



your future

Comprehensive Annual Financial Report

For the Year Ended June 30, 2009

VIRGINIA RETIREMENT SYSTEM
FINANCIAL AND STATISTICAL HIGHLIGHTS – ALL PENSION TRUST FUNDS

(DOLLARS IN THOUSANDS)

	2009	2008	% Change
Activity for the Year:			
Contributions	\$ 2,097,403	\$ 2,148,168	-2.4%
Investment Income (Net of Investment Expenses)	\$ (11,501,006)	\$ (2,774,300)	314.6%
Retirement Benefits	\$ 2,733,223	\$ 2,536,268	7.8%
Refunds	\$ 91,348	\$ 102,935	-11.3%
Administrative Expenses (Net of Miscellaneous Income)	\$ 23,045	\$ 25,236	-8.7%
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	\$ (12,251,219)	\$ (3,290,571)	272.3%
Retirement Benefits as a Percentage of Contributions	130.3%	118.1%	
Retirement Benefits as a Percentage of Contributions and Investment Income	-29.1%	-405.1%	
Net Assets Held in Trust for Benefits at Fiscal Year End:			
Virginia Retirement System (VRS)	\$ 39,889,754	\$ 51,743,477	-22.9%
State Police Officers' Retirement System (SPORS)	\$ 484,119	\$ 636,409	-23.9%
Virginia Law Officers' Retirement System (VaLORS)	\$ 690,606	\$ 852,640	-19.0%
Judicial Retirement System (JRS)	\$ 283,934	\$ 367,106	-22.7%
Investment Performance:			
One-Year Return on Investments	-21.1%	-4.4%	
Three-Year Return on Investments	-3.2%	8.9%	
Five-Year Return on Investments	2.7%	11.3%	
Participating Employers:			
Counties/Cities/Towns	250	250	
Special Authorities	192	188	
School Boards	144	144	
State Agencies	235	239	
Total Employers	821	821	0.0%
Members/Retirees:			
Active Members	346,929	345,737	0.3%
Retired Members	141,746	136,394	3.9%

Investment return calculations were prepared using a time-weighted return methodology.



Virginia
Retirement
System

Virginia Retirement System

Comprehensive
Annual
Financial
Report

For the Year Ended
June 30, 2009

VRS STANDARDS OF CONDUCT

RESPONSIBILITY

We are loyal to members, beneficiaries and participants, discharging our duties for the exclusive purpose of administering benefits and providing customer services.

FAIRNESS

We work for all members, beneficiaries and participants, not for any one individual or group of individuals.

COMPETENCE

We strive to maintain and improve our skills and knowledge.

INTEGRITY

We conduct ourselves in a professional and ethical manner befitting the high level of trust bestowed upon us by our members, beneficiaries and participants.

AN INDEPENDENT AGENCY OF THE COMMONWEALTH OF VIRGINIA

This report was prepared by the financial, administrative and investment staff of the Virginia Retirement System.

your future

2009

**Certificate of
Achievement
for Excellence
in Financial
Reporting**
Presented to
Virginia Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.




President


Executive Director

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Virginia Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. This was the 27th consecutive year that VRS achieved this prestigious recognition.

To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. The certificate is valid for a period of one year. The *VRS Comprehensive Annual Financial Report for FY 2009* continues to conform to the Certificate of Achievement Program requirements and will be submitted to GFOA to determine its eligibility for another certificate.


Public Pension Coordinating Council

**Public Pension Standards Award
For Funding and Administration
2008**

Presented to

Virginia Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)


Alan H. Winkle
Program Administrator

**Public Pension Coordinating Council
Achievement Award**

VRS received the 2008 Achievement Award from the Public Pension Coordinating Council (PPCC) in recognition of the agency's excellence in meeting the Public Pension Standards. Developed by PPCC, these standards are the benchmark for measuring excellence in defined benefit plan administration. This is the System's sixth award from PPCC.

The purpose of the award is to promote high professional standards for public employee retirement systems and publicly commend systems that adhere to these standards. The PPCC is a coalition of the National Association of State Retirement Administrators (NASRA), National Conference on Public Employee Retirement Systems (NCPERS) and the National Council on Teacher Retirement (NCTR).

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- Board of Trustees
- VRS Organization
- Investment Advisory Committee
- Executive Administrative Team
- Executive Investment Team
- Professional Consultants
- Letter of Transmittal

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VRS is working to
make the member's
online experience
simple and direct.



Chairman's Letter



A. Marshall Acuff, Jr., Chairman
Robert P. Schultze, Director
Charles W. Grant, CFA, Chief Investment Officer

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Richmond, Virginia 23218-2500
Toll Free: 1-888-VARETIR (827-3847) • TDD: 804-344-3190

December 3, 2009

**The Honorable Timothy M. Kaine, Governor of Virginia,
and Members of the General Assembly:**

Fiscal year 2009 was a difficult year for the economy and the financial markets. As a long-term investor, the Virginia Retirement System (VRS) maintains significant exposure to equity, credit and real estate investments, and all suffered significant losses in market value last year. Over more than 40 years in the investment business, I have never witnessed a market decline like the one we experienced following the collapse of Lehman Brothers in September 2008.

The VRS portfolio experienced a -21.1% return on its investment portfolio for fiscal year 2009, ending the year with \$42.6 billion in assets. The three-year annualized return was -3.2%, and the five-year annualized return was 2.7%. These returns compare to the intermediate term policy benchmark returns of -20.1%, -3.6% and 2.0%, respectively, for the last one-, three- and five-year periods.

The fund's fixed income portfolio produced a 4.6% return, while the public equity program produced a -28.0% return. The real estate return was -28.3%. The fund's private equity program experienced a -21.8% return, and the credit strategies program had a -7.7% return. As of June 30, 2009, the portfolio included \$18.0 billion in public equity, \$10.9 billion in fixed income, \$6.1 billion in credit strategies, \$3.7 billion in real estate and \$3.6 billion in private equity.

Unfortunately, the market decline has significantly affected the funded status of the VRS retirement plans. For example, in FY 2008, the funded status for the state employee and teacher plans was 88.0% and 79.8%, respectively. In FY 2009, after recognizing only one-fifth of last year's market losses, their funded status declined

to 84.0% and 76.1%, respectively. Unless the market stages a significant recovery, full recognition of the FY 2009 losses would cause the funded status of these plans to fall further in the next four years to about 60%.



Restoring the funded status of the VRS plans is a major priority for the Board in FY 2010 and beyond. Yet state and local government budgets, already stretched to meet revenue shortfalls, are not positioned to absorb the kind of increased employer contribution rates that will be required. Consequently, we believe the Governor and General Assembly also must look to plan design changes as part of a long-term solution. The study conducted by the Joint Legislative Audit and Review Commission (JLARC) in October 2008 is a good starting point in the search for solutions.

The Board continues to be confident in the ability of VRS to provide superior investment management, benefit administration and customer service. Our investment and administrative teams are highly skilled and dedicated to the mission of VRS and are backed by the Board's unwavering commitment to responsible governance. By the first quarter following the close of the fiscal year, the portfolio had regained substantial assets, with a closing balance on September 30, 2009 of \$46.9 billion and a fiscal year-to-date return of 10.3%. We recognize, however, that although the VRS investment program is sound, investment returns alone will not address the plans' funding issues. Therefore, we look forward to working with you toward creating long-term solutions that will ensure the future financial security of VRS' members, retirees and beneficiaries.

On behalf of the Board and VRS, I would like to express our gratitude to you for your continued support and leadership.

A handwritten signature in black ink, reading "A. Marshall Acuff, Jr." in a cursive style.

A. Marshall Acuff, Jr.

Chairman

Virginia Retirement System

Board of Trustees



A. Marshall Acuff, Jr., Chair
Cary Street Partners



John M. Albertine, Ph.D., Vice Chair
Albertine Enterprises



Edwin T. Burton III, Ph.D.
University of Virginia



Palmer P. Garson
Cary Street Partners



Robert L. Greene
Syncom Venture Partners



Mitchell L. Nason
Prince William County Department
of Fire and Rescue



Colette Sheehy
University of Virginia



Paul W. Timmreck
Virginia Commonwealth University
(Retired)



Raymond B. Wallace, Jr.
Henrico County
Public Schools (Retired)

COMPOSITION OF THE BOARD

Nine members serve on the VRS Board of Trustees. Their appointment is shared between the executive and legislative branches of state government. The Governor appoints five members, including the chairman. The Joint Rules Committee of the Virginia General Assembly appoints four members. The General Assembly confirms all appointments.

Of the nine Board members, four must be investment experts; one must be experienced in employee benefit plans; one must be a local government employee; one must be an employee of a Virginia public institution of higher education; one must be a state employee; and one must be a public school teacher. The public employee members may be either active or retired.

VRS Organization

BOARD OF TRUSTEES

ADMINISTRATION



Robert P. Schultze
Director

INVESTMENTS



Charles W. Grant, CFA
Chief Investment Officer

INTERNAL AUDIT



Franklin O. Berry
Internal Audit Director

Investment Advisory Committee



LEFT TO RIGHT: Christopher J. Brightman, Hance West, Deborah Allen Hewitt, Thomas S. Gayner, Rod Smyth, Joe Grills, Patricia Gerrick and Erwin H. Will, Jr. NOT PICTURED: Donald W. Lindsay

Rod Smyth, Chair

Chief Investment Strategist
Riverfront Investment Group

Patricia Gerrick

Former Chief
Investment Officer
State of North Carolina

Donald W. Lindsey

Chief Investment Officer
The George Washington
University

Christopher J. Brightman,

Vice Chair

Chief Executive Officer
University of Virginia
Investment Management
Company

Joe Grills

Former Chief
Investment Officer
IBM Retirement Funds

Hance West

Managing Director
Investure

Thomas S. Gayner

Executive Vice President
Markel Corporation

Deborah Allen Hewitt

Clinical Professor
The College of William
and Mary

Erwin H. Will, Jr.

Chief Investment Officer
(Retired), VRS
President (Retired),
Capitoline Investment
Services

Executive Administrative Team

Robert P. Schultze
Director

Patricia S. Bishop
Director of Policy, Planning and
Compliance

Barry C. Faison
Chief Financial Officer

Franklin O. Berry
Internal Audit Director

Donna M. Blatecky
Deputy Director

LaShaunda B. King
Executive Assistant

L. Farley Beaton, Jr.
Chief Technology Officer

Jeanne L. Chenault
Director of Public Relations

Kenneth C. Robertson, Jr.
Director of Human Resources

Executive Investment Team

Charles W. Grant, CFA
Chief Investment Officer

Field H. Griffith, CFA
Director of Real Estate
Investments

Larry D. Kicher, CFA
Chief Operating Officer

John P. Alouf, CFA
Director of Private Equity

Steven C. Henderson, CFA
Director of Fixed Income

Stephen R. McClelland, CFA
Director of Credit Strategies

John T. Grier, CFA
Director of Internal Equity

Kenneth C. Howell, CFA
Director of Global Equity

Steven P. Peterson, Ph.D.
Director of Research

Professional Consultants

ACTUARY

**Thomas J. Cavanaugh, FSA,
FCA, EA, MAAA**
Chief Executive Officer
Cavanaugh Macdonald
Consulting, LLC

AUDITOR

Walter J. Kucharski
Auditor of Public Accounts
Commonwealth of Virginia

LIFE INSURANCE CARRIER

Joseph K. W. Chang
Minnesota Life Insurance
Company

MASTER CUSTODIAN
BNY Mellon

LEGAL COUNSEL

Office of the Attorney General
Commonwealth of Virginia

VIRGINIA SICKNESS AND
DISABILITY PROGRAM

Michelle Jackson
Unum Provident

Letter of Transmittal



Robert P. Schultze, Director
Barry C. Faison, Chief Financial Officer

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Richmond, Virginia 23218-2500
Toll Free: 1-888-VARETIR (827-3847) • TDD: 804-344-3190

December 2, 2009

To the Members of the Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Virginia Retirement System (the System) for the fiscal year ended June 30, 2009. In addition to the Introductory Section, the System's CAFR contains a Financial Section, Investment Section, Actuarial Section and Statistical Section.

VRS' Comprehensive Annual Report for FY 2009 has been prepared in accordance with Section 51.1-1003 of the *Code of Virginia* (1950), as amended, and Section 4-10.00 of Chapter 781 of the 2009 Virginia Acts of Assembly, which requires every retirement system to publish an annual report. The report has been mailed to the Governor, the members of his Cabinet and the members of the Virginia General Assembly. The report also is available on the VRS Web site at www.varetire.org.

VRS Overview

VRS administers benefits and services for approximately 600,000 members, retirees and beneficiaries covered under the following plans:

- Virginia Retirement System (VRS) for teachers, state employees and employees of participating political subdivisions, including full-time local law enforcement officers, firefighters, emergency medical technicians and jail officers
- State Police Officers' Retirement System (SPORS)
- Virginia Law Officers' Retirement System (VaLORS)
- Judicial Retirement System (JRS)

Benefits include:

- Defined benefit plans
- Commonwealth of Virginia 457 Deferred Compensation and Virginia Cash Match Plans
- Optional retirement plans for political appointees, school superintendents and teaching, research and administrative faculty at Virginia's public colleges and universities
- Group Life Insurance Program
- Retiree Health Insurance Credit Program
- Virginia Sickness and Disability Program (VSDP) and VSDP Long-Term Care Plan
- Commonwealth of Virginia Voluntary Long-Term Care Program

More than 800 employers participate in VRS on behalf of their employees. They include state agencies, public colleges and universities, school boards, political subdivisions and special authorities.

Fiduciary Responsibility of the Board

The VRS Board of Trustees (the Board) has full power to invest and reinvest the trust funds of the System. To fulfill its responsibility, the Board has adopted various investment policies and guidelines. The Board's investment objective for the VRS portfolio is to maximize long-term investment returns while targeting an acceptable level of risk. Primary risk measures are volatility in the plan's assets, funded status and contribution rates. As set forth in Section 11 of Article X of the *Constitution of Virginia*, the funds of the retirement system shall be deemed separate and independent trust funds; shall be segregated from all other funds of the Commonwealth; and shall be invested and administered solely in the interests of members, retirees and beneficiaries. The Board retains a professional investment staff, as well as outside managers, to advise and assist in the implementation of these policies and objectives.

The assets of the System are invested in a prudent manner that is intended to provide for the anticipated growth of VRS' pension liability. Section 51.1-124.30(C) of the *Code of Virginia* states that “. . . the Board shall invest the assets of the Retirement System with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.” Accordingly, the Board must sufficiently diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to do so.

Accounting System and Internal Control

The financial statements included in the CAFR for FY 2009 are the responsibility of the System's management and have been prepared in accordance with generally accepted accounting principles (GAAP) for governmental accounting and reporting under the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

The accrual basis of accounting is used in the preparation of the financial statements. Revenues are taken into account when they are earned and become measurable; expenses are recorded when the liabilities are incurred. Investments are reported at fair value as determined by the System's master custodian. Capital assets are recorded at cost and depreciated over their estimated useful life. Contributions to the System are based on the principle of level cost funding and are developed using the entry age normal cost method with current service financed on a current basis and prior service amortized within a period of 30 years or less. In management's opinion, the financial statements fairly present the plan net assets of the System at June 30, 2009 and the changes in its plan net assets for the period then ended.

GASB Statement Number 34 requires the System to include additional information in the CAFR. This additional information is provided in Management's Discussion and Analysis (MD&A) and includes an introduction and an overview and analysis of the System's financial activities for the current fiscal year and the two preceding years. The Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found in the Financial Section immediately following the report of the independent auditor.

VRS Milestones

- 1908** Retired Teachers Fund created
- 1942** Virginia Retirement System (VRS) created for teachers and state employees
- 1944** Political subdivisions have the option to join VRS
- 1950** State Police Officers' Retirement System (SPORS) created
- 1960** Group Life Insurance Program created
- 1970** Cost-of-Living Adjustment (COLA) established; Judicial Retirement System (JRS) created

The System's management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with GAAP. The internal control system includes the organization plan; the appropriate segregation of duties and responsibilities and sound practices in the performance of duties; and personnel with capabilities commensurate with their responsibilities. The System also has an internal audit program that reports to the Audit Committee of the Board of Trustees, and the budget for the System's administrative expenses is approved by the Board and appropriated by the General Assembly of Virginia.

The retirement funds held by the System are constitutionally established as independent trust funds dedicated to the exclusive benefit of its members, retirees and beneficiaries. In management's opinion, the internal controls in effect during the fiscal year ended June 30, 2009 adequately safeguard the System's assets and provide reasonable assurance regarding the proper recording of financial transactions.

Funding

The System's most recent actuarial valuation was prepared as of June 30, 2008. As expected, the report indicated a slight improvement in the funded ratios for most of the plans. This improvement resulted from the positive impact of investment returns since FY 2003 on the Actuarial Value of Assets. Further information on this valuation is included in the Financial Section and the Actuarial Section of the CAFR.

Contributions for FY 2009 were based on the June 30, 2007 actuarial valuation. The rates increased for state employees, teachers and state police officers. For judges, Virginia law officers and political subdivision employees, the rates declined slightly. For state employees and teachers, the rates certified by the VRS Board of Trustees were not fully funded by the Governor and General Assembly. The funded rates for FY 2009 for state employees were greater than the funded rates in FY 2008. For the other groups, the funded rates for FY 2009 were slightly lower than the funded rates for FY 2008. This is discussed in further detail in the Financial Section of the CAFR.

PLAN NET ASSETS AVAILABLE FOR BENEFITS

AS OF JUNE 30

(EXPRESSED IN BILLIONS)



Investments

At June 30, 2009, the total value of the VRS investment portfolio was \$43.2 billion. This is a decrease from the investment balance of \$56.5 billion at June 30, 2008. The decrease in the portfolio resulted from an investment return of -21.1% for FY 2009 and the excess of benefit payments over contributions for the year. The System's net assets at June 30, 2009 totaled \$42.6 billion, a decrease from the net asset balance of \$55.1 billion at June 30, 2008.

Legislative Initiatives

During the 2009 session, the Virginia General Assembly enacted several bills that affect public employees and retirees covered under VRS:

ENHANCED HAZARDOUS DUTY COVERAGE. House Bill 2065 required regional jail boards and authorities as well as localities participating in such boards and authorities to provide enhanced hazardous duty coverage for regional jail superintendents and sworn officers.

HEART ACT. House Bill 2128 modified several provisions to comply with the federal Heroes Earnings Assistance and Relief Tax (HEART) Act by extending the period of time allowed for leave without pay for members on active military duty, which extends eligibility for retirement benefits, accidental death benefits and group life insurance benefits.

K-12 CRITICAL SHORTAGE POSITIONS. Senate Bill 919 extended the sunset date from July 1, 2010 to July 1, 2015 for provisions allowing retirees to be hired as teachers or school administrative personnel in K-12 critical shortage positions without interruption in their retirement benefits.

VIRGINIA SICKNESS AND DISABILITY PROGRAM. The 2009 Appropriations Act provided for the following changes to the Virginia Sickness and Disability Program (VSDP):

- State employees hired or rehired on or after July 1, 2009 become eligible for non-work related disability coverage after one year of continuous employment. Their eligibility for sick, family and personal leave, work-related disability coverage and coverage under the VSDP Long-Term Care Plan is effective with the first day of employment. In addition, they receive income replacement equal to 60 percent of their pre-disability income for non-work related or work-related short-term disability during the first five years of continuous employment. After five years, they become eligible for 100 percent of their pre-disability income at the beginning of a short-term disability period, which decreases to 80 percent and then 60 percent depending on their months of career state service.
- The time period between successive periods of short-term disability increased from 14 to 45 consecutive calendar days. An employee who goes on short-term disability, returns to work with a full release from his or her physician and then goes out again for the same condition within 45 consecutive calendar days is considered to be on the same claim. The employee does not have to fulfill another seven-calendar day waiting period, and the VSDP benefit resumes at the same income replacement level. In addition, the days the employee works between successive periods of short-term disability do not reduce the days remaining on short-term disability.

VRS Milestones

- 1990** Health Insurance Credit for state retirees established
- 1992** Health Insurance Credit for retired teachers and political subdivision employees established
- 1995** Optional Group Life Insurance Program established
- 1999** Virginia Sickness and Disability Program (VSDP) for state employees established; Virginia Law Officers' Retirement System (VaLORS) created
- 2002** VSDP Long-Term Care Plan established

Year in Review

MEMBER AND RETIREE HIGHLIGHTS. The total VRS membership declined from 600,481 in fiscal year 2008 to 596,226 in fiscal year 2009, a decrease of 0.7%. The following are highlights from the fiscal year:

- The number of active VRS members increased 0.3%, from 345,737 to 346,929.
- The number of retirees and beneficiaries increased 3.9%, from 136,394 to 141,746. VRS paid \$2,733.2 million in benefits to annuitants, compared to \$2,536.3 million during FY 2008.
- The number of inactive and deferred members decreased 9.1%, from 118,350 to 107,551.
- More than 58,100 members held accounts through the Commonwealth of Virginia 457 Deferred Compensation Plan at the end of the fiscal year. Of these participants, more than 53,900 received a cash match through the Virginia Cash Match Plan.

EXCEEDING BENCHMARKS. VRS personnel continued to exceed benchmarks for operating standards as the following highlights show:

OPERATING STANDARD	BENCHMARK	FY 2009 RESULT
Retiree Payroll (<i>benefits paid each month to retirees and other annuitants</i>)	100.0% of all monthly payrolls run no later than the first day of the month.	100.0% of monthly payrolls ran on time.
Customer Counseling Center Abandoned Call Rate (<i>rate of incoming calls going unanswered</i>)	The average abandoned call rate does not exceed 5.0%.	The average rate was 4.0%.
Service Retirements	Service retirement applications are processed in an average of 60 days with a 95.0% accuracy rate.	Service retirement applications were processed in an average of 18 days with a 99.9% accuracy rate.
Disability Retirements	98.0% of disability retirement applications are processed within 40 days of approval by the VRS Medical Board.	99.8% of disability retirement applications were processed within 12 days of approval by the VRS Medical Board.
Purchase of Prior Service	Cost letters sent to members applying to purchase prior service are processed within 30 days of receiving a completed application with a 95.0% accuracy rate.	Cost letters were processed within five days with a 100.0% accuracy rate.
Refunds	95.0% of requests for refunds of member contributions are processed within 60 days.	99.9% of refunds were processed within seven days.
Benefit Estimates	90.0% of requests for benefit estimates are completed within 30 days.	98.5% of estimates were completed within 13 days.
Employer Reports	96.0% of reports submitted to VRS by employers are processed within 30 days.	98.9% of employer reports were processed within 30 days.
Workflow Imaging	95.0% of documents VRS receives are imaged and available to customer service and operations personnel within 24 hours.	97.7% of documents were imaged and available within 24 hours.
System Availability	The system is available for all critical business functions 99.0% of the time.	The system was available 99.5% of the time.

In addition to these achievements, VRS staff provided counseling, education, workshops and training opportunities for members and employers throughout the state:

- The Member Counseling Team assisted more than 2,200 members in one-on-one counseling sessions and responded to more than 6,000 e-mails. Staff also conducted 164 retirement education and group counseling sessions, special presentations, videoconferences, webinars and benefit fairs, reaching approximately 13,500 members around the state.
- VRS' Employer Representatives made more than 29 site visits and held 60 workshops in locations around the state, attended by more than 784 employer contacts. In addition, the Employer Representatives assisted five new employers joining VRS; five employers adding enhanced coverage for hazardous duty employees; 25 employers adding an enhanced retirement multiplier for hazardous duty employees; seven employers electing the health insurance credit; and 10 employers adopting defined contribution plans.
- The Employer Training Team provided 59 sessions for more than 500 human resource and payroll officers during FY 2009.
- During the fiscal year, the number of visits to the VRS Web site at www.varetire.org exceeded 1.2 million, reflecting an increase of more than 13% over the previous June 30.

MODERNIZATION PROGRAM HIGHLIGHTS

FIRST PHASES COMPLETED. Following an intensive procurement process, VRS selected Sagitec Solutions, LLC as its business partner for the five-year Modernization Program. Sagitec staff began arriving at VRS in January 2009 to start work with the VRS team to analyze how the Modernization solution will support the agency's new business model, which organizes processes around life events, including when a member becomes employed, marries or has children, is ready to think about retirement planning and retires. The other critical component of the program is how the solution will enhance members' access to services through the Web in addition to supporting the traditional channels of telephone and in-person customer service.

VRS staff also continued to implement business process "early wins" toward the Modernization objective to streamline processes and services for participating employers as well as members. These achievements included:

- Developing an approach to simplifying and standardizing the calculation of service credit and compensation.
- Addressing the problem of "orphan documents"—document images in the system that are not associated with a member. Member data and matching member records will support a successful conversion from the current system to the Modernization solution.
- Implementing the VRS Knowledge Center based on the system established by the Department of Human Resource Management. The Knowledge Center provides VRS staff access to a greater variety of online training as well as the ability for supervisors and staff to identify and track learning content that will enhance individual performance.

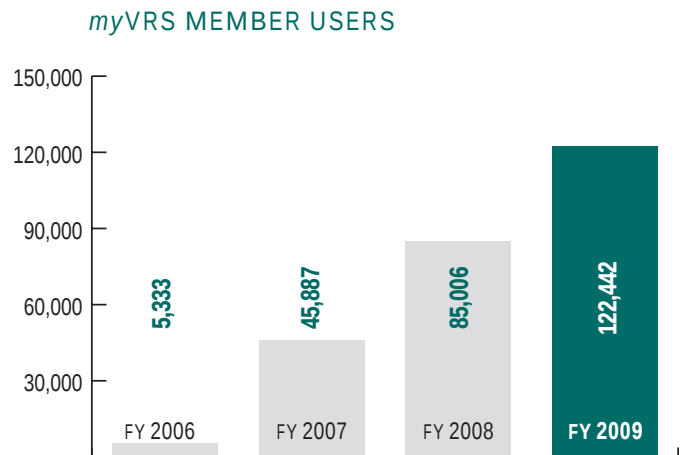


myVRS ATTRACTS MORE USERS. During the fiscal year, the number of members, retirees and employers using the myVRS secure online system continued to increase:

- By June 30, 2009, 122,442 members had registered for myVRS since its inception in 2006, representing more than 27% of those eligible to create online accounts. Through myVRS, members

can view their service credit and member contribution account information, employment and compensation history, life insurance information and annual benefit statements as well as use benefit estimating and retirement planning tools. During the fiscal year, members created 209,552 estimates through the *myVRS* Benefit Estimator and completed 27,493 Quick Plans and 4,605 Detailed Plans through the *myVRS* Retirement Planner.

- *myVRS* was opened to retirees in 2008. By June 30, 2008, 495 retirees had created online accounts. By June 30, 2009, that number had increased to 16,664, representing almost 14% of retirees eligible to register for *myVRS*.
- By the end of the fiscal year, more than 91% of employers eligible to access member information were registered for *myVRS* for Employers. During the year, employers created 66,514 retirement benefit estimates for their employees.



Acknowledgements

VRS' mission calls on us to provide the best service possible and to be responsible stewards of the funds in our care on behalf of our members, retirees and beneficiaries. This report provides complete and reliable information that supports management's decisions in carrying out this mission. Responsible stewardship, however, is more than sound management. It also encompasses the outstanding commitment of VRS staff to excellence, the support of VRS' affiliated employers and business partners and the guidance and dedication of the Board of Trustees. We would like to express our sincere thanks and appreciation to each of these exceptional individuals and representatives.

Finally, we wish to thank Governor Timothy M. Kaine and the members of the Virginia General Assembly for their continued commitment to the financial security of the members, retirees and beneficiaries of the Virginia Retirement System.

Respectfully submitted,

Robert P. Schultz
Director

Barry C. Faison
Chief Financial Officer

2 financial section

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Plan Net Assets
 - Statement of Changes in Plan Net Assets
- Notes to Financial Statements
 - Schedule of Funding Progress—Pension Plans
 - Schedule of Actuarial Methods and Significant Assumptions—Pension Plans
 - Schedule of Funding Progress—Other Post-Employment Benefit Plans
 - Schedule of Actuarial Methods and Significant Assumptions—Other Post-Employment Benefit Plans
- Required Supplemental Schedule of Funding Progress—Pension Plans
- Required Supplemental Schedule of Employer Contributions—Pension Plans
- Required Supplemental Schedule of Funding Progress—Other Post-Employment Benefit Plans
- Required Supplemental Schedule of Employer Contributions—Other Post-Employment Benefit Plans
- Schedule of Administrative Expenses
- Schedule of Professional and Consulting Services
- Schedule of Investment Expenses

your future

2009

A black and white photograph of a middle-aged man with grey hair, smiling at the camera. He is sitting at a desk, leaning forward with his hands resting on a calculator and a laptop. He is wearing a light-colored, long-sleeved button-down shirt. The background is bright and out of focus, suggesting a window or a bright outdoor area.

Today, members can
look up their estimated
retirement benefits online.
Tomorrow, they'll be able
to retire online.

your future

VRS



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

December 2, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Trustees
Virginia Retirement System

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Virginia Retirement System as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Virginia Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Virginia Retirement System's 2008 financial statements, and in our report dated November 19, 2008, we expressed unqualified opinions on the respective financial statements of the Virginia Retirement System.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements of the System are intended to present the financial position and the changes in financial position of only that portion of the aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Virginia Retirement System as of June 30, 2009, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, funding progress, and employer contributions included in the report on pages 23 through 33 and 63 through 65 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Virginia Retirement System. The introductory, investment, actuarial and statistical sections and the schedules of administrative expenses, professional and consulting services, and investment expenses in the financial section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedules of administrative expenses, professional and consulting services, and investment expenses in the financial section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2009 on our consideration of the Virginia Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



AUDITOR OF PUBLIC ACCOUNTS

The Virginia Retirement System (the System) administers pension and other employee benefit plans for approximately 600,000 members, retirees and beneficiaries. The purpose of the Financial Section is to present the plans' net assets and changes in net assets for the fiscal year through the audited Basic Financial Statements. In support of this information, the Financial Section includes Management's Discussion and Analysis of activity affecting the plans and the operations of the System during the current and previous fiscal years. It also includes the Notes to Financial Statements, providing additional detail about the statements, as well as required schedules of historical funding information and additional schedules regarding the administration of the plans.

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis provides highlights of the funding of the plans and the performance and operations of the Virginia Retirement System (the System) for the fiscal year ended June 30, 2009. The information provided in the Introductory, Investment, Actuarial and Statistical Sections complements this discussion.

The System administers the following defined benefit retirement plans, which are defined as pension trust funds:

- Virginia Retirement System (VRS) for state employees, teachers, other eligible school division employees, employees of participating political subdivisions and other qualifying employees
- State Police Officers' Retirement System (SPORS) for state police officers
- Virginia Law Officers' Retirement System (VaLORS) for Virginia law officers other than state police
- Judicial Retirement System (JRS) for judges of state courts of record, state district courts and other qualifying employees

The System also administers the Group Life Insurance Fund, Retiree Health Insurance Credit Fund and Disability Insurance Trust Fund, which are defined as other employee benefit trust funds. Both the pension and other employee benefit trust funds are classified as fiduciary funds.

