2010 Annual Report

Office of the State Treasurer

State of Vermont

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.

Jeb Spaulding
State Treasurer

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.

Table of Contents

Letter of Transmittal	2
About the Treasurer's Office	4
Vermont Retirement Systems	6
Retirement Division Operations	8
Financial Literacy	20
Debt Management	24
Investments	32
Unclaimed Property Division	40
Treasury Operations Division	44
Legislative Reporting Requirements	46
Technology Updates	48
Appendices	49

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.

Letter of Transmittal

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

It has been a pleasure to serve as Vermont's State Treasurer for eight years. The 2010 Annual Report for the Office of the State Treasurer represents my final report as Treasurer, as I leave this position to serve as Secretary of Administration. Throughout my tenure as Treasurer, my office has worked diligently to provide Vermont taxpayers with excellent value in operational performance and customer service. You will see that value reflected in the accomplishments detailed in this report. Many of the projects completed represent not only excellent work by the Treasurer's Office staff, but also exemplary work by a range of groups that have partnered with us to implement long-term solutions to the fiscal challenges that impact all Vermonters.

Passage of Act 74 brought about change aimed at financially fortifying the system for the long-term while, at the same time, remaining responsive to the needs of current and future retirees.

Below are just a few of the accomplishments of the past year.

Key Accomplishments

☑ The Treasurer's Office worked with the Administration, State Legislature, and the Vermont NEA to modify the Vermont State Teachers' Retirement System plan. Passage of Act 74 brought about change aimed at financially fortifying the system for the long-term while, at the same time, remaining responsive to the needs of current and future retirees. Key changes were made concerning normal retirement age, contribution rates, and retirement health care benefits. Full details of the changes may be found in the Retirement Division Operations section of this report.

☑ The Treasurer's Office and the Agency of Transportation worked with the State's bond counsel, financial advisor, and an economic consultant to launch the State's Special Obligation Transportation Infrastructure Bond (TIB) program. The TIB bonds are repaid exclusively from the Motor Fuel Transportation Infrastructure Assessment of 2 percent of the price of gas and $0.03 per gallon of diesel fuel. While the measure creating the assessment was passed by the State Legislature in 2009, my office waited until July 2010 to offer the bonds to allow the State to first take advantage of federal stimulus monies to fund transportation projects.

☑ The Treasurer's Office launched a new financial literacy program for Vermont elementary school students. The Reading is an Investment program is being used in 108 schools throughout the state, reaching more than 21,000 students. The program highlights the importance of reading and teaching young children basic personal finance concepts. Each year, participating schools receive several new hardback books that have a personal finance theme and a curriculum guide with lesson plans and activities linked to the books. At the same time, students are encouraged to read books from a "money reading list" and send a completed reading log to my office for a drawing to win one of ten $250 college savings accounts.

☑ Vermont received a recalibrated AAA (highest) rating for our General Obligation bonds from Fitch Ratings and maintained its credit rating of Aaa (highest) from Moody's Investors Service. Vermont's rating remained AA+ (second highest) from the Standard and Poor's Rating Group. Vermont's ratings remain the highest of all six New England states, and one of the highest ratings in the United States.

☑ The Treasurer's Office continued to pay out a record number of unclaimed property claims. Approximately $4.9 million in claims was paid to 14,142 claimants. This represents a 61 percent increase in the number of claims paid versus 2009.

☑ The Treasurer's Office managed an increased number of retirements from the Vermont State Retirement System. For 2010, the division processed 1,023 retirements from the State, teachers' and municipal employees systems combined compared with 907 retirements in 2009. July 2010 was the busiest month as 520 individuals retired, accounting for more than half of all new retirees.

☑ The Treasurer's Office implementation of a new computer system for retirement achieved an important milestone in 2010. The new Vermont Pension Administration System, or VPAS, was made functional in November for data processing on all active retirement system members. This sets the foundation for the completion of the project for later in 2011. When fully operational, VPAS will replace the office's 30-year-old legacy computer system and will feature a fully integrated browser-based pension system. Members will be able to access their retirement information via a secure web portal.

Vermont's ratings remain the highest of all six New England states, and one of the highest ratings in the United States.

Looking to the upcoming year, the Treasurer's Office will continue work to ensure that the Vermont State Retirement System remains financially sustainable for years to come. To that end, we will continue our discussions with the Vermont State Employees Association regarding potential adjustments to the State employees' retirement system. We also will maintain our vigilant role as caretaker of the more than $3.2 billion in pension assets. The investment performance of these assets has significantly rebounded from the global economic downturn of 2008. The return on investments is once again in the double-digits. As of September 30, 2010, the composite investment return for the preceding 12 months for the three State retirement systems was 13.2 percent.

The Treasurer's Office continued to pay out a record number of unclaimed property claims. Approximately $4.9 million in claims was paid to 14,142 claimants.

The Treasurer's Office and its staff, under the new leadership of Treasurer Beth Pearce, remain available to work with you in the upcoming 2011 legislative session and welcome your inquiries. You may also find additional information on-line by visiting the web site at www.VermontTreasurer.gov.

Sincerely,

Jeb

Jeb Spaulding
State Treasurer

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. 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.**
- **Administration of three major pension plans, the deferred compensation plan, and the defined contribution plan for State employees, teachers, and participating municipalities.**

Executive Office
(802) 828-1452

Jeb Spaulding
State Treasurer

Beth Pearce
Deputy Treasurer

Lestyn Mattison
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). Debt Management and Investment Services provides cash, investment, and debt 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 department and entities outside of State government.

Employee Team of the Year

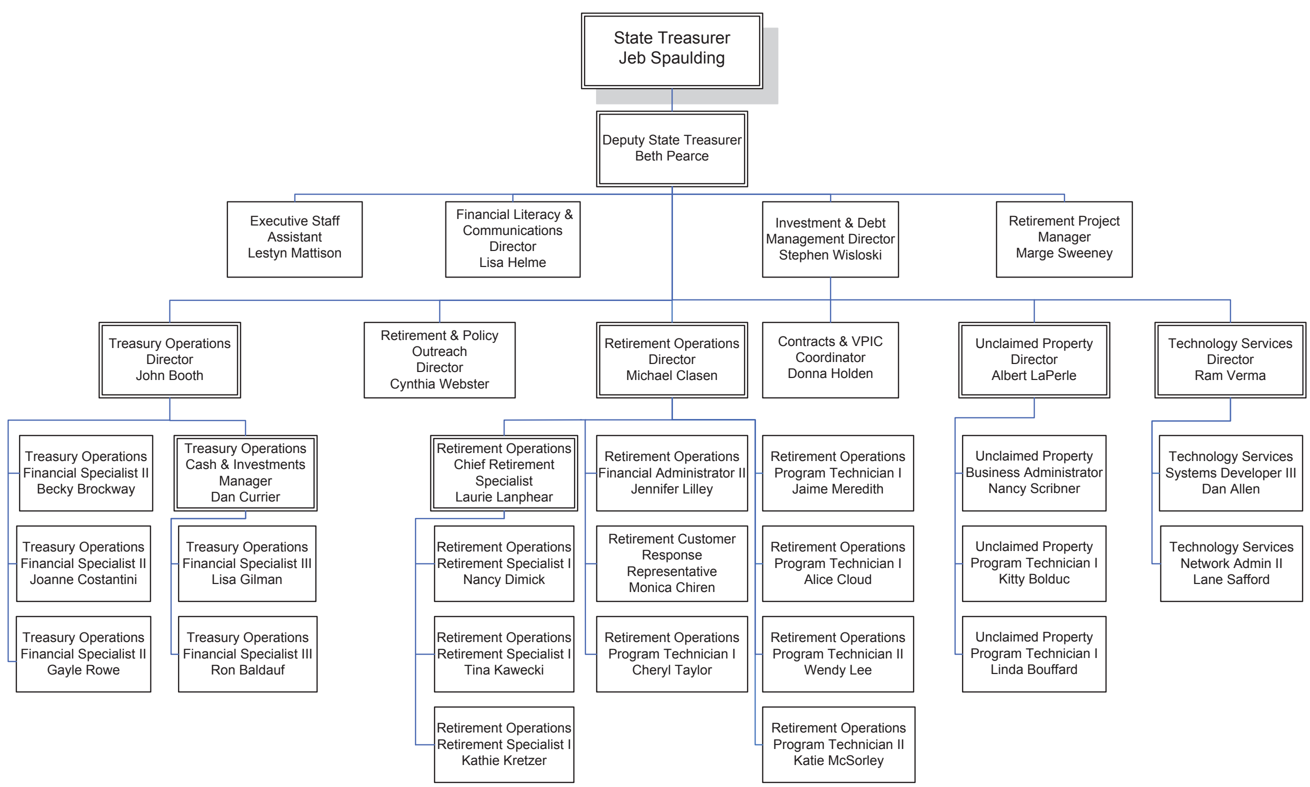
The State Treasurer's Office "Employee of the Year" selection for 2010 was a team of people known for their hard work and excellent customer service. The Retirement Specialist Team was recognized for consistently meeting the challenge of providing responsive service to State, teacher and municipal members of the three State retirement systems. Retirement specialists Laurie Lanphear, Tina Kawecki, Nancy Dimick, and Kathleen Kretzer were honored at a May 3 public service recognition week luncheon. "The team, most notably, completed hundreds of estimates and dozens of counseling sessions just related to the 2009 retirement incentive for State employees," noted Treasurer Jeb Spaulding in announcing the team's recognition. "Their work allowed State employees to make informed decisions regarding the timing of their respective retirement dates. They completed this work in a matter of weeks during the office's busiest time of year."

The retirement specialist team from left to right: Laurie Lanphear, Tina Kawecki, Nancy Dimick, and Kathleen Kretzer.

Organizational Chart

There are 34 staff members working within the State Treasurer's Office. Below is the office organizational chart. The organizational chart and staff listings in this report are effective as of December 20, 2010.

Vermont State Treasurer's Office



Vermont Retirement Systems

Retirement plans administered by the State Treasurer's Office serve approximately 45,500 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. With more than 12,990 retirees currently receiving pensions totaling more than $186 million annually, the task is challenging. In addition to the existing retirees, the demographics of the three systems reflect that another 8,000 plus members will be eligible to retire within the next five years.

Boards Administration
(802) 828-2302

Cynthia Webster
Executive Secretary of the Boards and Director of Retirement Policy & Outreach

Monica Chiren
Assistant to the Boards

ACCOMPLISHMENTS IN 2010

- **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 TRS 403(b) program, which grew to 29 by the end of 2010. At the end of September, 2010, the participant count had grown to 1,398, up from 1,139 at the end of September, 2009 and assets had grown to $15.24 million, as compared to $6.54 million as of September 30, 2009.**

- **The teachers' board voted to add two new socially responsible investment funds to the 403(b) investment line-up, which will be available to participants in early 2011.**

- **The teachers' board successfully advocated for full actuarial funding of the retirement system for the fifth year in a row.**

- **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 have remained at the same level for three years in a row for Medicare-eligible retirees, and increased by just 3 percent for non-Medicare eligible retirees.**

- **The teachers' board successfully supported legislation that made changes to the pension benefits and access to health care benefits in retirement that will assist in funding and sustaining the system for all active and retired members in the future.**

- **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) implemented an annual review process to target and distribute inactive 457 Deferred Compensation de minimus accounts.**
- **The municipal board (VMERS) approved requests to join the system from the governing bodies of five municipal entities.**

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 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.

Board Changes in 2010

Warren Whitney, former Chair of the Vermont State Retirement Board, retired at the end of 2009 and, as a result, resigned his position as VSEA active employee representative on the board. Paul White, former VSEA Alternate, assumed his seat on the board for the remainder of his term, and Jeff Briggs was appointed as the VSEA Alternate to replace Paul White. In September of 2010, both Paul White and Jeff Briggs were re-elected as VSEA employee representatives on the board, and Tom Hango was elected to the alternate seat. In September 2010, Joseph Healy, VRSEA Alternate on the Vermont State Retirement Board, resigned due to health reasons, and Allen Blake was appointed to fill his term.

In July of 2010, legislation was enacted that changed the make-up of the Vermont Municipal Employees' Retirement System Board of Trustees. The board now consists of:

- State Treasurer;
- Two employee representatives, who shall at all times during their term of office both be contributing members of the system and have completed five years of creditable service and be elected by the membership of the system;
- One employer representative, who shall at all times during his/her term of office be a member of a governing body, the chief executive officer, or a supervisor as defined in 21 V.S.A., § 1502(13), of an employer participating in the system and be elected by the governing bodies of the system employers; and
- One employer representative, who shall at all times during his/her term of office be a member of a governing body, the chief executive officer, or a supervisor as defined in 21 V.S.A., § 1502(13), of an employer participating in the system appointed by the governor from a list of not less than three nominations jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association.

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, the employee upon retirement 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 2010, the three retirement systems paid out more than $186 million in monthly benefit payments. As noted in the appendices, page 50, 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 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. In fiscal year 2010, these health care expenses for the two retirement systems totaled more than $38.1 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.

Retirement Operations

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

Michael Clasen, Retirement Operations Director

Cynthia Webster, Retirement Policy & Outreach Director

Laurie Lanphear, Chief Retirement Specialist

Monica Chiren, Retirement Customer Service

Alice Cloud, Program Technician I

Nancy Dimick, Retirement Specialist I

Tina Kawecki, Retirement Specialist I

Kathleen Kretzer, Retirement Specialist I

Wendy Lee, Program Technician II

Jennifer Lilley, Financial Administrator II

Katherine McSorley, Program Technician II

Jaime Meredith, Program Technician I

Marge Sweeney, Retirement Project Manager

Cheryl Taylor, Program Technician I

ACCOMPLISHMENTS IN 2010

- **The Retirement Division staff met with 1,077 individual members to provide retirement counseling during fiscal year 2010. 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 7,200 retirement estimates for prospective retirees and conducted 64 member informational sessions across the state with 1,496 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 520 individuals effective July 1. Of this number, teachers made up the greatest share of new retirees at 434, followed by 34 State employees and 52 municipal employees. The office currently averages approximately 900 new retirees in total each year across all three systems. The 520 retirees for July 1 accounted for more than half of all new retirees in one year.**

- **The legislature approved changes to the Vermont State Teachers' Retirement System through passage of Act 74 (formerly H.764). The Act became effective on July 1, 2010. Changes were made in two categories. Category one changes applied to VSTRS members who were within five years of normal retirement as of June 30, 2010. Normal retirement is age 62 or 30 years of service. Category two changes applied to members who were not within five year of normal retirement as of the end of June. All members, whether in category one or two, had their contribution rate increased from 3.4 percent to 5 percent of gross salary effective**

July 1, 2010. For members in category one, normal retirement remained at age 62 or 30 years of service, whichever is earlier. For category two members, normal retirement was changed to age 65 or the Rule of 90 (combination of age and years of creditable service). Early retirement stayed at age 55, but will have an actuarial reduction applied instead of the previous 6 percent per year reduction. The maximum allowable benefit increased from 50 percent to 60 percent of Average Final Compensation (AFC). The value of each year of service (called the multiplier) was increased from the current 1.67 percent per year to 2 percent per year for each year accrued after reaching a total of 20 years of service. More detailed information regarding the changes to the Teachers' Retirement System, including changes to the health care benefit, can be found in the actuarial accrued liability determinations section and OPEB section of this report. As a result of these changes, the retirement staff provided member-specific information to hundreds of active and vested deferred teachers prior to June 30, 2010 and the staff are to be commended for their efforts. Many of these information requests were for purchase of service costs and retirement estimates.

UPDATES

Retirement Re-engineering Project

Retirement Division staff have spent the past four years working on the development and implementation of a new computer system, referred to as VPAS (Vermont Pension Administration System). In many cases, the staff devoted considerable time to the VPAS project while still managing to complete the work associated with their ongoing "day jobs." When fully operational, VPAS will replace the division's 30-year-old legacy computer system. The VPAS project is structured into three phases: imaging phase; retiree benefit payment phase; and the active member salary, contributions, and service credit phase. The imaging and benefit payment phases are complete. Most of the changes were internal and allowed for more efficient and faster processing of new retirements and changes to existing retiree accounts. The VPAS also houses all of the data in one system and is backed up on a daily basis. The current plan is to begin rolling out the active member functionality in phases, to be completed by the end of fiscal year 2011. This phase also will house all data in VPAS and allow for automation of a number of different business processes, such as benefit estimate calculations and annual benefit statement production. Future enhancements to VPAS include a web-based member self-service feature that will allow active employees, as well as retirees, the ability

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 12,000 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 below provides an update of division activities. With 45,500 active, vested and retired members, our staff-to-member ratio is one staff person for every 3,500 members.

Retirement Division Performance Indicators

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

Historical Overview

In accordance with State statutes, each retirement system is administered by a board of trustees. (See Vermont Retirement Systems section in this report.) The boards administer the State's three defined benefit pension plans and two defined contribution plans, with day-to-day administration provided by the Treasurer's Office. The Vermont State Employees' Retirement System (VSERS) is a single-employer public employee defined benefit retirement system that covers substantially all general State employees and State Police. The Vermont State Teachers' Retirement System (VSTRS) covers nearly all public day school and nonsectarian private high school teachers and administrators, as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the State Board of Education. The Vermont Municipal Employees' Retirement System (VMERS) is a multiple-employer public employees' retirement system. Employer contributions are made by the participating municipalities. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries, if at least half of that institution's operating expenses are met by municipal funds.

