current status

PENSIONS
(STATE + TEACHER)

	6/30/10	6/30/16
TOTAL LIABILITY:	$3.7 Billion	$5.2 Billion
INVESTMENTS:	$<2.7> Billion	$<3.4> Billion*
UNFUNDED LIABILITY:	$1.0 Billion	$1.8 Billion

OTHER POST-RETIREMENT EMPLOYEE BENEFITS (OPEB)
(RETIREE HEALTHCARE BENEFITS)

TOTAL LIABILITY:	$1.6 Billion	$1.8 Billion
INVESTMENTS (DEMINIMUS):	-------	-------
UNFUNDED LIABILITY:	$1.6 Billion	$1.8 Billion
TOTAL UNFUNDED LIABILITY:	**$2.6 Billion**	**$3.6 Billion**

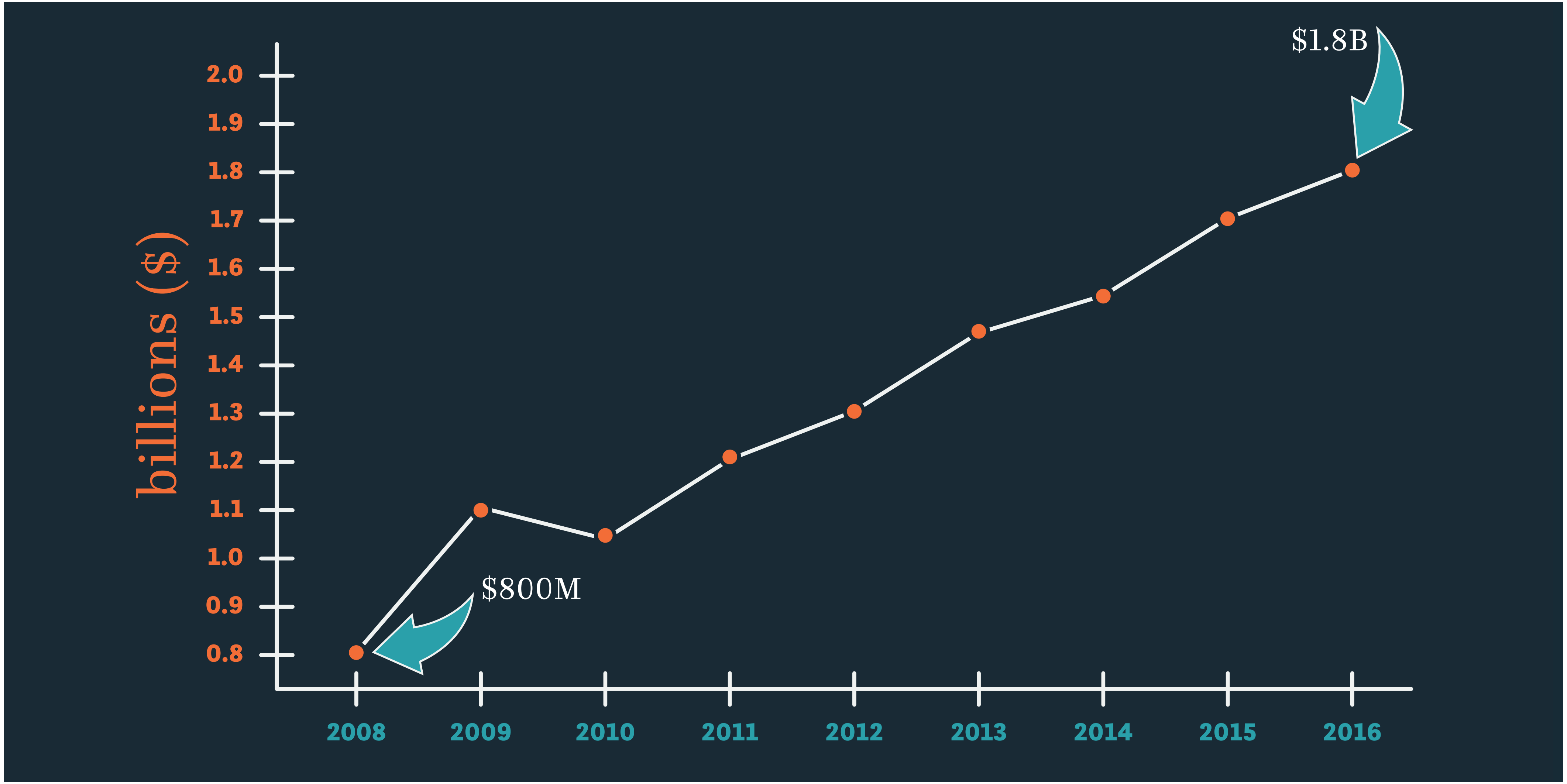
NOTE: Unless otherwise indicated in this presentation, all information contained herein is taken from reports produced by Buck Consultants, the state's consulting actuary