FINANCIAL HIGHLIGHTS

- The combined total net assets held in trust for benefits of the trust funds decreased by \$12,517.2 million, or 22.7%, during the fiscal year ended June 30, 2009. The decrease was due to poor investment returns, increased expenses for benefit payments and a decrease in contributions.
- The System's rate of return on investments during the fiscal year ended June 30, 2009 was minus 21.1% compared to a return of minus 4.4% for the fiscal year ended June 30, 2008. The decrease is due primarily to the poor performance of the public equity investments.
- The VRS, SPORS, VaLORS and JRS plans were actuarially funded at 84.0%, 76.6%, 68.2% and 75.6%, respectively, based on the actuarial valuation as of June 30, 2008. For the VRS, SPORS and VaLORS plans, this was an increase from their funded ratios of 82.3%, 73.8% and 65.7%, respectively, based on the June 30, 2007

actuarial valuation. For the JRS plan, there was a slight decrease from the June 30, 2007 funded ratio of 76.9%. There were no changes in the primary actuarial assumptions for the investment rate of return or inflation. However, the funded ratios continue to reflect the positive impact of the net investment gains recorded between FY 2003 and FY 2007 on the Actuarial Value of Assets because of the “five-year smoothing” asset valuation method used by the VRS actuary.

- The Group Life Insurance Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund were actuarially funded at 55.0%, 13.7% and 78.8%, respectively, based on the actuarial valuation as of June 30, 2008. For the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund, this was an increase from their funded ratios of 11.0% and 58.5%, respectively, based on the June 30, 2007 actuarial valuation. For the Group Life Insurance Fund, there was a slight decrease from the June 30, 2007 funded ratio of 56.7%. There were no changes in the primary actuarial assumptions for the investment rate of return or inflation. However, the funded ratios for the Group Life Insurance Fund and the Retiree Health Insurance Credit Fund reflect the positive impact of the net investment gains recorded between FY 2003 and FY 2007 on the Actuarial Value of Assets because of the “five-year smoothing” asset valuation method used by the VRS actuary.

- Statement of Plan Net Assets—Defined Benefit Pension Trust Funds and Other Employee Benefit Trust Funds. This statement reflects the balance of the resources available to pay benefits to members, retirees and beneficiaries at the end of the fiscal year.
- Statement of Changes in Plan Net Assets—Defined Benefit Pension Trust Funds and Other Employee Benefit Trust Funds. This statement reflects the changes in the resources available to pay benefits to members, retirees and beneficiaries during the fiscal year.

A summary of the Basic Financial Statements is presented in Figures 2.1 and 2.2. The full statements follow Management’s Discussion and Analysis.

NOTES TO FINANCIAL STATEMENTS. The Notes to Financial Statements provide detailed information and are integral to the Basic Financial Statements.

REQUIRED SUPPLEMENTARY SCHEDULES. These schedules include:

- Required Supplemental Schedule of Funding Progress-Pension Plans
- Required Supplemental Schedule of Employer Contributions-Pension Plans
- Required Supplemental Schedule of Funding Progress-Other Post-Employment Benefit Plans
- Required Supplemental Schedule of Employer Contributions-Other Post-Employment Benefit Plans

ADDITIONAL FINANCIAL INFORMATION. The following schedules provide additional information not included in the Basic Financial Statements:

- Schedule of Administrative Expenses
- Schedule of Professional and Consulting Services
- Schedule of Investment Expenses

Overview of the Financial Statements and Accompanying Information

BASIC FINANCIAL STATEMENTS. The System presents the Basic Financial Statements for the year ended June 30, 2009 with comparative information from the previous fiscal year. The statements were prepared on the accrual basis of accounting and are used to account for the resources the System administers on behalf of plan members and beneficiaries. These statements include:

FIGURE 2.1 – SUMMARY OF PLAN NET ASSETS

AT JUNE 30

(EXPRESSED IN MILLIONS)

	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Assets:					
Cash, Receivables and Capital Assets	\$ 3,087.9	\$ (480.1)	\$ 3,568.0	\$ (194.2)	\$ 3,762.2
Investments	43,163.1	(13,313.4)	56,476.5	(3,406.6)	59,883.1
Security Lending Collateral	1,883.5	(1,543.5)	3,427.0	(2,313.4)	5,740.4
Total Assets	\$ 48,134.5	\$ (15,337.0)	\$ 63,471.5	\$ (5,914.2)	\$ 69,385.7
Liabilities:					
Accounts Payable	\$ 1,218.0	\$ 865.9	\$ 352.1	\$ 195.0	\$ 157.1
Investment Purchases Payable	2,439.8	(2,144.3)	4,584.1	(563.4)	5,147.5
Obligations Under Securities Lending	1,892.0	(1,541.4)	3,433.4	(2,307.0)	5,740.4
Total Liabilities	\$ 5,549.8	\$ (2,819.8)	\$ 8,369.6	\$ (2,675.4)	\$ 11,045.0
Total Net Assets	\$ 42,584.7	\$ (12,517.2)	\$ 55,101.9	\$ (3,238.8)	\$ 58,340.7

FIGURE 2.2 – SUMMARY OF CHANGES IN PLAN NET ASSETS

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Additions:					
Member Contributions	\$ 101.2	\$ (19.4)	\$ 120.6	\$ (11.7)	\$ 132.3
Member Contributions Paid by Employers	769.7	27.2	742.5	38.6	703.9
Employer Contributions	1,579.2	(92.0)	1,671.2	235.2	1,436.0
Net Investment Income	(11,822.1)	(8,967.9)	(2,854.2)	(12,842.7)	9,988.5
Miscellaneous Revenue and Transfers	9.5	(12.2)	21.7	21.2	0.5
Total Additions	\$ (9,362.5)	\$ (9,064.3)	\$ (298.2)	\$ (12,559.4)	\$ 12,261.2
Deductions:					
Retirement Benefits	\$ 2,733.2	\$ 196.9	\$ 2,536.3	\$ 222.8	\$ 2,313.5
Refunds of Member Contributions	91.3	(11.6)	102.9	7.1	95.8
Insurance Premiums and Claims	151.7	19.6	132.1	13.5	118.6
Retiree Health Insurance					
Credit Reimbursements	115.3	11.5	103.8	23.4	80.4
Disability Insurance Benefits	28.0	(3.2)	31.2	(2.1)	33.3
Administrative and Other Expenses	35.2	0.9	34.3	7.4	26.9
Total Deductions	\$ 3,154.7	\$ 214.1	\$ 2,940.6	\$ 272.1	\$ 2,668.5
Net Increase (Decrease) in Net Assets	\$ (12,517.2)	\$ (9,278.4)	\$ (3,238.8)	\$ (12,831.5)	\$ 9,592.7

Analysis of Financial Activities – Pension Plans

The System's funding objective is to meet its long-term benefit obligations through investment income and contributions. Accordingly, the collection of contributions and the income from investments provide the reserves needed to finance the benefits provided under the plans.

MEMBERS, RETIREES AND BENEFICIARIES AND EMPLOYERS

Approximately 346,929 active members were employed with 821 VRS-participating employers as of June 30, 2009. The number of retirees and other annuitants totaled approximately 141,746 at year end. The distribution of active members, retirees and beneficiaries and employers is shown in Figures 2.3, 2.4 and 2.5.

FIGURE 2.3 – DISTRIBUTION OF ACTIVE MEMBERS

AT JUNE 30

	2009		2008		2007	
	Number	Percent of Total	Number	Percent of Total	Number	Percent of Total
State Employees (VRS)	80,808	23.3%	81,206	23.5%	80,262	23.6%
Teachers (VRS)	148,461	42.8%	147,149	42.6%	145,122	42.8%
Political Subdivision Employees (VRS)	105,404	30.4%	104,803	30.3%	101,461	29.9%
State Police Officers (SPORS)	1,826	0.5%	1,840	0.5%	1,885	0.6%
Virginia Law Officers (VaLORS)	10,014	2.9%	10,330	3.0%	10,061	3.0%
Judges (JRS)	416	0.1%	409	0.1%	424	0.1%
Total Members	346,929	100.0%	345,737	100.0%	339,215	100.0%

Additional information about the membership is presented in Note 2 and in the Statistical Section.

FIGURE 2.4 – DISTRIBUTION OF RETIREES AND BENEFICIARIES

AT JUNE 30

	2009		2008		2007	
	Number	Percent of Total	Number	Percent of Total	Number	Percent of Total
State Employees (VRS)	43,682	30.8%	42,536	31.2%	41,354	31.7%
Teachers (VRS)	61,057	43.1%	58,689	43.0%	55,988	42.9%
Political Subdivision Employees (VRS)	33,462	23.6%	31,894	23.4%	30,145	23.1%
State Police Officers (SPORS)	1,065	0.8%	1,036	0.8%	991	0.8%
Virginia Law Officers (VaLORS)	2,049	1.4%	1,814	1.3%	1,618	1.2%
Judges (JRS)	431	0.3%	425	0.3%	404	0.3%
Total Retirees	141,746	100.0%	136,394	100.0%	130,500	100.0%

Additional information about retirees is presented in the Statistical Section.

FIGURE 2.5 – DISTRIBUTION OF EMPLOYERS

AT JUNE 30

	2009	2008	2007
Cities and Towns	157	157	156
Counties	93	93	93
School Boards*	144	144	145
Special Authorities	192	188	183
State Agencies	235	239	237
Total Employers	821	821	814

*Of the 144 school boards, 133 also provide coverage for support staff and are treated as political subdivisions. A list of VRS-participating employers is presented in the Statistical Section.

CONTRIBUTIONS AND INVESTMENT EARNINGS

The retirement benefits provided by the plans are funded from pension trust fund revenue. As shown in Figure 2.6, the primary sources of revenue are contributions from active members made by members or employers, contributions from employers and investment income generated from the investment of plan assets.

Total contributions and investment earnings for the year ended June 30, 2009 amounted to minus \$9,394.3 million. This was a decrease of \$8,768.8 million when compared with the activity for FY 2008, but it represents an improvement from the decrease of \$12,322.9 million recorded in FY 2008.

Total member contributions increased by \$22.4 million. The portion members paid, however, decreased by \$4.8 million due primarily to a continuing decline in members purchasing refunded and other qualified prior service.

For FY 2009, employer contributions decreased by \$73.2 million for a total decrease in all contributions of \$50.8 million from the previous fiscal year. The decrease in employer contributions was due primarily to a decrease in the employer contribution rates for most employer groups as a result of improved funding in the June 30, 2007 actuarial valuations. This decrease was partially offset by payroll growth in some employer groups and the election of special and enhanced coverage by some local governments. Employer contributions are discussed further in Notes 2, 3 and 12.

FIGURE 2.6 – SUMMARY OF PENSION CONTRIBUTIONS, INVESTMENT EARNINGS AND MISCELLANEOUS REVENUES

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Member Contributions	\$ 20.5	\$ (4.8)	\$ 25.3	\$ (4.9)	\$ 30.2
Member Contributions Paid by Employers	769.7	27.2	742.5	38.6	703.9
Employer Contributions	1,307.2	(73.2)	1,380.4	170.7	1,209.7
Net Investment Income	(11,501.0)	(8,726.7)	(2,774.3)	(12,527.4)	9,753.1
Miscellaneous Revenue and Transfers	9.3	8.7	0.6	0.1	0.5
Total Contributions, Investment Earnings and Miscellaneous Revenues	\$ (9,394.3)	\$ (8,768.8)	\$ (625.5)	\$ (12,322.9)	\$ 11,697.4

During FY 2008, the System experienced growth in total member contributions of \$33.7 million and an increase in employer contributions of \$170.7 million. As in FY 2009, the contributions paid by members were affected by a decline in the number of members purchasing service. The growth in employer contributions was related primarily to the increased contribution rates as a result of the June 30, 2005 actuarial valuation. The remaining increase in employer contributions in FY 2008 was related to payroll growth, the addition of some new local government employers and the election of enhanced hazardous duty or other coverage by some local governments.

INVESTMENTS

The System holds contributions from members and employers in a commingled pool, which is invested to provide for the payment of current and future benefits to members when they retire. Each plan—VRS, SPORS, VaLORS and JRS—owns an equity position in the pool and receives a proportionate share of the total investment income or loss from the pool.

As shown in Figure 2.6, there was net investment income for FY 2009 of minus \$11,501.0 million, which represented a decrease of \$8,726.7 million from FY 2008. This decrease, however, was less than the net investment income decrease of \$12,527.4 million in FY 2008. Total pension trust fund investments decreased to \$41,874.1 million at fair value at June 30, 2009. This was a decrease of \$13,045.1 million from the fair value of \$54,919.2 million at June 30, 2008. The total pension trust fund investments also decreased in FY 2008 by \$3,452.5 million from their fair value of \$58,371.7 million at June 30, 2007.

The total return on pension trust fund investments for the year ended June 30, 2009 was minus 21.1%. The annualized return was minus 3.2% over the past three years and 2.7% over the past five years. An explanation of investment policies and strategies as well as the portfolio's composition is included in the Investment Section. A review of investment activity and results for FY 2009 also is provided in that section.

EXPENSES – DEDUCTIONS FROM PLAN NET ASSETS

As shown in Figure 2.7, the primary expenses of the pension trust funds include annuity benefits for retirees and beneficiaries, refunds of contributions to former members and expenses associated with the administration of the retirement plans. Expenses for FY 2009 totaled \$2,856.9 million, an increase of \$191.9 million, or 7.2%, over the 2008 period.

Benefit payments were \$2,733.2 million in FY 2009. This is an increase of \$196.9 million compared to an increase of \$222.8 million for FY 2008. The increase in FY 2009 was due to continued growth in the number of retirees and beneficiaries receiving benefits. The FY 2009 increase also reflects a cost-of-living adjustment (COLA) of 2.8%, effective July 1, 2008.

FIGURE 2.7 – SUMMARY OF PENSION PLAN PRIMARY EXPENSES

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Benefits	\$ 2,733.2	\$ 196.9	\$ 2,536.3	\$ 222.8	\$ 2,313.5
Refunds	91.3	(11.6)	102.9	7.1	95.8
Administrative and Other Expenses	32.4	6.6	25.8	1.1	24.7
Total Primary Expenses	\$ 2,856.9	\$ 191.9	\$ 2,665.0	\$ 231.0	\$ 2,434.0

Refunds of contributions to members who terminated employment during FY 2009 amounted to \$91.3 million (14,060 refunds), compared with \$102.9 million refunded (14,497 refunds) during FY 2008 and \$95.8 million refunded (13,586 refunds) during FY 2007. The change during FY 2009 reflects a slight decrease in the volume of refunds and a decrease in the average refund amount compared to FY 2008.

Administrative and other expenses for FY 2009 were \$32.4 million, compared with \$25.8 million for FY 2008 and \$24.7 million for FY 2007. Administrative and other expenses increased \$6.6 million for FY 2009. This compares to an increase in FY 2008 of \$1.1 million. The increase for FY 2009 is related to the System's Modernization Program, benefit processing and other administrative costs, combined with an increase in equipment purchases offset by a reduction in equipment leasing. Further details are provided in the Schedule of Administrative Expenses following the Required Supplemental Schedules.

PENSION PLAN ACTIVITY

FISCAL YEAR 2009

(EXPRESSED IN MILLIONS)

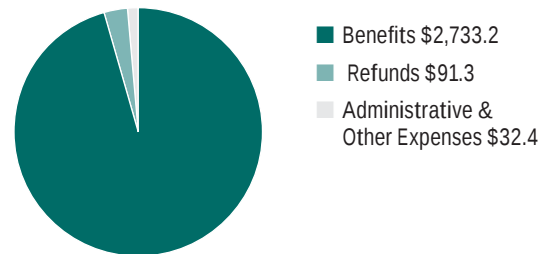


FIGURE 2.8 – SUMMARY OF PENSION PLAN RESERVE BALANCES

AT JUNE 30

(EXPRESSED IN MILLIONS)

	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Member Reserves	\$ 10,128.1	\$ 530.5	\$ 9,597.6	\$ 480.9	\$ 9,116.7
Employer Reserves	31,220.3	(12,781.7)	44,002.0	(3,771.5)	47,773.5
Total Reserve Balances	\$ 41,348.4	\$ (12,251.2)	\$ 53,599.6	\$ (3,290.6)	\$ 56,890.2

These balances also reflect transfers between the member and employer reserves for interest credited to member accounts and member contributions transferred to the employer reserve upon a member's retirement. For FY 2009, the amount of interest credited to member accounts was \$366.3 million, and the amount of member balances transferred to the employer reserve for retirements was \$510.0 million. For FY 2008, the interest and retirement transfers were \$349.1 million and \$537.6 million, respectively.

RETIREMENT RESERVES

The funds accumulated by the pension plans to meet current and future obligations to retirees and beneficiaries are derived from the excess of revenues over expenses. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential. As shown in Figure 2.8, expenses exceeded revenues for FY 2009, leading to a net decrease of \$12,251.2 million in the retirement reserves held by the plans. This decrease follows another decrease of \$3,290.6 million in the retirement reserves in FY 2008. The decrease for FY 2009 again was related primarily to the investment performance for the year, which was significantly lower than in FY 2008.

ACTUARIAL VALUATIONS AND FUNDING PROGRESS – PENSION PLANS

The System's actuarial firm performs actuarial valuations of VRS, SPORS, VaLORS and JRS at least every two years to determine funding requirements. The funding policy provides for periodic employer contributions at actuarially determined rates that will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of all benefits when due.

According to the latest valuations of the pension plans performed by Cavanaugh Macdonald Consulting, LLC as of June 30, 2008, the ratio of assets accumulated by the plans to their total actuarial accrued liabilities for benefits was 84.0% for VRS, 76.6% for SPORS, 68.2% for VaLORS and 75.6% for JRS. The valuations reflect full pre-funding of the statutory cost-of-living adjustment (COLA) for retirees.

Historical information for the pension plans is presented in the Required Supplemental Schedule of Funding Progress—Pension Plans following the Notes to Financial Statements. Additional information also is presented in Note 2 and in the Actuarial Section.

Analysis of Financial Activities – Other Employee Benefit Plans

GROUP LIFE INSURANCE PROGRAM

The Group Life Insurance Program provides basic group life insurance coverage for natural death, accidental death, accidental dismemberment and other coverage to the majority of members covered under the pension plans, as well as to other qualifying employees. Employers and their covered employees pay the premiums for group life insurance coverage; many employers pay the employees' portion.

During FY 2009, the System remitted \$151.7 million to the third-party administrator for claims and administrative costs. This is an increase from the \$132.1 million remitted for FY 2008. Approximately 363,341 active members were covered under the Group Life Insurance Program at June 30, 2009.

The difference between the amounts collected and paid by the System is added to the reserve established to pre-fund group life insurance coverage for retirees. The reserve had net assets held in trust for benefits of \$713.8 million at June 30, 2009; investment income, including net securities lending income, was minus \$205.4 million during the fiscal year. For FY 2008, this reserve had investment income of minus \$50.6 million and ended the year with a reserve balance of \$937.2 million, down from the \$962.3 million at June 30, 2007.

For FY 2009, the decline is primarily the result of negative investment income, combined with increased claims and administrative costs. There also was a decline in contributions, reflecting a reduction in the contribution rate as a result of the June 30, 2007 actuarial valuation. Approximately 124,646 retired members were covered under the Group Life Insurance Program at June 30, 2009.

Members covered under the Basic Group Life Insurance Program are eligible to elect additional coverage through the Optional Group Life Insurance Program. This program provides life insurance, accidental death and accidental dismemberment coverage as a supplement to the basic group plan. Members also may cover their spouses and dependent children. Members pay the premiums through payroll deduction. Approximately 65,330 members were enrolled in the Optional Group Life Insurance Program at June 30, 2009.

Additional information about the Group Life Insurance Program is provided in Note 3.



RETIREE HEALTH INSURANCE CREDIT PROGRAM

The Retiree Health Insurance Credit Program provides a tax-free reimbursement for the portion of health insurance premiums eligible retirees pay for single coverage under qualifying health insurance plans. During FY 2009, the System collected \$146.3 million in retiree health insurance credit contributions from participating employers and provided reimbursements to retirees of \$115.3 million. During FY 2008, the System collected \$148.9 million in retiree health insurance credit contributions from participating employers and provided reimbursements of \$103.8 million.

The decline in contributions reflects a reduction in the contribution rates for most employers as a result of the June 30, 2007 actuarial valuation. The growth in health insurance credit reimbursements reflects an increase in the number of eligible retirees and the increase in the credit for retired teachers, which was effective beginning in FY 2008.

The Retiree Health Insurance Credit Fund reserve had net assets held in trust for benefits of \$232.0 million at June 30, 2009; investment income, including net securities lending income, was minus \$50.1 million for the fiscal year. The reserve balances at June 30, 2008 and June 30, 2007 were \$251.6 million and \$224.6 million, respectively.

Approximately 87,538 retired members were covered under the health insurance credit program at June 30, 2009. Additional information is provided in Note 3.

VIRGINIA SICKNESS AND DISABILITY PROGRAM

The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund, provides eligible state employees with sick, family and personal leave and short-term and long-term disability benefits for non-work related and work-related illnesses and injuries. The System is responsible for administering the disability program and the payment of long-term disability benefits. Employers are responsible for administering the leave program and the payment of short-term disability benefits.

During FY 2009, the System collected \$71.3 million in VSDP contributions from participating employers and provided long-term disability benefits of \$28.0 million to eligible members. This is a decrease from the \$78.4 million in contributions collected and a decrease from the \$31.2 million in benefits paid in FY 2008. Contribution decreases reflect a reduction in the contribution rate as a result of the June 30, 2007 actuarial valuation.

The benefit costs reflect growth in the number of members receiving long-term disability benefits, the amount of these benefits and the operating costs of the program, offset by reduced costs for long-term care associated with switching from a fully-insured, premium-based product to a self-funded program. The Disability Insurance Trust Fund reserve had net assets held in trust for benefits of \$290.5 million at June 30, 2009; investment income, including net securities lending income, was minus \$65.6 million during the fiscal year. The reserve balances at June 30, 2008 and June 30, 2007 were \$313.5 million and \$263.6 million, respectively.

Approximately 74,752 active members and 2,483 former members were covered under VSDP at June 30, 2009. Additional information is provided in Note 3.

ACTUARIAL VALUATIONS AND FUNDING PROGRESS – OTHER EMPLOYEE BENEFIT PLANS

The System's actuarial firm performs actuarial valuations of the other employee benefit plans administered by the System at least every two years to determine funding requirements. The funding policy provides for periodic employer contributions at actuarially determined rates that will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of all benefits when due.

According to the latest valuations of these plans, performed by Cavanaugh Macdonald Consulting, LLC as of June 30, 2008, the ratio of assets accumulated by the plans to their total actuarial accrued liabilities for benefits was 55.0% for the Group Life Insurance Fund, 13.7% for the Retiree Health Insurance Credit Fund and 78.8% for the Disability Insurance Trust Fund. Funding progress for these plans is presented in the Required Supplemental Schedule of Funding Progress—Other Post-Employment Benefit Plans.

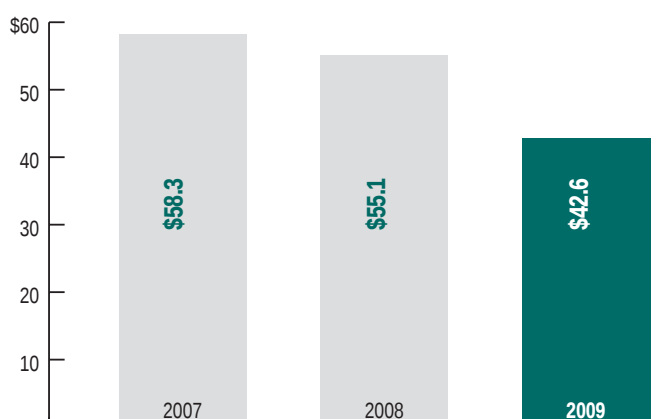
Request for Information

This financial report is designed to provide an overview of the System's finances. Questions concerning the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer of the Virginia Retirement System, P.O. Box 2500, Richmond, Virginia 23218-2500.

SYSTEM NET ASSETS

AT JUNE 30

(EXPRESSED IN BILLIONS)



**VIRGINIA RETIREMENT SYSTEM STATEMENT OF PLAN NET ASSETS –
DEFINED BENEFIT PENSION TRUST FUNDS AND OTHER EMPLOYEE BENEFIT TRUST FUNDS**

AS OF JUNE 30, 2009 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2008

	Pension Trust Funds				
	Virginia Retirement System	State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	Total Pension Trust Funds
Assets:					
Cash (Note 5)	\$ 97,354	\$ 1,226	\$ 1,744	\$ 719	\$ 101,043
Receivables:					
Contributions	150,481	1,087	2,829	1,026	155,423
Interest and Dividends	148,512	1,809	2,573	1,061	153,955
Receivable for Security Transactions	1,732,983	21,111	30,027	12,379	1,796,500
Other Investment Receivables	734,226	8,944	12,722	5,245	761,137
Other Receivables	2,336	-	-	-	2,336
Total Receivables	2,768,538	32,951	48,151	19,711	2,869,351
Investments (Note 5):					
Bonds and Mortgage Securities	17,431,036	212,343	302,020	124,511	18,069,910
Stocks	11,322,251	137,926	196,176	80,875	11,737,228
Fixed Income Commingled Funds	1,694,932	20,647	29,367	12,107	1,757,053
Index and Pooled Funds	3,642,428	44,372	63,111	26,018	3,775,929
Real Estate	2,652,341	32,311	45,956	18,946	2,749,554
Private Equity	3,551,329	43,262	61,532	25,367	3,681,490
Short-Term Investments	99,295	1,210	1,720	709	102,934
Total Investments	40,393,612	492,071	699,882	288,533	41,874,098
Collateral on Loaned Securities	1,762,630	21,472	30,540	12,591	1,827,233
Property, Plant, Furniture and Equipment (Note 6)	6,440	-	-	-	6,440
Total Assets	45,028,574	547,720	780,317	321,554	46,678,165
Liabilities:					
Retirement Benefits Payable	202,271	3,574	4,292	2,424	212,561
Refunds Payable	4,387	5	50	-	4,442
Accounts Payable and Accrued Expenses	71,267	844	1,200	495	73,806
Compensated Absences Payable	1,851	-	-	-	1,851
Insurance Premiums and Claims Payable	-	-	-	-	-
Payable for Security Transactions	2,283,300	27,814	39,561	16,310	2,366,985
Other Investment Payables	803,941	9,794	13,929	5,743	833,407
Other Payables	1,169	-	-	-	1,169
Obligations Under Security Lending Program	1,770,634	21,570	30,679	12,648	1,835,531
Total Liabilities	5,138,820	63,601	89,711	37,620	5,329,752
Net Assets Held in Trust for Benefits (Note 4)					
(See Required Supplemental Schedule of Funding Progress)	\$ 39,889,754	\$ 484,119	\$ 690,606	\$ 283,934	\$ 41,348,413

The accompanying Notes to Financial Statements are an integral part of this statement.

(EXPRESSED IN THOUSANDS)

Other Employee Benefit Trust Funds				Totals	
Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Total Other Employee Benefit Trust Funds	2009	2008
\$ 1,904	\$ 586	\$ 722	\$ 3,212	\$ 104,255	\$ 127,687
7,583	10,164	1,673	19,420	174,843	191,165
2,809	865	1,066	4,740	158,695	169,189
32,772	10,093	12,435	55,300	1,851,800	3,032,192
13,885	4,276	5,268	23,429	784,566	35,787
-	12	4,978	4,990	7,326	5,180
57,049	25,410	25,420	107,879	2,977,230	3,433,513
329,639	101,516	125,076	- 556,231	18,626,141	15,944,966
214,115	65,939	81,243	361,297	12,098,525	18,925,101
32,053	9,871	12,162	54,086	1,811,139	1,896,865
68,882	21,213	26,136	116,231	3,892,160	11,941,641
50,158	15,447	19,032	84,637	2,834,191	2,865,510
67,159	20,682	25,483	113,324	3,794,814	4,430,403
1,878	578	712	3,168	106,102	471,974
763,884	235,246	289,844	1,288,974	43,163,072	56,476,460
33,333	10,265	12,648	56,246	1,883,479	3,427,026
-	-	-	-	6,440	6,798
856,170	271,507	328,634	1,456,311	48,134,476	63,471,484
-	-	-	-	212,561	196,420
750	1,272	160	2,182	6,624	5,559
1,310	9,746	3,136	14,192	87,998	76,888
-	-	-	-	1,851	1,709
48,431	-	-	48,431	48,431	35,701
43,180	13,298	16,383	72,861	2,439,846	4,584,098
15,203	4,682	5,769	25,654	859,061	34,133
-	203	-	203	1,372	1,611
33,484	10,312	12,705	56,501	1,892,032	3,433,432
142,358	39,513	38,153	220,024	5,549,776	8,369,551
\$ 713,812	\$ 231,994	\$ 290,481	\$ 1,236,287	\$ 42,584,700	\$ 55,101,933



**VIRGINIA RETIREMENT SYSTEM STATEMENT OF CHANGES IN PLAN NET ASSETS –
DEFINED BENEFIT PENSION TRUST FUNDS AND OTHER EMPLOYEE BENEFIT TRUST FUNDS**

FOR THE YEAR ENDED JUNE 30, 2009 WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2008

	Pension Trust Funds				
	Virginia Retirement System	State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	Total Pension Trust Funds
Additions:					
Contributions:					
Members	\$ 20,254	\$ 57	\$ 212	\$ 20	\$ 20,543
Member Contributions Paid by Employers	743,762	5,034	17,871	3,043	769,710
Employers	1,214,972	20,189	50,988	21,001	1,307,150
Total Contributions	1,978,988	25,280	69,071	24,064	2,097,403
Investment Income:					
Net Appreciation/(Depreciation) in Fair Value of Investments	(11,833,144)	(144,828)	(192,970)	(83,050)	(12,253,992)
Interest, Dividends and Other Investment Income	959,060	11,738	15,640	6,731	993,169
Total Investment Income Before Investment Expenses	(10,874,084)	(133,090)	(177,330)	(76,319)	(11,260,823)
Investment Expenses	(257,796)	(3,155)	(4,204)	(1,809)	(266,964)
Net Investment Income	(11,131,880)	(136,245)	(181,534)	(78,128)	(11,527,787)
Security Lending Income:					
Gross Income	47,656	583	777	334	49,350
Less Borrower Rebates and Agent Fees	(21,794)	(267)	(355)	(153)	(22,569)
Net Security Lending Income	25,862	316	422	181	26,781
Miscellaneous Revenue	8,668	87	116	50	8,921
Transfers In	-	-	403	-	403
Total Additions	(9,118,362)	(110,562)	(111,522)	(53,833)	(9,394,279)
Deductions:					
Retirement Benefits	2,617,313	40,919	45,890	29,101	2,733,223
Refunds of Member Contributions	86,688	469	4,151	40	91,348
Insurance Premiums and Claims	-	-	-	-	-
Retiree Health Insurance Credit Reimbursements	-	-	-	-	-
Disability Insurance Premiums and Benefits	-	-	-	-	-
Administrative Expenses	30,692	340	471	198	31,701
Other Expenses	265	-	-	-	265
Transfers Out	403	-	-	-	403
Total Deductions	2,735,361	41,728	50,512	29,339	2,856,940
Net Increase (Decrease)	(11,853,723)	(152,290)	(162,034)	(83,172)	(12,251,219)
Net Assets Held in Trust for Benefits– Beginning of Year	51,743,477	636,409	852,640	367,106	53,599,632
Net Assets Held in Trust for Benefits– End of Year	\$ 39,889,754	\$ 484,119	\$ 690,606	\$ 283,934	\$ 41,348,413

The accompanying Notes to Financial Statements are an integral part of this statement.

