuarial Accrued Liability		
- Active Participants	$305,152,245	$ 588,716,974
- Retired Participants	299,914,028	421,074,887
- TOTAL	$605,066,273	$1,009,791,861
Unfunded Actuarial Liability	$593,850,737	$998,576,325
Funded Ratio	1.9%	1.1%
Annual Covered Payroll	$420,321,080	$420,321,080
Unfunded Actuarial Liability (as % of covered payroll)	141.3%	237.6%
Normal Cost for FY 2012	$17,926,475	$39,938,163
Amortization of Unfunded Actuarial Liability (for FY 2012 -30 yr)	$29,248,112	$29,942,114
Annual Required Contribution (ARC) FY 2012 *	$47,174,587	$69,880,277
Expected Benefit Payments	$34,046,207	$34,046,207
Increase in Annual Cost to Fund Plan	$13,128,380	N/A

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

VSTRS -- Other Post-Employment Benefits Funding Analysis

	PRE-FUNDING BASIS	PAY-AS-YOU-GO BASIS
Assumed Investment Return	7.9%	4.00%
Actuarial Value of Assets	$0	$0
Actuarial Accrued Liability		
- Active Participants	$151,115,813	$336,352,295
- Retired Participants	285,700,760	443,679,860
- TOTAL	$436,816,573	$780,032,155
Unfunded Actuarial Liability	$436,816,573	$780,032,155
Funded Ratio	0%	0%
Annual Covered Payroll	$547,748,405	$547,748,405
Unfunded Actuarial Liability (as % of covered payroll)	79.8%	142.4%
Normal Cost for FY 2012	$8,409,612	$20,855,820
Amortization of Unfunded Actuarial Liability (for FY 2012-30 yr)	$21,024,973	$22,554,912
Annual Required Contribution (ARC) FY 2012 *	$29,434,585	$43,410,732
Expected Benefit Payments	$22,743,953	$22,743,953
Increase in Annual Cost to Fund Plan	$6,690,632	N/A

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

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 honestly, 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