*THE ACTUAL FMV AS OF 6/30/16 IS $3.2 BILLION, THE DIFFERENCE OF NEARLY $200M IS DUE TO ASSET SMOOTHING, A TECHNIQUE USED TO SPREAD ASSET GAINS/ LOSSES OVER 5 YEARS

PER CAPITA:
Approximately
$15,000
per Vermont household
(BASED ON 240,000 HOUSEHOLDS)

PENSION UNFUNDED LIABILITY

2008–2016



issues & problems

PENSIONS

UNDERSTATEMENT OF LIABILITY

- Moody's estimate of rate of return of 5.67%, which would add $1 billion to unfunded liability
- 6/30/17 reduction in rate of return (from 7.95% to 7.50%) and other assumption changes adds approximately $150 million to unfunded liability

UNPREDICTABILITY OF THE ANNUAL REQUIRED PAYMENTS (ARC)

6/30/17 reduction in rate of return (7.95% to 7.5%) and other assumption changes adds approximately $10 million to ARC

Actual rate of return on Vermont State Workers' investments as of 6/30/17:

3 YEARS - 3.7%
5 YEARS - 6.6%
10 YEARS - 4.2%

Low funding ratios:

STATE 74.5%

TEACHERS 58.3%

COMBINED 65.4%

NOTE: Information on this page taken from Vermont State Treasurer's website, Vermont State Treasurer's office, Moody's, as well as Buck Consultants.

THE UNPREDICTABILITY OF THE ANNUAL AMORTIZATION OF THE UNFUNDED LIABILITY

(ACTUAL CASE STUDY)

IN **2010,** THE AMOUNT WAS PROJECTED TO BE **$95M IN 2017**

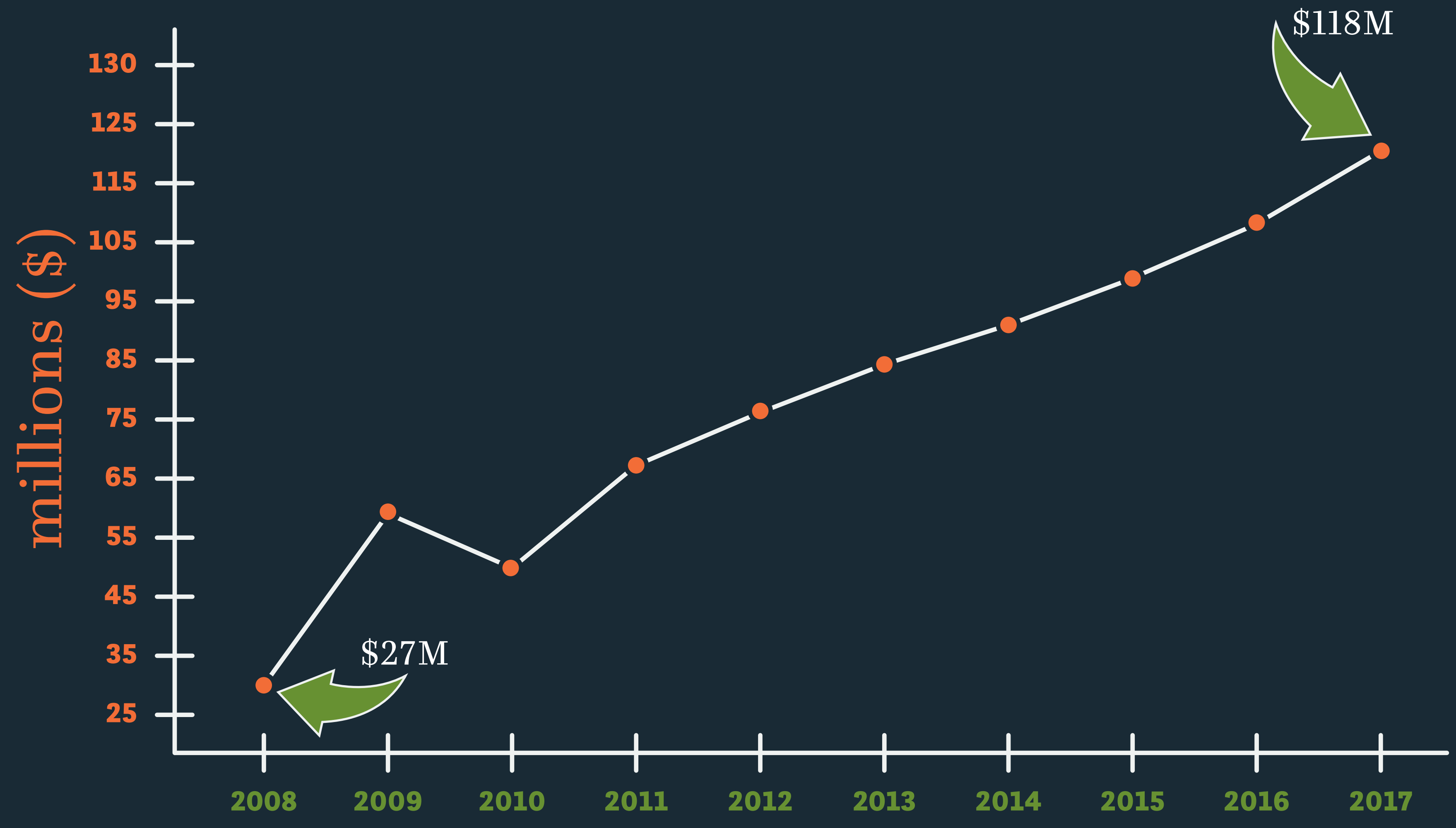
IN **2014,** THE AMOUNT WAS PROJECTED TO BE **102M IN 2017**