The State established an optional defined contribution plan for exempt State employees effective January 1, 1999. The VMERS board added a new optional defined contribution plan that may be offered by participating employers effective July 1, 2000. Although the division has contracted with a third-party administrator (Fidelity Investments) to handle the investment options and day-to-day bookkeeping responsibilities of both of these DC plans, the Treasurer's Office is responsible for providing new hires with information, counseling, and comparisons of projected benefits under both plans. Staff members process all transfers between the plans, and receive and transmit all contributions on behalf of the defined contribution

(continued page 14)

to review their accounts on-line. Every aspect of the daily business of the division has been impacted by the implementation of VPAS. This solution will provide the State of Vermont with a stable, state-of-the-industry, fully-integrated pension administration solution that will allow the division to operate its business more efficiently and effectively. The new system also will provide an infrastructure that lends itself to changing technology and provide a broader framework for administering the system. Additionally, customers' needs for increased access to services and more timely information will be met.

Pension Funding

The State appropriates funding for pension costs associated with the VSERS and VSTRS plans. Currently, the State's contribution to each system is based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are calculated based upon the liabilities of each system as determined by actuarial valuations. 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. Employers make quarterly payments into the pension accumulation fund. These payments are percentages of annual earnable compensation for each membership group and consist of a "normal" and an "accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial valuations.

Actuarial Valuation - Methods and Assumptions

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 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 $863,268,086. The actuarial accrued liability for current active and inactive members is $696,056,207. Together, the total actuarial accrued liability comes to $1,559,324,289. The actuarial value of assets is $1,265,404,195, resulting in an unfunded accrued liability of $293,920,094.

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

Comparative Membership Information--Vermont Retirement System

Vermont State Employees' Retirement System

	June 30, 2010	June 30, 2009	Percent Change
Active Members			
Vested	5,628	5,752	-2.16%
Not Vested	2,154	2,343	-8.07%
Total Active Members	7,782	8,095	-3.87%
Average Age	47.01	46.95	0.13%
Average Service	12.57	12.65	-0.63%
Average Compensation	$ 50,608	$ 49,971	1.27%
Retired Members and Benficiaries			
Number	5,201	4,797	8.42%
Annual Retirement Allowances	$ 80,723,060	$ 73,179,785	10.31%
Inactive Members	857	939	-8.73%
Terminated Vested Members	765	798	-4.14%

State Teachers' Retirement System of Vermont

	June 30, 2010	June 30, 2009	Percent Change
Active Members			
Vested	7,994	8,076	-1.02%
Not Vested	2,515	2,723	-7.64%
Total Active Members	10,509	10,799	-2.69%
Average Age	47.10	47.07	0.06%
Average Service	13.80	13.77	0.22%
Average Compensation	$ 53,492	$ 52,004	2.86%
Retired Members and Benficiaries			
Number	6,146	5,910	3.99%
Annual Retirement Allowances	$ 95,664,775	$ 91,393,401	4.67%
Inactive Members	2,853	2,655	7.46%
Terminated Vested Members	718	721	-0.42%

Vermont Municipal Employees' Retirement System

	June 30, 2010	June 30, 2009	Percent Change
Active Members			
Vested	3,777	3,585	5.36%
Not Vested	2,828	2,948	-4.07%
Total Active Members	6,605	6,533	1.10%
Average Age	48.05	47.80	0.52%
Average Service	7.77	7.34	5.86%
Average Compensation	$ 30,644	$ 29,316	4.53%
Retired Members and Benficiaries			
Number	1,644	1,538	6.89%
Annual Retirement Allowances	$ 10,609,198	$ 10,149,148	4.53%
Inactive Members	1,842	2,015	-8.59%
Terminated Vested Members	585	554	5.60%

(continued from page 12)
members.

The Retirement Division also administers a deferred compensation (457) program for State and municipal employees, and has recently expanded to teachers, and a 403(b) tax-sheltered investment program available to school district employees.

There also is a single depository investment account (SDIA)--a tax-sheltered account funded through employee transfers to a non-contributory system for State employees and teachers. This is a closed fund with no new additional contributions. The SDIA funds are not available to the members until they retire or terminate employment. As of June 30, 2010, there were 2,015 SDIA members, with net assets of $81.39 million. Great-West Retirement System provides third-party administration for these services.

The office administers a Retiree Health Savings plan for VMERS members. While health insurance is not available to retired municipal members, this plan provides a vehicle to set aside limited funds to reimburse retirees for medical expenses.

The State Employees' Post-employment Benefit Pension Trust Fund (an OPEB Trust Fund) was established in fiscal year 2007 as an irrevocable trust fund for the purpose of accumulating and providing reserves to support VSERS retiree post-employment benefits. While additional State appropriations may be made to this fund, contributions to date include medical subsidy reimbursements from the federal government for the Medicare D program and contributions to pay health care premiums for current retirees. During fiscal year 2010, the State contributed $22.3 million (including $1.4 million Medicare D reimbursement received from the federal government) to this fund. The fund had total assets of $7,897,382 as of June 30, 2010.

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. Due to the relatively small number of participants affected by the hire date incorporated in these changes, the actuary reports a minimal impact on the normal cost and accrued liability. 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 total net actuarial loss for the VSERS system from June 30, 2009 to June 30, 2010 is $20,876107. Investment experience from the smoothing of assets accounted for $18,552,665 of this actuarial loss. Other significant factors impacting the actuarial loss were COLA experience with a gain of $19,948,790, offset by retirement experience with a loss of $19,969,509.

In the case of VSERS, the actuarial accrued liability for current retired members, terminated vested members, and beneficiaries is $863,268,086. The actuarial accrued liability for current retired members, terminated vested members and beneficiaries of VSTRS is $1,011,709,949 and the actuarial accrued liability for current active and inactive members is $1,110,481,546.

In the case of VSTRS, in December 2007, an experience study was conducted for the teachers' system for the period covering July 1, 2002 through June 30, 2007. As a result of this experience study, performed by Buck Consultants, and recent changes adopted by the system's Board of Trustees, changes in the actuarial assumptions were made in beginning the valuation report for the period ending June 30, 2008. No assumption changes were made in the valuation report for the period ending June 30, 2010. The assumptions are the same as those used in the prior valuation of VSTRS, except for changes in the retirement decrement needed to reflect changes in the retirement eligibility conditions under the VSTRS, which are described below. The 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective July 1, 2008.

Effective July 1, 2010, a number of changes were made to the VSTRS based on changes enacted by the State Legislature. For Group C members who are within five years of normal retirement as of July 1, 2010, the maximum allowable benefit will increase from 50 percent of Average Final Compensation (AFC) to 53.34 percent, provided that the service needed to earn a benefit in excess of 50 percent of AFC is rendered after July 1, 2010. For Group C members who are not within five years of normal retirement as of July 1, 2010, eligibility for normal retirement was changed from age 62 or completion of 30 years of service, to attainment of age 65 or satisfaction of the "rule of 90." Reductions for early retirement are changed from 6 percent per year by which commencement of benefits precedes age 62 to factors based on the VSTRS's definition of actuarial equivalence. Maximum benefits for members of this group are increased from 50 percent to 60 percent of the AFC. The benefit multiplier was increased from 1.67 percent per year to 2 percent per year of service in excess of 20 years.

FUNDING PROGRESS OF THE RETIREMENT SYSTEMS

VSERS

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)
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	2.5%
2005	1,148,908	1,174,796	25,889	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	91.9%	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%
1995	480,049	679,427	199,378	70.7%	225,089	88.6%

VSTRS

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)
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	259,108	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	139,829	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	137,496	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%
1995	520,850	648,052	127,202	80.4%	346,975	36.7%

VMERS

Year Ended 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)
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)	124.6%	70,808	- 32.4%
1998	113,678	102,005	(11,673)	111.4%	87,328	- 17.3%
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%

The actuarial accrued liability for current retired members, terminated vested members and beneficiaries of VSTRS is $1,011,709,949 and the actuarial accrued liability for current active and inactive members is $1,110,481,546. The total actuarial accrued liability is $2,122,191,495. The actuarial value of assets is $1,410,368,434, resulting in an unfunded accrued liability of $711,828,061. The total net actuarial gain for VSTRS from June 30, 2009 to June 30, 2010 is $1,612,796. Investment experience, including smoothing, accounted for a loss of $26,279,596. Other significant factors increasing the actuarial loss were expenses other than investment expenses of $19,287,498. These losses were offset by gains in mortality among retirees, beneficiaries, and terminated vested participants of $12,346,155, gains in COLA experience of $22,127,398, and retirement experience gains of $13,027,972.

	VSERS	VSTRS
Unfunded actuarial accrued liability, June 30, 2009	326,506,488	727,758,506
Normal cost	42,730,487	39,336,165
Contribution paid	(54,536,763)	(67,678,259)
Interest on unfunded liability, normal cost & contribution	28,256,987	60,548,902
Actuarial gains & losses/experience	(20,876,107)	1,612,796
Incorporation of temporary salary decreases	(69,913,212)	n/a
Changes in benefit provisions	n/a	(46,529,457)
Unfunded actuarial accrued liability, June 30, 2010	1,559,324,289	711,823,061

Defined Contribution Plan

State Defined Contribution Plan: Established in 1999, the State's defined contribution plan had 592 participants and net assets of $37,061,751 as of June 30, 2010. 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.

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, 2010, there were 70 contributing municipalities with 590 participants and net assets of $13,380,432.

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, 2010, the plan had 6,410 participants. Total assets in the plan were valued at $238.02 million. Participating employees made contributions in the amount of $17.49 million to the plan during fiscal year 2010.

As of September, 2010, 1,398 school employees were participating in the program and assets had grown to $15.24 million.

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 2010. There are currently 29 supervisory unions that have adopted the program. As of September, 2010, 1,398 school employees were participating in the program and assets had grown to $15.24 million.

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, 2010, there were 2,015 SDIA members, with net assets of $82,093,423. 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.

UPDATE: Retiree Health Savings Plan

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, 2010, there were 5,226 active and retired members participating in the VMERS RHS plan. Investments in member accounts as of June 30, 2010 totaled $9,554,653. 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 even in deciding whether to go to their physician or not.

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. 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 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 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, 2010, 3,885 retirees were enrolled in the medical plan in the single, spouse, and family plan options. The retirees contributed $6 million in premiums and incurred $30.7 million in claims expenses for the fiscal year ending June 30, 2010. The State's fiscal year 2010 contributions to this trust fund totaled $22.3 million which included a $1.4 million Medicare D reimbursement received from the Federal Government. The trust fund then paid premium payments of $20.9 million (calculated on a pay-as-you-go basis) to the State's Medical Insurance Fund. At June 30, 2010, the trust fund has total assets of $7,897,382 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. Payment is based on the cost of the "standard plan" as defined by statute. The retiree pays the full cost of the premium for all covered dependents.

As of June 30, 2010, 4,280 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $10.96 million in premiums and the system contributed $17.6 million in premiums and paid $17.2 million on a pay-as-you-go basis, during fiscal year 2010. VEHI incurred $30.7 million in retiree claims expense for the fiscal year ending June 30, 2010.

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.

OPEB Funding Status

The State's independent actuary has prepared valuations of the OPEB liabilities for VSERS and VSTRS as of June 30, 2010. This is the fifth 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. The funding status of the plans, with amounts in thousands of dollars, as of June 30, 2010, is below.

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)
VSRS (1)						
2010	$7,897	$925,183	$917,286	0.9%	$414,936	221.1%
STRS (2)						
2010	$0	$703,751	$703,751	0.0%	$560,763	125.5%

(1) Reflects blended discount rate of 4.25%.

(2) Discount rate is 4.0%, reflecting no pre-funding.

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

OPEB Actuarial Valuation: Methods and Assumptions

For VSERS, the actuarial accrued liability for OPEB obligations earned through June 30, 2010 is $925.2 million with an unfunded actuarial liability of $917.3 million. This is an increase as compared to the June 30, 2009 unfunded actuarial liability of $775.0 million. The net increase in liability was greater than expected, primarily due to demographic experience different than expected; per capita claims cost increases in excess of expected; an update to the healthcare cost trend assumption; and expansion of coverage of adult children to age 26 as required under health care reform legislation.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5 percent per year would require an ARC commencing at $67 million for fiscal year 2011 and projected to increase to $300.6 million in fiscal year 2041. If, however, prefunding is assumed, the actuarial accrued liability is reduced to $543.1 million with an unfunded actuarial liability of $535.2 million and the ARC is calculated to commence at $44.1 million for fiscal year 2011, projected to increase to $181.6 million for fiscal year 2040. Upon retirement of the unfunded accrued liability, the projected normal cost in fiscal year 2041 on a prefunding basis is $74.8 million. The fiscal year 2011 State budget funds the current year expected benefit payments of approximately $27 million, which is less than the ARC applicable under either funding basis

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 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 2009.

An OPEB trust has been established for VSERS funded in part, as required by statute, 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 was also 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.

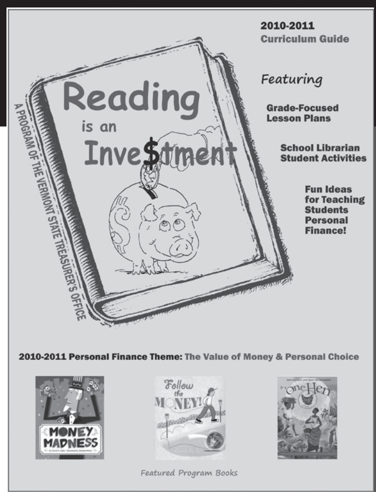
For VSTRS, assuming no prefunding, the actuarial accrued liability and the unfunded actuarial liability for OPEB obligations earned through June 30, 2010 is $703.8 million. This is a reduction compared to the unfunded actuarial liability of $872.2 million as of June 30, 2009. The net decrease on the liability was primarily due to an increase in plan premiums smaller than expected; removal of assumed age-morbidity factors as outlined above; and changes to eligibility and cost-sharing plan provisions effective July 1, 2010, including associated changes in assumptions and the attribution method.

To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5 percent per year would require an ARC commencing at $41.5 million for fiscal year 2011 and projected to increase to $161.7 million in fiscal year 2041. If, however, prefunding is assumed, the actuarial accrued liability and the unfunded actuarial liability is reduced to $374.1 million and the ARC is calculated to commence at $26.8 million for fiscal year 2011, projected to increase to $110.4 million for fiscal year 2040. Upon retirement of the unfunded accrued liability, the projected normal cost in fiscal year 2041 on a prefunding basis is $34.9 million.

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.

Vermont Retirement Systems -- Year Ended June 30, 2010
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	$ 22,840,354	0	25,315,397	10,711,600
Employer Contributions	$ 31,468,884	20,888,347	40,545,321	10,592,919
Other Income	$ 227,524	1,640,420	1,817,540	203,549
Investment Income (Reduction)	$ 182,593,261	480,064	208,723,610	47,598,096
APPLICATION OF FUNDS				
Retirement Benefits	79,001,908	0	96,448,102	11,073,098
Refunds	1,521,440	0	1,183,659	1,127,574
Health/Life Insurance Expenses	0	20,860,032	17,203,669	0
Administrative Expenses	891,477	0	1,078,762	393,947
Other Expenses	568,278	0	303,741	795,522
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 155,146,920	$ 2,148,799	$ 160,183,935	$ 55,716,023



Financial Literacy

Overview

The Treasurer's Office remains committed to promoting, supporting, developing and delivering financial education resources to Vermonters. For more than three years, the Treasurer's Office has worked on financial literacy efforts that have provided resources to groups ranging from elementary-age children to Vermont seniors. The Treasurer's Office has been pleased to support financial literacy efforts within the state's non-profit community; work with banks, credit unions, and financial service businesses; and provide programs and resources to teachers and administrators within Vermont's public schools.

The Treasurer's Office work in 2010 focused on introducing financial education resources for our youngest school-age Vermonters through the debut of the new Reading is an Investment program for elementary school students. The office also continued program work in support of preparing for retirement; financial readiness for military families; providing organizational support for the annual Vermont Jump$tart educators conference; running the annual Vermont high school Reserve Cup competition and statewide financial literacy poster contest.

Financial Literacy
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Lisa Helme
Financial Literacy &
Communications Director

ACCOMPLISHMENTS IN 2010

- **Developed and introduced new Reading is an Investment program for Vermont elementary schools. The program is being used in 108 elementary schools, reaching approximately 21,000 students.**

- **Conducted three financial readiness workshops for soldiers and their families through the Yellow Ribbon support efforts of both the National Guard and Air Guard. Approximately 230 people participated in the workshops.**

- **Provided organizational support for the Vermont Jump$tart Coalition's annual educators conference. More than 110 people attended the conference, the majority being high school and middle school teachers.**

- **Conducted eight "Keeping the Gold in Your Golden Years" retirement planning workshops, serving 183 people.**

- **Managed the annual Vermont high school Reserve Cup competition in partnership with the Federal Reserve Bank of Boston. Seven high school teams competed for the state championship in a knowledge based competition on personal finance and economics. South Burlington High School placed first.**

- **Managed the annual statewide financial literacy poster competition in partnership with the National Foundation for Credit Counseling, Vermont Bankers Association, and the Consumer Credit Counseling Service of New Hampshire and Vermont. Tens schools participated and 77 posters were entered in the contest.**

UPDATES

Reading is an Investment

The Treasurer's Office introduced a new statewide financial literacy program designed to highlight the importance of reading and teaching young children basic personal financial concepts. 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 are 108 Vermont elementary schools that signed up to participate in the new program, representing approximately 21,000 students.

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 has 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.

The program is underwritten by contributions to the Financial Literacy Trust Fund. The fund was created by the State Legislature in 2008 and authorizes the State Treasurer to receive money from a variety of sources to fund financial literacy programs. Major sponsors of the program are the Windham Foundation and the TD Bank Charitable Foundation.

The program has received much positive feedback. Here is a sampling of the response.

"We were delighted to get all of the high quality books and materials last month. I presented the program to our faculty at our beginning of school in-service and the teachers were excited about the program. Each year Stamford holds a month-long Reading Celebration (this includes a Breakfast with Books day, a Community Reader's Day, incentives, etc) in Feb/March and we'd like to use Reading as An Investment for this year's theme."