(EXPRESSED IN THOUSANDS)

Other Employee Benefit Trust Funds				Totals	
Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Total Other Employee Benefit Trust Funds	2009	2008
\$ 80,707	\$ -	\$ -	\$ 80,707	\$ 101,250	\$ 120,565
-	-	-	-	769,710	742,526
54,356	146,333	71,337	272,026	1,579,176	1,671,168
135,063	146,333	71,337	352,733	2,450,136	2,534,259
(218,896)	(53,409)	(69,916)	(342,221)	(12,596,213)	(3,864,249)
17,741	4,329	5,667	27,737	1,020,906	1,278,325
(201,155)	(49,080)	(64,249)	(314,484)	(11,575,307)	(2,585,924)
(4,769)	(1,164)	(1,523)	(7,456)	(274,420)	(283,130)
(205,924)	(50,244)	(65,772)	(321,940)	(11,849,727)	(2,869,054)
882	215	282	1,379	50,729	191,193
(403)	(98)	(129)	(630)	(23,199)	(176,289)
479	117	153	749	27,530	14,904
131	32	42	205	9,126	21,360
-	-	-	-	403	294
(70,251)	96,238	5,760	31,747	(9,362,532)	(298,237)
-	-	-	-	2,733,223	2,536,268
-	-	-	-	91,348	102,935
151,669	-	-	151,669	151,669	132,093
-	115,278	-	115,278	115,278	103,762
-	-	28,016	28,016	28,016	31,211
700	600	784	2,084	33,785	28,130
714	-	-	714	979	5,860
-	-	-	-	403	294
153,083	115,878	28,800	297,761	3,154,701	2,940,553
(223,334)	(19,640)	(23,040)	(266,014)	(12,517,233)	(3,238,790)
937,146	251,634	313,521	1,502,301	55,101,933	58,340,723
\$ 713,812	\$ 231,994	\$ 290,481	\$ 1,236,287	\$ 42,584,700	\$ 55,101,933



Notes to Financial Statements

1. Summary of Significant Financial Policies, Administration and Management

A. FINANCIAL REPORTING ENTITY

The Virginia Retirement System (the System) is an independent agency of the Commonwealth of Virginia.

The System administers a defined benefit pension plan and other employee benefit plans, and is included in the basic financial statements of the Commonwealth of Virginia. As required by generally accepted accounting principles (GAAP), the System's financial statements include all funds for which financial transactions are recorded in its accounting system and for which the Board of Trustees exercises administrative responsibility.

Effective January 1, 1997, the *Constitution of Virginia* was amended to strengthen the independence of the Virginia Retirement System. As set forth in Section 11 of Article X, the funds of the retirement system shall be deemed separate and independent trust funds, segregated from all other funds of the Commonwealth, and invested and administered solely in the interests of members and beneficiaries.

B. ADMINISTRATION AND MANAGEMENT

1. Pension Plans and Other Employee Benefit Plans. The Board of Trustees (the Board) is responsible for the general administration and operation of the defined benefit pension plans and other employee benefit plans. The Board has full power to invest and reinvest the trust funds of the System through the adoption of investment policies and guidelines that fulfill the Board's investment objective to maximize long-term investment returns while targeting an acceptable level of risk.

The Board consists of five members appointed by the Governor and four members appointed by the Joint Rules Committee of the Virginia General Assembly, all subject to confirmation by the General Assembly. The Board appoints a director to serve as the chief administrative officer of the System and a chief investment officer to direct, manage and administer the investment of the System's funds. The Board also retains outside managers to advise and assist

in the implementation of these policies. The Board of Trustees has appointed Mellon Trust as the custodian of designated assets of the System.

The Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), the Virginia Law Officers' Retirement System (VaLORS) and the Judicial Retirement System (JRS) are administered in accordance with Title 51.1, Chapters 1, 2, 2.1, 3 and 4, respectively, of the *Code of Virginia* (1950), as amended. The Group Life Insurance Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund are administered in accordance with Title 51.1, Chapters 5, 14 and 11, respectively, of the *Code of Virginia* (1950), as amended.

The Optional Life Insurance Fund is administered in accordance with Sections 51.1-512 and 51.1-512.1 of the *Code of Virginia* (1950), as amended. Optional life insurance is an insured product, and the premium collection is handled by the third-party administrator. The Board of Trustees provides only oversight for the program with limited administrative responsibility.

State statutes governing the plans administered by the System may be amended only by the General Assembly of Virginia. Additional information about the plans is provided in Notes 2 and 3.

Fiduciary Responsibility of the VRS Board of Trustees – As stated in Section 51.1-124.30(C) of the *Code of Virginia*:
“... the Board shall invest the assets of the Retirement System with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.”
Accordingly, the Board must sufficiently diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to do so. Primary risk measures are volatility in the plan's assets, funded status and contribution rates.

2. Other Plans Established by the Commonwealth of Virginia. The Board has oversight and limited administrative responsibility, but no investment responsibility, for several other plans of the Commonwealth. Because the Board neither owns nor has custody of the assets, their financial transactions are not recorded in the System's accounting system. Therefore, these programs are not included in the System's Basic Financial Statements:

- Commonwealth of Virginia 457 Deferred Compensation Plan, qualified under Section 457(b) of the Internal Revenue Code, and the Virginia Cash Match Plan for state employees and employees of participating political subdivisions. Additional information about the 457 Plan is provided in the Statistical Section.
- Defined contribution plans, referred to as optional retirement plans, for political appointees, certain employees of public institutions of higher education and certain employees of public school divisions and teaching hospitals.
- Commonwealth Health Research Fund, which provides financial support for human health research on behalf of citizens of the Commonwealth.
- Volunteer Firefighters' and Rescue Squad Workers' Service Award Fund, which provides service awards to eligible volunteer firefighters and rescue squad workers.

C. ACCOUNTING BASIS

The accounting and presentation of the defined benefit pension plans and other employee benefit plans use the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of related cash flows. Member and employer contributions are recognized as revenues when due, pursuant to formal commitments as well as statutory or contractual requirements. Investment income is recognized as earned by the plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

D. ACTUARIAL BASIS AND CONTRIBUTION RATES

The funding policy for the pension plans provides for periodic employer contributions at actuarially determined rates, which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all benefits when due. Member and employer contributions are required by Title 51.1 of the *Code of Virginia* (1950), as amended.

Contribution rates are developed using the entry age normal cost method for both normal cost and amortization of the unfunded actuarial accrued liability. Gains and losses are reflected in the unfunded Actuarial Accrued Liability (AAL), which is being amortized as a level percentage of covered payroll within 30 years or less.

In addition to determining contribution requirements, actuarial computations present an estimate of the discounted present value of the prospective accrued liability contributions that employers will have to pay to ensure that such contributions—when combined with the assets on hand, the normal contributions to be made in the future by employers and members and investment income—will be sufficient to pay all benefits due to current members in the future as well as to annuitants and designated beneficiaries.

Actuarial valuations estimate the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include future employment, mortality and the use of the benefit. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future. The Required Supplemental Schedules of funding progress and employer contributions, which follow the Notes to Financial Statements, present historical information about the increase or decrease of the actuarial values of the plans' assets over time relative to the AAL for benefits.

E. GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

- Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, requires disclosures related to deposits, authorized investments and investment risk. Required investment risk disclosures address interest rate risk; credit risk, to include custodial credit risk and concentrations of credit risk; and foreign currency risk. The statement also requires disclosures of custodial credit risk and foreign currency risk for depository accounts. Information about the System's deposit and investment risk is provided in Note 5.
- GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, requires additional reporting and disclosures for other post-employment benefits (OPEBs). The statement became effective for VRS-administered OPEBs beginning with the fiscal year ended June 30, 2007. The Required Supplemental Schedules of funding progress and employer contributions for the pension plans and other employee benefit plans present information about contributions in comparison to the annual required contribution (ARC), which is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities or funding excess over a period not to exceed 30 years.
- GASB Statement No. 50, Pension Disclosures—An Amendment to GASB Statements No. 25 and No. 27, more closely aligns the financial reporting requirements for pensions with those for OPEBs. The statement became effective beginning with the fiscal year ended June 30, 2008. Information about the pension plans and other employee benefit plans administered by the System is presented in Notes 2 and 3.

F. INVESTMENTS

1. Investment Valuation. Investments are reported at fair value as determined by the System's master custodian, Mellon Trust, from its Global Pricing System. This system assigns a price source, based on asset type and the vendor pricing products to which

the master custodian subscribes, for every security held immediately following its acquisition. The master custodian monitors prices supplied by these sources daily.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers; or internal calculations are applied, if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships and real estate assets from statements received from the funds, partnerships or investment managers.

The pricing sources used by the master custodian provide daily prices for equity securities; corporate, government and mortgage-backed fixed income securities; private placement securities; futures and options on futures; open-ended funds; and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations (CMOs), adjustable rate mortgages (ARMs) and asset-backed securities are priced either daily, weekly or twice a month as well as at month end. Municipal fixed income securities and options on U.S. Treasury/GNMA securities are priced at month end.

2. Investment Transactions and Income. Security transactions and related gains and losses are recorded on a trade-date basis. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. Futures contracts are valued daily, with the resulting adjustments recorded as realized gains or losses arising from the daily settlement of the variation margin. Gains and losses related to forward contracts and options are recognized at the time the contracts are settled. Investments in limited partnerships are accounted for on the equity method of accounting, and their earnings or losses for the period are included in investment income using the equity method.

G. PROPERTY, PLANT, FURNITURE AND EQUIPMENT

Capital assets are recorded at cost at the time of acquisition and are reported net of accumulated depreciation. The System capitalizes all property, plant and equipment that have a cost or value greater than \$5,000. Depreciation is computed

on the straight-line basis over the estimated useful life of the property, ranging from five to 40 years.

H. ACCUMULATED LEAVE AND DISABILITY CREDITS

Employees of the System participate in the Commonwealth's annual leave program and either its sick leave program or the Virginia Sickness and Disability Program (VSDP), which is administered by the System. Additional information about VSDP is presented in Note 3.

Unused annual leave may be accumulated and is paid at the time of permanent separation from service up to the maximum calendar-year limit. Unused sick leave may be accumulated. If the employee is vested and not covered under VSDP, unused sick leave is paid at the rate of 25% of the amount accumulated, not to exceed \$5,000, at the time of permanent separation from service. Unused VSDP disability credits converted from unused sick leave are paid in the same manner as unused sick leave at the time of permanent separation. Disability credits also may be converted to service credit for retirement purposes at a rate of 173 disability credits for one month of service credit.

The accrued liability for unused annual leave, sick leave or disability credits for System employees at June 30, 2009 and 2008 was computed using salary rates in effect at those times and represents annual and sick leave earned up to the allowable ceilings as well as unused, converted disability credits. This information is included in the Statement of Plan Net Assets—Defined Benefit Pension Trust Funds and Other Employee Benefit Trust Funds.

I. ADMINISTRATIVE EXPENSES AND BUDGET

The Board of Trustees approves expenses related to the administration and management of the trust fund. These expenses are included in a budget prepared in compliance with the Commonwealth's biennial budgetary system (cash basis). Appropriations are controlled at the program level and lapse at the end of the fiscal year. Administrative expenses are funded exclusively from investment income. Expenses for goods and services received but not paid for prior to the System's fiscal year end are accrued for financial reporting purposes in accordance with generally accepted accounting principles (GAAP). A reconciliation of the difference between the GAAP basis and budgeted basis is presented in the Schedule

of Administrative Expenses following the Required Supplemental Schedules.

J. INVESTMENT INCOME ALLOCATION

Income earned on investments is distributed monthly to the VRS, SPORS, VaLORS and JRS retirement plans; the Group Life Insurance Fund; the Retiree Health Insurance Credit Fund; and the Disability Insurance Trust Fund. Distribution of investment income is based on the respective equity of each trust fund in the common investment pool.

The retirement plans distribute their cumulative investment income, net of administrative expenses, in the following manner:

- Investment income is distributed to each individual member contribution account based on a rate of 4.00% applied to each member's cumulative balance as of the close of the preceding fiscal year.
- The remaining portion is allocated quarterly to the participating employer retirement allowance accounts based on the ratio of their member account and employer account balances to the total of all such balances.

K. SUMMARIZED COMPARATIVE DATA/ RECLASSIFICATIONS

The Basic Financial Statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

2. Pension Plans

A. PLAN DESCRIPTIONS

1. Establishment of the System. The Virginia Retirement System (the System) was established on March 1, 1952 as the administrator of VRS, a governmental retirement plan qualified under Section 401(a) of the Internal Revenue Code. Its mission is to provide a defined benefit plan for state employees, teachers, other eligible school employees and employees of political subdivisions that elect to participate in the System.

VRS is a mixed agent, cost-sharing, multiple-employer retirement plan. The System also administers the following single-employer retirement plans:

- State Police Officers' Retirement System (SPORS), established on July 1, 1950 for state police officers
- Virginia Law Officers' Retirement System (VaLORS), established on October 1, 1999 for Virginia law officers other than state police
- Judicial Retirement System (JRS), established on July 1, 1970 for judges of a court of record or a district court of the state and other eligible judicial employees

The System is required by law to use the plans' accumulated assets to pay benefits when due to eligible members and beneficiaries. Full-time permanent, salaried employees of VRS-participating employees are covered automatically under VRS, SPORS, VaLORS or JRS upon employment; some part-time permanent, salaried state employees also are covered under VRS. Information regarding the membership is presented in Figure 2.9.

Teaching, research and administrative faculty of the state's public colleges and universities who elect an optional retirement plan in lieu of the VRS retirement plan, as well as permanent, salaried employees of the state's two public teaching hospitals, are not covered under the VRS defined benefit plan.

2. Pension Plan Provisions and Requirements. Members are vested after attaining five years of service credit. They become eligible to retire with an unreduced or reduced benefit when they meet the age and service requirements for their plans. The unreduced benefit is actuarially reduced to calculate the reduced benefit amount. A cost-of-living adjustment (COLA), based on changes in the Consumer Price Index-Urban and limited to 5.00% per year, is granted on July 1 of the second calendar year after retirement and is effective each July 1 thereafter.

Members not covered under the Virginia Sickness and Disability Program (VSDP) (see Note 3) are eligible to be considered for VRS disability retirement. If a member dies while in active service, his or her beneficiary or survivor may qualify for a death-in-service benefit. Provisions for the defined benefit plans are presented in Figure 2.10.

FIGURE 2.9 – ACTIVE, RETIRED AND TERMINATED MEMBERS AND BENEFICIARIES
AT JUNE 30

	2009				2009	2008
	VRS	SPORS	VaLORS	JRS	Total	Total
Retirees and Beneficiaries						
Receiving Benefits	138,201	1,065	2,049	431	141,746	136,394
Terminated Employees Entitled to Benefits but Not Receiving Them	33,139	67	352	9	33,567	33,153
Total	171,340	1,132	2,401	440	175,313	169,547
Active Members:						
Vested	221,228	1,468	5,863	355	228,914	222,502
Non-Vested	113,445	358	4,151	61	118,015	123,235
Total	334,673	1,826	10,014	416	346,929	345,737

FIGURE 2.10 – DEFINED BENEFIT PLAN PROVISIONS

AS ESTABLISHED BY TITLE 51.1 OF THE CODE OF VIRGINIA (1950), AS AMENDED

Virginia Retirement System (VRS): Non-Hazardous Duty Members. Full-time permanent, salaried employees of state agencies, including public colleges and universities, as well as local public school divisions and VRS-participating political subdivisions are covered automatically under VRS upon employment. Some part-time permanent, salaried state employees also are covered under VRS.

VRS members are eligible to retire with an unreduced benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit. (Some political subdivisions elected different eligibility requirements based on previous plan provisions.) The lifetime monthly benefit under VRS is based on 1.70% of the member's average final compensation for each year of service credit. Average final compensation is the average of the member's 36 consecutive months of highest compensation as a covered employee.

Virginia Retirement System (VRS): Members Eligible for Enhanced Hazardous Duty Coverage. Full-time permanent, salaried sworn sheriffs and deputy sheriffs of participating political subdivisions are covered automatically for enhanced hazardous duty under VRS upon employment. Political subdivisions may elect enhanced coverage for full-time, salaried sworn law enforcement officers, firefighters, emergency medical technicians and jail officers of regional jails or authorities.

VRS hazardous duty members are eligible to retire with an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. The lifetime monthly benefit for VRS-covered sheriffs is based on 1.85% of the member's average final compensation for each year of service credit. The retirement multiplier for other eligible hazardous duty members is 1.70%. Political subdivisions providing enhanced coverage have the option to elect the 1.85% multiplier for these employees. VRS hazardous duty members who have at least 20 years of hazardous duty service credit at retirement also are eligible for a hazardous duty supplement. The supplement is added to the monthly benefit and continues until the member's normal retirement age under Social Security.

State Police Officers' Retirement System (SPORS). State police officers are covered automatically under SPORS upon employment. SPORS members are eligible to retire with an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. The lifetime monthly benefit for SPORS members is based on 1.85% of the member's average final compensation for each year of service credit. SPORS members who have at least 20 years of hazardous duty service credit at retirement also are eligible for a hazardous duty supplement. The supplement is added to the monthly benefit and continues until the member's normal retirement age under Social Security.

Virginia Law Officers' Retirement System (VaLORS). Virginia law officers other than state police are covered automatically under VaLORS upon employment. VaLORS members are eligible to retire with an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. The lifetime monthly benefit for VaLORS members is based on 2.00% of the member's average final compensation for each year of service credit, with no eligibility for the hazardous duty supplement. VaLORS members hired before July 1, 2001 were allowed to make a one-time irrevocable election to retire under the 2.00% multiplier or retain the 1.70% multiplier with eligibility for the supplement, which continues until age 65 for these VaLORS members.

Judicial Retirement System (JRS). Judges are covered automatically under JRS upon employment. They earn one month of service credit, multiplied by a weighting factor of 2.5, for each month they are employed. The weighting factor for judges who entered JRS before January 1, 1995 is 3.5. JRS members are eligible to retire with an unreduced benefit beginning at age 60 with weighted service equal to at least five years of service credit or age 55 with weighted service equal to at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with weighted service equal to at least five but less than 30 years of service. The lifetime monthly benefit for JRS members is based on 1.70% of the member's average final compensation for each year of service credit.

FIGURE 2.11 – MEMBER AND EMPLOYER CONTRIBUTIONS

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	2009				2009	2008
	VRS	SPORS	VaLORS	JRS	Total	Total
Employer Contributions	\$ 1,214,972	\$ 20,189	\$ 50,988	\$ 21,001	\$ 1,307,150	\$ 1,380,338
Member Contributions						
Paid by Employers	743,762	5,034	17,871	3,043	769,710	742,526
Member Contributions	20,254	57	212	20	20,543	25,304
Total Contributions	\$ 1,978,988	\$ 25,280	\$ 69,071	\$ 24,064	\$ 2,097,403	\$ 2,148,168

B. CONTRIBUTIONS

Members and employers are required to contribute to the retirement plans as provided by Title 51.1 of the *Code of Virginia* (1950), as amended. Members, or their employers on their behalf, contribute 5.00% of their compensation to their member contribution accounts. Members leaving covered employment are eligible to request a refund of their accumulated contributions and interest. Each participating employer is required to contribute the remaining amounts necessary to fund the pension plans using the entry age normal actuarial cost method adopted by the Board of Trustees.

The System's former actuary, Wachovia Retirement Services, computed the amount of contributions to be provided by state agency, state police and Virginia law officer employers; each participating political subdivision employer; and state judicial employers. The contribution rates for FY 2009 were based on the actuary's valuation as of June 30, 2007 and for FY 2008 on the actuary's valuation as of June 30,

2005. In addition, the actuary computed a separate contribution requirement for the teacher cost-sharing pool for each year using the same valuation dates.

As shown in Figure 2.11, contributions for the fiscal years ended June 30, 2009 and 2008 totaled \$2,097,403,000 and \$2,148,168,000, respectively, in accordance with statutory requirements. These contributions covered employers' normal costs and amortization of unfunded actuarial accrued liabilities as determined by the June 30, 2007 and 2005 valuations.

Included in the FY 2009 employer contributions of \$1,307,150,000 were \$986,000 from school boards for payments toward early retirement program costs and \$2,199,000 from state agencies for payments toward Workforce Transition Act (WTA) costs. Included in the FY 2009 member contributions of \$20,543,000 were \$18,340,000 paid for the purchase of previously refunded service and other qualifying service.

Employer contributions to the VRS cost-sharing pool for teachers represented 8.81% of covered payrolls. Employer contributions for state employees represented 6.23% of covered payroll. Each political subdivision's contributions ranged from zero (0.00%) to 24.99% of covered payrolls. State employer contributions to SPORS represented 20.05%, to VaLORS 14.23% and to JRS 34.51% of covered

payrolls. In most cases, these rates decreased from the employer contribution rates used in FY 2008, which were 10.30% for teachers, 6.15% for state employees, 20.76% for SPORS, 15.86% for VaLORS and 38.01% for JRS. For FY 2008, employer contributions for political subdivisions ranged from zero (0.00%) to 25.96%. Member contributions for both years represented 5.00% of covered payrolls.

C. FUNDED STATUS AND FUNDING PROGRESS – PENSION PLANS

The most recent actuarial valuation prepared for the pension plans is as of June 30, 2008. The following schedule presents selected information from that valuation report. Additional information is presented in the Required Supplemental Schedule of Funding Progress–Pension Plans following the Notes to Financial Statements as well as in the Actuarial Section.

SCHEDULE OF FUNDING PROGRESS – PENSION PLANS

AS OF JUNE 30, 2008

(DOLLARS IN MILLIONS)

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Virginia Retirement System	\$ 52,548	\$ 62,554	\$ 10,006	84.0%	\$ 14,559	68.7%
State Police Officers' Retirement System	646	844	198	76.6%	103	193.2%
Virginia Law Officers' Retirement System	873	1,281	408	68.2%	368	110.8%
Judicial Retirement System	374	495	121	75.6%	61	199.9%

The actuarial methods and assumptions used to determine funding requirements are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial methods and assumptions are presented in the Actuarial Section. The following schedule presents selected information as of the latest actuarial valuation:

SCHEDULE OF ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS – PENSION PLANS

	VRS	SPORS	VaLORS	JRS
Valuation Date	June 30, 2008	June 30, 2008	June 30, 2008	June 30, 2008
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Pay, Open	Level Percent of Pay, Open	Level Percent of Pay, Open	Level Percent of Pay, Open
Payroll Growth Rate:				
State Employees	3.00%	3.00%	3.00%	3.00%
Teachers	3.00%	N/A	N/A	N/A
Political Subdivision Employees	3.00%	N/A	N/A	N/A
Remaining Amortization Period	20 Years	20 Years	20 Years	20 Years
Asset Valuation Method	5-Year, Smoothed Market	5-Year, Smoothed Market	5-Year, Smoothed Market	5-Year, Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.50%	7.50%	7.50%	7.50%
Projected Salary Increases:*				
State Employees	3.75% to 5.60%	3.50% to 4.75%	3.50% to 4.75%	3.50%
Teachers	3.75% to 6.20%	N/A	N/A	N/A
Political Subdivision—				
Non-Hazardous Duty Employees	3.75% to 5.60%	N/A	N/A	N/A
Political Subdivision—				
Hazardous Duty Employees	3.50% to 4.75%	N/A	N/A	N/A
Post-Retirement Benefit Increases**	2.50%	2.50%	2.50%	2.50%

*Includes inflation at 2.50%. **Compounded annually.

3. Other Employee and Post-Employment Benefit Plans (OPEBs)

A. PLAN DESCRIPTIONS

The System administers other employee and post-employment benefit plans for active, deferred and retired members of VRS, SPORS, VaLORS and JRS. These plans are the Group Life Insurance Program, the Retiree Health Insurance Credit Program and the Virginia Sickness and Disability Program (VSDP).

Contributions and payments of other employee benefit plans for active members occur on a current basis; therefore, the System does not record these plan net assets and is not required to report their funding progress and employer contributions. The System

records plan net assets and reports funding progress and employer contributions for post-employment benefit plans. This information is provided in the Required Supplemental Schedules following the Notes to Financial Statements. Additional information also is presented in the Statistical Section.

1. Group Life Insurance Program. Members whose employers participate in the Group Life Insurance Program are covered automatically under the Basic Group Life Insurance Program upon employment. They also are eligible to elect additional coverage for themselves as well as their spouses and dependent children through the Optional Group Life Insurance Program.

Participating employers and covered employees are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute to the cost of group life insurance benefits. Employers may assume employees' contributions. A portion of the premium contributions collected during members' active careers is placed in an Advance Premium Deposit Reserve to fund coverage for eligible retired and deferred members. Approximately 363,341 active members and 124,646 retirees were covered under the Basic Group Life Insurance Program at June 30, 2009.

For members who elect optional group life insurance coverage, the third-party administrator bills employers directly for the premiums. Employers deduct the premiums from members' paychecks and pay the premiums to the third-party administrator. Premiums are based on members' ages and approved by the Board of Trustees. Any differences and adjustments are settled between the employer and the third-party administrator. Approximately 63,774 active members and 1,556 retirees were covered under the Optional Group Life Insurance Program at June 30, 2009.

2. Retiree Health Insurance Credit Program. The Retiree Health Insurance Credit program provides eligible retirees a tax-free reimbursement for the portion

of health insurance premiums they pay for single coverage under qualifying medical, dental and prescription drug plans, including coverage under a spouse's plan. Premiums for health plans covering specific conditions are ineligible for reimbursement. Employers are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute to the program. The amount is financed based on contribution rates determined by the System's actuary. Approximately 87,538 retirees were covered under the health insurance credit program at June 30, 2009.

3. Virginia Sickness and Disability Program. The Virginia Sickness and Disability Program (VSDP) provides state employees with sick, family and personal leave and short-term and long-term disability benefits. State agencies are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute to the cost of providing long-term disability benefits and administering the program. Approximately 74,752 members were covered under VSDP at June 30, 2009, and approximately 2,483 former members were receiving benefits from the program during the fiscal year.

Provisions for other employee benefit and post-employment benefit plans are presented in Figure 2.12.

FIGURE 2.12 – OTHER EMPLOYEE BENEFIT AND POST-EMPLOYMENT BENEFIT PLAN PROVISIONS

AS ESTABLISHED BY TITLE 51.1 OF THE *CODE OF VIRGINIA* (1950), AS AMENDED

Basic Group Life Insurance. The Group Life Insurance Program was established on July 1, 1960 for state employees, teachers and employees of VRS-participating political subdivisions that elect the program. Eligible employees are covered automatically under the Basic Group Life Insurance Program upon employment. Benefits include a natural death benefit equal to the member's compensation rounded to the next highest thousand and then doubled, and an accidental death benefit equal to twice the natural death benefit. Other benefits include an accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit and accelerated death benefit option for members who have been diagnosed with a terminal condition and have fewer than 12 months to live.

Members covered under the Basic Group Life Insurance Program are eligible for post-employment group life insurance coverage if they retire or defer their retirement. Those who retire on disability also are eligible for post-employment coverage. Members who leave employment before becoming eligible for retirement or take a refund of their member contributions and interest are not eligible for post-employment group life insurance coverage. Natural death coverage for eligible retired and deferred members begins to reduce by 25% on the January 1 following one calendar year of retirement. It continues to reduce by 25% each January 1, until it

reaches 25% of its original value. Natural death coverage for members who retire on disability begins to reduce by 25% on the January 1 following one calendar year from their 65th birthday. The provisions that allow for double the natural death benefit for accidental death and dismemberment end upon retirement or leaving covered employment. Retired and deferred members remain eligible for the accelerated death benefit option.

Optional Group Life Insurance. Members covered under the Basic Group Life Insurance Program may purchase additional coverage for natural death, accidental death and accidental dismemberment for themselves as well as their spouses and dependent children through the Optional Group Life Insurance Program. Members pay the premiums through payroll deduction.

Members may elect coverage for themselves equal to one, two, three or four times their compensation rounded to the next highest thousand, up to a maximum of \$600,000. Members may cover their spouses for up to half the maximum amount of their coverage and each dependent child who is at least 15 days old for \$10,000, \$20,000 or \$30,000, depending on the option they select for themselves. Coverage for the spouse and dependent children ends if the member leaves covered employment before retirement eligibility or takes a refund of his or her member contributions and interest. Spousal coverage also ends if a couple divorces. Coverage for dependent children ends when they marry or turn age 21 (age 25 for full-time college students).

Members may continue a portion of their optional group life insurance coverage into retirement. They, as well as their spouse and dependent children as applicable, must have been covered continuously under the program during the 60 months preceding retirement or leaving covered employment. Insurance amounts begin to reduce at age 65; coverage ends at age 85. Members have the option to convert their optional group life insurance coverage to an individual policy, provided they do so within 31 days of retirement or leaving covered employment.

Retiree Health Insurance Credit Program. The Retiree Health Insurance Credit Program was established on January 1, 1990 for retired state employees, state police officers, other Virginia law officers and judges who retire with at least 15 years of service credit. The program was opened to retired teachers and eligible employees of participating political subdivisions on July 1, 1993. Members who retire on disability or are on long-term disability through the Virginia Sickness and Disability Program (VSDP) also are eligible for the health insurance credit.

The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against the portion of health insurance premiums retirees pay for single coverage. Retired state employees and teachers are eligible for a credit of \$4.00 per month per year of service credit, with no cap on the monthly amount. Retired local constitutional officers, general registrars and their employees and local social workers are eligible for \$1.50 per month per year of service credit, with a maximum monthly credit of \$45.00. Political subdivisions may elect a \$1.00 enhancement, with a maximum monthly credit of \$75.00, and have the option to elect the health insurance credit for other retired local covered employees at \$1.50 per month per year of service credit, with a maximum monthly credit of \$45.00.