IN **2016,** THE AMOUNT WAS PROJECTED TO BE **$118M IN 2017**

IN 6 YEARS,
the annual amortization increased by
$23M, or **24%**,
requiring additional revenue from the general fund.

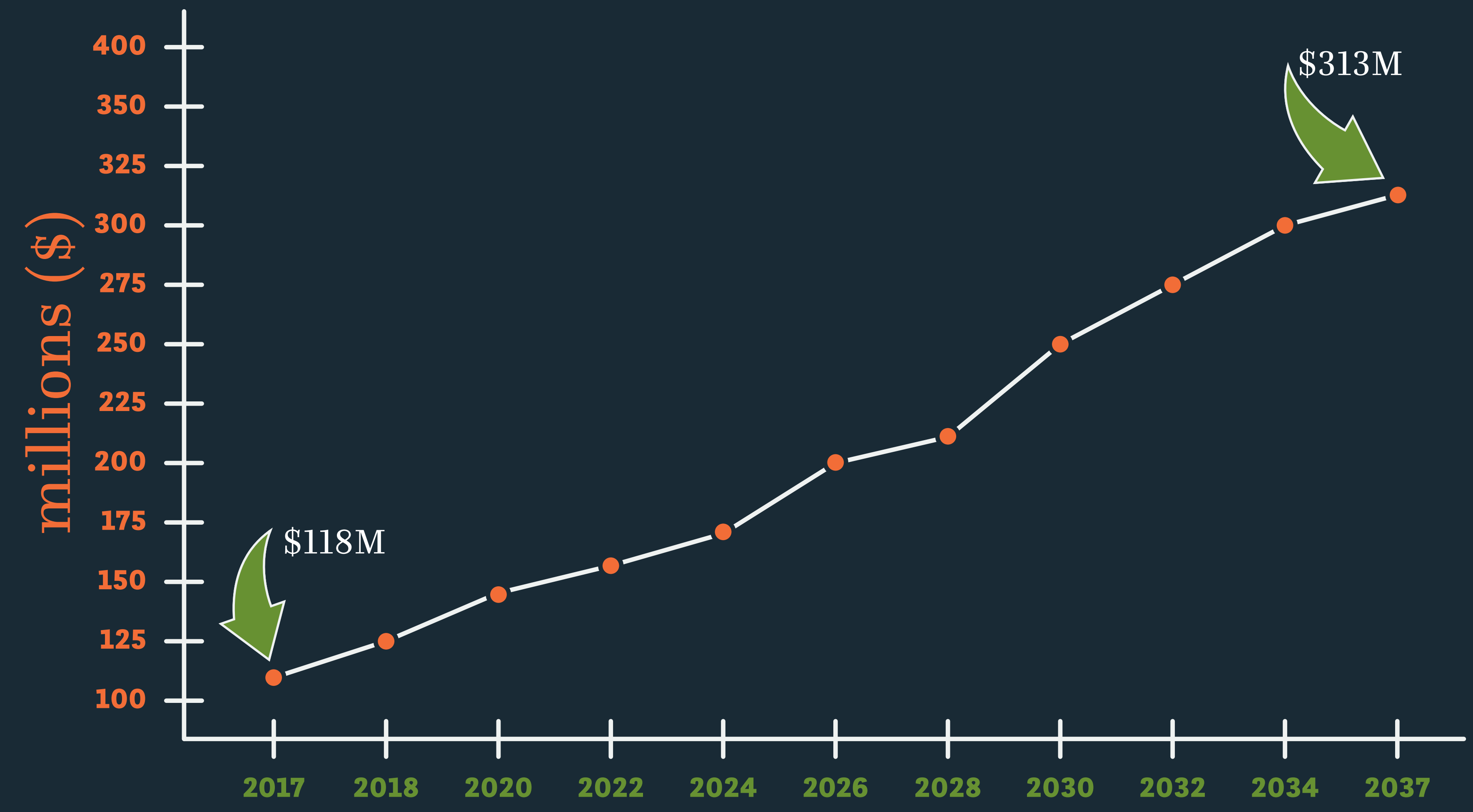
AMORTIZATION OF THE PENSION UNFUNDED LIABILITY