"I have talked to all the classes about the program, and read Money Madness with many of the classes (K-6). I have a display in the library with the other titles from the list and I am getting a good response from the children regarding the books. Thank you."

"As a parent, I would like to thank you for this program idea. What an awesome way to promote to children both reading and saving for college, both are so important! My daughters were so excited to be a part of this. Thank you."

Third grade students at C.P. Smith Elementary School participate in a bartering exercise. The Reading is an Investment curriculum incorporates interactive exercises into each lesson.

NEW: Vermont Results on Money Management Survey

Vermont-specific results from a FINRA Foundation (Financial Industry Regulatory Authority) study that examined how Americans manage their money, shows Vermonters continue to be worried about their personal finances. As part of FINRA's 2010 nationwide survey of 25,000 Americans, approximately 500 households participated from Vermont. In terms of making ends meet, nearly two-thirds (66 percent) of Vermont respondents reported facing difficulties in covering monthly expenses and paying bills. Sixty-seven percent of the Vermont respondents also reported that they did not have "rainy day" funds set aside for anticipated emergencies. Few Vermonters compared the terms of financial products or shopped around before making financial decisions. Sixty percent of Vermont respondents who have a credit card did not compare credit card offers when they last obtained a card and 53 percent of the Vermont survey group who currently had car loans did not compare offers from different lenders when they obtained their loan.

Adult Financial Literacy

The Treasurer's Office continued its support of the Vermont National Guard and Vermont Air Guard by conducting financial readiness workshops at their Yellow Ribbon briefing events held for deploying troops and their families. The office conducted three financial readiness workshops, reaching approximately 230 people. The 45-minute workshop covered three personal finance areas: organizing your finances, budgeting, and credit.

"The success of each of these events can be directly attributed to your (Treasurer's Office) participation. Your generous contribution of your time and expertise is invaluable to our soldiers and their families as they prepare for the year of separation. On behalf of the Yellow Ribbon staff, thank you."

The ongoing economic challenges facing Vermont families have continued to fuel interest in personal finance subjects. In particular, the Treasurer's Office received an overwhelmingly positive response from the state workforce to our fall offering of the "Keeping the Gold in Your Golden Years" workshop. The workshop teaches adults how to complete a retirement needs calculation. That work includes determining how much money each individual will need in retirement; how to assess current retirement savings progress; and how to implement a plan to ensure each participant will have adequate financial resources in retirement. Eight workshops were held, reaching 183 people. A waiting list of more than 80 people remains for this class. The Treasurer's Office will conduct more classes in January and February of 2011. The following are two comments from workshop participants.

"Thank you for the workshop. It was very helpful that I didn't feel that I was dealing with a salesperson trying to sell a policy. I feel a lot better about what I need to do to prepare, a lot less freaked out."

"I feel that this should be started when (someone) becomes a State employee and then (offered) again in their later years to help these young people to understand that they can do it."

The Treasurer's Office maintains a financial literacy section on its web site. We continue work to improve the site and functionality. Data supplied through Google Analytics indicates that visits to these pages rose in 2010. More than 4,000 unique visitors came to the site in 2010, compared to approximately a thousand unique visitors in 2009. As opportunity arises, the Treasurer's Office promotes a unique url to the site: www.MoneyEd.Vermont.gov.

"My name is Kelly and I'm a business teacher. I wanted to let you know that your page, http://www.vermonttreasurer.gov/financial-literacy/parents-kids, is very informative and helpful! I found it when I was doing some research for a lesson plan on money and teenagers."

South Burlington High School won the 2010 Vermont Reserve Cup challenge and celebrate their victory.

Reserve Cup

For the second year, the Treasurer's Office sponsored the Vermont Championship Reserve Cup Challenge for high school students. The event is organized in partnership with the Federal Reserve Bank of Boston, with volunteer support provided by the Vermont Jump$tart Coalition. The state competition is held in the spring to select a Vermont winner to represent the state in the fall at the New England regional competition in Boston. The purpose of the competition is to promote student interest in and knowledge of personal finance, economics, and consumer affairs topics. In 2010 there were seven high schools that participated. The participating schools were: Green Mountain Technology & Career Center; Harwood Union High School; Lamoille Union High School; Mt. Mansfield Union High School; North Country Career Center; South Burlington High School; and Windsor High School. The championship was won by South Burlington High School.

Twenty-seven students took the time to complete an evaluation. The majority of the students described the event as fun, well organized, with good food, and very informative. (One student said of the event, "It was very cool.")

They overwhelmingly liked the competition aspect of the event including meeting other schools and winning trophies and prizes. Several students liked the prestige of participating in the competition and others mentioned that economics is one of their favorite subjects in school. Teachers were equally positive about the competition. Teachers liked the academically challenging aspects of the competition and said the event underscored the importance of the subject matter the students were quizzed on.

"My students really enjoyed the event. It was a nice combination of academic challenge, social engagement, and food!"

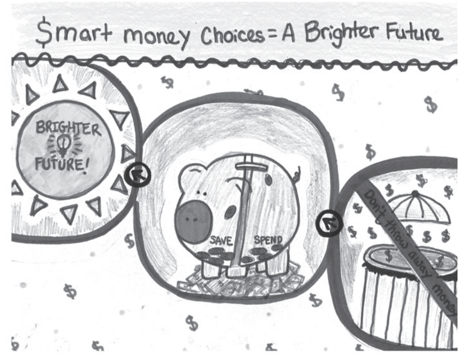
Financial Literacy Poster Contest

The theme of the 2010 financial literacy poster contest was "Smart Money Choices = A Brighter Future." The Treasurer's Office, in partnership with the Vermont Bankers Association and Consumer Credit Counseling of New Hampshire and Vermont, sponsored the state-wide competition. This is the third year for the state contest. The contest is used as a tool to promote financial education

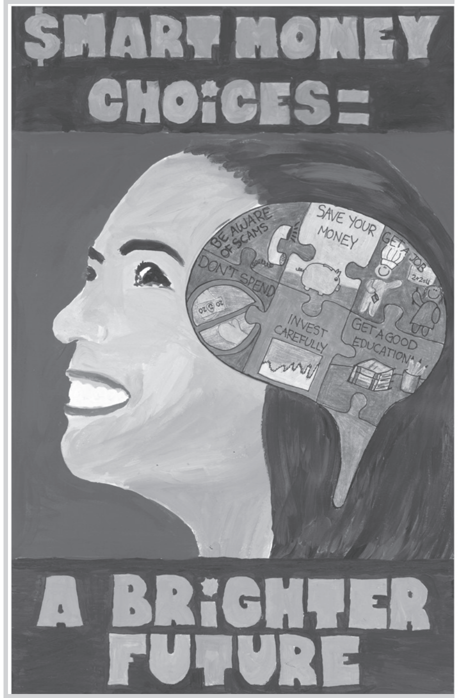
"We had a great time discussing and exploring the theme. I can see already ways that it has impacted their choices."

for youth. Winners of the state-wide competition go on to compete nationally. In all, ten schools participated with 77 students entering the competition. The winner of the elementary school division was Charlotte Brace of Union Elementary School in Montpelier. The middle school winner was Dejah Lee of the Sharon Academy. The high school winner was Haeji Joh of the St. Johnsbury Academy. The National Foundation for Credit Counseling conducts the annual nationwide competition.

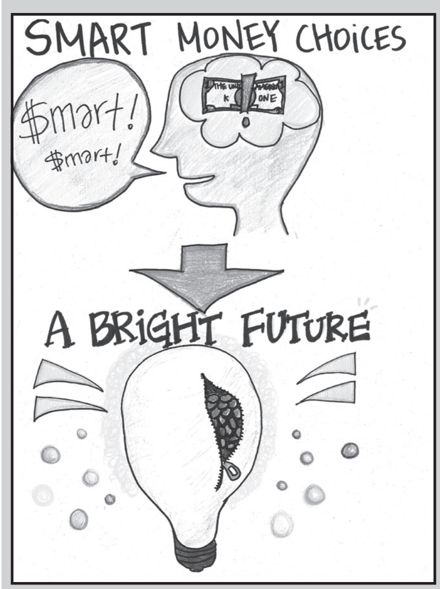
2010 Poster Winners



Elementary School Winner



Middle School Winner



High School Winner

Debt Management

Current Environment

The 2010 municipal bond market conditions were much improved from 2008-2009. However, marketplace conditions are very changed from just two years ago, prior to the worldwide financial crisis. Significant features of this market over the past 12 months are:

- **Record levels of bond issuance.** Through November 30, almost $386 billion of municipal bonds had been sold. With December's projected heavy sales

ACCOMPLISHMENTS IN 2010

- **During calendar year 2010, the State Treasurer's Office issued five separate series of State of Vermont General Obligation Bonds. See sidebar next page.**

- **The Treasurer's Office and the Agency of Transportation worked with the State's bond counsel, financial advisor, and an economic consultant to launch the State's Special Obligation Transportation Infrastructure Bond (TIB) program. The TIB bonds are repaid exclusively from the Motor Fuel Transportation Infrastructure Assessment (MFTIA) of 2 percent of the price of gasoline and $0.03 per gallon of diesel fuel. The bonds received strong ratings of AA from S&P and Fitch, and Aa2 from Moody's. The State sold its first issue of $14.4 million of TIB bonds in July, with an average life of 11.3 years and a true interest cost of 3.20 percent. The proceeds of the bonds will fund bridge repair and construction, including the new Lake Champlain bridge in Addison County.**

- **Vermont maintained its General Obligation (G.O.) Bond credit ratings of Aaa (highest) from Moody's Investors Service (Moody's), and in April received a "recalibrated" AAA (highest) rating from Fitch Ratings (Fitch). Vermont's rating remained AA+ (second-highest) from Standard and Poor's Ratings Group (S&P). Vermont's ratings remain the highest of all six New England states, and one of the highest ratings in the United States. As reported by Moody's, the State's critical debt ratios of "net tax supported debt per capita" and "net tax supported debt as a percent of personal income" also improved to rankings of 36th and 36th among the 50 states, respectively (50th is the best ranking).**

- **The Capital Debt Affordability Advisory Committee (CDAAC) recommended increasing the State's annual bonding level to $76.58 million in fiscal year 2012, an increase of 6.6 percent from fiscal year 2011's authorization of $71.825 million. Additionally, for the first time the CDAAC provided an alternative 2-year recommendation of $153,160,000, to better-facilitate the State's capital construction schedule and better-align with Vermont's legislative biennium. The overall recommendation will allow for additional funding of capital projects without significant deterioration of key financial ratios used by rating agencies. It also maintains the State's credit posture as a triple-A rated state.**

Debt Management
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Stephen Wisloski
Investment & Debt Management Director

volume, 2010 was on track to match or break the previous annual record of $430 billion, set in 2007 just before the crisis.

- **Record low interest rates.** Ongoing economic weakness resulted in continued very low interest rates. The 10-year triple-A rated benchmark bond rate touched 2.17 percent in September 2010, smashing 2009's previous record low of 2.57 percent.

- **Record volumes of taxable municipal bonds.** Aided by the creation of Build America Bonds (BABs) and Recovery Zone Bonds as part of the American Recovery and Reinvestment Act (ARRA), sales of taxable municipal bonds more than quadrupled from 2007 to 2010, and taxables as a percentage of total muni bond sales increased from less than 7 percent to almost 35 percent during the same time frame.

- **The near-disappearance of bond insurance.** In 2007, almost 50 percent of municipal bonds were "credit enhanced" with insurance policies from one of seven different insurance firms. In 2010, only one insurance company remained, and only 6 percent of muni bonds were insured.

- **The near-disappearance of variable rate bonds.** In 2007, almost 25 percent of bonds sold were variable rate or auction rate. The auction rate market completely disappeared in 2008, and by 2010, only 4 percent of bonds were sold with variable rates.

- **Concerns regarding State and local government finances and disclosures.** The bankruptcy of Vallejo, CA, near-bankruptcy of Harrisburg, PA, and persistent budgetary concerns surrounding large states such as California and Illinois have brought closer investor scrutiny to municipal bonds. Further, the Securities and Exchange Commission's (SEC) charges of securities fraud against New Jersey for inadequate disclosure regarding its pension funds and other post-employment benefits (OPEB) signaled the federal government's concerns regarding municipal bond disclosure.

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. Finally, the State has moved quickly to take advantage of the taxable Build America Bonds program, selling two "BABs" issues during 2010 and saving several million dollars in borrowing costs as a result.

The next general obligation (G.O.) bond issues are planned for autumn of 2011, and a Special Obligation Transportation Infrastructure bond sale is planned for summer 2011.

2010 Bond Issues

(Calendar Year 2010)

- $52,000,000 par amount of 2010 Series A bonds, consisting of $11,200,000 tax-exempt Series A-1 bonds and $40,800,000 taxable Series A-2 BABs. The bonds were sold through a competitive offering, receiving eleven bids. Morgan Keegan & Co. bid the lowest true interest cost, of 2.96 percent (inclusive the 35 percent BABs interest subsidy). The bonds had an average life of 11.8 years.

- $20,000,000 par amount of 2010 Series B Vermont Citizen Bonds, which were sold to Vermont retail investors via a negotiated sale with Citi. The bonds had a true interest cost of 2.01 percent and an average life of 4.9 years.

- $38,830,000 par amount of 2010 Series C refunding bonds, which were sold to via a negotiated sale with Citi and provided present value savings to the State of $2.37 million. The bonds had true interest cost of 2.78 percent and an average life of 7.6 years.

- $50,000,000 par amount of 2010 Series D bonds, consisting of $3,750,000 tax-exempt Series D-1 bonds and $46,250,000 taxable Series D-2 BABs. The bonds were sold through a competitive offering, receiving eight bids. Morgan Keegan & Co., which also won the Series A bid, bid the lowest true interest cost, of 2.58 percent (inclusive the 35 percent BABs interest subsidy). The bonds had an average life of 12.8 years.

- $25,000,000 par amount of 2010 Series E Vermont Citizen Bonds, which were sold to Vermont retail investors via a negotiated sale with Bank of America Merrill Lynch. The bonds had a true interest cost of 2.23 percent and an average life of 5.2 years.

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 tentatively plans to sell the second series of TIB bonds during summer of 2012, and plans to sell one or two issues of G.O. bonds to fund Capital Bill projects in autumn of 2012. In addition, the State continues to monitor opportunities to refinance existing debt to achieve cost savings.

Overview

The Treasurer's Office, in conjunction with the Administration and State Legislature, 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. 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 72.1 percent retirement within ten years, the State's bond payoff ratio continues to be favorably received by the rating agencies.

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.

The State's disciplined approach to debt management is paying off in today's tax-exempt marketplace.

In September of 2010 the CDAAC set the fiscal year 2012 recommended debt authorization level at $76.58 million, which is the highest level that allows for adherence to CDAAC guidelines, notwithstanding creation of higher levels of debt outstanding. In addition, for the first time the CDAAC provided an alternative 2-year recommendation of $153,160,000, to better-facilitate the commencement of capital projects and better-align with Vermont's Legislative biennium. 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.

New England General Obligation Bond Ratings

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

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 for triple-A rated states. In 2010, the State's debt per capita was $709 versus the Moody's five-year triple-A median and mean of $849 and $923, respectively (see chart page 30). The State's ranking versus all 50 states improved steadily: 28th in 2007; 32nd in 2008; 34th in 2009; and 36th in 2010. The higher the ranking figure, the lower a state's debt per capita is relative to all other states. This 2010 ranking is considerably above average. Only 14 states have a higher (more favorable) ranking figure. The State's net tax-supported debt per capita is forecast to grow to $1,150 by 2021. That forecast assumes a steady level of debt authorization and the issuance of $76.58 million in future years starting in fiscal year 2012, 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 2021.

Debt as a Percentage of Personal Income

An even more important 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 2010 held steady at 1.8 percent versus Moody's triple-A median and mean ratios of 2.7 percent and 2.7 percent, respectively (see chart page 31). The State's ranking in its debt as a percentage of personal income improved steadily from 30th highest among all states in 2007; 33rd highest in 2008; 35th highest in 2009; and 36th highest in 2010.

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 5.6 percent for fiscal year 2010. This percentage is expected to fall to 5.4 percent in fiscal year 2011 and then decline to 4.9 percent through fiscal year 2021. This is based on the assumption of the issuance of $76.58 million of debt from fiscal year 2012 through fiscal year 2021.

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,

BOND RATING

Aaa

Vermont was assigned an Aaa rating by Moody's in February of 2007. Vermont shares its Moody's triple-A rating with only nine other states. As of September 2010, only sixteen 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). With all three ratings carrying a "Stable" outlook, Vermont continues to work toward achieving its last triple-A rating from S&P. 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.

Like most states, Vermont is experiencing budgetary pressures brought about by a credit crisis and a national and state economy in recession. Traditionally, Vermont has managed economic downturns very well in comparison to other states, with a resilient economy and strong fiscal and debt management practices. The current downturn, while not over, has been no exception to date. Vermont's unemployment rates, while high, are relatively favorable compared to New England and other states. Just as important, the State's response with regard to sound fiscal policy has been prompt and decisive. With periodic revenue downgrades and expense cuts to match, the State is maintaining a balanced budget with reserve funds available only as a last resort. This discipline is recognized by rating agencies and investors alike, and contributes to both favorable bond ratings and favorable investor perceptions of the State.

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Because 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.

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.