State employees who retire on disability or are on long-term disability through VSDP are eligible for the higher of \$4.00 per year of service credit per month or \$120.00 per month. Those who retire after being on VSDP long-term disability must have at least 15 years of service credit to qualify for the health insurance credit in retirement. Political subdivision employees are eligible for up to \$45.00 per year of service credit. Teachers are eligible for \$4.00 multiplied by (1) twice their service credit or (2) the service they would have earned if they had been active until age 60, whichever is less.

Virginia Sickness and Disability Program. The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund, was established on January 1, 1999 to provide income protection in the event of a non-work related or work-related disability for full-time permanent, salaried state employees covered under VRS, SPORS and VaLORS.

Part-time permanent, salaried state employees who work at least 20 hours a week also are eligible for VSDP benefits. Employees covered under VSDP are not eligible for VRS disability retirement.

State employees hired before January 1, 1999 had the option to make an irrevocable election to participate in VSDP or remain under the Commonwealth's leave program and retain their eligibility for VRS disability retirement. Members hired effective January 1, 1999 have been enrolled automatically upon employment. Members new to VaLORS following its establishment on October 1, 1999 also have been enrolled automatically. Teaching, research and administrative faculty who elect VRS as their retirement plan must make an irrevocable election to participate in VSDP or the institution's disability program. If the institution does not offer a program, the faculty member is enrolled automatically in VSDP.

VSDP benefits include sick, family and personal leave as well as short-term and long-term disability coverage for non-work related and work-related illnesses and injuries. Short-term disability coverage begins after a seven-calendar day waiting period from the first day of disability. The member receives income replacement equal to 100% of his or her pre-disability income at the beginning of short-term disability, which reduces to 80% and then 60% over the course of the short-term disability period based on the member's months of career state service. Long-term disability coverage begins after 125 workdays of short-term disability. The member receives income replacement at 60% of his or her pre-disability income. Long-term disability benefits end when the employee returns to work, retires or reaches age 65 (age 60 for state police officers and other Virginia law officers). Members on short-term or long-term disability who are receiving 60% of their pre-disability income are eligible for 80% if their condition is or becomes catastrophic. The income replacement level returns to 60% when the condition is no longer catastrophic.

Members covered under VSDP also are eligible for the VSDP Long-Term Care Plan, a VRS self-funded program that assists with the cost of nursing home care, assisted living care, at-home care and other services. The maximum daily benefit amount is \$96 with a lifetime maximum of \$70,080.

B. FUNDED STATUS AND FUNDING PROGRESS – OTHER EMPLOYEE BENEFIT PLANS

The most recent actuarial valuation prepared for other employee benefit plans administered by the System is as of June 30, 2008. The following schedule presents selected information from that valuation report. Additional information is presented in the Required Supplemental Schedule of Funding Progress—Other Post-Employment Benefit Plans following the Notes to Financial Statements as well as in the Actuarial Section.

SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFIT PLANS

AS OF JUNE 30, 2008

(DOLLARS IN MILLIONS)

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Group Life Insurance Fund	\$ 975	\$ 1,772	\$ 797	55.0%	\$ 16,267	4.9%
Retiree Health Insurance Credit Fund	261	1,908	1,647	13.7%	12,986	12.7%
Disability Insurance Trust Fund	286	363	77	78.8%	4,111	1.9%

Actuarial methods and assumptions for other post-employment benefit plans are presented in the Actuarial Section. The following schedule presents selected information as of the latest actuarial valuation:

SCHEDULE OF ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS – OTHER POST-EMPLOYMENT BENEFIT PLANS

	Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund
Valuation Date	June 30, 2008	June 30, 2008	June 30, 2008
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit
Amortization Method	Level Percent of Pay, Closed	Level Percent of Pay, Closed	Level Percent of Pay, Closed
Payroll Growth Rate:			
State Employees	3.00%	3.00%	3.00%
Teachers	3.00%	3.00%	N/A
Political Subdivision Employees	3.00%	3.00%	N/A
State Police and Virginia Law Officers	3.00%	3.00%	3.00%
Judges	3.00%	3.00%	N/A
Remaining Amortization Period	28 Years	28 Years	28 Years
Asset Valuation Method	5-Year, Smoothed Market	5-Year, Smoothed Market	Market Value
Actuarial Assumptions:			
Investment Rate of Return*	7.50%	7.50%	7.50%
Projected Salary Increases:*			
State Employees	3.75% to 5.60%	N/A	3.75% to 5.60%
Teachers	3.75% to 6.20%	N/A	N/A
Political Subdivision— Non-Hazardous Duty Employees	3.75% to 5.60%	N/A	N/A
Political Subdivision— Hazardous Duty Employees	3.50% to 4.75%	N/A	N/A
State Police and Virginia Law Officers	3.50% to 4.75%	N/A	3.50% to 4.75%
Judges	3.50%	N/A	N/A

*Includes inflation at 2.50%.

4. Reserve Accounts

The reserve account balances available for benefits at June 30, 2009 and 2008 are presented in Figure 2.13. These funds are required by Titles 51.1 and 2.2 of the *Code of Virginia* (1950), as amended, to provide for the payment of current and future benefits as follows:

- Member and employer contributions and investment income fund the member and employer reserves. Each member has a member contribution account that accumulates member contributions plus annual interest of 4.00%. Each employer has a retirement allowance account that accumulates employer contributions, transfers of investment income, less administrative expenses incurred in operating the retirement plans, and transfers of member contributions and interest upon a member's retirement. Benefit payments are charged to employers' retirement allowance accounts.
- The Group Life Insurance Advance Premium Deposit Reserve accumulates a portion of insurance premium contributions collected during members' active careers and their investment earnings, and is charged for life insurance benefits paid and expenses incurred in operating the Group Life Insurance Program.
- Employer contributions and investment income fund the Retiree Health Insurance Credit Reserve. It is charged for credit reimbursements applied to the monthly health insurance premiums of eligible retired members and expenses incurred in operating the Retiree Health Insurance Credit Program.
- Employer contributions and investment income fund the Disability Insurance Trust Fund. It is charged for long-term disability benefits and for expenses incurred in operating the Virginia Sickness and Disability Program (VSDP).

FIGURE 2.13 – RESERVE BALANCES AVAILABLE FOR BENEFITS

AT JUNE 30

(EXPRESSED IN THOUSANDS)

	2009	2008
Virginia Retirement System		
Member Reserve	\$ 9,822,173	\$ 9,307,336
Employer Reserve	30,067,581	42,436,141
Total VRS	39,889,754	51,743,477
State Police Officers' Retirement System		
Member Reserve	75,131	71,495
Employer Reserve	408,988	564,914
Total SPORS	484,119	636,409
Virginia Law Officers' Retirement System		
Member Reserve	195,202	184,973
Employer Reserve	495,404	667,667
Total VaLORS	690,606	852,640
Judicial Retirement System		
Member Reserve	35,633	33,766
Employer Reserve	248,301	333,340
Total JRS	283,934	367,106
Group Life Insurance Advance Premium Deposit Reserve	713,812	937,146
Retiree Health Insurance Credit Reserve	231,994	251,634
Disability Insurance Trust Fund (VSDP)	290,481	313,521
Total Pension and Other Employee Benefit Reserves	\$ 42,584,700	\$ 55,101,933

5. Deposits and Investments

A. DEPOSITS

As shown in Figure 2.14, deposits of the System maintained by the Treasurer of Virginia at June 30, 2009 and 2008 were entirely insured under the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the *Code of Virginia* (1950), as amended, which provides for an assessable, multiple financial institution collateral pool. Deposits with the System's master custodian, Mellon Trust, were entirely insured by federal depository insurance coverage.

FIGURE 2.14 – DEPOSITS

AT JUNE 30

(EXPRESSED IN THOUSANDS)

	2009 Carrying Amount	2008 Carrying Amount
Treasurer of Virginia	\$ 104,255	\$ 125,119
Master Custodian	-	2,568
Total Deposits	\$ 104,255	\$ 127,687

B. INVESTMENTS

1. Authorized Investments. The Board of Trustees of the System has full power to invest and reinvest the trust funds in accordance with Section 51.1-124.30 of the *Code of Virginia* (1950), as amended. This section requires the Board to discharge its duties solely in the interests of members, retirees and beneficiaries. It also requires the Board to invest the assets with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Investment value and earnings of the investment pool are proportionally allocated among the System's trust funds on the basis of each fund's equity interest in the common investment pool. An Investment Summary is included in the Investment Section. The equity interest of each fund as of June 30, 2009 and 2008 is presented in Figure 2.15.

FIGURE 2.15 – EQUITY INTERESTS

AT JUNE 30

Fund	2009	2008
Virginia Retirement System	93.58%	93.87%
State Police Officers' Retirement System	1.14%	1.16%
Virginia Law Officers' Retirement System	1.62%	1.54%
Judicial Retirement System	0.67%	0.67%
Group Life Insurance Fund	1.77%	1.74%
Retiree Health Insurance Credit Fund	0.55%	0.46%
Disability Insurance Trust Fund (VSDP)	0.67%	0.56%
Total Equity Interests	100.00%	100.00%

2. Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The risk is managed within the portfolio using the effective duration or option-adjusted methodology, as shown in Figure 2.16. It is widely used in the management of fixed income portfolios in that it quantifies, to a much greater degree, the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending on the degree of change in rates and the slope of the yield curve. All of the System's fixed income portfolios are managed in accordance with investment guidelines, most of which are specific as to the degree of interest rate risk that can be taken.

FIGURE 2.16 – EFFECTIVE DURATION OF DEBT SECURITIES BY INVESTMENT TYPE

AS OF JUNE 30, 2009

(DOLLARS IN THOUSANDS)

Investment Type	Market Value	Weighted Avg. Effective Duration (Years)
U.S. Government	\$ 1,349,828	4.96
Agencies	2,772,896	3.00
Municipal Securities	132,187	7.05
Asset-Backed Securities	406,479	0.17
Collateralized Mortgage Obligations	382,768	0.63
Commercial Mortgages	284,558	3.59
Corporate and Other Bonds	13,190,868	1.93
Fixed-Income Commingled Funds	1,811,139	3.61
Cash and Cash Equivalents	27,312	-
Total Debt Securities	\$20,358,035	2.42

3. Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. As of June 30, 2009, the System's fixed income assets that are not government guaranteed represented 93% of the fixed income assets.

The System's policy for credit risk is based on the concept of a risk budget rather than specific limitations related to the rating of an individual security. The System's risk budget is allocated among the different investment strategies. The System's fixed income portfolio credit quality and exposure levels as of June 30, 2009 are summarized in Figure 2.17.

Credit risk for derivative instruments held by the System results from counterparty risk assumed by the System. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the System's credit risk related to derivatives is found in Note 5.B.7. Policies related to credit risk pertaining to the System's securities lending program are found in Note 5.B.5.

FIGURE 2.17 – CREDIT QUALITY AND EXPOSURE LEVELS OF NONGOVERNMENT GUARANTEED SECURITIES

AS OF JUNE 30, 2009

(EXPRESSED IN THOUSANDS)

Credit Rating Level	Agencies	Municipal Securities	Asset-Backed Securities	Collateralized Mortgage Obligations	Commercial Mortgages	Corporate and Other Bonds	Fixed-Income Commingled Funds	Cash and Cash Equivalents
U.S. Government, Short-Term and Not-Rated Debt:								
U.S. Government								
Agencies	\$2,772,896	\$ 18,228	\$ -	\$ 47,425	\$ -	\$ 2,877	\$ -	\$ -
AAAm	-	-	-	-	-	-	-	21,641
P-1	-	-	-	-	-	8,998	44,062	-
VMIG2	-	-	-	-	-	1,151	-	-
Not Rated	-	565	19,765	78,560	92,770	2,228,076	16,998	-
Long-Term Debt:								
Aaa	-	80,729	165,346	64,035	187,714	4,556,254	591,101	5,671
Aa1	-	-	4,194	4,170	-	132,088	-	-
Aa2	-	-	19,557	4,987	-	292,830	-	-
Aa3	-	2,872	1,113	8,050	-	211,177	46,752	-
A1	-	418	11,768	12,080	334	442,059	-	-
A2	-	2,923	14,852	3,141	-	626,139	90,885	-
A3	-	1,816	2,520	4,651	-	594,651	-	-
Baa	-	-	-	-	-	-	844,443	-
Baa1	-	1,055	2,482	3,181	-	565,350	-	-
Baa2	-	23,581	26,056	5,490	-	604,730	-	-
Baa3	-	-	10,748	6,352	-	410,743	-	-
Ba1	-	-	4,025	937	148	246,718	-	-
Ba2	-	-	13,877	9,477	-	324,970	-	-
Ba3	-	-	6,495	1,482	-	616,258	-	-
B1	-	-	14,775	12,700	-	537,435	-	-
B2	-	-	16,284	20,735	-	215,252	-	-
B3	-	-	28,139	39,798	1,722	309,419	113,757	-
Caa1	-	-	9,404	16,742	-	165,971	63,141	-
Caa2	-	-	10,628	4,034	-	43,671	-	-
Caa3	-	-	7,732	20,285	1,870	16,607	-	-
Ca	-	-	14,710	14,456	-	32,368	-	-
C	-	-	2,009	-	-	5,076	-	-
Total	\$2,772,896	\$ 132,187	\$ 406,479	\$ 382,768	\$ 284,558	\$13,190,868	\$ 1,811,139	\$ 27,312

VRS used Moody's ratings for this presentation. A large portion of the securities are not rated by Moody's but are rated by other rating agencies.

- **Concentration of Credit Risk.** This is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. The System's investment guidelines for each specific portfolio limits investments in any corporate entity to no more than 5.00% of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5.00% or more of plan net assets available for benefits.
- **Custodial Credit Risk.** This is the risk that in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The System's market value of securities that were uninsured and held by a counterparty at June 30, 2009 and 2008 are presented in Figure 2.18.

4. Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The System's currency risk exposures, or exchange rate risk, primarily exist in the international and global equity investment holdings. From time to time, the System's external managers may hedge their portfolios' foreign currency exposures with currency forward contracts, depending on their views about a specific foreign currency relative to the U.S. dollar. The System's exposure to foreign currency risk as of June 30, 2009 is highlighted in Figure 2.19.

FIGURE 2.18 – CUSTODIAL CREDIT RISK
AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2009	2008
U.S. Government and Agency Mortgage Securities	\$ 81,042	\$ 185,723
Corporate and Other Bonds	-	6,595
Held by Broker-Dealer Under Securities Lending Program:		
U.S. Government and Agency Mortgage Securities	1,085	163,062
Corporate and Other Bonds	-	3,011
Common and Preferred Stocks	396,256	1,319,794
Total	\$478,383	\$1,678,185



FIGURE 2.19 – CURRENCY EXPOSURES BY ASSET CLASS

AS OF JUNE 30, 2009

(EXPRESSED IN THOUSANDS)

Currency	Cash and Cash Equivalents	Equity	Corporate Bonds	Private Equity	Real Estate	International Funds	Total
Euro Currency Unit	\$ 17,660	\$ 213,597	\$ 1,095	\$ 543,766	\$ 22,061	\$ -	\$ 798,179
U.S. Dollar	15,796	-	-	-	-	682,089	697,885
Australian Dollar	3,589	487,998	-	-	20,651	-	512,238
Japanese Yen	5,594	368,645	(6,644)	-	50,749	-	418,344
Hong Kong Dollar	3,820	333,322	-	-	55,575	-	392,717
British Pound Sterling	4,860	333,049	3,818	2,345	10,015	-	354,087
South Korean Won	1,608	231,516	-	-	-	-	233,124
New Taiwan Dollar	12,120	213,006	-	-	-	-	225,126
Indian Rupee	1,267	165,894	-	-	-	-	167,161
Brazil Real	5,522	159,289	(74)	-	1,794	-	166,531
Canadian Dollar	2,049	135,723	(842)	-	1,404	-	138,334
South African Comm Rand	6,846	110,011	-	-	-	-	116,857
Mexican New Peso	371	76,223	8,355	-	-	-	84,949
Norwegian Krone	1,863	75,669	1,162	-	-	-	78,694
Thailand Baht	86	76,726	-	-	-	-	76,812
New Turkish Lira	4,091	57,988	-	-	-	-	62,079
New Zealand Dollar	197	49,255	7,448	-	-	-	56,900
Malaysian Ringgit	2,514	43,329	-	-	-	-	45,843
Singapore Dollar	1,086	32,973	-	-	7,137	-	41,196
Indonesian Rupiah	345	23,434	-	-	-	-	23,779
Polish Zloty	593	21,452	-	-	-	-	22,045
Egyptian Pound	36	19,702	-	-	-	-	19,738
Israeli Shekel	548	12,478	-	-	-	-	13,026
Czech Koruna	533	9,724	-	-	-	-	10,257
Turkish Lira	7,189	-	-	-	-	-	7,189
Hungarian Forint	379	6,585	-	-	-	-	6,964
Danish Krone	386	4,074	-	-	-	-	4,460
Philippines Peso	855	3,387	-	-	-	-	4,242
Moroccan Dirham	43	1,515	-	-	-	-	1,558
Omani Rial	197	1,170	-	-	-	-	1,367
Pakistan Rupee	-	746	-	-	-	-	746
Chinese Yuan Renminbi	-	140	-	-	-	-	140
Russian Ruble (New)	3	-	-	-	-	-	3
Romanian Leu	3	-	-	-	-	-	3
Swedish Krona	1,735	(39,005)	-	1,707	1,588	-	(33,975)
Swiss Franc	3,109	(86,632)	-	-	1,841	-	(81,682)
Total	\$ 106,893	\$ 3,142,983	\$ 14,318	\$ 547,818	\$ 172,815	\$ 682,089	\$ 4,666,916

5. Securities Lending. Under authorization of the Board, the System lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities or an irrevocable letter-of-credit issued by a major bank, and have a market value equal to at least 102% of the market value for domestic securities and 105% for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent and related distributions and if the collateral is inadequate to replace the securities lent. All securities loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 36 days. At year end, the System had no credit risk exposure to borrowers because the amounts it owes the borrowers exceed the amounts the borrowers owe it. All securities are marked to market daily and carried at market value.

The market value of securities on loan at June 30, 2009 and 2008 was \$2,536,121,000 and \$5,026,739,000, respectively. The June 30, 2009 and 2008 balances were composed of U.S. government and agency securities of \$744,402,000 and \$1,321,524,000, respectively; corporate and other bonds of \$209,435,000 and \$217,999,000, respectively; and common and preferred stocks of \$1,582,284,000 and \$3,487,216,000, respectively. The value of collateral (cash and non-cash) at June 30, 2009 and 2008 was \$2,642,711,000 and \$5,329,015,000, respectively. Securities on loan are included with investments on the statement of net assets. The invested cash collateral is included in the statement of net assets as an asset and corresponding liability.

At June 30, 2009, the invested cash collateral had a market value of \$1,883,479,000 and was composed of commercial paper of \$407,492,000, certificates of deposit of \$319,719,000, floating rate notes of \$480,694,000 and repurchase agreements of \$675,574,000. As of June 30, 2009, the System's cash collateral reinvestment pool had an unrealized loss of \$26 million.

6. Accounts Receivable/Accounts Payable for Security Transactions. In addition to unsettled purchases and sales, accounts receivable and accounts payable for security transactions at June 30, 2009 and 2008, respectively, include (1) receivables for deposits with brokers for securities sold short of \$698,757,000 and \$1,299,708,000, respectively, and (2) payables for securities sold short and not covered with market values of \$633,185,000 and \$1,189,940,000, respectively.

7. Derivative Financial Instruments. Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options and swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities, such as collateralized mortgage obligations (CMOs), which are sensitive to changes in interest rates and prepayments. Futures, forwards, options and swaps generally are not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The System is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements.

Credit risk is the possibility that loss may occur from the failure of a counterparty to perform according to the terms of the contract. Market risk arises from adverse changes in market prices, interest rates and foreign exchange rates that may result in a decrease in the market value of a financial investment and/or an increase in its funding cost.

In addition to risk exposure from directly held derivative financial instruments, the System may have indirect exposure to risk through its ownership interests in commingled investment funds that use, hold or write derivative financial instruments. Indirect exposure also may arise from stock lending programs in which the commingled funds participate. Such programs usually reinvest a portion of their cash collateral holdings in derivative instruments. The System's pro rata share of the contractual or notional amounts of outstanding derivative transactions in commingled investment funds and their related security lending programs approximated \$166,268,000 at June 30, 2009 and \$156,211,000 at June 30, 2008.

8. Forward, Futures and Option Contracts. Forward contracts are contracts to purchase or sell. Futures contracts are contracts to deliver or receive financial instruments, foreign currencies or commodities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require an initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily, in cash, with the exchanges. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. In contrast, forward contracts traded over-the-counter are generally negotiated between two counterparties. They are subject to credit risks resulting from nonperformance of one of the counterparties and to market risks resulting from adverse fluctuations in market prices, interest rates and foreign exchange rates.

Options may be either exchange-traded or negotiated directly between two counterparties over-the-counter. Options grant the holder the right, but not the obligation, to purchase or sell a financial instrument at a specified price and within a specified period of time from the writer of the option. As a purchaser of options, the System typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The System then retains the right, but not the obligation, to exercise the option and purchase the underlying financial instrument.

Should the option not be exercised, it expires worthless and the premium is recorded as a loss. A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the System receives a premium at the outset. This premium is reflected as a liability on the financial statements, and the System bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Forward, futures and options contracts provide the System with the opportunity to build passive benchmark positions; manage portfolio duration in relation to various benchmarks; adjust portfolio yield curve exposure; and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates. At June 30, 2009, the System had purchased S&P, Russell Index, Treasury bonds and notes and

global indices futures and options with a notional value of \$8,093,662,000, and sold Treasury bonds and notes and global indices futures and options with a notional value of \$1,099,711,000. At June 30, 2008, the notional values of the balances purchased and sold were \$8,382,747,000 and \$588,717,000, respectively. At June 30, 2009, the System had pledged as collateral U.S. Treasury and U.S. Government Agency securities with a total market value of \$34,481,000 as the margin requirement for futures contracts. At June 30, 2008, the market value of the pledged securities was \$192,318,000.

9. Foreign Exchange Contracts. Foreign exchange contracts include forward, futures and options contracts. They involve either the exchange of specific amounts of two currencies or the delivery of a fixed amount of a currency at a future date and specified exchange rate. Forward and futures contracts settle three or more business days from the contract date. Forward contracts are negotiated over-the-counter between two counterparties, while futures contracts are exchange-traded. Foreign currency options, which are either negotiated between two counterparties or exchanged-traded, grant the buyer the right, but not the obligation, to purchase or sell at a specified price a stated amount of an underlying currency at a future date. At June 30, 2009, the System had sold foreign currency contracts with a notional value of \$6,048,778,000 and purchased foreign currency contracts with a notional value of \$6,086,574,000. At June 30, 2008, the notional values of the foreign currency contracts sold and purchased were \$7,513,138,000 and \$7,509,004,000, respectively.

Foreign exchange contracts are used by the System to effect settlements and to protect the base currency (\$US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are

traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

10. Swap Agreements. Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indices. During FY 2009, the System entered into interest rate and total return swaps with a total notional value of \$1,390,625,000. For FY 2008, the total notional value was \$1,225,106,000. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the System generally requires collateral on any material gains from these transactions.



6. Capital Assets

The System's non-depreciable and depreciable capital assets for the year ended June 30, 2009 are presented in Figure 2.20.

FIGURE 2.20 – PROPERTY, PLANT, FURNITURE AND EQUIPMENT

FOR THE YEAR ENDED JUNE 30, 2009

(EXPRESSED IN THOUSANDS)

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Non-Depreciable Capital Assets: Land	\$ 1,368	\$ -	\$ -	\$ 1,368
Total Non-Depreciable Capital Assets	1,368	-	-	1,368
Depreciable Capital Assets:				
Building	4,632	-	-	4,632
Furniture and Equipment	4,308	131	-	4,439
Total Depreciable Capital Assets	8,940	131	-	9,071
Less Accumulated Depreciation:				
Building	1,158	116	-	1,274
Furniture and Equipment	2,352	373	-	2,725
Total Accumulated Depreciation	3,510	489	-	3,999
Total Depreciable Capital Assets - Net	5,430	(358)	-	5,072
Total Net Capital Assets	\$ 6,798	\$ (358)	\$ -	\$ 6,440

Depreciation expense amounted to \$652,000 and \$468,000 in 2009 and 2008, respectively.

7. Operating Leases

The System has commitments under various operating leases for equipment and office space. In general, the leases are for a three-year term. In most cases, the System expects that in the normal course of business, these leases will be replaced by similar leases. Total rental expense for the year ended June 30, 2009 was \$2,029,000. The System's total future minimum rental payments as of June 30, 2009 are presented in Figure 2.21.

FIGURE 2.21 – OPERATING LEASES-FUTURE PAYMENTS

AT JUNE 30, 2009

(EXPRESSED IN THOUSANDS)

Year	Amount
2010	\$ 1,131
2011	898
2012	758
2013	755
2014	774
2015-2017	2,161
Total Future Minimum Rental Payments	\$ 6,477

8. System Employee Benefit Plan Obligations

All full-time permanent, salaried employees of the System are employees of the Commonwealth of Virginia and included in the Commonwealth's participation as an employer in VRS. The Commonwealth, not the System, has overall responsibility for contributions to the VRS pension trust fund as well as other employee benefit and post-employment benefit trust funds for System employees. There were approximately 43,682 state retirees, including System retirees, at June 30, 2009. Note 2.B provides the state's contribution requirements toward funding the defined benefit plan for state employees for FY 2009 and FY 2008. The System's contribution requirement for its employees for FY 2009 and FY 2008 was \$2,090,000 and \$1,922,000, respectively.

The System's financial obligations for other employee benefit and post-employment benefit plans were as follows:

- The state's contribution requirement for the Group Life Insurance Program for the years ended June 30, 2009 and 2008 was 0.82% and 1.00% of covered payroll, respectively. There were approximately 90,633 active state employees and 37,522 state retirees, including System employees and retirees, eligible for group life insurance coverage at June 30, 2009. The System's contribution requirement for its employees and retirees for FY 2009 and FY 2008 was \$153,000 and \$172,000, respectively.
- The state's contribution requirement for the health insurance credit for the years ended June 30, 2009 and 2008 was 1.18% and 1.20%, respectively. There were approximately 34,767 state retirees, including System retirees, receiving the health insurance credit at June 30, 2009. The System's contribution requirement for its employees for FY 2009 and FY 2008 was \$219,000 and \$207,000, respectively.

- The state's contribution requirement for the Virginia Sickness and Disability Program (VSDP) for the years ended June 30, 2009 and 2008 was 1.79% and 2.00% of covered payroll, respectively. There were approximately 74,752 state employees, including System employees, enrolled in VSDP at June 30, 2009. The System's contribution requirement for its employees for FY 2009 and FY 2008 was \$331,000 and \$345,000, respectively.

Information regarding the Commonwealth's funding progress is presented in the Commonwealth's Comprehensive Annual Financial Report. Information about the pension plans is provided in Note 2; information about other employee and post-employee benefit plans is presented in Note 3.

9. Litigation

The System, including its Board of Trustees, officers and employees, is a defendant in claims and lawsuits that are pending, in progress or have been settled since June 30, 2009. The Attorney General and outside counsel have reviewed the status of these claims, lawsuits and the System's potential liability arising from them. Based on their review, it is the opinion of management that such liability, if any, would have no material adverse effect on the System's financial condition.

10. Risk Management

To cover its exposure to various risks of loss, the System, as an independent agency of the Commonwealth of Virginia, participates in the Commonwealth's self-insurance programs for state employee health care and risk management. The latter program includes property, general (tort) liability, medical malpractice and automobile plans. The System's employees are covered by the Virginia Workers' Compensation Program administered by the Department of Human Resource Management. In addition, the System is self-insured for fiduciary liability as well as directors' and officers' liability under a program administered by the Commonwealth's Division of Risk Management. There were no claims in excess of coverage and no reductions in coverage during FY 2009 and the three preceding fiscal years.



11. Commitments

The System extends investment commitments in the normal course of business. At June 30, 2009 and 2008, these commitments amounted to \$3,850,987,000 and \$4,599,706,000, respectively.

12. Statutory Contribution Adjustment

For FY 2008, contributions due or required were based on the June 30, 2005 actuarial valuation, which used a 21-year funding period for the UAAL. The General Assembly revised the VRS actuary's assumptions from the June 30, 2005 actuarial valuation by extending the funding period for these groups from 21 years to 30 years. As a result, the rate for teachers was reduced from 11.18% to 10.30%, and the rate for state employees was reduced from 7.33% to 6.15%. Additionally, the rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 22.69%, 17.39% and 40.08% to 20.76%, 15.86% and 38.01%, respectively.

For FY 2009, contributions due or required were based on the June 30, 2007 actuarial valuation, which used a 20-year funding period for the UAAL. The General Assembly again funded less than the rate determined by the actuary by extending the funding period for these groups from 20 years to 30 years. As a result, the FY 2009 rate for teachers was reduced from 11.84% to 8.81%, and the rate for state employees was reduced from 8.02% to 6.23%. Additionally, the rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 24.09%, 16.78% and 38.04% to 20.05%, 14.23% and 34.51%, respectively.

REQUIRED SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS – PENSION PLANS

(DOLLARS IN MILLIONS)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Virginia Retirement System (VRS)						
2008	\$ 52,548	\$ 62,554	\$ 10,006	84.0%	\$ 14,559	68.7%
2007	47,815	58,116	10,301	82.3%	13,834	74.5%
2006	42,669	52,822	10,153	80.8%	13,002	78.1%
2005*	40,372	49,628	9,256	81.3%	12,212	75.8%
2004	39,691	43,958	4,267	90.3%	11,510	37.1%
2003	39,243	40,698	1,455	96.4%	10,885	13.4%
2002	38,957	38,265	(692)	101.8%	10,669	(6.5%)
2001	37,968	35,384	(2,584)	107.3%	10,145	(25.5%)
2000 *	34,392	32,643	(1,749)	105.4%	9,529	(18.4%)
State Police Officers' Retirement System (SPORS)						
2008	\$ 646	\$ 844	\$ 198	76.6%	\$ 103	193.2%
2007	595	806	211	73.8%	101	209.4%
2006	539	730	191	73.8%	94	204.1%
2005*	514	673	159	76.4%	91	174.8%
2004	510	656	146	77.8%	82	178.0%
2003	509	616	107	82.6%	79	135.4%
2002	508	595	87	85.4%	81	107.4%
2001	495	557	62	88.9%	83	74.7%
2000*	441	513	72	86.0%	81	88.9%
Virginia Law Officers' Retirement System (VaLORS)						
2008	\$ 873	\$ 1,281	\$ 408	68.2%	\$ 368	110.8%
2007	766	1,166	400	65.7%	341	117.2%
2006	656	1,096	440	59.9%	321	137.0%
2005*	575	980	405	58.7%	307	132.0%
2004	509	927	418	54.9%	298	140.3%
2003	458	854	396	53.6%	292	135.6%
2002	418	806	388	51.9%	306	126.8%
2001	393	628	235	62.6%	320	73.4%
2000**	307	680	373	45.1%	315	118.4%
Judicial Retirement System (JRS)						
2008	\$ 374	\$ 495	\$ 121	75.6%	\$ 61	199.9%
2007	340	442	102	76.9%	58	177.3%
2006	302	424	122	71.3%	54	224.1%
2005*	288	402	114	71.5%	52	220.7%
2004	285	366	81	78.0%	48	168.8%
2003	282	348	66	81.1%	48	137.5%
2002	281	352	71	79.8%	48	147.9%
2001	277	342	65	80.9%	47	138.3%
2000*	245	330	85	74.2%	45	188.9%

*Revised economic and demographic assumptions due to experience study.

