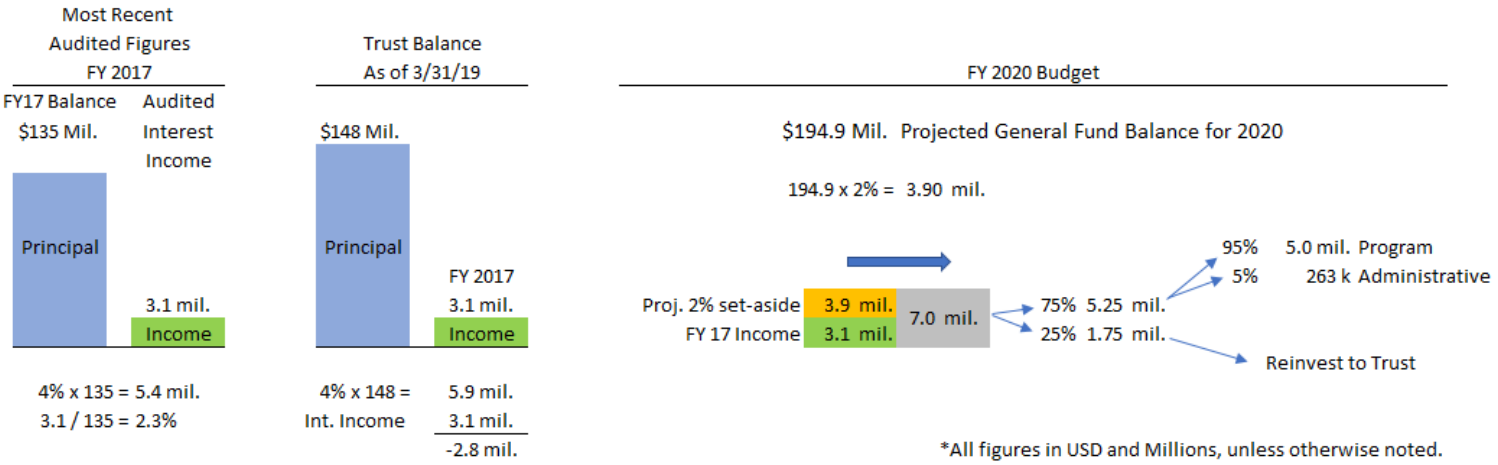
Veterans Trust Fund

Interest Income Explanation

May 15, 2018

(Update from October 4, 2018 version)

The purpose of this pamphlet is to clear up any confusion on the history of the Veteran's Trust. Initially the Veteran's Administration wanted to increase interest income from 4% to 10%. The diagram below provides a high-level view on the budget calculation and the differences between legislation CJY-46-98 (old) and CJA-02-18 (new) legislation.



Old

CJY-46-98

Legislation states the expenditure calculation will be derived from 4% of the trailing 12 quarter Market Value average of the Veteran's Trust Fund (VTF). The VTF isn't generating enough income to meet the 4% calculation. 4% of the current VTF Balance is $5.9 mil., $2.8 mil more than what was earned. As a result, we use the income earned at $3.1 mil. (Approx. yielding 2.3% of VTF). We use FY 2017 figures because they are the most recent audited amounts. FY 2018 audit is in progress. Keep in mind Income yield and total return are two different things. Income yield is the interest/cash earned, whereas total return includes income yield and capital appreciation (Income Yield + Capital Appreciation = Total return). Returns vary and are dependent on economic and market conditions.

New

CJA-02-18

Legislation amends sub-section 1176 (A) Expenditure of Trust Fund to "75 Percent of the total income earned, plus the current projected set aside of the Fund will be as supplemental funding for programs and services…" This approved amendment increases the amount of funds given to Veteran's by adding most of the projected set-aside into the budget calculation. The expected 2% set-aside is $3.9 mil. (orange box). Now we combine 2% projected set-aside and audited Interest income for a total of $7 mil. (grey box). The combined sum is further broken down by 75% program (95%/5%), 25% Reinvest back into the Trust. The reinvested amount to the Trust is reduced which slows the growth of the Trust Fund.

In Conclusion, the new legislation allows for more program expenditure by including the use of set-asides into the budget calculation and reduces the growth of the Veterans Trust Fund. If there was no new legislation the Veteran's program would've received $2.9 million (95% of $3.1 mil.) for FY 2020.

Office of the Controller – Investment Section