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, 2010, the VSERS funding level is at 81.2 percent and the VSTRS funding level is 66.5 percent–up from 65.4 percent in 2009–but still indicating that both are under-funded. 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

As of June 30, 2010, the VSERS funding level is at 81.2 percent and the VSTRS funding level is 66.5 percent--up from 65.4 percent in 2009--but still indicating that both are under-funded.

reduced the unfunded liability associated with retired teacher health care costs. In 2011, the Treasurer's Office looks forward to working with the Vermont State Employees' Association (VSEA) and Vermont Troopers' Association (VTA) to enact similar enhancements to long-term stability of State employee pension and OPEB benefits.

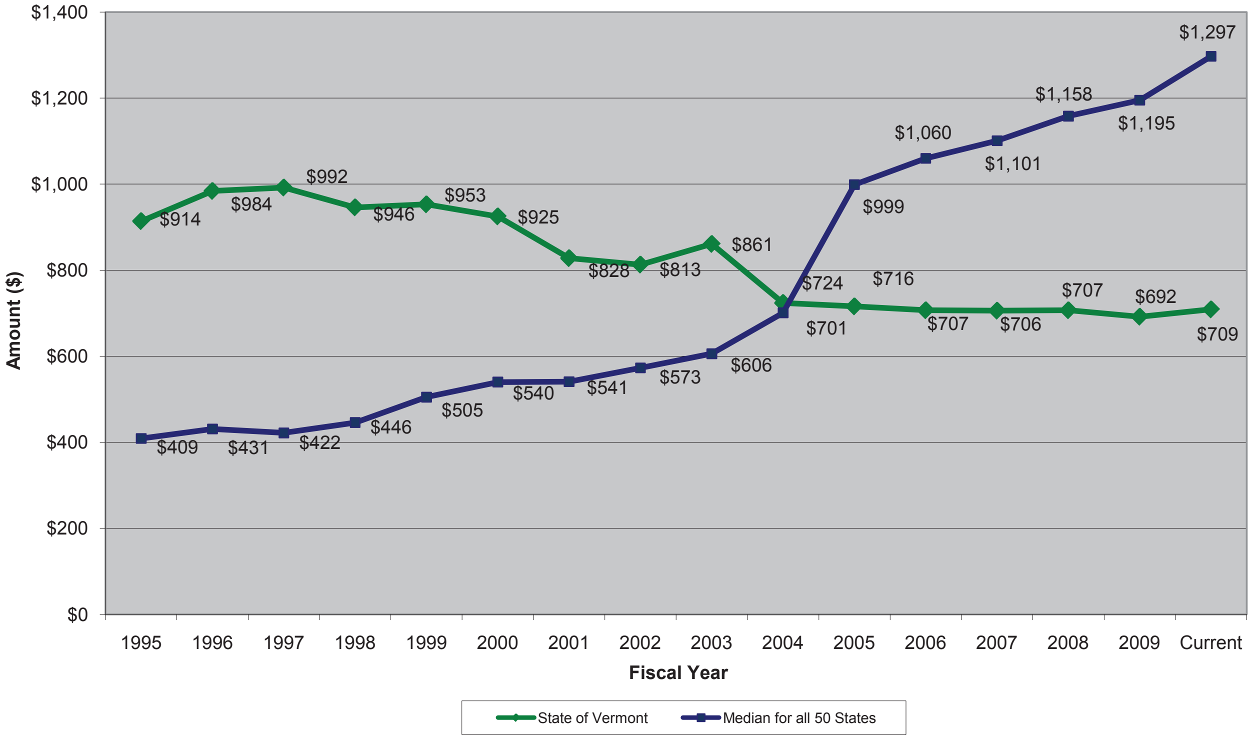
Other Factors: The rating agencies also consider the breadth of the economy; the level and condition of the State's transportation, utilities and other infrastructure; personal income levels; fiscal responsibility; employment levels; workforce size and training; population demographics and trends; internal controls and auditing standards; need for short-term borrowings; and other factors.

Short-Term Borrowing

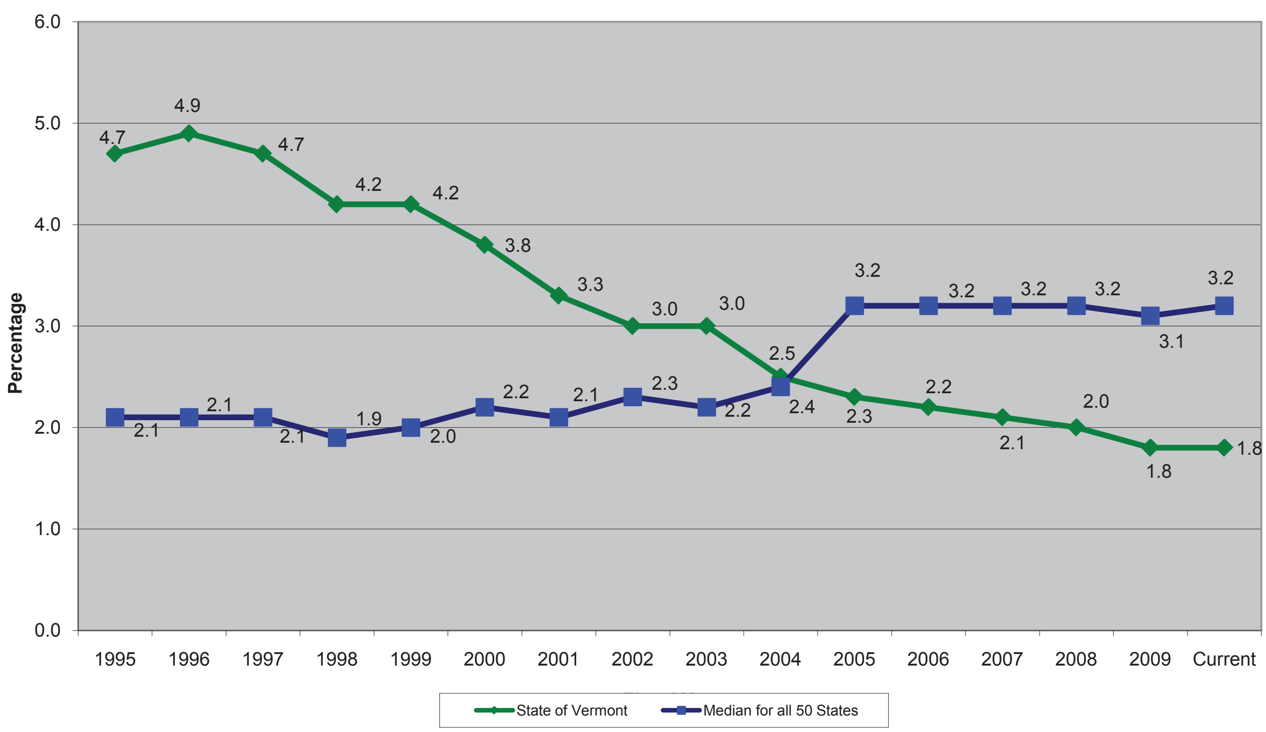
The seasonal nature of the revenue and expenditure cycles occasionally requires the use of short-term borrowing. Typically, education payments to local towns and school districts occur in the first half of the fiscal year, while tax revenues are collected later in the year, primarily April. By April 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 five years, it has not had to access it, a continuing sign of fiscal health.

Current economic conditions and declining State revenues require monitoring in the context of short-term borrowing needs. The State has been diligent

Debt Per Capita - Vermont Versus 50 States Median



Debt As A Percent of Personal Income - Vermont Versus 50 States Median



in managing expenditures according to revised revenue projections, and, despite experiencing some stresses, did not need to borrow funds in either September or December of 2009. At this point it is unclear what borrowing levels, if any, will be needed for the balance of fiscal year 2010. If the State is required to borrow funds,

The seasonal nature of the revenue and expenditure cycles occasionally requires the use of short-term borrowing.

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 2010 with approximately $316.3 million in unrestricted cash and investments on hand and ended the year with $290.3 million in unrestricted cash and investments. 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 2010.

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

Triple-A Rated States[1]	As of 8/2/10 Moody's	As of 3/26/10 S&P	As of 7/7/10 Fitch	2006	2007	2008	2009	2010
Delaware	Aaa/Stable	AAA/Stable	AAA/Stable	$1,845	$1,998	$2,002	$2,128	$2,489
Florida	Aa1/Negative	AAA/Negative	AAA/Negative	976	1,020	1,005	1,115	1,123
Georgia	Aaa/Stable	AAA/Stable	AAA/Stable	784	916	954	984	1,120
Indiana	Aaa/Stable	AAA/Stable	AA+/Stable	474*	657*	478	482	492
Iowa	Aaa/Stable	AAA/Stable	AAA/Stable	110*	104*	98*	79	73
Maryland	Aaa/Stable	AAA/Stable	AAA/Stable	1,169	1,171	1,297	1,507	1,608
Minnesota	Aa1/Stable	AAA/Stable	AAA/Stable	746	827	879	866	1,037
Missouri	Aaa/Stable	AAA/Stable	AAA/Stable	496	613	675	670	780
New Mexico	Aaa/Stable	AA+/Stable	Not Rated	1,222*	1,435*	1,429*	1,394*	1,398
No. Carolina	Aaa/Stable	AAA/Stable	AAA/Stable	804	728	898	832	765
So. Carolina	Aaa/Stable	AA+/Stable	AAA/Stable	661	630	966	899	917
Tennessee	Aaa/Stable	AA+/Stable	AAA/Stable	234*	213*	221*	233*	318
Texas	Aaa/Stable	AA+/Stable	AAA/Stable	307*	415*	481*	520*	520
Utah	Aaa/Stable	AAA/Stable	AAA/Stable	707	621	542	447	957
Virginia	Aaa/Stable	AAA/Stable	AAA/Stable	601	692	764	782	895
MEAN[2]				**879**	**922**	**951**	**899**	**966**
MEDIAN[3]				**765**	**778**	**898**	**849**	**917**
VERMONT[4]	Aaa/Stable	AA+/Stable	AAA/Stable	707	706	707	692	709

Triple-A Rated States--5-Year Average Mean and 5-Year Median Excluding Vermont

MEAN: $923 VERMONT: $704 MEDIAN: $849 VERMONT: $707

[1] Indiana carries a Municipal Issuer Rating from S&P, assigned in 2008 and it is first reflected in 2009 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 GO 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. New Mexico, Tennessee and Texas are reflected only in the 2010 numbers. Sixteen 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).

[2] These calculations exclude all Vermont numbers.

[3] These calculations exclude all Vermont numbers.

[4] Vermont raised to triple-A in 2007 and reflected in the 2007 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.

Approach Toward Establishing Debt Ratio Goals -- State of Vermont

Comparative Mean Debt Ratios[1]

Per Capita	2006	2007	2008	2009	2010
All States	$1,060	$1,101	$1,158	$1,195	$1,297
Triple-A	879	922	951	899	966
VERMONT	**707**	**706**	**707**	**692**	**709**
% of Pers. Inc.	**2006**	**2007**	**2008**	**2009**	**2010**
All States	3.2%	3.2%	3.2%	3.1%	3.2%
Triple-A	2.8	2.7	2.7	2.4	2.6
VERMONT	**2.2**	**2.1**	**2.0**	**1.8**	**1.8**

[1] Based on data provided by Moody's Investors Service. Indiana carries a Municipal Issuer Rating from S&P, assigned in 2008 and it is first reflected in 2009 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 GO 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. New Mexico, Tennessee and Texas are reflected only in the 2010 numbers. Sixteen 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). See chart on "Debt Per Capita" for complete listing of triple-A states and respective ratings.

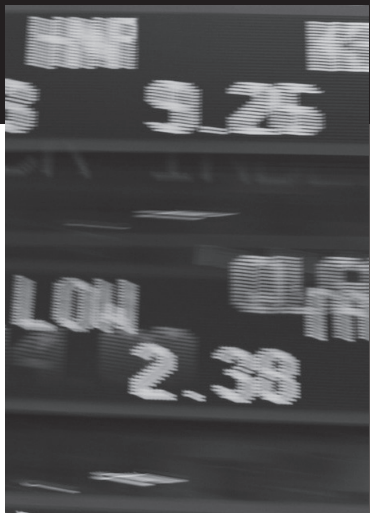
Moody's Investors Service -- Debt as % of Personal Income -- Vermont

Triple-A Rated States	2006	2007	2008	2009	2010
Delaware	5.3%	5.5%	5.2%	5.4%	6.2%
Florida	3.2	3.1	2.8	2.9	2.9
Georgia	2.7	3.0	3.0	3.0	3.3
Indiana	1.4*	2.1*	1.5	1.5	1.5
Iowa	0.4*	0.3*	0.3*	0.2	0.2
Maryland	3.0	2.8	3.0	3.3	3.4
Minnesota	2.1	2.2	2.3	2.1	2.4
Missouri	1.6	1.9	2.1	2.0	2.2
New Mexico	4.7*	5.3*	4.8*	4.6*	4.4
North Carolina	2.8	2.4	2.8	2.5	2.3
South Carolina	2.5	2.3	3.3	2.9	2.9
Tennessee	0.8*	0.7*	0.7*	0.7*	0.9
Texas	1.0*	1.3*	1.4*	1.4*	1.4
Utah	2.7	2.3	1.9	1.5	3.2
Virginia	1.7	1.8	1.9	1.9	2.1
MEAN[1]	**2.8**	**2.7**	**2.7**	**2.4**	**2.6**
MEDIAN[2]	**2.7**	**2.3**	**2.8**	**2.3**	**2.4**
VERMONT	2.2	2.1	2.0	1.8	1.8

Triple-A Rated States--5-Year Average Mean and 5-Year Median Excluding Vermont

MEAN: 2.7% VERMONT: 2% MEDIAN: 2.7% VERMONT: 2%

[1] These calculations exclude all Vermont numbers.
[2] These calculations exclude all Vermont number
* 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.



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 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). The State Treasurer serves as Trustee for these funds.

Investments
(802) 828-5197

Stephen Wisloski
Investment & Debt Management Director

John Booth
Treasury Operations Director

Dan Currier
Cash & Investments Manager

Donna Holden
Contracts & VPIC Coordinator

ACCOMPLISHMENTS IN 2010

- **The Federal Reserve continued to hold its target overnight borrowing rate at a record low range of 0 percent to 0.25 percent in an attempt to stimulate the economy. Against this challenging backdrop, the State Treasurer's Office short-term investments exceeded the established benchmarks of the average three-month Treasury bill yield, earning 0.40 percent as compared to the benchmark of 0.11 percent during the fiscal year.**

- **The Vermont Pension Investment Committee continued its portfolio diversification and risk management efforts, revising the asset allocation to lower equity exposure to 36 percent of the portfolio, and to increase fixed income exposure to 37 percent, alternatives exposure to 12 percent and risk parity and global asset allocation strategies to 15 percent. The VPIC also engaged three hedge fund-of-funds managers to invest 5 percent of the portfolio in the alternatives asset class.**

- **The VPIC Chair position was restructured to become a seventh, non-voting member of the committee, elected by the six voting members, and compensated at up to one-third of the salary level of the State Treasurer. This change will benefit the VPIC by enabling the recruitment of an experienced investment professional, potentially from outside of the VPIC's membership; provide for greater stability and continuity, because the Chair's membership on VPIC will no longer be tied to an executive or retirement board appointment; and compensate the Chair for the considerable time and effort required in the position.**

- **The Treasurer's Office conducted a request for proposals and successfully engaged a new commingled stable value fund manager to replace an existing fixed income portfolio manager and stable value wrap contract provider in the Single Deposit Investment Account (SDIA) program. This will ensure that the SDIA funds are invested at a competitive interest rate, with protection of invested principal, for another five years.**

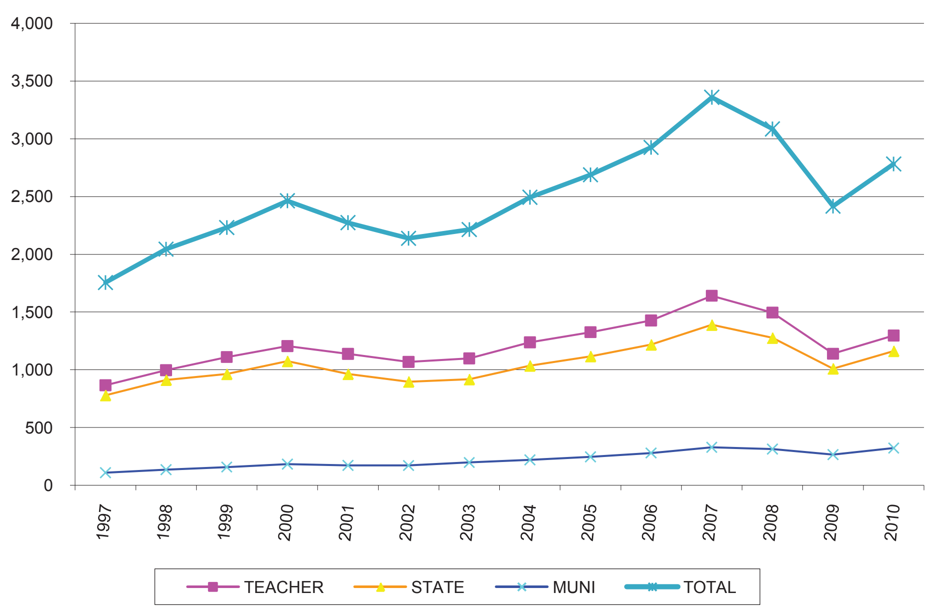
The retirement boards act as trustees for various benefit-related trusts including two defined contribution plans (State and municipal), a single deposit investment account or SDIA (State and teachers), a deferred compensation fund (open to teachers, municipal, and State members, with the State Retirement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

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).

Growth of Pension Assets -- Fiscal Year 1997-2010

(Amount in $Millions)



UPDATES

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 2010. On June 30, 2010, the fund had a market value of $19,080,449.90. In September of 2010, 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 $296,529.83 to be applied as non-loan financial aid to Vermont students attending Vermont post-secondary institutions.