**The first actuarial valuation for the Virginia Law Officers' Retirement System, established on October 1, 1999, was performed as of June 30, 2000.

REQUIRED SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLANS

(DOLLARS IN THOUSANDS)

Year Ended June 30	Annual Required Contribution	Percentage Contributed*	Statutory Required Contribution	Percentage Contributed
Virginia Retirement System (VRS)				
2009	\$ 1,501,018	81.25%	\$ 1,219,645	100.00%
2008	1,378,993	92.58%	1,276,645	100.00%
2007	1,299,606	85.89%	1,116,217	100.00%
2006	864,245	89.51%	773,553	100.00%
2005	810,944	85.26%	691,415	100.00%
2004	469,200	91.66%	430,064	100.00%
2003	450,766	67.61%	304,784	100.00%
2002	459,613	79.68%	366,239	100.00%
2001	630,458	99.99%	630,370	100.00%
2000	785,376	93.24%	732,273	100.00%
State Police Officers' Retirement System (SPORS)				
2009	\$ 24,241	83.23%	\$ 20,175	100.00%
2008	22,941	91.49%	20,989	100.00%
2007	19,402	84.31%	16,358	100.00%
2006	23,132	65.96%	15,258	100.00%
2005	21,946	65.96%	14,475	100.00%
2004	20,187	51.16%	10,328	100.00%
2003	19,866	44.20%	8,781	100.00%
2002	20,190	50.00%	10,095	100.00%
2001	20,420	100.00%	20,420	100.00%
2000	17,684	85.07%	15,044	100.00%
Virginia Law Officers' Retirement System (VaLORS)				
2009	\$ 60,059	84.80%	\$ 50,932	100.00%
2008	61,325	91.20%	55,929	100.00%
2007	56,190	86.03%	48,338	100.00%
2006	77,414	67.96%	52,611	100.00%
2005	74,301	67.96%	50,495	100.00%
2004	72,752	55.80%	40,596	100.00%
2003	72,699	48.00%	34,895	100.00%
2002	77,417	32.30%	25,006	100.00%
2001	51,072	100.00%	51,072	100.00%
2000 **	16,216	84.81%	13,753	100.00%
Judicial Retirement System (JRS)				
2009	\$ 23,148	90.72%	\$ 21,000	100.00%
2008	23,599	94.86%	22,386	100.00%
2007	22,557	91.02%	20,530	100.00%
2006	23,871	67.89%	16,206	100.00%
2005	22,490	67.89%	15,269	100.00%
2004	21,341	71.18%	15,190	100.00%
2003	21,110	64.44%	13,604	100.00%
2002	21,282	50.00%	10,641	100.00%
2001	20,822	100.00%	20,822	100.00%
2000	15,075	99.07%	14,935	100.00%

*Contributions made by employers were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.

**VaLORS went into effect on October 1, 1999.

REQUIRED SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFIT PLANS

(DOLLARS IN MILLIONS)

Actuarial Valuation Date June 30	Actuarial Value of Assets(a)	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Group Life Insurance Fund						
2008	\$ 975	\$ 1,772	\$ 797	55.0%	\$ 16,267	4.9%
2007	880	1,552	672	56.7%	14,822	4.5%
2006*	751	1,436	685	52.3%	13,923	4.9%
Retiree Health Insurance Credit Fund						
2008	\$ 261	\$ 1,908	\$ 1,647	13.7%	\$ 12,986	12.7%
2007	204	1,845	1,641	11.0%	11,334	14.5%
2006*	175	1,316	1,141	13.3%	9,965	11.4%
Disability Insurance Trust Fund						
2008	\$ 286	\$ 363	\$ 77	78.8%	\$ 4,111	1.9%
2007	264	451	187	58.5%	3,909	4.8%
2006*	192	423	231	45.4%	3,716	6.2%

*2006 was the first actuarial valuation prepared using the required parameters of GASB 43.

REQUIRED SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS – OTHER POST-EMPLOYMENT BENEFIT PLANS

(DOLLARS IN THOUSANDS)

Year Ended June 30	Annual Required Contribution	Percentage Contributed*	Statutory Required Contribution	Percentage Contributed
Group Life Insurance Fund				
2009	\$ 146,545	92.13%	\$ 135,019	100.00%
2008	158,740	100.00%	158,740	100.00%
Retiree Health Insurance Credit Fund				
2009	\$ 150,048	96.63%	\$ 144,989	100.00%
2008	147,524	100.00%	147,524	100.00%
Disability Insurance Trust Fund				
2009	\$ 78,120	91.33%	\$ 71,344	100.00%
2008	97,975	80.00%	78,380	100.00%

*Contributions made by employers were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.

SCHEDULE OF ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	2009	2008
Personal Services:		
Salaries and Wages	\$ 22,066	\$ 20,952
Per Diem Services	333	246
Retirement Contributions	2,180	2,010
Social Security	1,429	1,356
Group Life and Medical Insurance	2,770	2,705
Compensated Absences	317	266
Total Personal Services	29,095	27,535
Professional Services:		
Data Processing	10,343	5,248
Actuarial and Consulting Services	1,927	1,377
Legal Services	555	404
Medical Review Services	841	457
Management Services	144	427
Personnel Development Services	139	93
Total Professional Services	13,949	8,006
Communication Services:		
Media Services	10	28
Printing	795	940
Postage and Delivery Services	543	696
Telecommunications	501	526
Total Communication Services	1,849	2,190
Rentals:		
Business Equipment	652	854
Office Space	1,377	1,298
Total Rentals	2,029	2,152
Other Services and Charges:		
Skilled and Clerical Services	97	97
Depreciation	652	468
Dues and Membership	94	87
Building Expense	513	573
Equipment	619	446
Insurance	32	28
Repairs and Maintenance	11	11
Supplies and Materials	113	148
Travel and Transportation	421	550
Miscellaneous	150	188
Total Other Services and Charges	2,702	2,596
Total Administrative Expenses (GAAP Basis)	49,624	42,479
Adjustments Necessary to Convert Administrative Expenses on the GAAP Basis to the Budgetary Basis at Year End (Net)	(157)	186
Administrative Expenses (Budgetary Basis)	\$ 49,467	\$ 42,665
Administrative Expenses Appropriated	\$ 65,907	\$ 53,130
Distribution of Administrative Expenses:		
Total Administrative Expenses (GAAP Basis)	\$ 49,624	\$ 42,479
Less In-House Investment Management	(15,839)	(14,349)
Net Administrative Expenses	\$ 33,785	\$ 28,130

SCHEDULE OF PROFESSIONAL AND CONSULTING SERVICES

FOR THE YEAR ENDED JUNE 30, 2009

(EXPRESSED IN THOUSANDS)

Actuarial, Legal and Oversight Services:

Joint Legislative Audit Review Commission	Oversight Responsibilities	\$	335.2
Cavanaugh Macdonald Consulting, LLC	Actuarial Services and Benefits Consulting		885.9
Wachovia Securities	Actuarial Services and Benefits Consulting		2.9
Troutman Sanders, LLP	Legal Services		67.2
Williams Mullin	Legal Services		0.6

Total Actuarial, Legal and Oversight Services

\$ 1,291.8

Consulting Services:

Advantage 2000	Social Security Advocacy and Disability Tracking	\$	212.5
Advent Software	Software Maintenance		37.4
Albourne America, LLC	Investment Consulting Services		400.0
Captech Ventures, Inc.	Investment Reporting Services Development		39.0
CEM Benchmarking, Inc.	Benchmarking Analysis		35.0
Computer Telephone Technologies	Telephony Contractor		7.4
CorVel Corporation	Physician Referral for Disability Cases		0.7
Ennis Krupp & Associates, Inc.	Investment Compensation Study		85.0
Global Insight	Historical Economic Packages		21.3
R. Louis Harrison, PC	Fact Finding Hearing Officer for Disability Cases		121.6
Hewitt Associates	Retirement Benefits Planning Tool		2.5
McGinley, Elsberg & Hutchenson, PLC	Fact Finding Hearing Officer for Disability Cases		24.1
McLagan Partners, Inc.	Investment Compensation Study		32.3
Mellon Global Securities	Investment Consulting Services		87.3
Milliman, Inc.	Long-Term Care Plan Consulting		176.6
Bertini O'Donnell	Fact Finding Hearing Officer for Disability Cases		18.0
Property & Portfolio Research, Inc.	Investment Consulting Services		163.5
Sagitec Solutions, LLC	VRS Modernization Project Solution Vendor		4,621.6
Social Security Disability Consultants	Social Security Advocacy and Disability Tracking		14.3
Southeastern Institute of Research, Inc.	Customer Research and Surveys		5.0
Strategic Economic Decisions, Inc.	Economic Advisory Services		10.0
Townsend Group	Investment Consulting Services		115.0
United Review Services, Inc.	Medical Board Review and Examinations		859.8
Vector Consultants	IT Contractor		115.3
WySTAR Global Retirement Solutions	VolSAP Participant Recordkeeping		12.5

Total Consulting Services

7,217.7

Total Professional and Consulting Services

\$ 8,509.5

SCHEDULE OF INVESTMENT EXPENSES

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	2009	2008
Management Fees:		
Domestic Managers	\$ 17,400	\$ 32,072
Non-U.S. Equity Managers	20,295	30,055
Global Equity Managers	13,564	22,718
Fixed Income Managers	14,891	9,464
Credit Strategies Managers	39,525	21,953
Real Estate Managers	33,906	31,825
Alternative Investment Managers	70,460	67,713
Hedge Fund Managers	36,113	43,280
Total Management Fees	246,154	259,080
Performance Fees	7,758	3,422
Miscellaneous Fees and Expenses:		
Custodial Fees	3,971	5,230
Legal Fees	219	258
Other Fees and Expenses	479	791
Total Miscellaneous Fees and Expenses	4,669	6,279
In-House Investment Management	15,839	14,349
Total Investment Expenses	\$ 274,420	\$ 283,130

3 investment section

- Chief Investment Officer's Letter
- Investment Account
- Portfolio Highlights
- VRS Money Managers
- Public Equity Commissions
- Schedule of Investment Management Fees and Expenses
- Investment Summary

your future

2009



VRS is automating
manual processes to
free up staff for high-
touch counseling and
assistance.



your future



Chief Investment Officer's Letter



Charles W. Grant, CFA, Chief Investment Officer

P.O. Box 2500 • 1200 East Main Street

Richmond, Virginia 23218-2500

Toll Free: 1-888-VARETIR (827-3847) • TDD: 804-344-3190

December 3, 2009

To the Members of the Board of Trustees and Participants of the Virginia Retirement System:

Fiscal 2009 was a difficult year for the economy, the financial markets and the VRS investment portfolio. As a long-term investor, VRS maintains significant exposure to corporate equity and debt, as well as commercial real estate. All of these markets declined materially last year, resulting in a one-year investment return of -21.1%. Our relative returns also suffered, as the fund moderately underperformed the policy benchmarks established by the Board of Trustees. Overall, the decline in performance was in line with many other large pension funds and long-term investors.

The following table shows annualized total fund performance for various timeframes along with intermediate and long-term policy benchmarks:

	PERIODS ENDING JUNE 30, 2009			
	1 Year	3 Years	5 Years	10 Years
Total Fund	-21.1	-3.2	2.7	3.2
Intermediate Benchmark	-20.1	-3.6	2.0	2.4
Long-Term Benchmark	-17.0	-3.6	0.6	1.1

The economy entered a recession in late 2007 and is only now beginning to show signs of growth. The length and depth of this recession will make it one of the worst since the Great Depression, and the impact on business and consumer activity has been severe. In addition to the sharp contraction on Main Street, a financial crisis developed in late 2008 and early 2009 as uncertainty over mounting residential real estate losses led to a lack of confidence in financial counterparties. This crisis of confidence precipitated a “run on the bank” at several large financial firms, most notably Lehman Brothers, which failed on September 14, 2008. In this environment of economic distress on Main Street and systemic crisis on Wall Street, all risk premiums rose dramatically, and the only assets that produced attractive returns were very high quality bonds.

The fund’s public equity program returned -28% last year, while private equity holdings returned -21.8%. Active equity portfolio managers generally underperformed the broad market, as the extreme anti-risk and anti-leverage environment punished many securities with good long-term value. The equity program also suffered due to an opportunistic investment into distressed financial stocks that proved to be early. Private equity holdings performed moderately better, but these companies are illiquid and difficult to value. Only time and future realizations will tell how well they perform.

Our credit strategies portfolio, which is viewed as a substitute to public equity, held up relatively well with a -7.7% return. These credit-related investments provided some degree of cushion during the dramatic market downturn, while generating significant income and cash flow to the fund. This program maintained a relatively conservative portfolio structure during this period and outperformed its benchmark and public equities by a wide margin.

Commercial real estate investments returned -28.3% and significantly underperformed the program benchmark, which is an un-investable index of core commercial real estate. Within the real estate program, private real estate held up moderately better than public real estate, owing primarily to the lagged nature of the private real estate cycle.

The only VRS investment program posting positive returns last year was the fixed income program, which returned 4.6%. While the return was positive, the program underperformed the benchmark due to its higher concentration in non-government bonds. The portfolio remains very high quality, and we expect it to perform well over the next few years.

It is not unusual for VRS to periodically underperform relative to policy benchmarks; in fact, historically we have only outperformed in approximately six out of every 10 years. We believe the fund is well-positioned to recapture this relative value over the next several years.

The Board of Trustees, the Investment Advisory Committee and the investment staff have deliberated extensively over the last year to discuss the unique nature of this economic and market cycle and to reaffirm our long-term investment plan. Government policy makers have done a good job restoring order and liquidity to the financial markets, but the cost has been high, and the long-term effects of these policies are not clear. An overleveraged private sector is being replaced by an overleveraged public sector, and we are wary of potential headwinds to growth and risks to continued price stability.

We remain committed to a long-term orientation toward our investment strategy; the fund is expected to pay pension benefits for the next 80-plus years. Our approach is to give careful consideration to the combined effect of the current market price and reasonable expectations about future growth, and then allocate our assets accordingly. Currently, we are maintaining an opportunistic overweight position in credit-related securities that we believe will generate equity-like returns but with significantly lower risk. In addition, over the next year we will be implementing a global public equity benchmark and program structure that moderately increases our non-U.S. public equity holdings, in both developed and emerging markets. This policy change will enable the fund to benefit from a higher level of growth expected in non-U.S. markets, particularly the emerging markets, as well as further diversify the fund and help protect against the potential for a further decline in the dollar.

The portfolio is positioned to perform well over the intermediate and longer-terms, but we are not likely to return to the period of extremely high returns of several years ago. We expect a continuation of the deleveraging environment and only moderate economic growth over the next few years, with a possibility that the economy will face another downturn when stimulus policies are withdrawn. Despite these challenges, we believe the markets are priced such that the current portfolio should be able to deliver a reasonable return of 7% to 8% over the next five to 10 years, albeit with a high level of volatility.

The last year has been challenging and I want to thank the investment staff for their hard work and commitment to VRS. I also want to thank the members of the Investment Advisory Committee who share their time and knowledge with VRS. Finally, I want to thank the Board of Trustees for their guidance and support. The investment staff appreciates their confidence, and we will continue to diligently execute the investment plan and seek attractive risk-adjusted returns for the fund.

Respectfully submitted,



Charles W. Grant, CFA
Chief Investment Officer

The Investment Section provides detailed information regarding the performance of the commingled investment pool. This information includes asset allocations, portfolio highlights, a list of VRS' money managers and public equity commissions for the fiscal year. The section also presents the System's investment management fees and expenses and an investment summary.

Investment Account

The VRS Board of Trustees has fiduciary responsibility to invest the fund solely in the interest of the beneficiaries of the System. As established by the *Code of Virginia*, "the Board shall invest the assets of the Retirement System with the care, skill, prudence, and due diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims."

Benefit payments are projected to occur over a long period of time. This allows VRS to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the VRS investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the VRS balance sheet in order to estimate the potential impact of various asset class mixes on key measures of total plan risk including the resulting estimated impact on funded status and contribution rates.

The Chief Investment Officer has been delegated authority by the Board to allocate the System's investments within the approved asset allocation policy and within the Board-approved active risk budget. The total fund active risk budget describes the degree of tolerance for yearly variation in the fund's performance relative to the Intermediate Term Benchmark. The primary risk measure used for this purpose is Total Fund Tracking Error, calculated as the standard deviation of the difference between the fund's return and the return of the Intermediate Term Benchmark. From this measure, probability estimates can be derived to help the Board estimate the risk of underperforming the benchmark by certain margins.

The investment staff manages the VRS portfolio on a day-to-day basis according to policies and guidelines established by the Board. The staff manages assets on a direct basis and through outside investment managers. Managers employ both active and passive investment strategies. The Board has established various performance benchmarks to serve as tools for measuring progress toward the achievement of intermediate and longer-term investment goals.

The asset allocation mix of the VRS fund as of June 30, 2009 is shown in Figure 3.1:



FIGURE 3.1 – ASSET ALLOCATION MIX

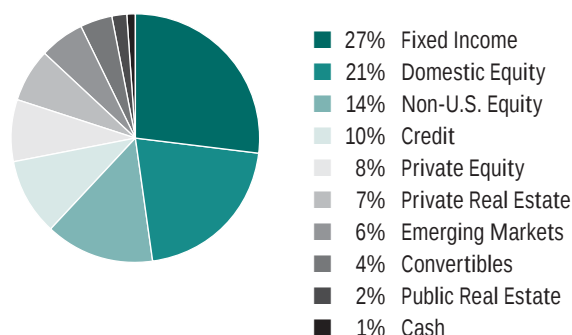


FIGURE 3.2 – INVESTMENT PERFORMANCE SUMMARY

ANNUALIZED DATA FOR THE PERIOD ENDING JUNE 30, 2009

	1 Year	3 Years	5 Years
1. Total Fund			
VRS	-21.1%	-3.2%	2.7%
Total Fund Intermediate Benchmark	-20.1%	-3.6%	2.0%
2. Total Public Equity			
VRS	-28.0%	-7.1%	0.8%
Custom Benchmark	-26.3%	-6.7%	0.8%
3. Total Fixed Income			
VRS	4.6%	5.6%	4.6 %
Custom Benchmark	7.1%	7.0%	5.3%
4. Total Credit Strategies			
VRS	-7.7%	0.0%	2.5%
Custom Benchmark	-11.1%	-0.9%	2.2%
5. Total Real Estate			
VRS	-28.3%	-2.6%	7.3%
Custom Benchmark	-19.8%	0.6%	8.4%
6. Total Private Equity			
VRS	-21.8%	6.0%	13.3%
Custom Benchmark	-35.7%	-11.0%	-2.0%

Investment return calculations were prepared using a time-weighted return methodology.

Portfolio Highlights

PUBLIC EQUITY

The market value of the Total Public Equity Program as of June 30, 2009 was \$18.0 billion, representing approximately 42% of the total fund. Fifty-four percent was invested in Domestic Equity and 46% in International Equity. Nineteen percent was invested in passive strategies, and 24% was managed internally. The objective of the portfolio is to exceed the return of the Custom Benchmark over three- and five-year periods, net of all costs. At fiscal year end, the Custom Benchmark was comprised of 54.4% Russell 3000, 34.1% of the MSCI World excluding U.S. IMI (50% hedged) and 11.5% in the MSCI Emerging IMI index.

The Total Public Equity Program underperformed the Custom Benchmark during the fiscal year by 1.7%. During the year, the Russell 3000 was down 26.6%, the Non-U.S. Developed (50% hedged) benchmark was down 29.9% and the Emerging Markets benchmark was down 26%. Public markets were down around the world as a result of the weakening economy.

The Total Public Equity Program is dominated by traditional, long-only strategies (82% of program, or \$14.7 billion). The program also employs traditional long-short strategies (3.8% of program, or \$0.7 billion) and equity-oriented hedge fund strategies (14.2% of program, or \$2.6 billion).

FIGURE 3.3 – TOTAL PUBLIC EQUITY PROGRAM BENCHMARKS

Benchmark Category	VRS Return	Benchmark Return	VRS Weight	Benchmark Weight
Russell 1000	-26.81%	-26.69%	15.44%	15.44%
Russell 2000	-23.01%	-25.01%	4.21%	4.21%
Russell Special Small Cap	-26.10%	-27.83%	2.94%	2.85%
S&P 500	-30.67%	-26.21%	14.29%	15.25%
Non-U.S. Developed Small Cap	-30.77%	-26.95%	3.36%	1.84%
Non-U.S. Developed Standard	-32.44%	-29.93%	11.75%	14.61%
Emerging	-24.60%	-26.01%	13.75%	11.54%
Global	-31.45%	-28.35%	20.01%	20.01%
Hedge Funds	-19.37%	-22.09%	14.25%	14.25%
Total Program	-28.02%	-26.32%	100.00%	100.00%

One-year weights and returns ending June 30, 2009.

There were some differences among the Total Public Equity portfolio versus the Custom Benchmark based on sectors and region weights:

FIGURE 3.4 – CUSTOM BENCHMARK SECTORS AND REGIONS

Sectors	VRS	Strategic Benchmark	Regions	VRS	Strategic Benchmark
Consumer Discretionary	10.06%	9.52%	North America	68.14%	72.42%
Consumer Staples	8.48%	9.43%	Europe/Middle East/Africa	11.97%	11.76%
Energy	11.20%	11.29%	Asia Pacific	15.96%	13.06%
Financials	18.14%	18.72%	Latin and South America	3.93%	2.76%
Health Care	11.00%	10.31%		100.00%	100.00%
Industrials	9.88%	10.71%			
Information Technology	15.74%	13.68%			
Materials	6.04%	7.08%			
Telecommunication Services	5.36%	4.67%			
Utilities	4.10%	4.59%			
	100.00%	100.00%			

Based on Barra's classification of sectors and regions.

The top 10 holdings in the Total Public Equity Program comprised 6.7% of the program at fiscal year end. In comparison to last year, five companies fell from the list. Conocophillips, General Electric, AT&T Inc., Wal-Mart Stores and Johnson & Johnson were replaced with J.P. Morgan, Apple, Royal Dutch Shell, Petrobras and Google.

FIGURE 3.5 – PUBLIC EQUITY: TOP 10 EXPOSURES

Company	Market Value	Shares
Exxon Mobil Corporation	\$ 211,332,939	3,022,929
Microsoft Corporation	154,196,056	6,487,003
J.P. Morgan Chase & Co.	118,277,279	3,467,525
Apple Inc	116,838,499	820,322
Procter & Gamble	103,122,423	2,018,051
Royal Dutch Shell	102,106,227	4,073,570
Chevron Corporation	100,764,023	1,520,966
Pfizer Incorporated	99,011,314	6,600,754
Petrobras	97,031,810	3,335,965
Google, Inc.	96,126,831	228,010

Aggregated various share classes based on parent company. VRS maintains a complete list of portfolio holdings.

FIXED INCOME

VRS invests a portion of its portfolio in fixed income investments in order to reduce total fund volatility, produce income and provide for some protection in the event of a deflationary environment. At year end, approximately \$10.9 billion was invested in fixed income assets, representing 26% of the VRS portfolio. Of this amount, approximately 58% was invested actively using outside managers, and 42% was invested in a more “risk-controlled” style (75% of this style is managed internally).

The objective of the entire program is to maximize the return (net of all costs) relative to the Citigroup Broad Investment Grade Index, while staying in compliance with risk limits. The fixed income program return was 4.59% for the fiscal year.

The yield curve continued to steepen over the last fiscal year as the Federal Open Market Committee (FOMC) continued its aggressive rate policy. This policy, coupled with the unprecedented stimulus programs, such as the Troubled Asset Relief Program (TARP), caused market participants to be simultaneously worried about near-term deflation and long-term inflation. During the fiscal year, two-year rates decreased by 151 basis points to 1.11%, and 10-year rates decreased by 43 basis points to 3.54%. The very liquid spread sectors (MBS and Agencies) tightened over the course of the year. The credit-sensitive and less liquid sectors (Corporate Bonds and CMBS) widened significantly over the year. However, even these two sectors had meaningfully tightened from their very wide levels in November 2008.

FIGURE 3.6 – FIXED INCOME: TOP 10 HOLDINGS BY MARKET VALUE

AS OF JUNE 30, 2009

Par	Security Description	Market Value
\$ 100,000,000	FNMA 6.00% 30-Year MBS	\$ 104,156,000
100,000,000	FHLMC 4.00% 15-Year MBS	100,039,000
100,000,000	U.S. Treasury Notes 1.375% due 05/15/2012	99,497,000
80,100,000	FNMA 5.00% 30-Year MBS	81,552,213
55,400,000	FHLMC 5.50% 30-Year MBS	56,975,576
56,715,000	U.S. Treasury Notes 2.625% due 06/30/2014	56,910,383
53,500,000	FHLB Disc Note due 08/03/2009	53,493,937
53,110,000	General Electric Corp. 2.125%	52,804,618
50,000,000	Bank of America Var Rate 3-Year ABS	50,473,000
45,020,400	U.S. TIPS 0.875% due 04/15/2010	45,044,711

VRS maintains a complete list of portfolio holdings.

FIGURE 3.7 – FIXED INCOME PORTFOLIO

AS OF JUNE 30, 2009

Sector Allocation

Sector	% Portfolio
Treasury	10.0%
Agency	5.0%
Corporate	42.0%
Mortgage	30.0%
Asset Backed	2.0%
CMBS	3.0%
Foreign	0.0%
Other	8.0%
Total	100.0%

Credit Quality Breakdown

Rating	% Portfolio
AAA	44.7%
AA	4.0%
A	16.7%
BBB	14.0%
BB	2.1%
B	1.2%
Below B	1.2%
NR	16.1%
Total	100.0%

SHORT-TERM INVESTMENTS

Generally, VRS desires to remain fully invested at all times and seeks to minimize its holdings of cash investments. Temporary cash balances are invested in short-term money market instruments with the goal of maintaining high credit quality and liquidity.

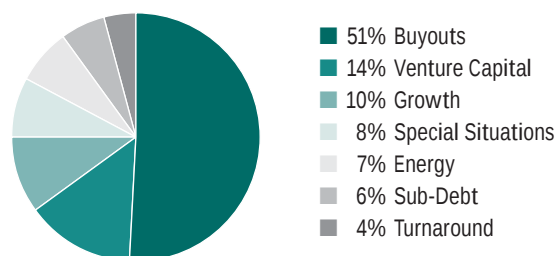
PRIVATE EQUITY

VRS invests in private equity in order to achieve returns greater than those available in the public equity markets. Specifically, the program seeks to outperform the Russell 3000 Index by 2.5% per year. Program returns are calculated on both a time-weighted basis and a dollar-weighted or internal rate-of-return (IRR) basis. On a time-weighted basis, the program return for FY 2009 was -21.8%. On a dollar-weighted or IRR basis, the private equity one-year return was -20.3%, as of June 30, 2009. Though negative, both return metrics significantly outperformed the Russell 3000 benchmark. Returns in private equity were affected by both the economic recession and the retrenchment of the credit markets.

As of June 30, 2009, the carrying value of the program was approximately \$3.6 billion. Most of the program is invested in limited partnerships. Sectors in which the program invests include leveraged buyouts, venture capital, growth, sub-debt, turnaround, energy and special situations. The Private Equity Program's market value by subclass was as follows:

FIGURE 3.8 – PRIVATE EQUITY PROGRAM

AS OF JUNE 30, 2009



REAL ESTATE

A portion of the portfolio is invested in real estate to help diversify the total fund by providing exposure to an asset class that has a low historical correlation with the public markets. The economic downturn, however, also has had an impact on commercial real estate. The portfolio produced a -28.3% return for the fiscal year, underperforming its benchmark by 8.5%. A REIT market correction resulted in a -37.8% return in VRS' REIT portfolio, while the private asset portion of the portfolio delivered a -25.4% return. Since real estate is a lagging sector, additional private real estate valuation declines are expected in FY 2010.

Over the course of the year, the percentage of the total fund represented by the real estate portfolio increased from 7.4% to 8.5% due to new investments in commercial real estate, debt strategies and value declines in the total fund. At fiscal year end, the portfolio was composed of approximately 15% REITs and 85% private accounts. Portfolio leverage as a percentage of total real estate assets was 44% as of June 30, 2009.

FIGURE 3.9 – REAL ESTATE BY PROPERTY TYPE
AS OF JUNE 30, 2009

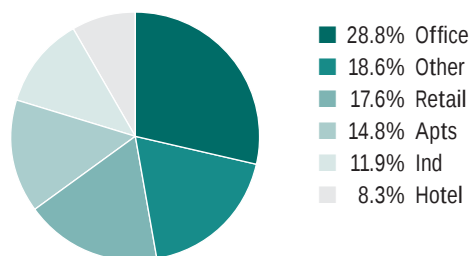
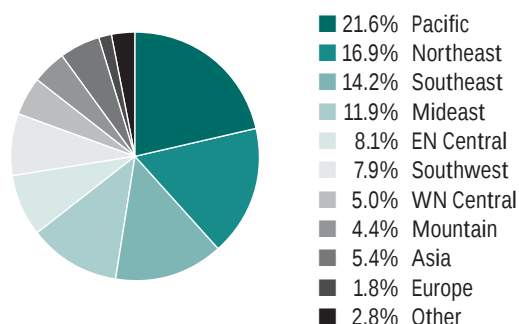


FIGURE 3.10 – REAL ESTATE BY GEOGRAPHIC REGION
AS OF JUNE 30, 2009

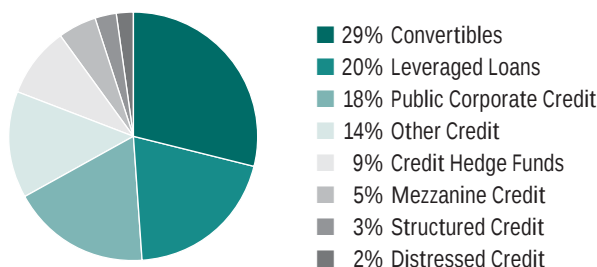


CREDIT STRATEGIES

VRS allocates a portion of the portfolio to credit-related investments. This allocation is an alternative to investing in equity securities. Investments in this program are primarily debt instruments that are intended to provide diversification benefits, higher levels of income and lower volatility as compared to equities. Over the course of the fiscal year, the program returned -7.7%, while the program's custom benchmark returned -11.1%, and the custom benchmark for the VRS Public Equity program returned -26.3%.