2008–2017



AMORTIZATION OF THE PENSION UNFUNDED LIABILITY

2018–2037



NOTE: Assuming all of the payments are made through 2037, the $1.8 billion would be paid in full, provided all of the assumptions are correct and there is not a recession and/or market correction.

RETIREE HEALTH CARE BENEFITS

No prefunding like pensions

Annual Deficit in Funding over $50 million

Liability will continue to grow

No plan or strategy to fund

RATING AGENCY CONSIDERATIONS

PENSIONS + OPEB ON THEIR RADAR

"The state's slower-than-average economic growth will continue to pressure the budget during our two-year outlook horizon,' Standard and Poor's wrote. 'In addition, pension... liabilities remain high relative to those of state peers.' Reducing the pension liabilities 'could translate into a higher rating,' the agency wrote."

"All three rating agencies wrote in their explanations of the ratings that the state has above-average pension liabilities—money that needs to be paid or will need to be paid to retired teachers and retired state workers—but only Standard and Poor's said the liabilities were nough to keep Vermont from getting the highest credit rating possible."

"Moody's and Standard and Poor's both said Vermont has a demographic problem. 'Vermont's population of 624,594 has declined at an increasing rate in the past three years,' Standard and Poor's wrote. 'We anticipate that the relatively weak demographic trends in recent years will persist and continue to dampen the state's economic growth potential.'"

* FROM VERMONT MAINTAINS AAA BOND RATINGS, VT DIGGER, AUGUST 14, 2017

IMPACT ON STATE'S FINANCIAL STATEMENTS

Total Net Position (Net Worth) as of 6/30/16 is $1.2 billion

GASB (Governmental Accounting Standards Board) now requires recording of pension + OPEB liabilities on state's balance sheet

This will likely result in modest or negative net worth *why action is required...*

LOW FUNDING RATIOS

INCREASING PRESSURE ON GENERAL FUND REVENUES

(Liability is approximately 8% of general fund in 2017 ($118 million) and will be approximately 12% of the general fund in 2037 ($313 million))

RATE OF RETURN IS LIKELY OVERSTATED

(California – CALPERS going to 7%)

NO PLAN TO DEAL WITH THE HEALTHCARE LIABILITY OF $1.8 BILLION

STATE'S WEAK DEMOGRAPHIC TRENDS

STATE'S ECONOMIC GROWTH POTENTIAL

NEGATIVE IMPACT ON STATE'S FINANCIAL STATEMENTS

STATE (TAXPAYERS) HAS 100% OF THE RISK UNDER THESE PLANS