VPIC membership

The Vermont Pension Investment Committee is responsible for investing almost $2.9 billion in assets for the three state-level retirement systems as of June 30, 2010. Act 100, which became effective July 1, 2008, redefined the membership of VPIC to six voting members and four alternates (from seventeen members previously), and 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.

VPIC acts as the trustee for the defined benefit plan investments.

As of December 2010, 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; Jon Harris, VSTRS alternate; Richard Johannesen, Governor's appointee; Vaughn Altemus, Governor's appointee; Karen Paul, Governor's alternate; and Jeb Spaulding, State Treasurer.

Trust Investment Account

The 2000 State Legislature authorized the establishment of a trust investment account administered by the State Treasurer for purposes of investing restricted funds with non-expendable principal balances. As of June 30, 2010, the fund had a principal balance of approximately $60.6 million, of which $25.8 million was allocated to the Tobacco Trust Fund, $19.1 million to the Higher Education Endowment Trust Fund, and the remainder to various smaller trust funds. The current target allocation of the Trust Investment Account is 70 percent fixed income securities and 30 percent equities. For fiscal year 2010, the fund had a dollar weighted total return of 9.82 percent versus the target return of 12.06 percent, which is based on actual asset allocation, and the performance of the S&P 500 Stock Index (14.43 percent) and the Barclays (formerly Lehman) Aggregate Bond Index (9.49 percent).

In fiscal year 2008, the Treasurer's Office invested $2.5 million of Trust Investment Account (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. 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.

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. 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, and $47,471 in fiscal year 2010.

On June 30, 2010, the Higher Education Trust Fund had a market value of $19,080,449.90.

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 $174,535.22 to be divided equally between the University of Vermont and the Vermont State Colleges for application to their respective permanent endowments. In fiscal year 2011, the additional endowment allocation will be $177,917.90 for each institution, provided 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.

FUND PERFORMANCE & OPERATIONS

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 $2.9 billion on June 30, 2010. 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 $102 million as of the same date. In fiscal year 2010, one-year investment returns were 17.8 percent for VSERS, 17.9 percent for VSTRS, and 18.3 percent for VMERS versus the median public fund return of 13.1 percent (see chart at right). These returns ranked in the 5th, 4th, and 2nd percentiles, respectively, meaning they exceeded the returns of more than 95 percent of comparable public-sector funds during this period.

In fiscal year 2010, one-year investment returns were 17.8 percent for VSERS, 17.9 percent for VSTRS, and 18.3 percent for VMERS.

For the ten years ending June 30, 2010, the median public retirement plan in the consultants' cooperative had an average annualized total return of 3.4 percent, compared with 3.7 percent for VSTRS, 3.1 percent for VSERS, and 4.0 percent for VMERS.

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. VPIC had previously requested divestiture of one issuer held on two VPIC accounts. The request was accommodated. With assistance from this advisor, the VPIC has the tools required

Long-term Investment Performance of Vermont's Retirement Systems (As of June 30, 2010)

Gross of Fees

Retirement System:	Last 1 Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
Teachers Composite	17.9%	-4.0%	2.8%	5.5%	3.7%
State Composite	17.8%	-3.4%	3.1%	5.6%	3.1%
Municipal Composite	18.3%	-3.1%	3.4%	5.6%	4.0%
Median Public Fund	13.1%	-3.7%	2.7%	5.2%	3.4%

Long-term Investment Performance of Vermont's Retirement Systems (As of September 30, 2010)

Gross of Fees

Retirement System:	Since January 1	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
Teachers Composite	9.6%	-1.6%	4.0%	6.4%	4.5%
State Composite	9.8%	-0.9%	4.2%	6.5%	4.1%
Municipal Composite	9.7%	-0.6%	4.5%	6.5%	4.9%
Median Public Fund	6.7%	-1.6%	3.8%	6.1%	4.1%

Source for tables above: New England Pension Consultants

Asset Allocation of Pension Funds as of June 30, 2010

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	
Core Plus 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 at left: 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.

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. The VPIC continues to discuss this policy and ways of enhancing its efficacy in engaging or divesting companies found to be in conflict with it.

In 2010, VPIC also updated its domestic proxy voting policy and adopted an international proxy voting policy. Corporate responsibility and accountability guidelines in these policies include voting policies on environmental issues such as global warming and environmental reporting, 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.

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 2010, the State has received payments totaling $306.2 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.

Vermont's Expected and Actual Receipt of Tobacco Settlement Funds

Fiscal Year	Master Settlement Amount* ($millions)	Expected* ($ millions)	Actual* ($millions)
2001	$28.47	$28.47	$24.68
2002	34.18	34.18	30.92
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	42.88
2010	29.37	36.00	36.21

*** 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.**

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 2010, $35.65 million from the settlement fund was directed to healthcare services (Medicaid; includes funds redirected to the Medicaid Global Commitment Fund). A total of $4.23 million was spent on programs in various departments for tobacco enforcement, prevention, and education programs. Additionally, $3.31 million funded substance abuse and youth protection programs in the Agency of Human Services.

In fiscal year 2011, the legislature has appropriated $35.8 million for Medicaid health services; $3.3 million for enforcement, prevention, and education; and $3.1 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 2011. In fiscal year 2010, $8.27 million was transferred from the Tobacco Trust Fund to the Tobacco Litigation Settlement Fund per Act 1 of ss2009 sec 71a. The balance of the Tobacco Trust Fund investments at June 30, 2010, was $25.85 million and $33.86 million at the end of fiscal year 2009.

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.

Due to the weak economy, the Federal Reserve Board implemented some of the largest drops in monetary policy history, 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. We continue to invest in a more conservative portfolio rather than increasing risk by chasing return in leveraged or derivative instruments.

The short-term portfolio earned $876,286 in interest income in fiscal year 2010 on average daily available balances of $216.9 million. Of this amount, $331,409 was credited to interest earning funds, and the balance of $544,877 remained in the general fund.

One aspect of the Treasurer's Office's risk management regarding short-term investments is collateralization of bank deposits. Although State statutes provide some requirement for the collateralization of deposits, they do not establish collateralization limits. It has been common practice for banks to provide deposit collateral required by the Treasurer's Office through pledged securities, at levels requested by the office. The Treasurer's Office periodically reviews and compares these collateralization levels to the practices of other states and large municipalities. During fiscal year 2008, the Treasurer's Office and the State's primary bank of record decided jointly to move to an irrevocable letter of credit with the Federal Home Loan Bank, which currently provides up to $250 million in coverage. In addition, the Treasurer's Office has made transaction account deposits with some banks that are guaranteed under the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program (TAGP). Under the TAGP certain deposits are guaranteed by the FDIC above the standard FDIC insurance limits. There are currently no state funds in a TAGP account. As a matter of practice, CDs with the Bank in Vermont program have varying levels of collateralization, depending upon the bank, its assets, and capitalization levels, which are reviewed quarterly.

The short-term portfolio earned $876,286 in interest income in fiscal year 2010 on average daily available balances of $216.9 million. Of this amount, $331,409 was credited to interest earning funds, and the balance of $544,877 remained in the general fund. The yield on the available cash in the portfolio was 0.40 percent for the year, which exceeded the average three-month Treasury Bill yield of 0.11 percent. The Treasurer's Office utilizes money market funds and in-state certificates of deposit, and solicits offerings from the institutional trading desks of a number of national and local brokers in order to achieve maximum rate of return and diversification in the portfolio.

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 2010, withdrawals from the Vermont Veterans' Home TIA funds totaled $50,000. As of June 30, 2010, the balance of the fund first contributed to the TIA was $489,240.54, and the balance of the second (later) fund was $586,552.75, for a combined total of $1,075,793.29.

Banks Pre-Qualified to Participate in Bank in Vermont through Dec. 31, 2010:

- Citizens Bank
- Connecticut River Bank
- First National Bank of Orwell
- Key Bank
- Mascoma Savings Bank
- Merchants Bank
- National Bank of Middlebury
- Northfield Savings Bank
- Passumpsic Savings Bank
- Peoples Trust Company of St. Albans
- Peoples United Bank
- Randolph National Bank
- TD Bank, N.A.
- The Bank of Bennington
- Union Bank

Bank in Vermont Initiative

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, 2010, $643.05 million in CDs have been awarded. As of December 31, 2010, there no CS's outstanding. During 2010, a total of $72.20 million of varying maturities with rates well above comparable maturity Treasury rates CDs were issued. There have been no losses associated with this program.

Bank in Vermont: CDs Awarded and Outstanding through Dec. 31, 2010

Name	CDs Awarded Through 12/31/2010
CITIZENS BANK	
CONNECTICUT RIVER BANK	
FIRST NATIONAL BANK OF ORWELL	
KEYBANK	
MASCOMA SAVINGS BANK	5,700,000.00
MERCHANTS BANK	5,000,000.00
NATIONAL BANK OF MIDDLEBURY	
NORTHFIELD SAVINGS BANK	
PASSUMPSIC SAVINGS BANK	
PEOPLES TRUST CO OF ST. ALBANS	
PEOPLE'S UNITED BANK (FORMERLY CHITTENDEN BANK)	48,000,000.00
RANDOLPH NATIONAL BANK	900,000.00
TD BANK	12,000,000.00
THE BANK OF BENNINGTON	
UNION BANK	600,000.00
	72,200,000.00

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Unclaimed Property Division

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

Al LaPerle
Unclaimed Property Director

Nancy Scribner
Business Administrator

Linda Bouffard
Program Technician I

Kitty Bolduc
Program Technician I

Overview

Acting in the best interest of consumers, Vermont has enacted an unclaimed property statute that protects funds from reverting back to a company if the customer has lost contact with that company over a specified period of time. V.S.A. 27, Chapter 14 instructs companies to turn forgotten funds over to the Unclaimed Property Division of the Treasurer's Office. The office then makes a diligent effort to find the rightful owner. Unclaimed property refers to accounts held by financial institutions and other companies that have had no activity generated or contact with the owner for at least one year or longer. Common forms of unclaimed property include: savings or checking accounts; stocks; uncashed dividends or payroll checks; refunds; traveler's checks; trust distributions; unredeemed money orders; insurance payments or refunds; life insurance policies; annuities; certificates of deposit; customer overpayments; utility security deposits; mineral royalty payments; and the contents of safe deposit boxes. 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 2010, the division paid 14,142 claims worth more than $4.9 million, a 61 percent increase over the previous fiscal year. The average claim paid was $352. We were able to achieve these results by using our proven methods, such as 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.

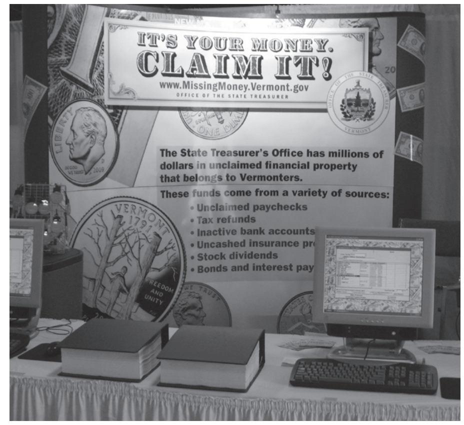
Supporting our outreach efforts, the division completed a comprehensive

ACCOMPLISHMENTS IN 2010

- **Paid 14,142 claimants approximately $4.9 million. This represents a 61 percent increase in the number of claims paid over 2009.**
- **Finalized a complete upgrade to the unclaimed property data system. That system currently contains a database of more than 220,000 properties valued at an estimated $51 million.**
- **Holders of unclaimed property reported $8.9 million worth of unclaimed funds to the State in fiscal year 2010. More than a thousand new holders were added to the unclaimed property system.**
- **In fiscal year 2010, not only were there 269,009 web searches for unclaimed property on the Vermont State Treasurer's web site but, in the last 12 months an additional 78,830 searches were conducted through the national Missing Money web site.**

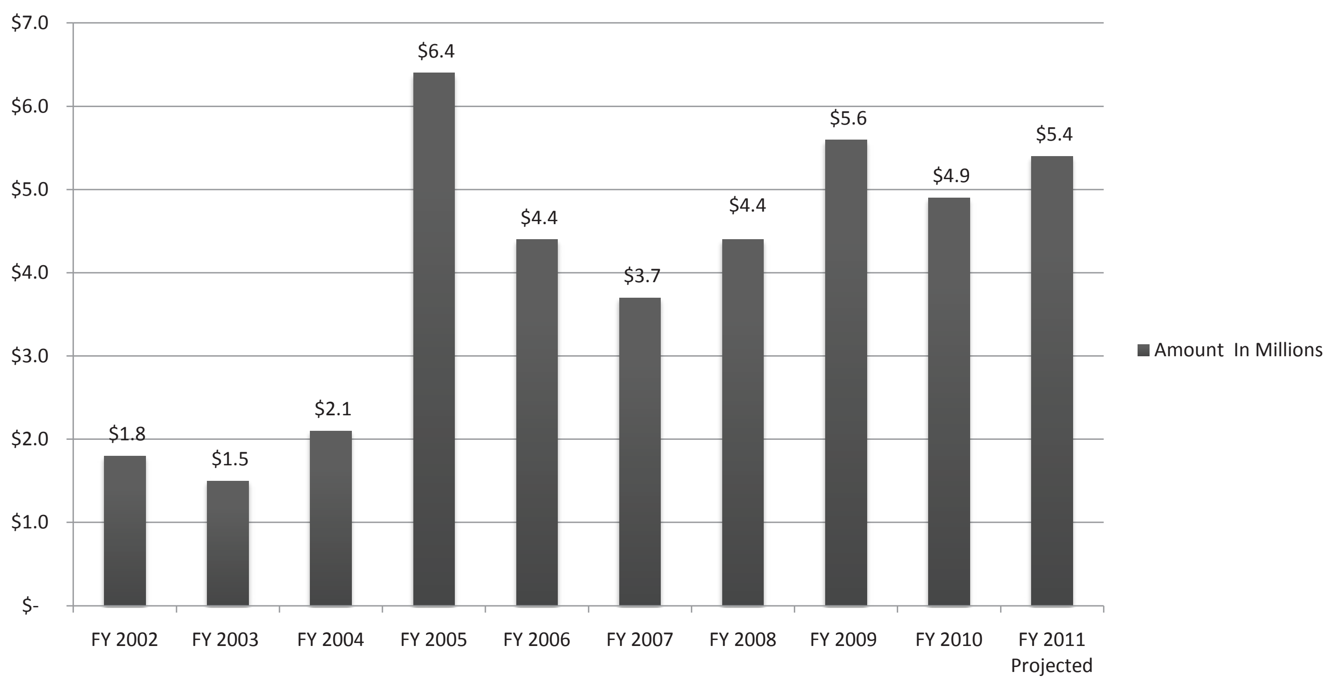
technological upgrade to the unclaimed property system. This upgrade improved our ability to pay claims by streamlining the claims processing function. This new system is built on object-oriented and relational database technologies. Unclaimed Property System 2000 is the most advanced, secure and reliable unclaimed property management systems 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 2011 claims processing is currently on pace to pay more than 12,700 claims to Vermonters. From July 1 through December 1, 2010, the division had paid 5,293 claims, 1,300 more claims than were paid over the same period the previous year. Claim information for the last nine fiscal years is shown in the chart below and on page 43.



The Unclaimed Property Division has staffed a booth at the Champlain Valley Expo for more than a decade. Each year the staff speaks to thousands of fair visitors about unclaimed property.

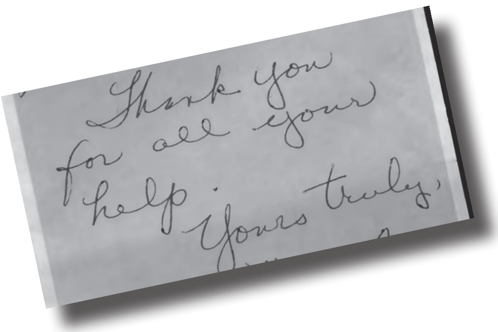
Unclaimed Property Amount Returned to Vermonters



Reporting and Compliance

The Vermont Unclaimed Property Law establishes dormancy time frames according to which banks, insurance companies, corporations, courts and other organizations must transfer unclaimed property to the State Treasurer. Generally, if there has been no activity between one and three years, depending on the type of account, money is considered unclaimed. 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, who is the sole custodian until the rightful owners or their heirs recover the property.

The State of Vermont is currently in possession of more than $51 million in unclaimed property belonging to approximately 220,000 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 2010, the State of Vermont received $8.9 million from holders of unclaimed property.