Credit markets faced significant stress during the fiscal year. In the first half of the year, both security prices and liquidity levels fell dramatically, while defaults and expected default levels climbed. In the second half of the fiscal year, credit markets experienced some improvement. As liquidity started to return to these markets, spread levels began contracting and security prices rebounded off of their low levels. Although there has been some improvement, credit markets remain challenged, and anticipated default rates remain elevated.

FIGURE 3.11 – CREDIT STRATEGIES
AS OF JUNE 30, 2009



MORE INFORMATION

A complete list of the investment portfolio is available upon request. Address requests to the Investment Compliance Officer, Virginia Retirement System, P.O. Box 2500, Richmond, VA 23218-2500.

VRS Money Managers

The diversified investment structure as of June 30, 2009 is reflected in the following tables, which list VRS managers by investment program and style.

PUBLIC EQUITY MONEY MANAGERS

External Managers	Style Description
Acadian Asset Management	U.S. Large, Non-U.S. Small & Emerging Markets
AllianceBernstein	Global
Aronson + Johnson + Ortiz	U.S. Small
Arrowstreet Capital	Global
BlackRock	Global
GMO	Emerging Markets
J.P. Morgan	U.S. Large
LSV Asset Management	Non-U.S. Small
Relational Investors	U.S. Large
Russell Investment Group	U.S. Large
Select Equity Group	U.S. Small
T. Rowe Price	Emerging Markets & Global
The Boston Company	Emerging Markets
TimesSquare Capital Management	U.S. Small
Internal Portfolios	Style Description
Afton	U.S. Small
Dogwood	Non-U.S. Large
Emerging Market Swap	Emerging Markets
Madison	U.S. Large
Potomac	U.S. Large
Russell 2000 Synthetic	U.S. Small
York	U.S. Large
Hedge Funds – Top 10 Managers	Style Description
Blue Ridge, LP	Long/Short
Buckingham Capital	Long/Short
Elliott International	Long/Short
Glenhill Capital	Long/Short
Ironbound Partners	Long/Short
Lansdowne Partners	Long/Short
Maverick Capital	Long/Short
New Mountain Capital	Long/Short
TPG-Axon Partners	Long/Short
ValueAct Capital	Long/Short

FIXED INCOME MANAGERS

External Managers	Style Description
Agincourt	Core/External Active
BlackRock	Core/External Active
Prudential	Core/External Active
Smith Breeden	Core/External Active
Wellington	Core/External Active
Western Asset Management	Core/External Active
Bridgewater	Pure Alpha/External Active
PIMCO	IG Credit/External Active
ING Clarion	CMBS/External Active
State Street Global Advisors	IG Credit/External Passive
Barclays Global Investors	Active Currency
First Quadrant	Active Currency
Internal Portfolio	Style Description
VRS Internal	Core/Internal Active

PRIVATE EQUITY – TOP 10 MANAGERS

	Style Description
Credit Suisse	Customized Separate Account
Hellman and Friedman	Buyout
Welsh, Carson, Anderson and Stowe	Buyout & Sub-Debt
Summit Partners	Growth & Sub-Debt
Apax Partners	Buyout
Madison Dearborn	Buyout
Charterhouse Capital Partners	Buyout
Texas Pacific Group	Buyout
TA Associates	Growth & Sub-Debt
First Reserve	Energy

CREDIT STRATEGY MANAGERS

	Style Description
Anchorage Advisors, LLC	Long Short Credit & Opportunity Fund
Angelo Gordon	Distressed Credit
Babson Capital	Mezzanine Credit
Beach Point Capital Management	Bank Loans, High Yield Credit, Distressed
BlackRock Kelso Capital	Bank Loans & Mezzanine Credit
Hyperion Brookfield Asset Management	Structured Credit
King Street Capital Management, LLC	Opportunity Fund
Oaktree Capital Management	Mezzanine Credit, Convertibles, Public High Yield, Distressed Credit

Pacific Investment Management
Post Advisory Group
Prudential
Stone Harbor Investment Partners
Solus Alternative Asset Management LP
Western Asset Management
Zazove Associates

Bank Loans
Public High Yield Credit
High Yield Credit & Mezzanine Credit
Public High Yield Credit
Opportunity Fund
Bank Loans
Convertibles

REAL ESTATE MANAGERS

Public Real Estate Securities	Style Description
Morgan Stanley	REIT Portfolio
Internal-Monroe	REIT Portfolio
Urdang Securities Management, Inc.	REIT Portfolio
Private Real Estate	Style Description
Angelo Gordon & Co.	Core
ING Clarion Capital	Core
J.P. Morgan Asset Management	Core
Morgan Stanley	Core
Security Capital Research & Management, Inc.	Core
TA Associates Realty	Core
AvalonBay Communities, Inc.	Enhanced Core
CIM Group	Enhanced Core
Guggenheim Partners	Enhanced Core
Koll Bren Schreiber	Enhanced Core
Liquid Realty Partners	Enhanced Core
ProLogis	Enhanced Core
Prudential Real Estate Investors	Enhanced Core
AMB Investment Management, Inc.	Opportunistic
Blackstone Real Estate Partners	Opportunistic
Capmark Investments	Opportunistic
Colonnade Properties	Opportunistic
JER Partners	Opportunistic
Koll Bren Schreiber	Opportunistic
Lazard Frères Real Estate Investors	Opportunistic
Morgan Stanley	Opportunistic
Oaktree Capital Management	Opportunistic
Penwood Real Estate Investment Management, Inc.	Opportunistic

Public Equity Commissions

AS OF JUNE 30, 2009

Broker	Commission	Broker	Commission
Investment Technology Group, New York	\$ 3,663,797	Lehman Bros. International, London	\$ 237,394
Goldman Sachs & Co., New York	2,279,433	SG Americas Securities LLC, New York	210,332
Credit Suisse, New York	2,091,216	Merrill Lynch Gilts Ltd., London	206,231
Merrill Lynch Pierce Fenner Smith, Inc., New York	1,012,921	MacQuarie Securities Ltd., Hong Kong	200,494
Deutsche Bank Securities, Inc., New York	853,303	Calyon Securities, New York	192,957
Morgan Stanley & Co., Inc., New York	844,886	SG SEC Ltd., London	188,049
ITG Inc., New York	825,891	Nomura Securities International, Inc., New York	170,952
Goldman Sachs Execution & Clearing, New York	780,274	Deutsche Bank International Equities, London	170,699
UBS Securities LLC, Stamford	572,881	SG Securities, Hong Kong	167,094
Citigroup Global Markets, Inc., New York	542,905	Bernstein Sanford C & Co., New York	161,082
Instinet Corp., New York	524,465	Banc of America Securities LLC, Charlotte	140,456
Instinet Europe Limited, London	486,866	Barclays Capital LE, Jersey City	134,767
Pershing LLC, Jersey City	476,625	National Finl Services Corp., New York	130,735
Morgan JP Securities, Inc., New York	394,646	ITG Canada Corp., Toronto	120,526
J.P. Morgan Clearing Corp., New York	373,961	Liquidnet Inc., Brooklyn	111,415
Merrill Lynch Pierce Fenner, Wilmington	366,766	Daiwa Securities Amer. Inc., New York	110,016
Citigroup Global Markets Ltd., London	349,411	Goldman Sachs International, London	109,776
Weeden & Co., New York	315,887	Instinet Pacific Ltd., Hong Kong	108,433
UBS Equities, London	307,499	DSP Merrill Lynch Ltd., Mumbai	106,620
Merrill Lynch International London Equities	287,710	Wells Fargo Securities LLC, Charlotte	106,228
Citigroup Global Markets/Salomon, New York	272,053	Pershing Securities Ltd., London	102,926
Credit Suisse (Europe), London	247,547	Lehman Bros. Inc., New York	100,215
Jeffries & Co., Inc., New York	247,031	Other Brokers	4,843,281
Total		\$ 26,248,652	

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2009

(EXPRESSED IN THOUSANDS)

	Assets Under Management*	Management Fees and Expenses
External Management:		
Domestic Managers	\$ 2,294,085	\$ 22,910
Non-U.S. Equity Managers	2,739,938	22,841
Global Equity Managers	3,569,506	13,564
Fixed Income Managers	14,692,550	14,891
Credit Strategies Managers	5,166,919	39,525
Real Estate Managers	3,379,938	31,492
Private Equity Managers	3,794,814	70,460
Hedge Fund Managers	3,232,274	38,229
Internal Management	4,186,946	15,839
Miscellaneous Fees and Expenses:		
Custodian Fees	-	3,971
Legal Fees	-	219
Other Fees and Expenses	-	479
Total	\$ 43,056,970	\$ 274,420

*Does not include short-term investments managed by the Treasurer of Virginia and the VRS Master Custodian.

Investment Summary

In accordance with Section 51.1-124.31 of the *Code of Virginia* (1950), as amended, the Board of Trustees has pooled substantially all assets of the Virginia Retirement System, the State Police Officers' Retirement System, the Virginia Law Officers' Retirement System, the Judicial Retirement System, the Group Life Insurance Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund into a common investment pool. The common investment pool of the pension trust funds and other employee benefit trust funds held the following composition of investments at June 30, 2009 and 2008:

(EXPRESSED IN THOUSANDS)

	2009 Fair Value	Percent of Total Value	2008 Fair Value	Percent of Total Value
Bonds and Mortgage Securities:				
U.S. Government and Agencies	\$ 1,649,485	3.82%	\$ 2,309,199	4.09%
Mortgage Securities	3,262,361	7.56%	4,763,028	8.43%
Corporate and Other Bonds	13,714,295	31.77%	8,872,739	15.71%
Total Bonds and Mortgage Securities	18,626,141	43.15%	15,944,966	28.23%
Common and Preferred Stocks	12,098,525	28.03%	18,925,101	33.51%
Index and Pooled Funds:				
Equity Index and Pooled Funds	3,892,160	9.02%	11,941,641	21.14%
Fixed Income Commingled Funds	1,811,139	4.20%	1,896,865	3.36%
Total Index and Pooled Funds	5,703,299	13.22%	13,838,506	24.50%
Real Estate – Private Real Estate	2,834,191	6.57%	2,865,510	5.07%
Private Equity	3,794,814	8.79%	4,430,403	7.85%
Short-Term Investments:				
Treasurer of Virginia – LGIP Investment Pool	21,641	0.05%	241,275	0.43%
TBC Pooled Employee Trust fund	5,671	0.01%	1,955	0.00%
Foreign Currencies	78,790	0.18%	228,744	0.41%
Total Short-Term Investments	106,102	0.24%	471,974	0.84%
Total Investments	\$ 43,163,072	100.00%	\$ 56,476,460	100.00%

4 actuarial section

- Actuary's Certification Letter
- Solvency Test
- Schedule of Active Member Valuation Data
- Schedule of Retiree and Beneficiary Valuation Data
- Summary of Actuarial Assumptions and Methods
- Summary of Benefit Plan Provisions
- Summary of Plan Changes

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2009

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Through Modernization,
VRS will strive to become
formless and paperless.





December 17, 2008

Board of Trustees

Virginia Retirement System
1200 E. Main Street
Richmond, VA 23219

Dear Trustees:

We are pleased to submit the results of the annual actuarial valuation for the following retirement plans administered by the Virginia Retirement System, prepared as of June 30, 2008:

- State Employees (VRS)
- Teachers (VRS)
- Employees of Participating Political Subdivisions (VRS)
- State Police (SPORS)
- Virginia Law Officers (VaLORS)
- Judicial (JRS)

The purpose of this report is to provide a summary of the funded status of the plans as of June 30, 2008, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability.

Contribution rates for participating employers are established every two years. The actuarially calculated employer contribution rates based on the June 30, 2008 results presented in this report are for informational purposes only.

The promised benefits of the plans are included in the actuarially calculated contribution rates, which are developed using the entry age normal cost method. Five-year smoothed market value of assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage



of payroll within a 20-year period, on the assumption that payroll will increase by 3% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

The following schedules (or updates to them) were prepared by VRS from information provided by us during the 2008 actuarial valuation or from supplemental information provided by us. We have reviewed them for inclusion in the 2009 Comprehensive Annual Financial Report. All historical information that references a valuation date prior to June 30, 2008 was prepared by a previous actuarial firm.

- Schedule of Funding Progress
- Schedule of Actuarial Methods and Significant Assumptions
- Schedule of Employer Contributions
- Solvency Test
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries
- Analysis of Actuarial Gains and Losses
- Schedules of Selected Experience Rates

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

A handwritten signature in black ink that reads 'Thomas J. Cavanaugh'.

Thomas J. Cavanaugh, FSA, FCA, EA, MAAA
Chief Executive Officer

A handwritten signature in black ink that reads 'Jose I. Fernandez'.

Jose I. Fernandez, ASA, FCA, EA, MAAA
Consulting Actuary

The Actuarial Section presents information about the assumptions adopted by the Board of Trustees and used by the VRS actuary to evaluate the funded status of the plans. This information includes trend data about retirements, disabilities, terminations and salary increase rates. The section also provides summaries of the provisions of and changes to the pension plans administered by the System. _____

ACTUARIAL ASSUMPTIONS AND METHODS

	1999	2000/2001	2002/2003/2004	2005/2006/2007/2008
Valuation Interest Rate	8.0%	8.0%	8.0%	7.5%
Salary Scale Inflation Factor	4.0%	3.0%	3.0%	2.5%
Change in Decremental Assumptions	No	Yes	No	Yes
Value of Ancillary Benefits Included	Yes	Yes	Yes	Yes
Value of Post-Retirement				
Adjustments to Date Included	Yes	Yes	Yes	Yes
Assets Valued At	Modified Market	Modified Market	Modified Market	Modified Market



SOLVENCY TEST

(EXPRESSED IN THOUSANDS)

Valuation Date (June 30)	Aggregate Accrued Liabilities for				Portion of		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members*	Valuation Assets	(1)	(2)	(3)
Virginia Retirement System (VRS)							
2008	\$ 8,389,773	\$ 29,225,652	\$ 24,939,054	\$ 52,548,375	100.00%	100.00%	59.88%
2007	8,154,046	23,339,386	23,623,041	47,815,450	100.00%	100.00%	56.39%
2006	6,988,172	23,055,815	22,777,916	42,668,752	100.00%	100.00%	55.43%
2005	6,555,402	21,140,882	21,932,204	40,372,648	100.00%	100.00%	57.80%
2004	6,139,908	18,971,864	18,846,578	39,691,562	100.00%	100.00%	77.36%
2003	5,703,557	17,223,070	17,770,944	39,242,624	100.00%	100.00%	91.81%
2002	5,285,338	15,878,494	17,101,328	38,957,256	100.00%	100.00%	104.05%
2001	4,847,656	14,411,943	16,119,211	37,967,820	100.00%	100.00%	116.06%
2000	4,639,007	12,652,663	15,350,685	34,392,303	100.00%	100.00%	111.40%
1999	4,240,017	11,820,608	15,358,116	29,803,990	100.00%	100.00%	89.49%
State Police Officers' Retirement System (SPORS)							
2008	\$ 71,160	\$ 444,025	\$ 329,010	\$ 646,277	100.00%	100.00%	39.84%
2007	70,796	408,085	327,147	594,985	100.00%	100.00%	35.49%
2006	66,055	378,636	285,236	538,646	100.00%	100.00%	32.94%
2005	62,917	337,017	273,239	514,330	100.00%	100.00%	41.87%
2004	61,529	310,306	284,509	510,604	100.00%	100.00%	48.77%
2003	59,097	277,282	279,243	508,576	100.00%	100.00%	61.67%
2002	57,152	253,687	283,797	507,889	100.00%	100.00%	69.43%
2001	54,507	215,658	286,463	494,952	100.00%	100.00%	78.47%
2000	50,044	199,822	262,761	440,903	100.00%	100.00%	72.70%
1999	45,516	200,288	217,252	376,780	100.00%	100.00%	60.29%
Virginia Law Officers' Retirement System (VaLORS)**							
2008	\$ 173,039	\$ 510,878	\$ 597,560	\$ 873,473	100.00%	100.00%	31.72%
2007	169,393	458,383	538,203	766,243	100.00%	100.00%	25.73%
2006	156,310	412,767	527,291	656,668	100.00%	100.00%	16.61%
2005	148,890	330,502	500,705	575,327	100.00%	100.00%	19.16%
2004	143,836	246,872	536,424	508,561	100.00%	100.00%	21.97%
2003	135,144	195,554	523,138	457,615	100.00%	100.00%	24.26%
2002	127,975	110,426	567,716	418,518	100.00%	100.00%	31.73%
2001	111,143	5,639	510,857	392,815	100.00%	100.00%	54.03%
2000	108,538	27,356	543,943	307,301	100.00%	100.00%	31.51%
Judicial Retirement System (JRS)							
2008	\$ 38,785	\$ 271,276	\$ 184,707	\$ 373,850	100.00%	100.00%	34.54%
2007	38,675	242,825	160,998	340,200	100.00%	100.00%	36.46%
2006	34,756	240,005	149,637	302,734	100.00%	100.00%	18.69%
2005	32,143	229,942	140,216	287,825	100.00%	100.00%	18.36%
2004	30,176	211,228	124,171	285,178	100.00%	100.00%	35.25%
2003	28,766	198,005	121,265	282,326	100.00%	100.00%	45.81%
2002	28,089	186,886	137,029	281,056	100.00%	100.00%	48.22%
2001	23,595	176,142	142,095	276,542	100.00%	100.00%	54.05%
2000	24,079	191,146	115,127	244,721	100.00%	100.00%	25.62%
1999	20,978	171,136	110,328	209,992	100.00%	100.00%	16.20%

*Employer-financed portion.

**The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

Aggregate Accrued Liabilities are determined under the entry age normal cost method (System-funded method used to determine employer contribution requirements).

The progress of a retirement system in accumulating assets to pay benefits when due can be measured by examining the extent to which assets accumulated for benefits cover 1) active member contributions to the system; 2) liabilities for future benefits to retirees and beneficiaries; and 3) liabilities for the employer-financed portion of service already rendered by active members. In a system receiving actuarially determined employer contributions, the liabilities for member contributions and future benefits to retirees and beneficiaries will generally be fully covered by accumulated assets. In addition, the liabilities for service already rendered will be partially covered by the remainder of the accumulated assets and will increase over time.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date (June 30)	Active Members				Number of Employers
	Number	Annual Payroll (000s)	Average Annual Pay	Annualized % Increase in Average Pay	
Virginia Retirement System (VRS)					
2008	331,851	\$ 14,558,592	\$ 43,871	3.5%	583
2007	326,218	13,834,022	42,407	4.4%	578
2006	320,065	13,001,551	40,622	4.1%	575
2005	312,981	12,212,145	39,019	3.5%	571
2004	305,388	11,509,902	37,689	4.1%	565
2003	300,612	10,884,629	36,208	1.1%	559
2002	297,921	10,668,980	35,811	2.9%	551
2001	291,621	10,145,212	34,789	3.9%	551
2000	284,486	9,528,666	33,494	4.7%	545
1999	285,596	9,138,060	31,996	2.7%	532
State Police Officers' Retirement System (SPORS)					
2008	1,852	\$ 102,466	\$ 55,327	3.8%	1
2007	1,890	100,785	53,325	2.1%	1
2006	1,795	93,742	52,224	4.1%	1
2005	1,811	90,865	50,174	7.3%	1
2004	1,755	82,100	46,781	2.2%	1
2003	1,727	79,020	45,756	-1.3%	1
2002	1,740	80,680	46,368	-1.5%	1
2001	1,771	83,339	47,058	2.7%	1
2000	1,768	80,977	45,801	5.3%	1
1999	1,761	76,628	43,514	11.9%	1
Virginia Law Officers' Retirement System (VaLORS)*					
2008	10,370	\$ 368,255	\$ 35,512	6.3%	1
2007	10,213	341,035	33,392	3.1%	1
2006	9,904	320,869	32,398	3.8%	1
2005	9,819	306,574	31,222	2.0%	1
2004	9,746	298,313	30,609	1.0%	1
2003	9,626	291,801	30,314	-0.6%	1
2002	10,036	306,024	30,493	-0.7%	1
2001	10,434	320,254	30,693	2.7%	1
2000	10,542	315,158	29,895	0.0%	1
Judicial Retirement System (JRS)					
2008	412	\$ 60,486	\$ 146,811	7.9%	1
2007	424	57,687	136,054	4.0%	1
2006	415	54,289	130,818	4.4%	1
2005	414	51,874	125,300	5.1%	1
2004	405	48,271	119,188	2.2%	1
2003	408	47,568	116,588	0.0%	1
2002	408	47,568	116,588	0.0%	1
2001	404	47,125	116,646	2.5%	1
2000	399	45,394	113,769	6.7%	1
1999	390	41,590	106,641	3.8%	1

*The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

SCHEDULE OF RETIREE AND BENEFICIARY VALUATION DATA

Valuation Date (June 30)	Retirees and Beneficiaries				
	Retirees and Beneficiaries Added/Removed*	Total Retirees and Beneficiaries	Annual Allowances (000s)	Annualized % Increase in Annual Allowances	Average Annual Allowance
Virginia Retirement System (VRS)					
2008	9,610/3,869	133,228	\$ 2,399,555	9.9%	\$ 18,011
2007	9,475/3,774	127,487	2,183,553	10.7%	17,128
2006	8,949/3,834	121,786	1,972,394	8.7%	16,196
2005	9,151/4,250	116,671	1,814,791	8.3%	15,555
2004	7,913/2,561	111,770	1,676,175	9.0%	14,997
2003	7,920/3,554	106,418	1,537,902	11.8%	14,452
2002	7,451/3,496	102,052	1,375,777	6.7%	13,481
2001	7,962/3,337	98,097	1,289,657	12.1%	13,147
2000	7,932/3,685	93,472	1,150,213	8.6%	12,305
1999		89,225	1,059,602	16.4%**	11,786
State Police Officers' Retirement System (SPORS)					
2008	68/26	1,033	\$ 37,034	11.0%	\$ 35,851
2007	52/18	991	33,375	6.3%	33,678
2006	57/23	957	31,394	7.6%	32,805
2005	70/9	923	29,186	10.7%	31,620
2004	56/4	862	26,361	11.1%	30,581
2003	63/25	810	23,737	18.2%	29,305
2002	72/12	772	20,077	7.1%	26,006
2001	26/11	712	18,748	8.0%	26,331
2000	38/8	697	17,362	9.9%	24,910
1999		667	15,793	23.2%**	23,678
Virginia Law Officers' Retirement System (VaLORS)***					
2008	224/28	1,814	\$ 39,531	5.2%	\$ 21,792
2007	253/16	1,618	37,574	18.0%	23,222
2006	209/34	1,381	31,849	16.7%	23,062
2005	248/12	1,206	27,286	33.6%	22,625
2004	207/2	970	20,423	27.8%	21,055
2003	245/10	765	15,982	72.7%	20,892
2002	251/18	527	9,252	324.2%	17,556
2001	197/13	294	2,181	198.8%	7,418
2000	124/14	110	730	0.0%	6,636
Judicial Retirement System (JRS)					
2008	36/17	423	\$ 27,834	7.0%	\$ 65,802
2007	24/19	404	26,013	4.4%	64,390
2006	25/21	399	24,905	4.9%	62,420
2005	25/17	395	23,736	8.9%	60,092
2004	33/21	387	21,789	6.4%	56,302
2003	35/26	375	20,488	8.3%	54,635
2002	14/17	366	18,918	1.2%	51,689
2001	21/16	369	18,699	7.6%	50,675
2000	21/9	364	17,373	4.3%	47,728
1999		352	16,659	11.1%**	47,327

*Number of retiree and beneficiaries added and removed is unavailable prior to FY 2000.

**Increase in annual allowances due to 2% ad hoc increase in retiree benefit allowances effective January 1, 1999 and an increase in the benefits multiplier.

***The Virginia Law Officers' Retirement System went into effect October 1, 1999

FIGURE 4.1 – ANALYSIS OF ACTUARIAL GAINS AND LOSSES

FOR THE YEAR ENDED JUNE 30, 2008

(EXPRESSED IN THOUSANDS)

	VRS	SPORS	VaLORS	JRS	Total
A. Calculation of Expected Unfunded Actuarial Accrued Liability (UAAL)					
1. UAAL as of June 30, 2007	\$10,301,023	\$ 211,043	\$ 399,736	\$ 102,298	\$11,014,100
2. Normal Cost for Previous Year	1,308,055	13,948	45,157	17,382	1,384,542
3. Actual Contributions During the Year	(2,022,412)	(26,218)	(74,043)	(25,499)	(2,148,172)
4. Interest at Previous Year's Rate of 7.50%					
a. On UAAL	772,577	15,828	29,980	7,672	826,057
b. On Normal Cost	98,104	1,046	3,387	1,304	103,841
c. On contributions	(75,840)	(983)	(2,777)	(956)	(80,556)
d. Total Interest	794,841	15,891	30,590	8,020	849,342
5. Expected UAAL as of June 30, 2008 (A1+A2+A3+A4)	10,381,507	214,664	401,440	102,201	11,099,812
6. Actual UAAL as of June 30, 2008	10,006,356	197,918	408,004	120,918	10,733,196
7. Total Gain/(Loss) (A5-A6)	375,151	16,746	(6,564)	(18,717)	366,616
B. Calculation of Asset Gain/(Loss)					
1. Actuarial Value of Assets (AVA) as of June 30, 2007	47,815,450	594,985	766,243	340,200	49,516,878
2. Contributions During the Year	2,022,412	26,218	74,043	25,499	2,148,172
3. Benefit Payments During the Year	(2,525,118)	(40,112)	(45,391)	(28,583)	(2,639,204)
4. Interest at Previous Year's Rate of 7.50%					
a. On AVA at Beginning of Year	3,586,159	44,624	57,468	25,515	3,713,766
b. On Contributions	75,840	983	2,777	956	80,556
c. On Benefit Payments	(94,692)	(1,504)	(1,702)	(1,072)	(98,970)
d. Total Interest	3,567,307	44,103	58,543	25,399	3,695,352
5. Expected AVA as of June 30, 2008 (B1+B2+B3+B4)	50,880,051	625,194	853,438	362,515	52,721,198
6. Actual AVA as of June 30, 2008	52,548,375	646,277	873,473	373,850	54,441,975
7. Total Gain/(Loss) on Assets (B6-B5)	1,668,324	21,083	20,035	11,335	1,720,777
C. Calculation of Liability Gain/(Loss)					
1. Gain/(Loss) Due to Changes in Actuarial Assumptions	(98,214)	-	-	-	(98,214)
2. Gain/(Loss) Due to Plan Amendments	-	-	-	-	-
3. Liability Experience Gain/(Loss) (A7-B7-C1-C2)	\$ (1,194,959)	\$ (4,337)	\$ (26,599)	\$ (30,052)	\$ (1,255,947)

FIGURE 4.2 – ANALYSIS OF CHANGES IN ALLOWANCES FOR RETIREES AND BENEFICIARIES

(EXPRESSED IN THOUSANDS)

Valuation Date (June 30)	Beginning Annual Allowance	Additions**	Reductions	Ending Annual Allowance
Virginia Retirement System (VRS)				
2008	\$ 2,183,553	\$ 284,577	\$ 68,575	\$ 2,399,555
2007	1,972,394	277,466	66,307	2,183,553
2006	1,814,791	190,775	33,172	1,972,394
2005	1,676,175	187,247	48,631	1,814,791
2004*	1,537,902	167,577	29,304	1,676,175
State Police Officers' Retirement System (SPORS)				
2008	\$ 33,375	\$ 4,207	\$ 548	\$ 37,034
2007	31,394	3,292	1,311	33,375
2006	29,186	2,378	170	31,394
2005	26,361	3,035	210	29,186
2004*	23,737	2,717	93	26,361
Virginia Law Officers' Retirement System (VaLORS)				
2008	\$ 37,574	\$ 5,774	\$ 3,817	\$ 39,531
2007	31,849	7,118	1,393	37,574
2006	27,286	4,692	129	31,849
2005	20,423	7,541	678	27,286
2004*	15,982	4,554	113	20,423
Judicial Retirement System (JRS)				
2008	\$ 26,013	\$ 3,567	\$ 1,746	\$ 27,834
2007	24,905	2,831	1,723	26,013
2006	23,736	1,983	814	24,905
2005	21,789	2,017	70	23,736
2004*	20,488	1,387	86	21,789

*Details of changes in allowances are unavailable prior to FY 2004.

** Additions to the Annual Allowance include added retirees and the annual COLA provided to existing retirees and beneficiaries.

Summary of Actuarial Assumptions and Methods

The VRS Board of Trustees adopted the actuarial assumptions and methods presented in Figure 4.3 on May 19, 2005 on the recommendation of its actuary. These assumptions include the Virginia Retirement System (VRS), State Police Officers' Retirement System (SPORS), Virginia Law Officers' Retirement System (VaLORS) and Judicial Retirement System (JRS). They were based on an analysis of plan experience for the five-year period July 1, 1999 through June 30, 2004 and used for the June 30, 2005, June 30, 2006, June 30, 2007 and June 30, 2008 actuarial valuations.

FIGURE 4.3 – ACTUARIAL ASSUMPTIONS AND METHODS

FOR THE JUNE 30, 2005, 2006, 2007 AND 2008 VALUATIONS

Investment Return Rate

7.50% per annum, compounded annually, composed of an assumed 2.50% inflation rate and a 5.00% real rate of return. Benefits are assumed to increase by 2.50% annually due to the cost-of-living adjustment (COLA).

Mortality Rates

- Pre-Retirement: 1994 Group Annuity Mortality Table for males and females with a one-year set back in age for males and females in all employer groups.
- Post-Retirement: 1994 Group Annuity Mortality Table for males and females with a one-year set back in age for male and female state employees and employees of political subdivisions not receiving enhanced hazardous duty benefits; a three-year set back in age for male and female teachers; and a one-year set back in age for male and female judges. 1994 Group Annuity Mortality Table for males and females with a four-year set back in age for state police officers, political subdivision employees in hazardous duty positions receiving enhanced benefits and other Virginia law enforcement and correctional officers.
- Post-Disablement: 70% of PBGC Disabled Mortality Table 5a for males; 90% of PBGC Disabled Mortality Table 6a for females.



FIGURE 4.4 – RETIREMENT RATES

Sample rates of retirement for members eligible to retire are shown below.