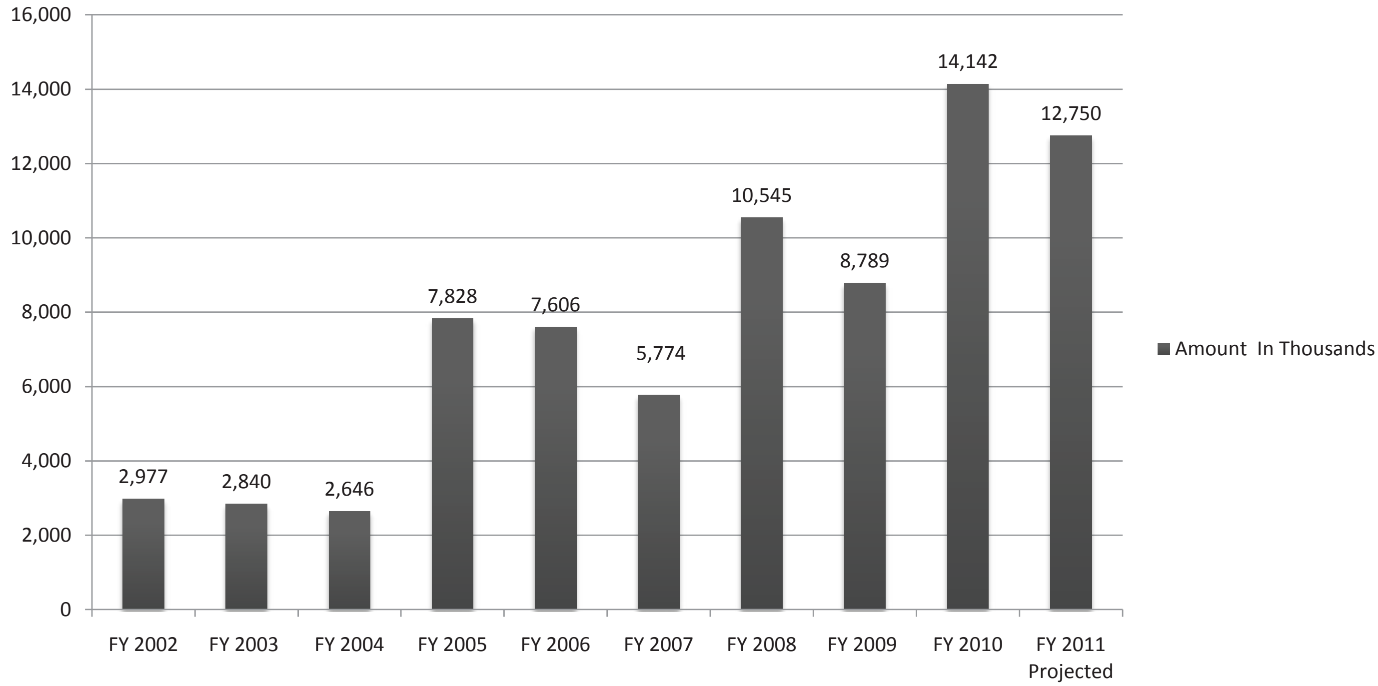
The Unclaimed Property Division staff work with hundreds of Vermonters each month. Providing excellent customer service is a priority for the team.

The division uses several outreach events to inform holders on their obligation to file their annual report. A division representative will visit a holder upon request to provide information on the program.

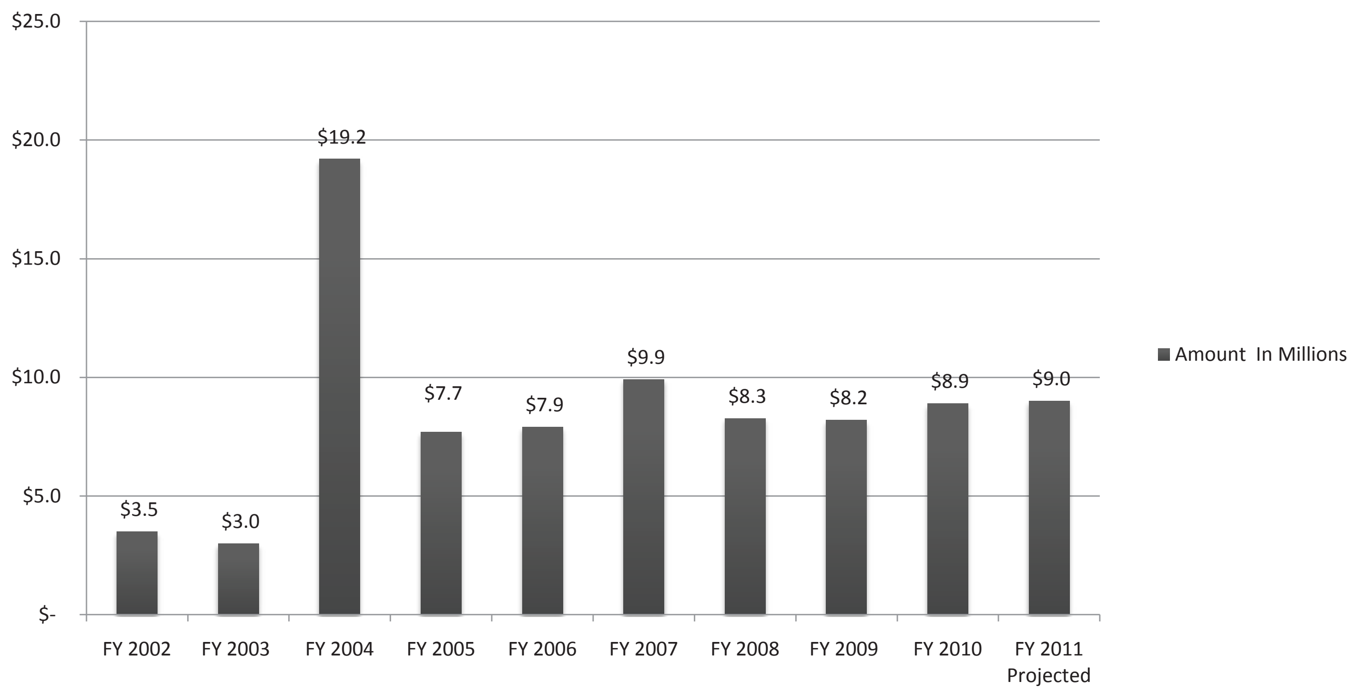
Besides using staff to conduct audits within the State of Vermont, we also use three contract audit companies to assist us in the enforcement of the statute. These companies have enabled the division to touch base with a greater number of holders of unclaimed property.

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. During fiscal year 2010, 22 holders have entered into that agreement. As a result, since the program's inception, $1,749,554 has been turned over to the State. Since the beginning of fiscal year 2011, 290 holders have submitted more than $608,793 in financial property.

Unclaimed Property Number of Claimants Paid



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



Treasury Operations Division

Overview

The Treasury Operations Division processed approximately 1.56 million payments during the 2010 fiscal year. More than 59 percent of those payments were conducted electronically. The Office of the State Treasurer has an ongoing goal to continue increasing the proportion of transactions that occur electronically. The division is responsible for the banking and cash management of more than $4 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 to Act 68; and the recording of accounting transactions associated with the above 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 assisting the Retirement Operations Division staff in the preparation of the pension trust fund financial statements. 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.

Treasury Operations Division: (802) 828-2301

John Booth
Treasury Operations 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

Gayle Rowe
Financial Specialist II

UPDATES

Reconciliations

The Treasurer's Office staff reconciles approximately 30 State core bank accounts. In fiscal year 2010, 104,737 deposits were processed to State accounts through a network designed to accelerate the collection of cash so that it may be used for operating needs or efficiently placed in short-term investments. On the disbursement side, 1,565,050 payments were processed, either through paper checks or electronic payments. 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.

ACCOMPLISHMENTS IN 2010

- **Continued to increase enrollment in the "Vendor Portal" secure web site. This site allows State vendors that receive payments electronically to view payment information online, reducing the number of requests for information from these vendors. As of November 8, 2010, approximately 670 vendors had created user accounts for this service.**

- **Responded to nearly 800 information requests received via the division's centralized e-mail account.**

- **Reconciliation of the State's core bank accounts was completed within 30 days of the monthly closing of the State's books, as has been the practice for nearly seven consecutive years.**

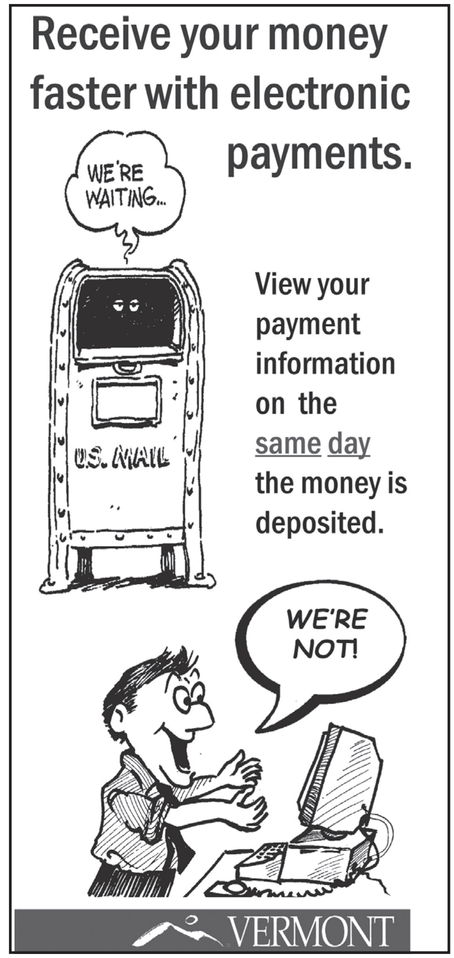
Electronic Payments

The issuance of paper checks is labor-intensive and costly. Electronic payments reduce bank fees, printing costs, fraud, and postage, 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, 1,535 check payments were reissued because the original check was lost or was never received by the payee.

Of the more than 1.56 million payments processed during fiscal year 2010, approximately 59 percent were electronic transfers.

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 1.56 million payments processed during fiscal year 2010, approximately 59 percent were electronic transfers. During fiscal year 2009, a "Vendor Portal" secure web site was rolled out. 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 2010, 95.5 percent of monthly benefit payments to retired State employees were made via direct deposit. For the retired municipal employees, the percentage of monthly benefit payments via direct deposit was 91.1 percent and for retired teachers it was 96.5 percent. This is an increase from the November 2009 percentages of 95.1 percent-State; 89.2 percent-municipal; and 96.2 percent-teachers.



In partnership with the Department of Finance & Management, the Treasurer's Office conducted an outreach effort in July aimed at persuading more vendors to accept electronic payment.

Act 68 Receipts

Notification and initial invoicing of the municipalities for the principal payment are completed by the Department of Education. Per statute, the Treasury Operations Division monitors the receipt of payments mandated by Act 68. In fiscal year 2010, all municipalities made their Act 68 principal payments.

As of December 8, 2010, all principal receivable for the payment due on December 1, 2010, had been collected. The Treasurer's Office has also billed interest, calculated at 8 percent per annum, for three municipalities that made principal payments after the December 1 due date. Subsequently, all of the interest payments were received. The Act 68 receipts approximate $83.5 million for the most recent semi-annual billing cycle.

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, 2010, 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. Final receipt for this sale will be in February, 2011.

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.

The Vermont Information Consortium (VIC) provides credit card services to some Vermont agencies and departments that accept credit card and debit card payments for transactions conducted by cardholder via the internet. The Court Administrator has worked with VIC since February, 2007, to allow for the payment of fines and fees by credit card. In the fiscal year ending June 30, 2010, approximately 37,798 transactions were processed with $5,996,206.10 collected. Of those transactions, 29,742 were conducted by users over the internet, with the remaining 8,056 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

Credit Card Accounts Summary

DEPARTMENT	TOTAL SALES	TOTAL FEES
VT Dept. of Liquor Control	21,549,955.48	447,860.18
VT Agency of Transportation	16,944,195.81	296,225.07
VT Dept. of Taxes	4,175,302.53	110,779.61
VT Forest, Parks & Recreations	2,944,788.84	62,722.87
VT Fish and Wildlife Dept.	1,340,960.42	26,530.07
VT Life Magazine	43,745.44	1,261.22
VT Secretary of State	2,709,256.52	66,882.11
VT Judicial/Courts	6,712,694.88	14,125.99
VT Center for Crime Victims/Restitution Unit	222,849.18	4,162.75
VT Dept of Health	155,315.11	3,665.87
VT Dept of Environmental Conservation	11,272.94	415.94
VT Dept of Historic Preservation/Historic Sites	159,651.53	4,914.05
VT Dept of Children & Family Services	930,445.52	21,727.66
VT Dept of Public Safety*	468,498.75	
Total	58,368,932.95	1,061,273.39

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

person pays with their 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.

Financial Literacy Trust Fund

The legislature authorized the establishment of a trust fund 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 2010, the fund received deposits of $29,000 earning $79.44 in interest. There was $2,559.94 expended from the trust fund during fiscal year 2010. However, after July 1, 2010, $8,141.38 was expended from the fund—largely in support of the rollout of the new Reading is an Investment program. Expenditures from the fund supported a statewide financial literacy poster contest; the Vermont Reserve Cup Challenge--a high school economic and personal finance competition; and supported a MoneyEd initiative with the Vermont National Guard. More detail on these programs is provided in the financial literacy section of this annual report.

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.

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.

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, 2009 through November 30, 2010, five payments have been made related to the deaths of emergency personnel in the line-of-duty. In addition, $70,000 was appropriated by the State legislature for this fund in fiscal year 2010. As of November 30, 2010, this fund has assets of $6,766.21.

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 44,000 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 2010. Listed below are some of our major accomplishments.

- **A new check writing system and check fraud avoidance software was implemented in 2010. This system will consolidate our check printing and check fraud avoidance under one common platform for better control, reliability and improved disaster recovery.**

- **A new document imaging center was setup that utilizes efficient use of space, hardware and staff to capture documents that will be viewed by Treasurer's Office staff.**

- **VPAS (Vermont Pension Administration System) has achieved another major milestone by implementing the first group of functionality for Active Membership starting on November 29, 2010. This deliverable sets the foundation for the completion of the project--projected to complete during the summer of 2011.**

- **We will continue working closely with various Treasurer Office operations staff and other departments to enhance existing services, such as improvements to our existing infrastructure for a high availability and the implementation of a Storage Area Network to facilitate improved disaster recovery in 2011.**

- **A Help Desk ticketing system was implemented to keep track of user requests and issues related to programming and technical support services for the Treasurer's Office.**

Technology Services
(802) 828-2498

Ram Verma
Technology Services Director

Lane Safford
Network Administrator II

Dan Allen
Systems Developer III

Appendices

HISTORICAL SUMMARY OF OPERATIONS: 50
Pension Fund Operations
State Employees' Retirement System (OPEB) Operations Summary

STATE OF VERMONT: Pension Trust Funds—Combining Statements of Changes in Plan Net Assets—Fiscal Year Ended 6/30/2010 52

HIGHER EDUCATION TRUST FUND: Annual Report—September 30, 2010 54

Appendix A: Higher Education Endowment Trust Fund Distributions Ending June 30, 2009 58

Appendix B: Trust Investment Account Total Return Analysis Year Ended June 30, 2010 59

Fund Contributions—Fiscal Years 60

Authorized Distributions by Year and Type 60

Trust Investment Account Fund Composition as of June 30, 2010 61

Asset Growth—6/30/00 to 6/30/10, includes distributions 62

OTHER POST-EMPLOYMENT BENEFITS FUNDING ANALYSIS--VSERS & VSTRS 63

HISTORICAL SUMMARY OF OPERATIONS: *Pension Fund Operations*

State Employees' Retirement System -- Summary of Operations

Category	2003	2004	2005	2006	2007	2008	2009	2010
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
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
Other Income	813,168	695,397	777,792	1,171,516	205,321	169,984	1,041,870	227,524
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
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
Refunds	923,964	1,171,957	1,402,481	1,351,911	1,526,140	1,414,144	1,403,995	1,521,440
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
Other Expenses	369,383	617,658	635,618	668,929	344,719	631,321	477,966	568,278
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

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

Category	2008	2009	2010
SOURCE OF FUNDS			
Employee Contributions	$ -	$ -	$ -
Employer Contributions	1,444,757	19,893,129	20,888,347
Other Income	-	-	1,640,420
Investment Income (Reduction)	7,886	86,454	480,064
APPLICATION OF FUNDS			
Retirement Benefits		-	-
Refunds		-	-
Health/Life Insurance Expenses		17,894,518	20,860,032
Administrative Expenses		-	-
Other Expenses		-	-
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 1,452,643	$ 2,085,065	$ 2,148,799

*** 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
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
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
Other Income	438,166	267,330	373,705	1,180,606	2,093,219	1,628,242	3,754,020	1,817,540
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
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
Refunds	1,109,174	711,806	1,104,278	1,290,197	1,625,140	1,280,715	1,420,776	1,183,659
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
Administrative Expenses	763,527	805,495	1,052,772	1,679,883	817,052	866,473	1,249,774	1,078,762
Other Expenses	702,568	543,746	682,438	580,403	203,444	542,665	606,434	303,741
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

Municipal Retirement System -- Summary of Operations

Category	2003	2004	2005	2006	2007	2008	2009	2010
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
Employer Contributions	5,707,184	7,114,813	8,058,810	7,926,436	8,535,396	-	8,008,862	10,592,919
Other Income	17,855,452	2,125,294	298,475	228,746	206,101	124,132	1,321,919	203,549
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
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
Refunds	639,170	1,110,243	1,140,245	1,102,940	1,389,583	1,143,397	1,223,465	1,127,574
Health/Life Insurance Expenses	-	-	-	-	-	-	-	-
Administrative Expenses	118,038	151,228	367,810	439,983	687,382	623,619	798,458	393,947
Other Expenses	546,692	668,624	423,937	1,101,883	560,473	506,817	588,899	795,522
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

STATE OF VERMONT: *Pension Trust Funds—Combining Statements of Plan Net Assets—6/30/2010*

	Defined Benefit Plans			Defined Contribution Plans			Other Postemployment Benefits 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	Vermont Municipal Employees' Health Benefit Fund	Eliminations	Total
Assets:										
Cash and short term investments	$ 748,315	$ 4,748,826	$ 1,409,714	$ 60,961	$ 7,856,305	$ 75,482	$ 2,266,683	$ 208,579	$ -	$ 17,374,865
Receivables:										
Contributions - current	5,618,790	3,433,405	2,617,178	149,270	-	18,599	-	-	-	11,837,242
Contributions non-current	-	-	6,713,298	-	-	-	-	-	-	6,713,298
Interest and dividends	76,406	83,010	420,581	-	541,785	-	-	-	-	1,121,782
Investments sold	-	-	-	-	1,678,758	-	-	-	-	1,678,758
Due from other funds	1,563,333	-	41,962	-	-	-	819,760	-	(1,605,295)	819,760
Other	-	503,862	-	-	10,359	-	-	-	-	514,221
Total receivables	7,258,529	4,020,277	9,793,019	149,270	2,230,902	18,599	819,760	-	(1,605,295)	22,685,061
Investments at Fair value:										
Pooled investments	1,161,739,403	1,294,423,059	320,562,218	-	-	-	-	-	-	2,776,724,680
Fixed income	-	-	-	-	76,037,054	-	4,315,753	-	-	80,352,807
Equities	-	6	-	-	8,160	-	1,742,949	-	-	1,751,115
Real estate and venture capital	561,476	449,534	25,642	-	-	-	-	-	-	1,036,652
Mutual funds	-	-	-	36,900,570	-	13,328,826	328,725	9,346,074	-	59,904,195
Invested securities lending collateral	177,002,253	192,965,724	47,941,289	-	-	-	-	-	-	417,909,266
Total investments	1,339,303,132	1,487,838,323	368,529,149	36,900,570	76,045,214	13,328,826	6,387,427	9,346,074	-	3,337,678,715
Prepaid expenses	-	1,442,181	8,885	2,563	-	-	-	-	-	1,453,629
Capital Assets:										
Construction in progress	1,150,292	1,335,024	343,437	-	-	-	-	-	-	2,828,753
Capital assets being depreciated:										
Equipment	765,634	928,097	374,289	-	-	-	-	-	-	2,068,020
Less accumulated depreciation	(121,720)	(143,892)	(62,904)	-	-	-	-	-	-	(328,516)
Total capital assets, net of depreciation	1,794,206	2,119,229	654,822	-	-	-	-	-	-	4,568,257
Total assets	**1,349,104,182**	**1,500,168,836**	**380,395,589**	**37,113,364**	**86,132,421**	**13,422,907**	**9,473,870**	**9,554,653**	**(1,605,295)**	**3,383,760,527**
Liabilities:										
Payable for investments purchased	-	-	-	-	4,038,998	-	-	-	-	4,038,998
Accounts payable	1,920,577	1,549,268	393,814	8,161	-	513	56,607	-	-	3,928,940
Retainage payable	218,507	266,725	108,282	-	-	-	-	-	-	593,514
Due to other funds	-	-	-	43,452	-	41,962	1,519,881	-	(1,605,295)	-
Interunit payable	117,943	137,069	63,753	-	-	-	-	-	-	318,765
Securities lending obligations	177,002,253	192,965,724	47,941,289	-	-	-	-	-	-	417,909,266
Total liabilities	**179,259,280**	**194,918,786**	**48,507,138**	**51,613**	**4,038,998**	**42,475**	**1,576,488**	**-**	**(1,605,295)**	**426,789,483**
Net assets held in trust for employees' pension and other postemployment benefits	**$ 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**

STATE OF VERMONT: *Pension Trust Funds—Combining Statements of Changes in Plan Net Assets—Fiscal Year Ended 6/30/2010*

	Defined Benefit Plans			Defined Contribution Plans			Other Postemployment Benefits 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 Benefit Trust Fund	Vermont Municipal Employees' Health Benefit Fund	Eliminations	Total
Additions :										
Contributions										
Employer - pension benefit	$ 31,468,885	$ 22,945,321	$ 10,592,919	$ 1,531,207	$ -	$ 670,540	$ -	$ -	$ -	$ 67,208,872
Employer - healthcare benefit	-	17,600,000	-	-	-	-	22,300,139	-	-	39,900,139
Plan member	22,840,354	25,315,397	10,711,600	629,015	-	640,760	-	-	-	60,137,126
Transfers from other pension trust funds	227,524	425,480	203,548	57,303	-	24,955	228,629	-	(1,167,439)	-
Transfers from non-state systems	-	16,779	-	27,251	-	14,576	-	-	-	58,606
Medicare part D drug subsidy	-	1,375,282	-	-	-	-	-	-	-	1,375,282
Total contributions	**54,536,763**	**67,678,259**	**21,508,067**	**2,244,776**	**-**	**1,350,831**	**22,528,768**	**-**	**(1,167,439)**	**168,680,025**
Investment Income:										
Net appreciation (depreciation) in fair value of investments	503,931	(453,345)	(165,514)	3,306,494	4,854,002	1,081,669	267,872	928,135	-	10,323,244
Income from pooled investments	185,919,402	213,601,861	48,316,439	-	-	-	-	-	-	447,837,702
Dividends	-	-	-	883,639	-	311,714	51,269	-	-	1,246,622
Interest	14,144	32,922	577,622	418	3,608,528	311	160,923	484	-	4,395,352
Securities lending income	1,108,457	1,229,615	282,135	-	48,393	-	-	-	-	2,668,600
Other income	384,485	395,367	24,034	466	13,949	-	-	-	-	818,301
Total investment income	**187,930,419**	**214,806,420**	**49,034,716**	**4,191,017**	**8,524,872**	**1,393,694**	**480,064**	**928,619**	**-**	**467,289,821**
Less Investment Expenses:										
Investment managers and consultants	5,059,288	5,774,594	1,365,902	-	388,635	-	-	62,104	-	12,650,523
Securities lending expenses	277,870	308,216	70,718	-	-	-	-	-	-	656,804
Total investment expenses	**5,337,158**	**6,082,810**	**1,436,620**	**-**	**388,635**	**-**	**-**	**62,104**	**-**	**13,307,327**
Net investment income	**182,593,261**	**208,723,610**	**47,598,096**	**4,191,017**	**8,136,237**	**1,393,694**	**480,064**	**866,515**	**-**	**453,982,494**
Total additions	**237,130,024**	**276,401,869**	**69,106,163**	**6,435,793**	**8,136,237**	**2,744,525**	**23,008,832**	**866,515**	**(1,167,439)**	**622,662,519**
Deductions:										
Retirement benefits	79,001,908	96,448,101	11,073,099	1,838,504	5,742,802	948,064	-	-	-	195,052,478
Other post employment benefits	-	17,203,669	-	-	-	-	20,860,032	349,821	-	38,413,522
Refunds of contributions	1,521,440	1,183,659	1,127,574	-	-	-	-	-	-	3,832,673
Death claims	275,977	154,724	298,030	-	-	-	-	-	-	728,731
Transfers to other pension trust funds	292,301	149,017	497,492	228,629	-	-	-	-	(1,167,439)	-
Depreciation	77,038	91,959	38,801	-	-	-	-	-	-	207,798
Operating expenses	814,440	986,804	355,145	44,690	-	72,062	-	-	-	2,273,141
Total deductions	**81,983,104**	**116,217,933**	**13,390,141**	**2,111,823**	**5,742,802**	**1,020,126**	**20,860,032**	**349,821**	**(1,167,439)**	**240,508,343**
Change in net assets	**155,146,920**	**160,183,936**	**55,716,022**	**4,323,970**	**2,393,435**	**1,724,399**	**2,148,800**	**516,694**	**-**	**382,154,176**
Net assets held in trust for employees' pension and other postemployment benefits:										
July 1	**1,014,697,982**	**1,145,066,114**	**276,172,429**	**32,737,781**	**79,699,988**	**11,656,033**	**5,748,582**	**9,037,959**	**-**	**2,574,816,868**
June 30	**$ 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**

JEB SPAULDING
STATE TREASURER

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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Neale Lunderville, Secretary of Administration, and the Higher Education Subcommittee of the Prekindergarten-16 Council

FROM: Jeb Spaulding, State Treasurer

RE: Annual Report on the Higher Education Endowment Trust Fund

DATE: September 30, 2010

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 eleventh 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 2010, the Fund's dollar weighted investment return was 9.82% gross of fees. This return compares to the Barclays Aggregate Bond Index return of 9.49% and to the S&P 500 Stock Index return of 14.43% 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 12.06%. A detailed discussion of the Fund's performance is included in this report.

5% Distribution from Fiscal Year 2010

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 below total contributions to principal. Total principal contributions through June 30, 2010 have been $17,500,823.36.

The 5% distribution available this year is $889,589.50 in total or $296,529.83 each for UVM, the Vermont State Colleges, and VSAC. This amount represents a 1.94% increase over the distribution made following Fiscal Year 2009 of $290,892.03 for each institution. **Appendix A** to this report includes quarterly market values and distributions for Fiscal Year 2010, and **Chart #1** shows principal contributions to date.

2% Distribution from Fiscal Year 2009

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 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, the Commission on Higher Education Funding (Commission) authorized this 2% appropriation in the amount of $349,070.43, or $174,535.22 each for distribution to UVM and the Vermont State Colleges, dependent upon a finding by the Commission 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 2010, the Fund will be able to make the full distribution amount.

After payments of $889,589.50 and $349,070.43, the Fund balance at the end of Fiscal Year 2010 totals $17,841,789.97. An accounting of the Fund balances is provided below:

Ending balance FY 2009			$17,050,798.96
	Contributions received FY 2010		1,620,927.67
Opening balance FY 2010			$18,671,726.63
	5% Distributions:	University of Vermont	(290,892.03)
		Vermont State Colleges	(290,892.03)
		Vermont Student Assistance Corp.	(290,892.03)
	2% Distributions:	University of Vermont	(149,113.59)
		Vermont State Colleges	(149,113.59)
	Income earned FY 2010		948,716.27
	Appreciation (Depreciation) FY 2010		702,133.18
	Fees and Other Charges FY 2010		(71,222.91)
Balance June 30, 2010			$19,080,449.90
	5% of 12-Quarter Moving Average as of June 30, 2010		(889,589.50)

Distributions:	University of Vermont	(296,529.83)
	Vermont State Colleges	(296,529.83)
	Vermont Student Assistance Corp.	(296,529.83)
2% Income Available for Endowments from FY 2009		(349,070.43)
Balance after distributions		$17,841,789.97
Total contributions as of June 30, 2010		$17,500,823.36
2% Income Available for Endowments from FY 2010 (requires institutional match in FY 2011)		$355,835.80

2% Distribution for Fiscal Year 2010

All principal contributions to the Fund through June 30, 2010 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 $355,835.80 would leave a balance of $17,841,789.97 excluding contributions to be received, and the 5% distribution following FY 2010, and any gains from investment activity in FY 2010. If the Secretary and the Subcommittee authorize this distribution, each institution's share will be $177,917.90 with a required match to be raised by each entity in FY 2010 of $355,835.80. 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 Trust Fund, with a balance of $19.1 million (prior to cash distributions to be made in FY 2010) comprises approximately 32%. The Tobacco Trust Fund comprises 43% of the account, or $25.8 million, and the remaining 25% is made up of, in decreasing size, a State Employee's retirement benefit trust fund totaling $6.6 million, the ANR Stewardship Fund at $4.0 million, the Waterfowl Stamp Fund at $2.0 million, the Fish and Wildlife Trust Fund at $1.4 million, two Veterans' Home trusts totaling $1.1 million, and eight small trusts totaling just over $500,000. **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 2010. 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 balance rebounded in FY 2010, owing to both solid investment returns and a rather large Estate Tax contribution in excess of $1.5 million.

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, 2010, the Account's actual allocation comprised 73.2% fixed income securities and 26.8% equities, versus 69.4% fixed income securities and 30.6% equities, respectively, on June 30, 2009. 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 FY 2010. Given that the asset allocation has enabled the Fund to perform in both exceptionally adverse and very positive markets, the Treasurer's Office strongly believes the current asset allocation is appropriate going forward.

The Account return underperformed its benchmark in FY 2010, but this was true of all higher-quality investments during the "junk rally" (i.e., the recovery of prices of low-quality stocks and speculative-grade bonds due to the temporary improvement in economic outlook) from March 2009 through April 2010. In general, conservative fixed-income managers and value equity managers lagged their respective benchmarks during this period.

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. Of these managers, Hanson & Doremus has outperformed its benchmark in six out of the past ten fiscal years, and Prentiss Smith and Sentinel have each outperformed in seven of the past ten 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 FY2010 but 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, substantial changes to the economic and financial outlook and may warrant asset allocation or manager changes in the future.

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, 2010*

Quarter-End Balances	Sep 30, 2009	Dec 31, 2009	Mar 31, 2010	Jun 30, 2010
Fiscal Year 2008	$17,827,605.83	$18,164,200.03	$18,010,390.14	$17,917,152.20
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

Twelve Quarter Average	**$17,791,789.94**	
5% Distribution FY2010	**$889,589.50**	
VSAC		$296,529.83
UVM		$296,529.83
Vermont State Colleges		$296,529.83
2% FY2009 (Projected)	**$349,070.43**	
UVM		$174,535.22
Vermont State Colleges		$174,535.22
2% FY2009 (Actual)	**$349,070.43**	
UVM		$174,535.22
Vermont State Colleges		$174,535.22
Balance after Distributions	**$17,841,789.97**	
2% FY2010 (Projected)	**$355,835.80**	
UVM		$177,917.90
Vermont State Colleges		$177,917.90

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
Total:	**$17,500,823.36**

APPENDIX B—TRUST Investment Account: *Total Return Analysis—Year Ended June 30, 2010*

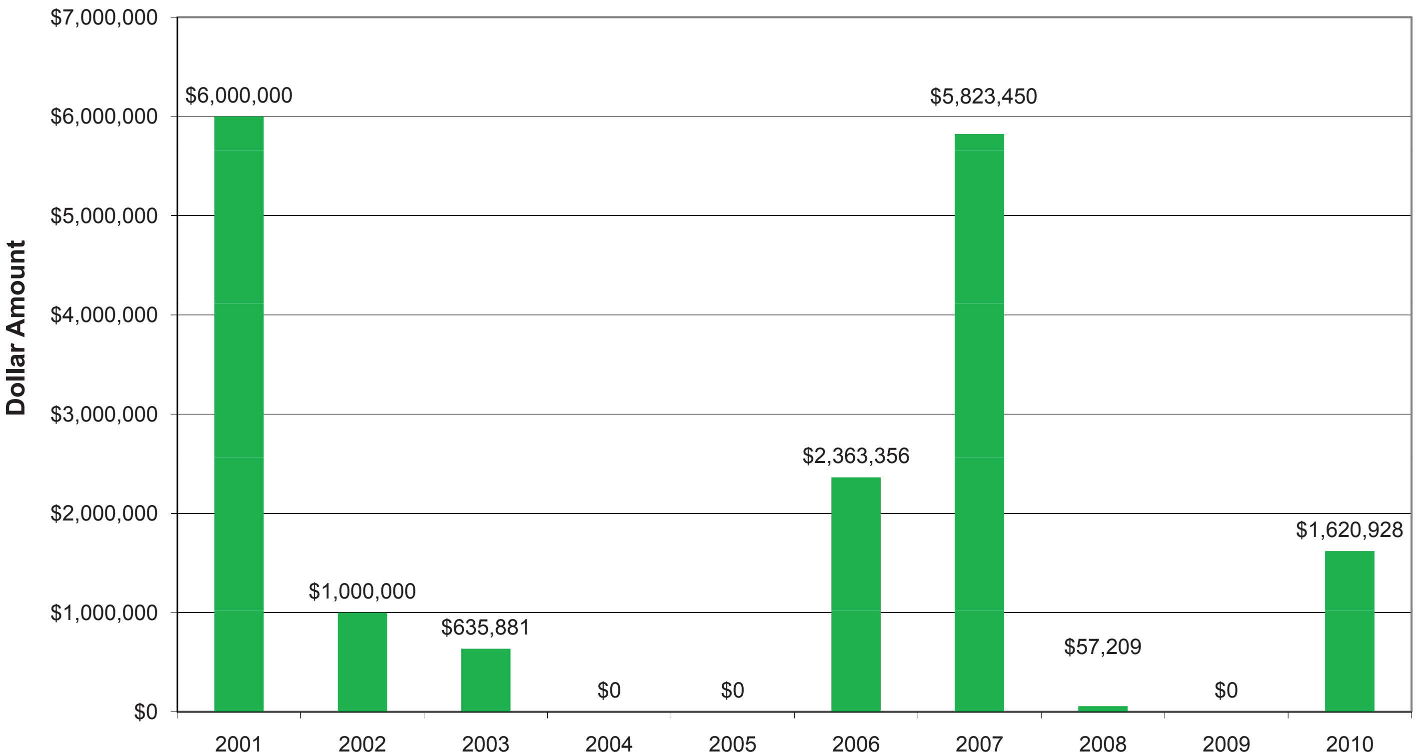
MANAGER	Fiscal Year 2001	Calendar Year 2001	Fiscal Year 2002	Calendar Year 2002	Fiscal Year 2003	Calendar Year 2003	Fiscal Year 2004	Calendar Year 2004	Fiscal Year 2005	Calendar Year 2005
DOMESTIC EQUITY										
Hanson & Doremus Investment Management	**29.41%**	**17.41%**	**-7.78%**	**-18.01%**	**-1.89%**	**42.55%**	**29.10%**	**15.92%**	**22.25%**	**19.18%**
Prentiss Smith & Co.	**7.59%**	**13.69%**	**3.60%**	**-7.35%**	**7.70%**	**18.17%**	**11.47%**	**13.25%**	**11.00%**	**10.68%**
S&P 500	***-13.56%***	***-11.89%***	***-17.99%***	***-22.11%***	***0.25%***	***28.69%***	***19.14%***	***10.90%***	***6.32%***	***4.91%***
DOMESTIC FIXED INCOME										
Sentinel Asset Management, Inc.	**10.34%**	**10.07%**	**9.41%**	**9.48%**	**8.92%**	**5.43%**	**3.48%**	**5.56%**	**7.42%**	**3.07%**
RBC Global Asset Management (Access Capital) [2]										
Barclays (formerly Lehman) Aggregate	***10.23%***	***8.44%***	***8.63%***	***10.25%***	***10.40%***	***4.10%***	***0.32%***	***4.34%***	***6.80%***	***2.43%***
TOTAL FUND DOLLAR WEIGHTED RETURN	**11.27%**	**11.62%**	**7.94%**	**5.15%**	**8.59%**	**11.24%**	**7.59%**	**8.14%**	**10.17%**	**6.64%**
Total Fund Target	**7.52%**	**6.57%**	**3.94%**	**3.29%**	**9.23%**	**9.94%**	**4.96%**	**6.23%**	**6.76%**	**3.27%**
TOTAL FUND MARKET VALUE ($ million)	**$26.5**	**$32.6**	**$33.3**	**$34.9**	**$37.3**	**$38.8**	**$39.3**	**$41.1**	**$43.5**	**$48.6**