State Employees and Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits

RETIREMENT PER 100 MEMBERS

Age	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
	Male	Female	Male	Female
50	3.0%	3.0%	10.0%	10.0%
55	5.0%	5.0%	10.0%	10.0%
59	5.0%	5.0%	10.0%	10.0%
60	5.0%	7.5%	15.0%	15.0%
61	10.0%	10.0%	20.0%	20.0%
62	15.0%	15.0%	30.0%	30.0%
64	15.0%	20.0%	25.0%	20.0%
65	80.0%	80.0%	35.0%	45.0%
67	70.0%	100.0%	30.0%	30.0%
70	100.0%	100.0%	100.0%	100.0%

Teachers

RETIREMENT PER 100 MEMBERS

Age	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
	Male	Female	Male	Female
50	2.0%	2.0%	20.0%	20.0%
55	5.0%	5.0%	22.5%	25.0%
59	7.0%	8.0%	22.5%	30.0%
60	10.0%	10.0%	25.0%	30.0%
61	10.0%	10.0%	25.0%	25.0%
62	20.0%	20.0%	40.0%	40.0%
64	15.0%	15.0%	30.0%	30.0%
65	50.0%	50.0%	40.0%	40.0%
67	50.0%	50.0%	30.0%	30.0%
70	100.0%	100.0%	100.0%	100.0%

State Police Officers, Virginia Law Officers and Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits

RETIREMENT PER 100 MEMBERS

Age	Reduced Retirement	Unreduced Retirement
50	10.0%	20.0%
55	10.0%	20.0%
59	12.0%	35.0%
60	25.0%	50.0%
64	100.0%	100.0%

Judges

Age	
At first age eligible for an unreduced retirement benefit	50.0%
At subsequent ages	15.0%
At age 70	100.0%

FIGURE 4.5 – DISABILITY RATES

As shown below for selected ages.

State Employees and Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits

14% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS		
Age	Male	Female
20	0.0300%	0.0135%
30	0.1400%	0.0540%
40	0.2700%	0.1215%
50	0.5100%	0.4590%
60	1.5000%	1.3500%

Teachers

5% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS		
Age	Male	Female
20	0.0000%	0.0000%
30	0.0130%	0.0080%
40	0.0260%	0.0465%
50	0.1495%	0.1630%
60	0.4225%	0.4420%

State Police Officers, Virginia Law Officers and Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits

60% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS		
Age	Rate	
20	0.0000%	
30	0.0281%	
40	0.2100%	
50	0.6750%	
60	0.0000%	

Judges

5% of disability cases are assumed to be service-related

DISABILITIES PER 100 MEMBERS		
Age	Male	Female
20	0.0000%	0.0000%
30	0.0070%	0.0070%
40	0.1420%	0.0900%
50	0.4800%	0.3970%
60	0.0000%	0.0000%

FIGURE 4.6 – TERMINATION RATES

Withdrawal rates are based on age and years of service credit. Sample rates for selected ages and years of service are shown below for causes other than death, disability or retirement.

State Employees and Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL

Age	Years of Service Credit – Males					Years of Service Credit – Females				
	1	3	6	9	10+	1	3	6	9	10+
25	0.1883	0.1346	0.0810	0.0498	0.0483	0.2309	0.1755	0.1388	0.0753	0.0586
35	0.1490	0.1064	0.0787	0.0498	0.0368	0.1708	0.1336	0.1003	0.0668	0.0432
45	0.1143	0.0762	0.0642	0.0407	0.0214	0.1315	0.0953	0.0718	0.0490	0.0240
55	0.0975	0.0596	0.0399	0.0260	0.0134	0.1155	0.0734	0.0476	0.0279	0.0121

Teachers

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL

Age	Years of Service Credit – Males					Years of Service Credit – Females				
	1	3	6	9	10+	1	3	6	9	10+
25	0.1758	0.1234	0.0565	0.0384	0.0804	0.1413	0.1316	0.0953	0.1114	0.1241
35	0.1585	0.0989	0.0567	0.0381	0.0350	0.1416	0.1165	0.0836	0.0618	0.0439
45	0.1391	0.0782	0.0480	0.0312	0.0146	0.1161	0.0793	0.0561	0.0365	0.0176
55	0.1419	0.0726	0.0322	0.0187	0.0093	0.1161	0.0665	0.0385	0.0246	0.0090

State Police Officers, Virginia Law Officers and Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL

Age	Years of Service Credit – Males					Years of Service Credit – Females				
	1	3	6	9	10+	1	3	6	9	10+
25	0.0854	0.0803	0.0728	0.0299	0.0360	0.1332	0.1047	0.1023	0.0543	0.0438
35	0.0936	0.0773	0.0515	0.0323	0.0248	0.1437	0.0996	0.0671	0.0599	0.0608
45	0.1022	0.0722	0.0438	0.0293	0.0141	0.1172	0.0984	0.0770	0.0639	0.0591
55	0.1149	0.0719	0.0417	0.0224	0.0098	0.0573	0.1023	0.1289	0.0671	0.0411

Judges

There are no assumed rates of withdrawal prior to service retirement for causes other than death, disability or retirement.

FIGURE 4.7 – SALARY INCREASE RATES

Sample salary increase rates are shown below.

State Employees and Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits

Inflation of 2.50% plus productivity component of 1.25% plus step-rate/promotional component as shown. It is assumed state employees covered under the Virginia Sickness and Disability Program (VSDP) receive a 3.75% annual increase in pay while disabled. This adjusted pay is used to determine deferred retirement benefits payable from the System.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.85%	5.60%
3	1.25%	5.00%
6	0.95%	4.70%
9	0.50%	4.25%
11	0.15%	3.90%
15	0.15%	3.90%
19	0.15%	3.90%
20 or more	0.00%	3.75%

Teachers

Inflation rate of 2.50% plus productivity component of 1.25% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	2.45%	6.20%
3	2.35%	6.10%
6	1.95%	5.70%
9	1.85%	5.60%
11	1.35%	5.10%
15	1.15%	4.90%
19	0.95%	4.70%
20 or more	0.00%	3.75%

State Police Officers, Virginia Law Officers and Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits

Inflation of 2.50% plus productivity component of 1.00% plus step-rate/promotional component as shown. It is assumed state police and Virginia law officers covered under the Virginia Sickness and Disability Program (VSDP) receive a 3.50% annual increase in pay while disabled. This adjusted pay is used to determine deferred retirement benefits payable from the System.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.25%	4.75%
3	1.25%	4.75%
6	0.90%	4.40%
9	0.90%	4.40%
11	0.50%	4.00%
15	0.50%	4.00%
19	0.50%	4.00%
20 or more	0.00%	3.50%

Judges

Salary increase rates are 3.50%.

ADDITIONAL INFORMATION ABOUT ACTUARIAL ASSUMPTIONS AND METHODS

Percent Electing a Refund or Deferred Annuity (Excluding JRS Members). Terminating members are assumed to elect a refund of their member contributions and interest or a deferred annuity based on the option any given member would consider most valuable at the time of termination. The deferred annuity, if elected, is assumed to commence at the age at which the member first becomes eligible for an unreduced benefit.

Provision for Expense. The assumed investment return represents the anticipated net rate of return after payment of all administrative expenses.

Asset Valuation Method. The actuarial value of assets is equal to the market value of assets, less a five-year phase-in of the excess or shortfall between expected investment returns and actual income, both based on market value, with the resulting value not being less than 80% or more than 120% of the market value of assets.

Actuarial Cost Method. The funding period required to amortize the unfunded actuarial accrued liability (UAAL) is determined using the entry age normal actuarial cost method. This method assigns the plan's total actuarial present value of future benefits to various periods. The actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost rate is determined on an individual basis. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The UAAL is the excess of the actuarial accrued liability over the actuarial value of assets.

Payroll Growth Rates. For state employees, teachers and members of SPORS, VaLORS and JRS, the payroll growth rate is assumed to be 3.00% based on a zero population growth assumption. For political subdivision employees, the payroll growth rate also is assumed to be 3.00% based on a zero population growth assumption.

Funding Period. For all members, the funding period is 20 years open amortization, computed as a level percent of covered payroll.

Cost-of-Living Adjustment (COLA). The COLA is assumed to be 2.50% per year compounded annually for the Basic Benefit option. The hazardous duty supplement for SPORS members, VaLORS members and political subdivision employees receiving enhanced hazardous duty benefits is assumed to increase at an inflation rate of 2.50% per year compounded annually.



Summary of Benefit Plan Provisions

PLAN YEAR JULY 1-JUNE 30

Retirement Plans

ADMINISTRATION

The pension plans are administered by the Board of Trustees of the Virginia Retirement System (the System).

TYPE OF PLANS

1. Virginia Retirement System (VRS), effective March 1, 1952. VRS is a qualified governmental defined benefit plan considered by the Governmental Accounting Standards Board (GASB) as an agent multiple-employer public employee retirement system for employees of Virginia cities, towns, counties and other political subdivisions that have elected to participate in VRS. VRS has separate cost-sharing pools for state employees and teachers.

2. State Police Officers' Retirement System (SPORS), effective July 1, 1950. SPORS is a qualified governmental defined benefit plan considered by GASB as a single-employer public employee retirement system.

3. Virginia Law Officers' Retirement System (VaLORS), effective October 1, 1999. VaLORS is a qualified governmental defined benefit plan considered by GASB as a single-employer public employee retirement system.

4. Judicial Retirement System (JRS), effective July 1, 1970. JRS is a qualified governmental defined benefit plan considered by GASB as a single-employer public employee retirement system.

ELIGIBILITY

The following Virginia public employees are covered automatically under the retirement plans upon employment:

- Full-time permanent, salaried employees of the Commonwealth of Virginia, including state agency and public higher education employees. Some part-time permanent, salaried state employees also are covered under VRS.
- Full-time permanent, salaried teachers and other professional employees of local public school divisions.
- Full-time permanent, salaried sheriffs, deputy sheriffs and other eligible non-hazardous duty and hazardous duty employees of political subdivisions that have elected to participate in VRS.
- Full-time permanent, salaried state police officers through SPORS.
- Full-time permanent, salaried Virginia law officers other than state police through VaLORS.
- Full-time permanent, salaried judges through JRS.

MEMBER CONTRIBUTIONS

Covered employees or their employers contribute 5.00% of employees' compensation to their member contribution accounts each month as their retirement contributions. Currently, most employers pay the member contribution on behalf of their covered employees as provided in Section 414(h) of the Internal Revenue Code. Members' contribution accounts accrue 4.00% interest each year, calculated on the balance of the previous June 30.

COMPENSATION AND AVERAGE FINAL COMPENSATION

Compensation is the member's salary reported to VRS by the employer. It does not include payments for overtime, temporary employment, extra duties or other additional payments. Average final compensation is the average of the member's 36 consecutive months of highest compensation as a covered employee.

VESTING

Members become vested after accumulating five years of service credit.

SERVICE CREDIT

1. Active Service Credit. VRS, SPORS and VaLORS members receive one month of service credit for each month they are employed and the employer is contributing to the System. JRS members receive one month of service credit multiplied by a weighting factor of 2.5 for each month they are employed and the employer is contributing to the System. The weighting factor for judges hired before January 1, 1995 is 3.5.

2. Prior Service Credit. Members may purchase eligible prior service as VRS credit toward vesting and eligibility for the retiree health insurance credit. The member must be active at the time of purchase. If the member purchases prior service within three years of becoming eligible, the cost is based on 5.00% of the member's compensation or average final compensation at the time of purchase, whichever is higher, multiplied by the number of months to purchase. If the member chooses to purchase service with a payroll contract, the cost is 5.00% of the member's compensation even if the average final compensation is higher. After the three-year eligibility period, the member's cost is based on an actuarial equivalent rate. Other special rules and limits govern the purchase of prior service.

Eligible prior service includes the following:

- Active duty military service
- Full-time salaried federal service
- Full-time salaried public service with an employer or school system of another state or United States territory or with a Virginia public employer that does not participate in VRS
- Non-covered service with a VRS-participating employer
- Approved leave from a VRS-participating employer for the birth or adoption of a child

- Approved educational leave from a VRS-participating employer
- Non-ported service
- Unused sick leave at retirement, if the member is eligible
- VRS-refunded service

NORMAL (UNREDUCED) AND REDUCED RETIREMENT ELIGIBILITY

1. VRS Non-Hazardous Duty Members. The normal retirement age under VRS is age 65. These members are eligible to retire with an unreduced benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.

2. SPORS Members, VaLORS Members and Political Subdivision Employees Eligible for Enhanced Hazardous Duty Benefits. The normal retirement age for SPORS, VaLORS and VRS members eligible for hazardous duty coverage is age 60. These members are eligible to retire with an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. They may retire with a reduced benefit as early as age 50 with at least five years of service credit.

3. JRS Members. The normal retirement age under JRS is age 60. These members are eligible to retire with an unreduced benefit beginning at age 60 with weighted service equal to at least five years of service credit or age 55 with weighted service equal to at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with weighted service equal to at least five but less than 30 years of service credit.

BENEFIT PAYOUT OPTIONS

Members eligible for retirement must select one of the following benefit payout options when they apply for retirement. This election is irrevocable except for the Survivor Option under certain circumstances. These options are available on an actuarially equivalent basis:

- 1. Basic Benefit.** Members may choose the Basic Benefit, which is the unreduced benefit amount. An early retirement reduction factor is applied for the reduced benefit. The Basic Benefit does not provide a continuation of a benefit to a survivor.
- 2. Survivor Option.** Members may choose a whole percentage of their benefit, between 10% and 100%, to continue as a lifetime benefit to a survivor upon their death. The member's benefit is actuarially reduced accordingly.
- 3. Partial Lump-Sum Option Payment (PLOP).** Members who are in active service for one, two, three or more years beyond the date they become eligible for an unreduced retirement benefit may elect a partial lump-sum payment of their member contributions and interest equal to one, two or three times their annual retirement benefit, depending on how long they work beyond their unreduced retirement eligibility. The monthly benefit is actuarially reduced accordingly. This option is available with the Basic Benefit or Survivor Option.
- 4. Advance Pension Option.** With this option, members elect to receive a temporary higher benefit until at least age 62 up to their normal retirement age under Social Security, as elected by the member. At that point, the monthly benefit is permanently reduced on an actuarially equivalent basis.

UNREDUCED BENEFIT CALCULATION

- 1. VRS Non-Hazardous Duty Members.** The unreduced retirement benefit amount for non-hazardous duty employees covered under VRS is equal to 1.70% of average final compensation for each year of service credit.
- 2. VRS Hazardous Duty Members.** The unreduced retirement benefit amount for VRS-covered sheriffs is equal to 1.85% of average final compensation for each year of service credit. The retirement multiplier for deputy sheriffs and other eligible hazardous duty political subdivision employees is 1.70%. Political subdivisions may elect the 1.85% multiplier for these employees.
- 3. SPORS Members.** The unreduced retirement benefit amount for SPORS members is equal to 1.85% of average final compensation for each year of service credit.
- 4. VaLORS Members.** The unreduced retirement benefit amount for VaLORS members hired on or after July 1, 2001 is equal to 2.00% of average final compensation for each year of service credit. VaLORS members hired before July 1, 2001 had the option to retain the 1.70% multiplier with eligibility for a hazardous duty supplement or elect the 2.00% multiplier with no supplement.
- 5. JRS Members.** The unreduced retirement benefit for JRS members is equal to 1.70% of average final compensation for each year of weighted service credit, not to exceed 78% of their average final compensation.

REDUCED BENEFIT CALCULATION

The reduced benefit amount is equal to the unreduced benefit amount multiplied by an early retirement reduction factor as follows:

- For members who are at least age 55 (age 50 for SPORS, VaLORS and VRS members eligible for enhanced hazardous duty benefits), the reduction is 0.5% per month for the first 60 months of

retirement and 0.4% per month for the next 60 months of retirement. This reduction is applied for each month until the member reaches age 65 or, if more favorable to the member, for each month the member's service credit is less than 30 years (age 60 with less than 25 years of service credit for hazardous duty members).

- For members younger than age 55 (age 50 for SPORS, VaLORS and VRS members eligible for enhanced hazardous duty benefits), the reduction factor is determined as though the member were age 55, then reduced to reflect a 0.6% reduction for each month retirement precedes age 55 (age 50 for hazardous duty members).

PAYMENT FORM

The retirement benefit is paid as a lifetime monthly annuity. Upon the member's death in retirement, the member's beneficiary receives a lump sum of any remaining member contributions and interest. If the member has elected the Survivor Option, a lifetime monthly benefit is paid to his or her survivor instead of a lump-sum payment.

HAZARDOUS DUTY SUPPLEMENT

SPORS members and political subdivision employees eligible for enhanced hazardous duty benefits who retire with at least 20 years of hazardous duty service credit are eligible for an annual supplement payable monthly from their retirement date until their normal retirement age under Social Security. The supplement is a dollar amount added to the member's monthly retirement benefit payment. VaLORS members who elected the 1.70% multiplier and retire with at least 20 years of hazardous duty service credit are eligible for an annual supplement payable from their retirement date until age 65. Vested members in hazardous duty positions hired before July 1, 1974 are not required to have 20 years of hazardous duty service credit to qualify for the supplement. The supplement is adjusted biennially. The VRS actuary determines the amount of the supplement based on increases in Social Security benefits during interim periods.

COST-OF-LIVING ADJUSTMENT (COLA)

Retirees qualify for a cost-of-living adjustment (COLA) on July 1 of the second calendar year after they retire. The COLA is effective each July 1 thereafter. COLAs are based on the first 3.00% of the Consumer Price Index-Urban, plus half of each percentage increase between 3.00% and 7.00%. Under current law, COLAs cannot exceed 5.00%.

Refunds and Deferred Retirement Benefits

Members who leave covered employment are eligible to take a refund of their accumulated member contributions and interest. Taking a refund terminates membership and eligibility for any future benefits under the retirement plans.

Members may choose to leave their contributions and interest with the System when they leave covered employment. These members are considered deferred members. If they are vested, they may be eligible for a retirement benefit when they meet the age requirements for their plan. The benefit calculation and payment of the benefit are based on the member's average final compensation and total service credit at the time he or she leaves covered employment. Upon the member's death, the member's beneficiary receives a lump-sum payment of any remaining member contributions and interest. If the member has elected the Survivor Option, a lifetime monthly benefit is paid to his or her survivor instead of a lump-sum payment.

Death-in-Service Benefit

If a member dies while in active service, his or her named beneficiary or spouse, minor child or parent may be eligible for a death-in-service benefit in addition to VRS life insurance benefits, if applicable.

NON-WORK RELATED DEATH

If the named beneficiary is the member's spouse, minor child or parent, the beneficiary is eligible to choose a lump-sum payment of the member's contributions and interest or a lifetime monthly annuity based on the 100% Survivor Option. If the member dies before age 55 (age 50 for SPORS, VaLORS and VRS members eligible for enhanced hazardous duty benefits), the member is assumed to be age 55 (age 50 for eligible hazardous duty members) at the time of death for benefit calculation purposes.

WORK-RELATED DEATH

If the named beneficiary is the member's spouse, minor child or parent, the beneficiary is eligible for a lump-sum payment of the member's contributions and interest and a lifetime monthly annuity. If the beneficiary does not qualify for Social Security survivor benefits, the annuity is based on 50% of the member's average final compensation. If the beneficiary qualifies for Social Security survivor benefits, the annuity is based on 33⅓% of the member's average final compensation. The benefit is reduced by any Workers' Compensation benefits.

Disability Benefits

DISABILITY RETIREMENT

Members who are not covered under the Virginia Sickness and Disability Program (VSDP) are eligible to apply for disability retirement from the first day of covered employment if they have a physical or mental disability that is likely to be permanent. Members retiring on disability before age 60 are credited with the lesser of (1) twice their total service credit at disability retirement or (2) their total service credit plus the number of years remaining between their age at disability retirement and age 60.

The disability benefit for non-vested members is the minimum guaranteed benefit, which is (1) 50% of the member's average final compensation (66⅔%

if the disability is work-related) if the member does not qualify for primary Social Security benefits or (2) 33⅓% of average final compensation (50% if the disability is work-related) if the member qualifies for primary Social Security benefits. Vested members receive the greater of the minimum guaranteed benefit or 1.70% of average final compensation for each year of service credit at the time of disability retirement. The benefit for members retiring on work-related disability is reduced by any Workers' Compensation benefits.

Members retiring on disability may elect the Basic Benefit or Survivor Option. Upon the member's death in retirement, the member's beneficiary receives a lump-sum payment of any remaining member contributions and interest. If the member has elected the Survivor Option, a lifetime monthly benefit is paid to his or her survivor instead of a lump-sum payment.

VIRGINIA SICKNESS AND DISABILITY PROGRAM

The Virginia Sickness and Disability Program (VSDP) was established on January 1, 1999 to provide state employees covered under VRS, SPORS and VaLORS income protection in the event of a non-work related or work-related disability. Enrollment in VSDP is automatic upon employment. Employees enrolled in VSDP are not eligible to retire on disability. Eligible state employees hired before January 1, 1999 had the option to elect VSDP or retain their eligibility to be considered for disability retirement. Additional information about VSDP is provided in the Financial Section.

Vested VSDP participants on long-term disability are eligible for an unreduced retirement benefit payable at age 65 (age 60 for SPORS and VaLORS members). The amount of service credit includes time spent on disability. Average final compensation is adjusted to reflect increases in the cost-of-living adjustment (COLA) between the date of disability and age 65.

Summary of Plan Changes

The following actuarially material changes have occurred to the plan provisions in recent years.

1996 VALUATION

1. Members with at least 25 years of service credit become eligible to purchase up to three years of prior service for either or both active duty military service in the armed forces of the United States and certified service credit in the retirement system of another state. The rate is 5.00% of compensation or average final compensation, whichever is higher, at the time of purchase, multiplied by the number of months of prior service.
2. VRS is allowed to enter into agreements with political subdivisions of the Commonwealth of Virginia that have retirement plans and do not participate in VRS to permit portability of service credit on a cost-neutral basis.
3. Members become eligible to retire with a reduced retirement benefit at age 50 with at least 10 years of service credit. The reduced retirement benefit is determined as if the member is age 55, using the member's average final compensation and total service credit. The amount is then reduced by 0.6% for each month the member is younger than age 55. This benefit can be no less than the value of the member's contributions and interest paid in monthly installments over the member's lifetime.
4. The weighting factor for each year of service credit for judges entering JRS after January 1, 1995 changes from 3.5 to 2.5.
5. Effective July 1, 1998, teachers retiring with at least 15 years of service credit become eligible for a health insurance credit of \$1.50 per month per year of service credit, up to a maximum of 30 years. VRS-participating political subdivisions are allowed to elect a \$1.00 enhancement to the health insurance credit of \$1.50 per month per year of service credit, up to a maximum of 30 years.

1998 VALUATION

1. Effective January 1, 1999, the retirement multiplier changes from 1.50% and 1.65% to 1.70% of average final compensation. The 3.00% benefit adjustment for retirees also is eliminated. A 2.00% ad hoc benefit increase is provided for all retirees and beneficiaries receiving benefits as of December 31, 1998.
2. The Virginia Sickness and Disability Program (VSDP) goes into effect on January 1, 1999. State employees hired on or after January 1, 1999 are automatically enrolled in VSDP upon employment. Eligible state members employed before January 1, 1999 have the option to elect VSDP or retain their eligibility to be considered for disability retirement. The election is irrevocable.
3. Effective July 1, 1999, state employees, teachers and political subdivision employees that have not elected out of the 50/30 benefit may retire with an unreduced benefit if they are at least age 50 and have at least 30 years of service credit.

1999 VALUATION

1. The 100% Joint and Survivor Option becomes payable to a member's spouse, minor child or parent if the member dies while in active service.
2. Members retiring on disability become eligible to elect the 100% Joint and Survivor Option.

2000 VALUATION

1. VaLORS goes into effect on October 1, 1999.
2. On November 15, 2000, the VRS Board of Trustees adopts the recommended economic and demographic assumptions proposed by the actuary as a result of the June 2000 actuarial experience study. The Board also adopts the use of a "pooled" contribution rate for state employees and teachers.

2001 VALUATION

1. The hazardous duty supplement for SPORS members is extended from age 65 to their normal retirement age under Social Security.
2. The retirement multiplier for VaLORS members is changed from 1.70% to 2.00% of average final compensation with no eligibility for the hazardous duty supplement for all new members hired on or after July 1, 2001. Current members have the option to elect the 2.00% multiplier or retain the 1.70% multiplier and eligibility for the hazardous duty supplement.
3. The Partial Lump-Sum Option Payment (PLOP) is added as a benefit payout option. This option provides retiring members with a lump-sum payment equal to one, two or three times their annual retirement benefit provided they are in active service for one, two or three years beyond their eligibility for an unreduced retirement. The monthly benefit is actuarially reduced to reflect the lump-sum payment.

2002 VALUATION – No actuarially material changes are made to the plan provisions.

2003 VALUATION – No actuarially material changes are made to the plan provisions. There are two minor changes of note:

1. School superintendents with five years of service credit become eligible to purchase an additional 10 years of out-of-state school service, provided the service does not qualify the superintendent for a benefit under the out-of-state school's retirement plan.
2. The Advance Pension Option is added as a benefit payout option. Members may elect to receive a temporary higher benefit until at least age 62 up to their normal retirement age under Social Security, as elected by the member. At that point, the benefit is permanently reduced. The benefit can never be reduced below 50% of the member's Basic Benefit. COLAs are calculated on the Basic Benefit amount.

2004 VALUATION – No actuarially material changes are made to the plan provisions.

2005 VALUATION – No actuarially material changes are made to the plan provisions. On May 19, 2005, the Board adopts the recommended economic and demographic assumptions proposed by the actuary as a result of the June 2004 actuarial experience study.

2006 VALUATION – No actuarially material changes are made to the plan provisions.

2007 VALUATION – The retirement multiplier for VRS-covered sheriffs and SPORS members changes from 1.70% to 1.85% of average final compensation, effective July 1, 2008.

2008 VALUATION – No actuarially material changes are made to the plan provisions.

5 statistical section

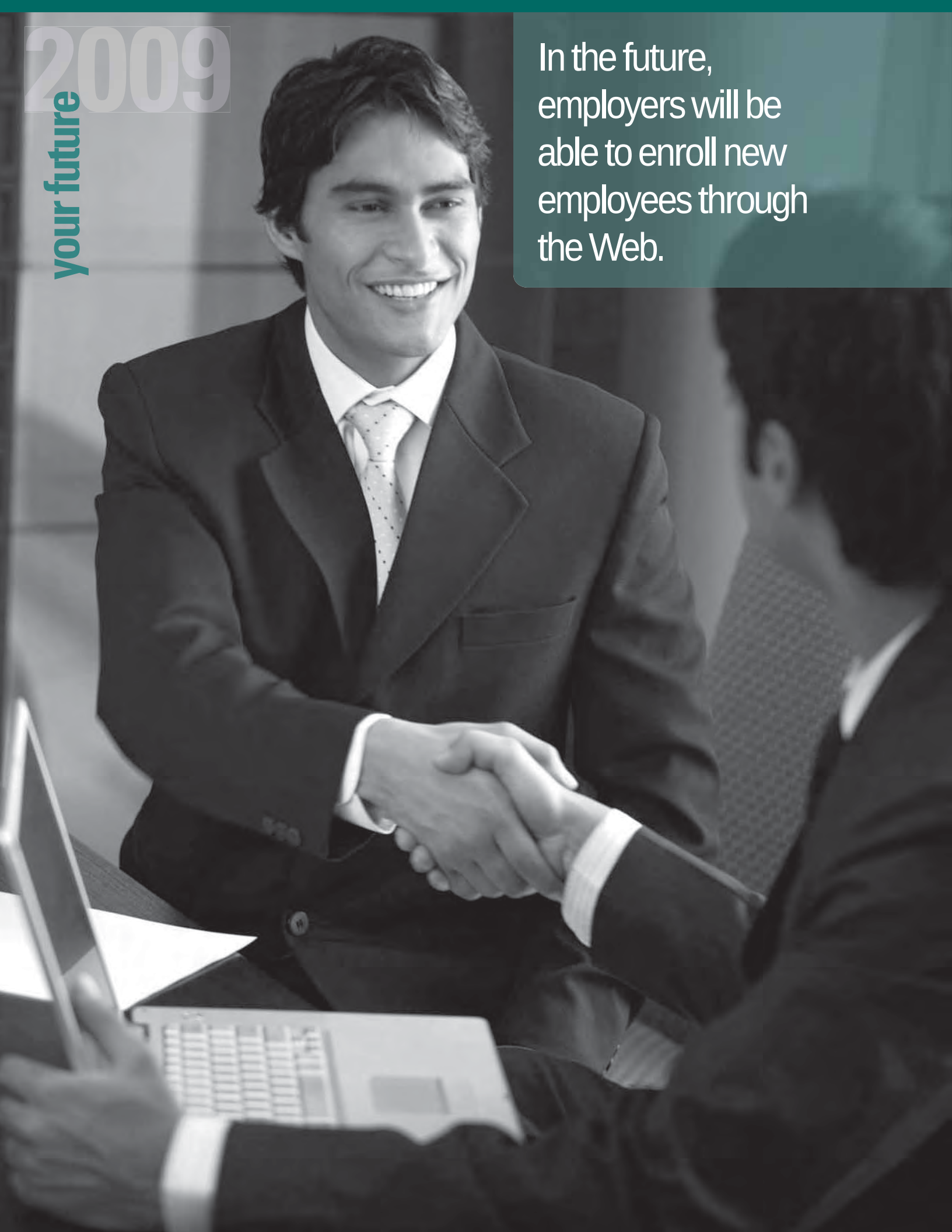
- Pension Trust Funds:
 - Schedule of Retirement Contributions by System
 - Schedule of Pension Trust Fund Additions by Source
 - Schedule of Pension Trust Fund Deductions by Type
 - Schedule of Retirement Benefits by System
 - Schedule of Retirement Benefits by Type
 - Schedule of Refunds by Type
 - Schedule of Retirees and Beneficiaries by Type of Retirement
 - Schedule of Retirees and Beneficiaries by Payout Option Selected
 - Schedule of Average Benefit Payments
 - Schedule of Funding Progress—
VRS Pension Plan
- Other Employee Benefit Trust Funds:
 - Schedule of Group Life Insurance Additions by Source
 - Schedule of Group Life Insurance Deductions by Type
- VRS-Participating Employers
- Commonwealth of Virginia 457 Deferred Compensation Plan

your future

2009

2009
your future

In the future,
employers will be
able to enroll new
employees through
the Web.



The Statistical Section serves as an information resource. It presents detailed historical information regarding the pension and other employee benefit plans administered by the System. This information includes a 10-year analysis of changes in plan net assets and plan enrollment, contributions, plan additions and deductions, benefits and refunds. Included in this analysis is statistical information regarding retirees and an analysis of funding, enrollment and investment activity related to the Commonwealth of Virginia 457 Deferred Compensation Plan. The Statistical Section also lists the employers participating in VRS as of the end of the fiscal year.