MANAGER	Fiscal Year 2006	Calendar Year 2006	Fiscal Year 2007	Calendar Year 2007	Fiscal Year 2008	Calendar Year 2008	Fiscal Year 2009	Calendar Year 2009	Fiscal Year 2010
DOMESTIC EQUITY									
Hanson & Doremus Investment Management	**21.10%**	**20.28%**	**29.13%**	**14.32%**	**-14.64%**	**-38.44%**	**-28.04%**	**22.93%**	**10.42%**
Prentiss Smith & Co.	**15.77%**	**16.61%**	**20.09%**	**10.85%**	**-4.96%**	**-23.98%**	**-9.34%**	**35.30%**	**12.30%**
S&P 500	***8.63%***	**15.80%**	***20.60%***	***5.50%***	***-13.13%***	***-37.00%***	***-26.21%***	***26.42%***	***14.43%***
DOMESTIC FIXED INCOME									
Sentinel Asset Management, Inc.	**0.26%**	**5.31%**	**6.12%**	**7.61%**	**9.10%**	**7.81%**	**8.77%**	**5.03%**	**7.80%**
RBC Global Asset Management (Access Capital) [2]				**2.83%**	**3.52%**	**3.71%**	**8.72%**	**9.76%**	**8.67%**
Barclays (formerly Lehman) Aggregate	***-0.81%***	**4.33%**	***6.12%***	***6.96%***	***7.12%***	***5.24%***	***6.06%***	***5.94%***	***9.49%***
TOTAL FUND DOLLAR WEIGHTED RETURN	**5.86%**	**9.48%**	**12.02%**	**9.47%**	**3.10%**	**-3.62%**	**2.40%**	**13.06%**	**9.82%**
Total Fund Target	**2.19%**	**7.96%**	**10.62%**	**6.80%**	**1.14%**	**-6.59%**	**-1.19%**	**13.18%**	**12.06%**
TOTAL FUND MARKET VALUE ($ million)	**$49.7**	**$52.8**	**$55.5**	**$58.8**	**$59.3**	**$55.7**	**$59.2**	**$66.1**	**$60.6**

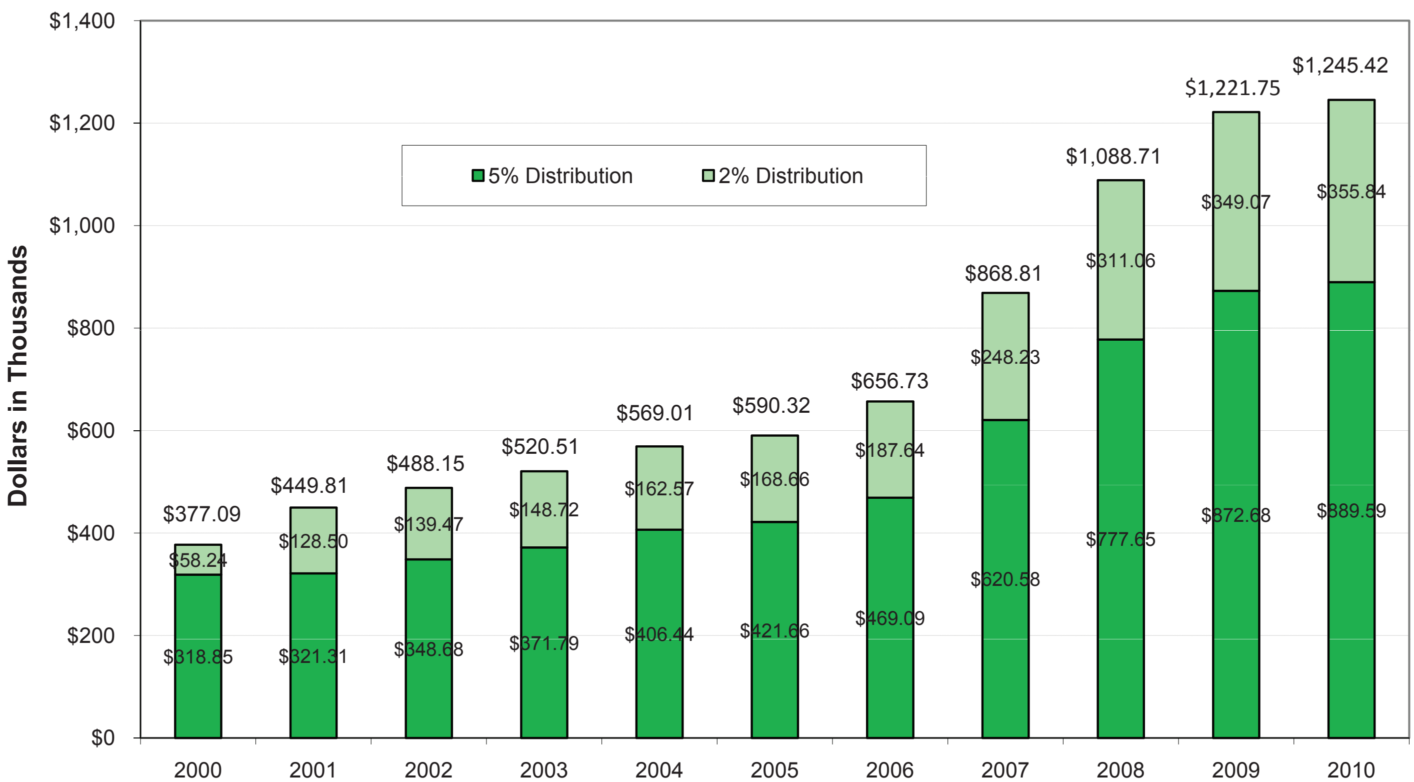
MANAGER	Quarter Ended 9/30/2009	Quarter Ended 12/31/2009	**Calendar Year 2009**	Quarter Ended 3/31/2010	Quarter Ended 6/30/2010	**Fiscal Year 2010**	Portfolio Value 6/30/2010	Portfolio Percent 6/30/2010
DOMESTIC EQUITY								
Hanson & Doremus Investment Management	15.28%	4.18%	**22.93%**	3.81%	-11.43%	**10.42%**	$7,686,864	12.7%
Prentiss Smith & Co.	13.93%	6.10%	**35.30%**	2.87%	-9.69%	**12.30%**	$8,519,767	14.1%
S&P 500	*15.60%*	*6.00%*	***26.42%***	*5.40%*	*-11.40%*	***14.43%***		*26.8%*
DOMESTIC FIXED INCOME								
Sentinel Asset Management, Inc.	2.48%	-0.90%	**5.03%**	2.08%	3.98%	**7.80%**	$41,356,202	68.3%
RBC Global Asset Management (Access Capital) [2]	3.15%	0.83%	**9.76%**	1.65%	2.79%	**8.67%**	$3,001,263	5.0%
Barclays (formerly Lehman) Aggregate	*3.74%*	*0.20%*	***5.94%***	*1.78%*	*3.49%*	***9.49%***		*73.2%*
TOTAL FUND DOLLAR WEIGHTED RETURN	6.22%	1.13%	**13.06%**	2.44%	-0.20%	**9.82%**		
Total Fund Target	7.52%	2.06%	**13.18%**	2.89%	-0.75%	**12.06%**		
TOTAL FUND MARKET VALUE ($ million)	**$62.8**	**$66.1**	**$66.1**	**$64.5**	**$60.6**	**$60.6**	$60,564,096	**100.0%**

Notes:
1. Includes cash balances of: Hanson - $100,595, Prentiss - $192,870, Sentinel - $1,953,270 as of June 30, 2010.
2. Access Capital added to Trust Investment Account on October 12, 2007.

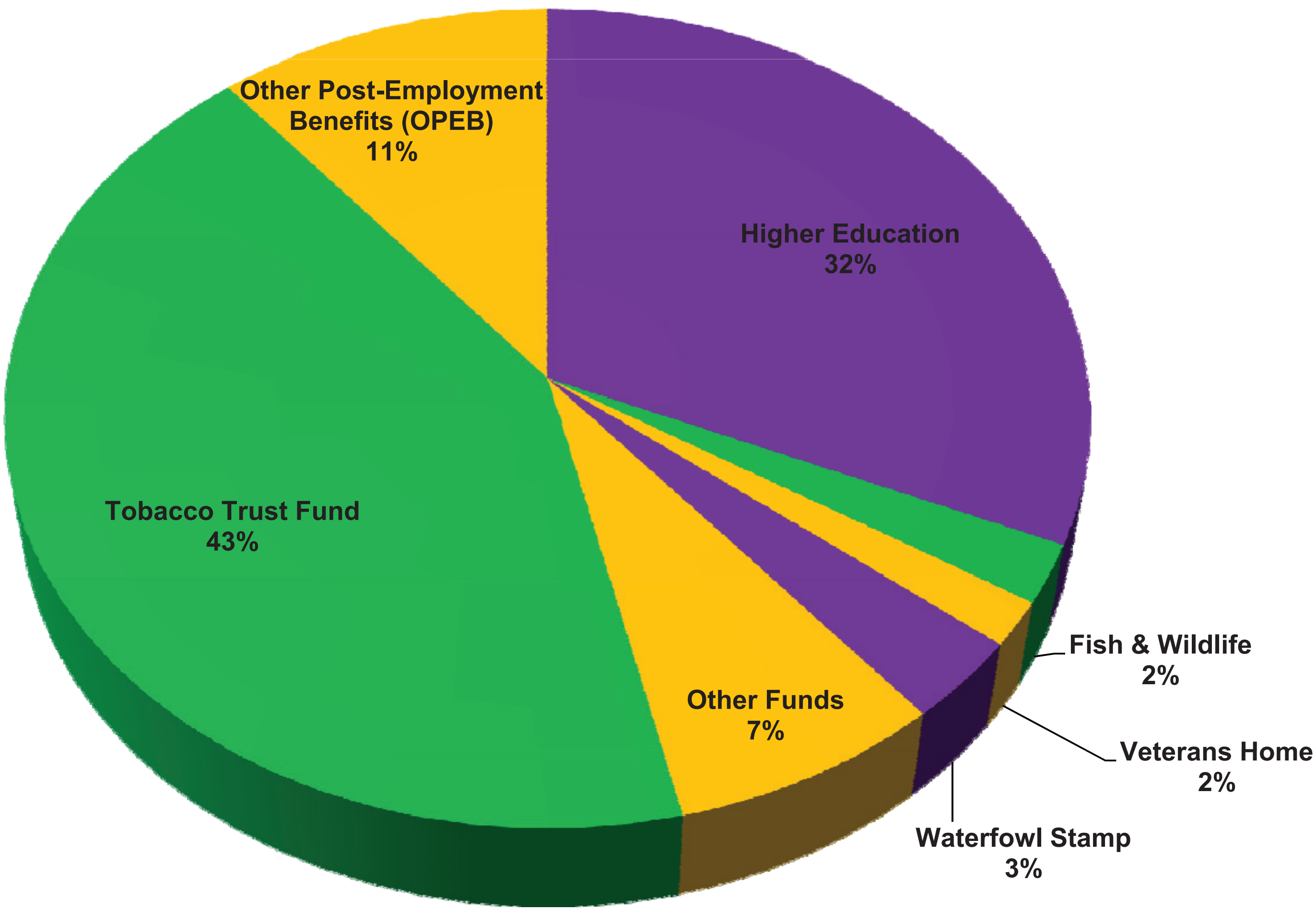
HIGHER EDUCATION TRUST FUND: *Fund Contributions—Fiscal Years*



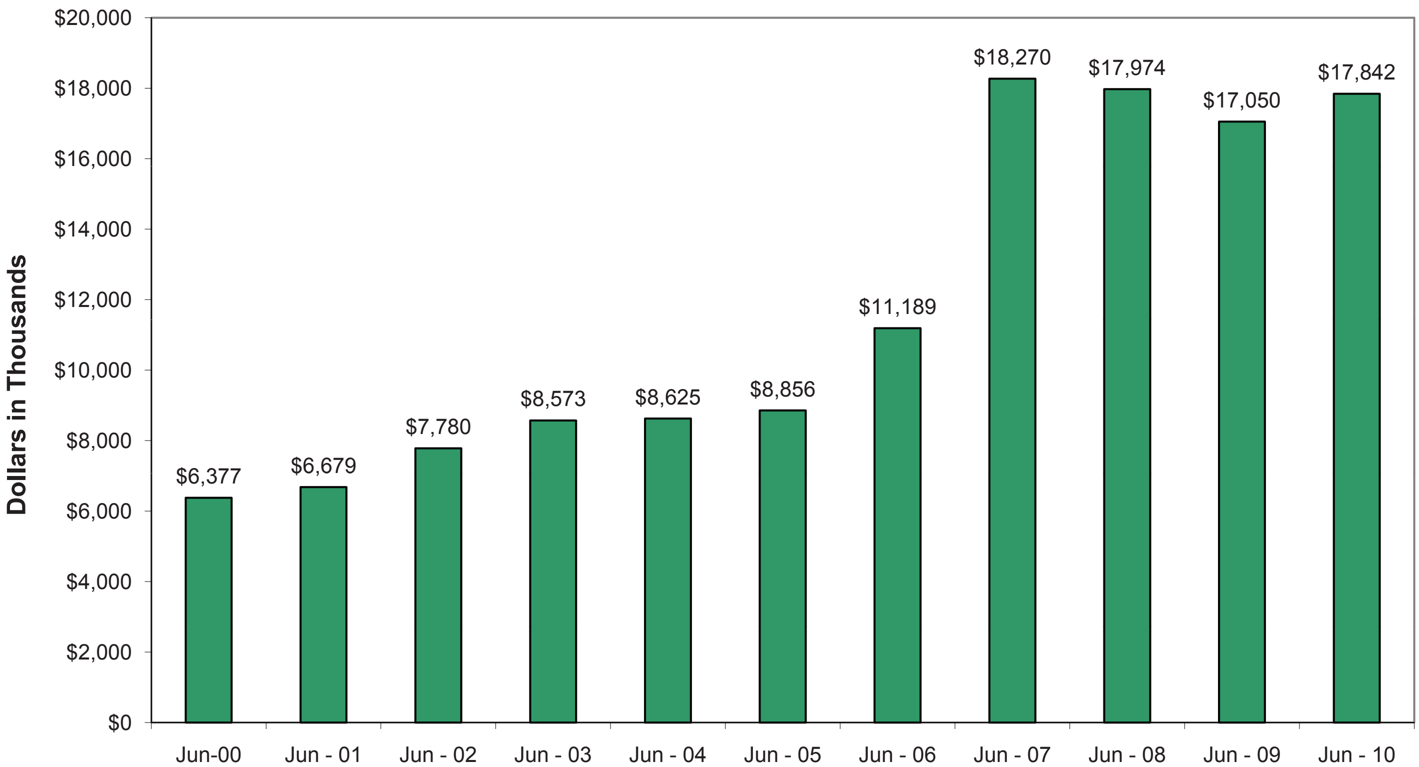
HIGHER EDUCATION TRUST FUND: *Authorized Distributions by Year and Type*



HIGHER EDUCATION TRUST FUND: *Trust Investment Account Fund Composition as of June 30, 2010*



HIGHER EDUCATION TRUST FUND: *Asset Growth—6/30/00 to 6/30/10, 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	8.25%	4.25%
Actuarial Value of Assets	$7,897,382	$7,897,382
Actuarial Accrued Liability		
- Active Participants	$272,668,524	$541,295,399
- Retired Participants	270,475,130	383,887,307
- TOTAL	$543,143,654	$925,182,706
Unfunded Actuarial Liability	$535,246,272	$917,285,324
Funded Ratio	1.5%	0.9%
Annual Covered Payroll	$414,936,034	$414,936,034
Unfunded Actuarial Liability (as % of covered payroll)	129%	221.1%
Normal Cost for FY 2011	$17,307,828	$39,525,688
Amortization of Unfunded Actuarial Liability (for FY 2011 -30 yr)	$26,815,127	$27,504,619
Annual Required Contribution (ARC) FY 2011 *	$44,122,955	$67,030,307
Expected Benefit Payments	$30,881,697	$30,881,697
Increase in Annual Cost to Fund Plan	$13,241,258	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	8.25%	4.00%
Actuarial Value of Assets	$0	$0
Actuarial Accrued Liability		
- Active Participants	$145,349,993	$339,738,851
- Retired Participants	228,754,994	364,012,016
- TOTAL	$374,104,987	$703,750,867
Unfunded Actuarial Liability	$374,104,987	$703,750,867
Funded Ratio	0%	0%
Annual Covered Payroll	$560,763,396	$560,763,396
Unfunded Actuarial Liability (as % of covered payroll)	66.7%	125.5%
Normal Cost for FY 2011	$8,086,636	$21,160,218
Amortization of Unfunded Actuarial Liability (for FY 2011-30 yr)	$18,742,163	$20,349,211
Annual Required Contribution (ARC) FY 2011 *	$26,828,799	$41,509,429
Expected Benefit Payments	$19,056,126	$19,056,126
Increase in Annual Cost to Fund Plan	$7,772,673	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.

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