Pension Trust Funds

FIGURE 5.1 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS – ALL PENSION TRUST FUNDS

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Assets Available– Beginning of Year	\$ 34,634	\$ 39,786	\$ 36,693	\$ 33,456	\$ 33,781	\$ 39,039	\$ 43,060	\$ 47,627	\$ 56,890	\$ 53,600
Funding:										
Member and Employer Contributions and Other Additions	1,291	1,270	1,044	1,042	1,185	1,468	1,567	1,944	2,148	2,097
Benefits and Administrative Expenses and Transfers	(1,282)	(1,394)	(1,529)	(1,687)	(1,865)	(2,049)	(2,214)	(2,434)	(2,665)	(2,857)
Net Funding	9	(124)	(485)	(645)	(680)	(581)	(647)	(490)	(517)	(760)
Investment Income:										
Interest, Dividends and Other Investment Income	705	785	624	569	461	667	823	1,157	983	762
Net Appreciation (Depreciation) in Fair Value	4,438	(3,754)	(3,376)	401	5,477	3,935	4,391	8,596	(3,756)	(12,254)
Net Investment Income	5,143	(2,969)	(2,752)	970	5,938	4,602	5,214	9,753	(2,773)	(11,492)
Net Increase (Decrease)	5,152	(3,093)	(3,237)	325	5,258	4,021	4,567	9,263	(3,290)	(12,252)
Net Assets Available– End of Year	\$ 39,786	\$ 36,693	\$ 33,456	\$ 33,781	\$ 39,039	\$ 43,060	\$ 47,627	\$ 56,890	\$ 53,600	\$ 41,348

FIGURE 5.2 – NUMBER OF ACTIVE MEMBERS

AT JUNE 30

(EXPRESSED IN THOUSANDS)

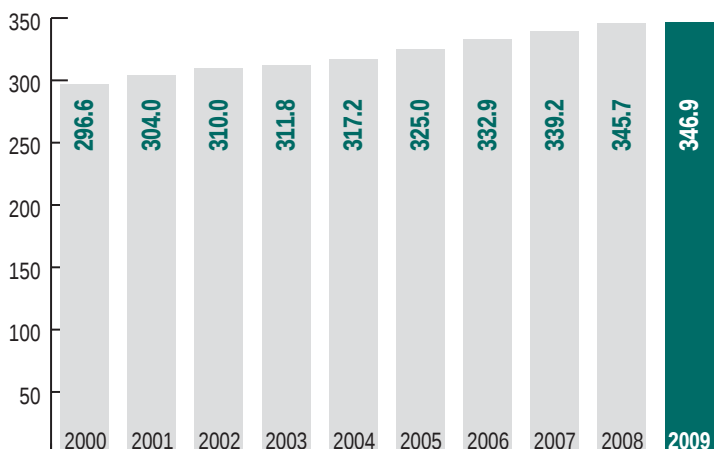


FIGURE 5.3 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS BY PENSION TRUST FUND
FOR THE YEARS ENDED JUNE 30

VIRGINIA RETIREMENT SYSTEM PENSION TRUST FUND										(EXPRESSED IN MILLIONS)
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Assets Available–Beginning of Year	\$ 33,965	\$ 38,991	\$ 35,620	\$ 32,448	\$ 32,727	\$ 37,784	\$ 41,640	\$ 46,021	\$ 54,948	\$ 51,743
Funding:										
Member and Employer Contributions and Other Additions	1,230	1,155	974	965	1,097	1,366	1,459	1,834	2,022	1,979
Benefits and Administrative Expenses and Transfers	(1,247)	(1,618)	(1,478)	(1,621)	(1,791)	(1,963)	(2,121)	(2,333)	(2,550)	(2,735)
Net Funding	(17)	(463)	(504)	(656)	(694)	(597)	(662)	(499)	(528)	(756)
Investment Income:										
Interest, Dividends and Other Investment Income	691	768	604	547	446	645	796	1,118	948	736
Net Appreciation (Depreciation) in Fair Value	4,352	(3,676)	(3,272)	388	5,305	3,808	4,247	8,308	(3,625)	(11,833)
Net Investment Income	5,043	(2,908)	(2,668)	935	5,751	4,453	5,043	9,426	(2,677)	(11,097)
Net Increase (Decrease)	5,026	(3,371)	(3,172)	279	5,057	3,856	4,381	8,927	(3,205)	(11,853)
Net Assets Available–End of Year	\$ 38,991	\$ 35,620	\$ 32,448	\$ 32,727	\$ 37,784	\$ 41,640	\$ 46,021	\$ 54,948	\$ 51,743	\$ 39,890

STATE POLICE OFFICERS' RETIREMENT SYSTEM PENSION TRUST FUND										(EXPRESSED IN MILLIONS)
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Assets Available–Beginning of Year	\$ 430	\$ 495	\$ 464	\$ 423	\$ 424	\$ 486	\$ 530	\$ 581	\$ 684	\$ 636
Funding:										
Member and Employer Contributions and Other Additions	19	24	15	13	15	19	20	21	26	25
Benefits and Administrative Expenses and Transfers	(17)	(18)	(21)	(24)	(27)	(32)	(33)	(35)	(41)	(41)
Net Funding	2	6	(6)	(11)	(12)	(13)	(13)	(14)	(15)	(16)
Investment Income:										
Interest, Dividends and Other Investment Income	8	10	8	7	6	9	10	14	12	9
Net Appreciation (Depreciation) in Fair Value	55	(47)	(43)	5	68	48	54	103	(45)	(145)
Net Investment Income	63	(37)	(35)	12	74	57	64	117	(33)	(136)
Net Increase (Decrease)	65	(31)	(41)	1	62	44	51	103	(48)	(152)
Net Assets Available–End of Year	\$ 495	\$ 464	\$ 423	\$ 424	\$ 486	\$ 530	\$ 581	\$ 684	\$ 636	\$ 484

VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM PENSION TRUST FUND

(EXPRESSED IN MILLIONS)

	2000*	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Assets Available—Beginning of Year	\$ -	\$ 25	\$ 350	\$ 350	\$ 395	\$ 498	\$ 593	\$ 700	\$ 868	\$ 853
Funding:										
Member and Employer Contributions and Other Additions	25	331	43	51	56	66	69	64	74	69
Benefits and Administrative Expenses and Transfers	(1)	(2)	(12)	(19)	(24)	(30)	(34)	(40)	(45)	(50)
Net Funding	24	329	31	32	32	36	35	24	29	19
Investment Income:										
Interest, Dividends and Other Investment Income	-	1	7	8	6	8	11	17	16	12
Net Appreciation (Depreciation) in Fair Value	1	(5)	(38)	5	65	51	61	127	(60)	(193)
Net Investment Income	1	(4)	(31)	13	71	59	72	144	(44)	(181)
Net Increase (Decrease)	25	325	-	45	103	95	107	168	(15)	(162)
Net Assets Available End of Year	\$ 25	\$ 350	\$ 350	\$ 395	\$ 498	\$ 593	\$ 700	\$ 868	\$ 853	\$ 691

*The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

JUDICIAL RETIREMENT SYSTEM PENSION TRUST FUND

(EXPRESSED IN MILLIONS)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Assets Available—Beginning of Year	\$ 239	\$ 275	\$ 259	\$ 234	\$ 235	\$ 271	\$ 296	\$ 326	\$ 390	\$ 367
Funding:										
Member and Employer Contributions and Other Additions	17	23	13	16	18	18	19	23	25	24
Benefits and Administrative Expenses and Transfers	(17)	(18)	(19)	(22)	(23)	(24)	(24)	(25)	(29)	(29)
Net Funding	-	5	(6)	(6)	(5)	(6)	(5)	(2)	(4)	(5)
Investment Income:										
Interest, Dividends and Other Investment Income	5	5	4	4	3	4	5	8	7	5
Net Appreciation (Depreciation) in Fair Value	31	(26)	(23)	3	38	27	30	58	(26)	(83)
Net Investment Income	36	(21)	(19)	7	41	31	35	66	(19)	(78)
Net Increase (Decrease)	36	(16)	(25)	1	36	25	30	64	(23)	(83)
Net Assets Available—End of Year	\$ 275	\$ 259	\$ 234	\$ 235	\$ 271	\$ 296	\$ 326	\$ 390	\$ 367	\$ 284

SCHEDULE OF RETIREMENT CONTRIBUTIONS BY SYSTEM

FISCAL YEARS 2000-2009

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Virginia Retirement System				State Police Officers' Retirement System	Virginia Law Officers' Retirement System*	Judicial Retirement System	Total
	State	Teachers	Political Subdivisions	Sub-Total				
2009	\$ 416,921	\$ 986,116	\$ 575,951	\$ 1,978,988	\$ 25,280	\$ 69,071	\$ 24,064	\$ 2,097,403
2008	409,685	1,055,498	557,230	2,022,413	26,218	74,039	25,498	2,148,168
2007	377,117	945,243	511,687	1,834,047	21,466	64,820	23,437	1,943,770
2006	303,183	731,929	423,724	1,458,836	20,188	68,688	18,967	1,566,679
2005	295,736	671,152	398,004	1,364,892	19,363	66,079	17,927	1,468,261
2004	292,895	515,750	287,228	1,095,873	15,232	56,292	17,758	1,185,155
2003**	199,217	492,562	270,280	962,059	13,305	50,433	16,038	1,041,835
2002**	234,992	455,488	283,756	974,236	14,974	42,148	13,100	1,044,458
2001	299,079	591,620	264,229	1,154,928	24,632	67,040	23,149	1,269,749
2000	314,044	631,344	284,641	1,230,029	19,170	25,192	17,131	1,291,522

*The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

**The General Assembly suspended employer contributions for all state employees effective January 2002. Employer contributions for SPORS, VaLORS and JRS were resumed in July 2002 and for state employees in July 2003.

FIGURE 5.4 – NUMBER OF RETIREES AND BENEFICIARIES AT JUNE 30
(EXPRESSED IN THOUSANDS)

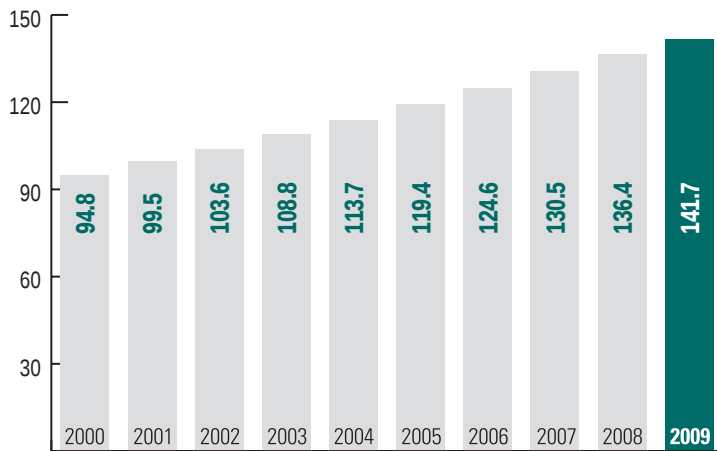
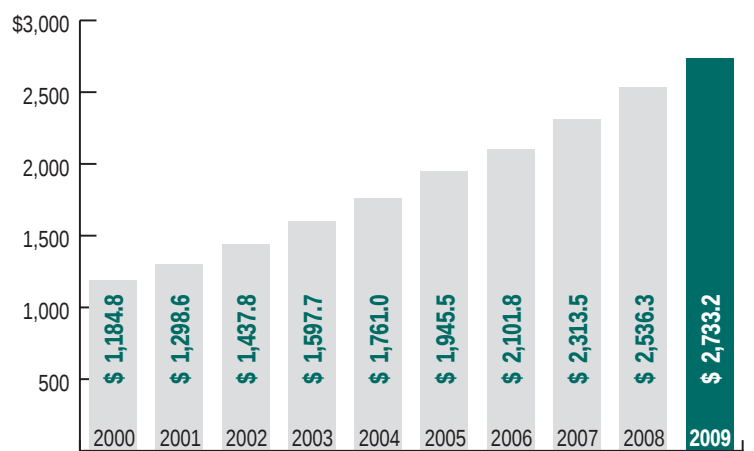


FIGURE 5.5 – RETIREMENT BENEFITS PAID
(EXPRESSED IN MILLIONS)



SCHEDULE OF PENSION TRUST FUND ADDITIONS BY SOURCE

FISCAL YEARS 2000-2009

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Member Contributions	Employer Contributions		Investment Income (Loss)	Other	Total
		For Members	Employer Share			
Virginia Retirement System (VRS)						
2009	\$ 20,254	\$ 743,762	\$ 1,214,972	\$ (11,106,018)	\$ 8,668	\$ (9,118,362)
2008	24,843	716,797	1,280,773	(2,677,358)	290	(654,655)
2007	29,489	680,023	1,124,535	9,426,035	338	11,260,420
2006	38,825	638,242	781,769	5,042,575	185	6,501,596
2005	63,503	599,769	701,620	4,453,335	743	5,818,970
2004	85,769	564,020	446,084	5,751,277	908	6,848,058
2003	127,578	499,077	335,404	935,415	2,682	1,900,156
2002	115,979	482,516	375,741	(2,667,982)	286	(1,693,460)
2001	65,810	453,133	635,985	(2,907,769)	381	(1,752,460)
2000	68,208	426,088	735,733	5,042,490	269	6,272,788
State Police Officers' Retirement System (SPORS)						
2009	\$ 57	\$ 5,034	\$ 20,189	\$ (135,929)	\$ 87	\$ (110,562)
2008	149	5,061	21,008	(33,367)	20	(7,129)
2007	213	4,895	16,358	117,501	-	138,967
2006	304	4,627	15,257	63,475	-	83,663
2005	494	4,392	14,477	56,481	-	75,844
2004	790	4,037	10,405	73,977	-	89,209
2003	556	3,972	8,777	11,929	-	25,234
2002	755	4,039	10,180	(34,596)	-	(19,622)
2001	125	4,087	20,420	(37,192)	-	(12,560)
2000	192	3,922	15,056	63,638	-	82,808
Virginia Law Officers' Retirement System (VaLORS)						
2009	\$ 212	\$ 17,871	\$ 50,988	\$ (181,112)	\$ 519	\$ (111,522)
2008	291	17,723	56,025	(44,270)	274	30,043
2007	371	16,127	48,322	143,664	171	208,655
2006	534	15,492	52,662	71,905	255	140,848
2005	700	14,869	50,510	59,525	230	125,834
2004	880	14,703	40,709	70,668	-	126,960
2003	927	14,559	34,947	13,069	-	63,502
2002	1,007	15,630	25,511	(31,330)	-	10,818
2001	77	15,858	51,105	(4,057)	-	62,983
2000*	33	11,405	13,754	690	-	25,882
Judicial Retirement System (JRS)						
2009	\$ 20	\$ 3,043	\$ 21,001	\$ (77,947)	\$ 50	\$ (53,833)
2008	21	2,945	22,532	(19,305)	-	6,193
2007	92	2,815	20,530	65,964	-	89,401
2006	108	2,653	16,206	35,368	-	54,335
2005	159	2,499	15,269	31,379	-	49,306
2004	197	2,371	15,190	40,947	-	58,705
2003	88	2,346	13,604	6,543	-	22,581
2002	73	2,365	10,662	(19,248)	-	(6,148)
2001	4	2,315	20,830	(20,637)	-	2,512
2000	16	2,180	14,935	35,297	-	52,428

*The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

SCHEDULE OF PENSION TRUST FUND DEDUCTIONS BY TYPE

FISCAL YEARS 2000-2009

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Retirement Benefits	Refunds	Administrative Expenses	Other	Total
Virginia Retirement System (VRS)					
2009	\$ 2,617,313	\$ 86,688	\$ 30,692	\$ 668	\$ 2,735,361
2008	2,427,543	97,574	24,677	298	2,550,092
2007	2,219,350	89,716	23,686	178	2,332,930
2006	2,015,557	85,804	19,724	258	2,121,343
2005	1,865,776	78,709	18,182	230	1,962,897
2004	1,692,166	80,237	18,119	-	1,790,522
2003	1,537,762	67,473	16,201	-	1,621,436
2002	1,389,815	69,235	15,039	2,449	1,476,538
2001	1,261,348	79,439	14,100	-	1,354,887
2000	1,150,694	83,412	12,613	-	1,246,719
State Police Officers' Retirement System (SPORS)					
2009	\$ 40,919	\$ 469	\$ 340	\$ -	\$ 41,728
2008	39,382	730	299	-	40,411
2007	33,867	1,221	301	-	35,389
2006	32,309	596	231	-	33,136
2005	30,487	1,053	203	-	31,743
2004	26,336	731	213	-	27,280
2003	23,594	863	205	-	24,662
2002	20,607	559	185	-	21,351
2001	17,980	289	170	-	18,439
2000	16,946	314	137	-	17,397
Virginia Law Officers' Retirement System (VaLORS)					
2009	\$ 45,890	\$ 4,151	\$ 471	\$ -	\$ 50,512
2008	40,805	4,586	378	-	45,769
2007	35,019	4,828	365	-	40,212
2006	29,202	4,830	263	-	34,295
2005	25,100	4,927	208	-	30,235
2004	19,784	3,998	196	-	23,978
2003	15,020	3,763	151	-	18,934
2002	8,485	3,657	57	-	12,199
2001	1,511	862	17	-	2,390
2000*	330	149	2	-	481
Judicial Retirement System (JRS)					
2009	\$ 29,101	\$ 40	\$ 198	\$ -	\$ 29,339
2008	28,538	45	168	-	28,751
2007	25,253	-	169	-	25,422
2006	24,717	-	130	-	24,847
2005	24,108	42	113	-	24,263
2004	22,706	-	117	-	22,823
2003	21,359	51	113	-	21,523
2002	18,884	-	104	-	18,988
2001	17,788	32	94	-	17,914
2000	16,872	24	105	-	17,001

*The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

SCHEDULE OF RETIREMENT BENEFITS BY SYSTEM

FISCAL YEARS 2000-2009

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Virginia Retirement System				State Police Officers' Retirement System	Virginia Law Officers' Retirement System*	Judicial Retirement System	Total
	State	Teachers	Political Subdivisions	Sub-Total				
2009	\$ 790,472	\$ 1,338,776	\$ 488,065	\$ 2,617,313	\$ 40,919	\$ 45,890	\$ 29,101	\$ 2,733,223
2008	736,053	1,245,201	446,289	2,427,543	39,382	40,805	28,538	2,536,268
2007	686,258	1,138,980	394,112	2,219,350	33,867	35,019	25,253	2,313,489
2006	623,571	1,037,509	354,477	2,015,557	32,309	29,202	24,717	2,101,785
2005	589,113	959,268	317,395	1,865,776	30,487	25,100	24,108	1,945,471
2004	552,282	855,113	284,771	1,692,166	26,336	19,784	22,706	1,760,992
2003	503,249	782,652	251,861	1,537,762	23,594	15,020	21,359	1,597,735
2002	454,123	710,538	225,154	1,389,815	20,607	8,485	18,884	1,437,791
2001	421,033	639,760	200,555	1,261,348	17,980	1,511	17,788	1,298,627
2000	394,601	575,876	180,217	1,150,694	16,946	330	16,872	1,184,842

*The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

SCHEDULE OF RETIREMENT BENEFITS BY TYPE

FISCAL YEARS 2000-2009

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Service Benefits	Disability Benefits	Survivor Benefits	Total
2009	\$ 2,434,353	\$ 276,382	\$ 22,488	\$ 2,733,223
2008	2,252,981	263,427	19,860	2,536,268
2007	2,045,400	250,212	17,877	2,313,489
2006	1,849,239	236,266	16,280	2,101,785
2005	1,708,147	222,632	14,692	1,945,471
2004	1,537,173	210,385	13,434	1,760,992
2003	1,386,236	199,391	12,108	1,597,735
2002	1,242,235	184,582	10,974	1,437,791
2001	1,121,588	167,931	9,108	1,298,627
2000	1,021,185	155,450	8,207	1,184,842

SCHEDULE OF REFUNDS BY TYPE

FISCAL YEARS 2000-2009

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Separations	Death	Total
2009	\$ 77,498	\$ 13,850	\$ 91,348
2008	88,732	14,203	102,935
2007	88,661	7,104	95,765
2006	79,744	11,486	91,230
2005	76,296	8,435	84,731
2004	73,715	11,251	84,966
2003	64,203	7,947	72,150
2002	65,893	7,558	73,451
2001	73,659	6,963	80,622
2000	77,027	6,872	83,899

SCHEDULE OF RETIREES AND BENEFICIARIES BY TYPE OF RETIREMENT

AS OF JUNE 30, 2009

Min. Guaranteed Benefit Amount	Number of Retirees	Type of Retirement								
		Service	Early Retirement Window	50/30 Service Retirement	1991 Early Faculty Ret. Window	Regular Disability	Survivor Death-in- Service	Line-of-Duty (LOD) Disability	Survivor LOD Death- in-Service	50/10 Service Retirement
\$ 1-200	15,168	13,089	4	-	1	777	582	65	4	646
201-400	19,117	15,089	167	-	-	2,254	447	119	12	1,029
401-600	15,973	11,870	396	11	1	2,565	280	233	27	590
601-800	13,238	9,478	505	35	2	2,216	183	403	21	395
801-1,000	11,184	7,853	654	115	5	1,664	118	426	16	333
1,001-1,200	9,517	6,603	626	294	6	1,302	102	315	14	255
1,201-1,400	8,009	5,576	572	354	16	966	64	244	8	209
1,401-1,600	7,272	5,055	510	487	22	726	50	215	6	201
1,601-1,800	6,846	4,786	374	758	32	543	33	155	2	163
1,801-2,000	7,284	5,025	283	1,154	34	478	43	157	-	110
Over 2,000	28,138	21,090	560	4,310	145	1,157	150	462	3	261
Totals	141,746	105,514	4,651	7,518	264	14,648	2,052	2,794	113	4,192

SCHEDULE OF RETIREES AND BENEFICIARIES BY PAYOUT OPTION SELECTED

AS OF JUNE 30, 2009

Min. Guaranteed Benefit Amount	Payout Option Selected															
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
\$ 1-200	12,396	50	525	153	933	3	73	4	-	2	710	6	230	36	41	6
201-400	15,078	24	561	301	875	7	858	29	2	32	684	3	500	68	79	16
401-600	11,830	27	468	363	859	13	1,187	58	-	65	507	1	405	71	104	15
601-800	9,421	19	390	390	841	11	985	52	-	82	411	3	434	58	126	15
801-1,000	7,716	4	343	435	840	18	645	33	1	36	366	1	450	54	211	31
1,001-1,200	6,369	1	333	411	711	12	438	23	1	27	232	4	505	60	329	61
1,201-1,400	5,391	2	271	371	471	21	266	16	1	16	171	3	481	64	381	83
1,401-1,600	4,825	1	256	345	333	31	167	5	-	13	147	1	467	86	474	121
1,601-1,800	4,589	-	202	321	189	31	93	4	-	5	112	1	446	91	615	147
1,801-2,000	4,816	-	166	323	131	28	79	4	-	1	102	1	453	102	905	173
Over 2,000	16,047	1	562	946	214	188	90	11	-	5	401	20	2,848	813	4,979	1,013
Totals	98,478	129	4,077	4,359	6,397	363	4,881	239	5	284	3,843	44	7,219	1,503	8,244	1,681

A- Basic Benefit

B- Increased Basic Benefit

C- 100% Survivor Option

D- Variable Survivor Option

E- Social Security Leveling Benefit

F- Special Survivor Option

G- Minimum Guaranteed Disability Basic Benefit

H- Minimum Guaranteed Disability Variable

I- Disability 100% Survivor Option

J- Special Disability Survivor Option

K- Leveling Benefit

L- Leveling Benefit/Rollover

M- Survivor Option

N- Advance Pension Option

O- Partial Lump-Sum Option Payment (PLOP)
with Basic Benefit

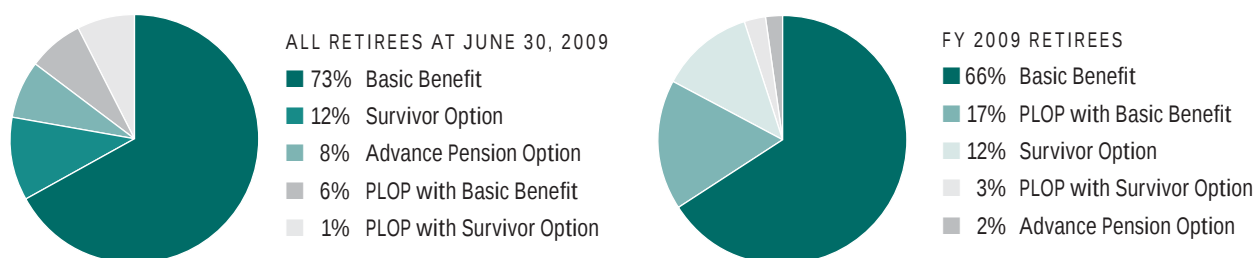
P- PLOP with Survivor Option

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

FOR RETIREMENTS EFFECTIVE JULY 1, 2005 TO JUNE 30, 2009

		Years of Service Credit							
		1-10	11 - 15	16 - 20	21 - 25	26 - 30	Over 30		
FY 2009	Average Monthly Benefit	\$ 344.16	\$ 578.17	\$ 880.56	\$ 1,269.17	\$ 2,024.64	\$ 2,669.86		
	Number of Active Retirees	986	859	916	1,090	1,377	3,063		
FY 2008	Average Monthly Benefit	\$ 327.19	\$ 575.47	\$ 861.72	\$ 1,234.89	\$ 2,024.96	\$ 2,610.24		
	Number of Active Retirees	994	857	995	1,091	1,615	3,271		
FY 2007	Average Monthly Benefit	\$ 314.54	\$ 509.88	\$ 811.90	\$ 1,159.16	\$ 1,917.95	\$ 2,474.52		
	Number of Active Retirees	979	880	951	1,043	1,504	3,207		
FY 2006	Average Monthly Benefit	\$ 306.43	\$ 496.82	\$ 775.31	\$ 1,131.49	\$ 1,811.18	\$ 2,438.66		
	Number of Active Retirees	890	809	960	937	1,569	2,886		
FY 2005	Average Monthly Benefit	\$ 316.96	\$ 496.99	\$ 745.37	\$ 1,066.32	\$ 1,773.77	\$ 2,352.01		
	Number of Active Retirees	768	784	902	921	1,623	3,342		

FIGURE 5.6 – DISTRIBUTION OF RETIREES BY PAYOUT OPTION SELECTED



Retirement Benefit Payout Options

Basic Benefit. The Basic Benefit is based on the unreduced (normal) retirement benefit calculation. It does not provide for a continuation of a benefit to a survivor. Upon the member's death, any remaining member contributions and interest are paid in a lump sum to the member's beneficiary.

Partial Lump-Sum Option Payment (PLOP). Members who are in active service for one, two, three or more years beyond their eligibility for an unreduced retirement benefit are eligible to elect a partial lump-sum payment of their member contributions and interest equal to one, two or three times their annual retirement benefit, depending on how long they work beyond their unreduced retirement eligibility. The monthly benefit is actuarially reduced accordingly. This option is available with the Basic Benefit or Survivor Option.

Survivor Option. Members may choose a whole percentage of their benefit, between 10% and 100%, to continue as a lifetime benefit to a survivor upon their death. The member's benefit is actuarially reduced accordingly.

Advance Pension Option. With this option, members elect to receive a temporary higher benefit until at least age 62 up to their normal retirement age under Social Security, as elected by the member. At that point, the monthly benefit is permanently reduced on an actuarially equivalent basis.

FIGURE 5.7 – DISTRIBUTION OF RETIREES BY YEARS OF SERVICE CREDIT

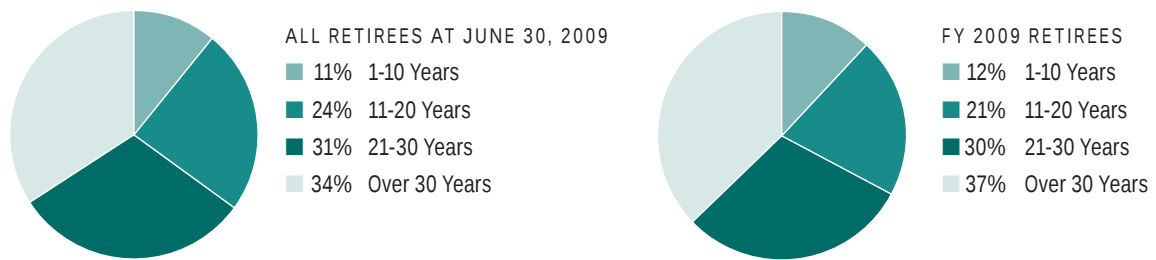


FIGURE 5.8 – DISTRIBUTION OF RETIREES BY AGE AT RETIREMENT

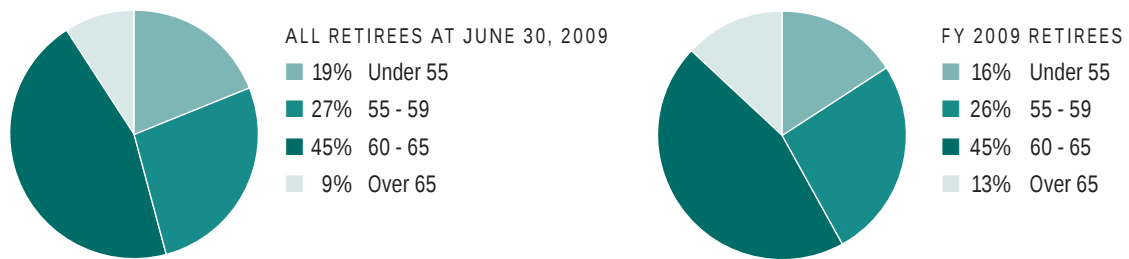
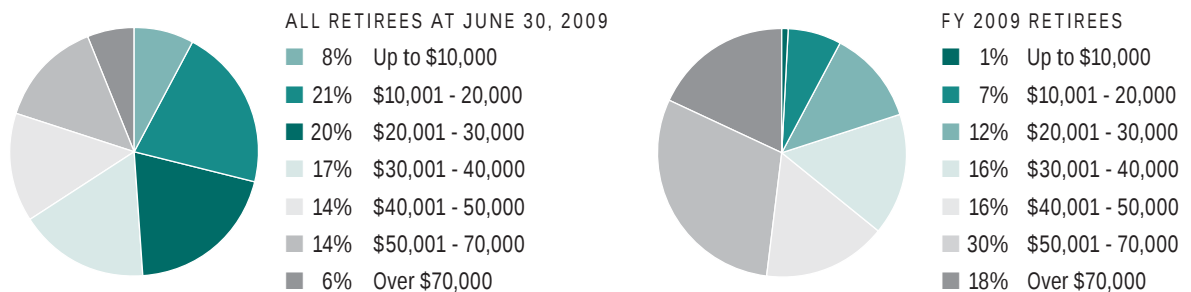


FIGURE 5.9 – DISTRIBUTION OF RETIREES BY AVERAGE FINAL COMPENSATION



SCHEDULE OF FUNDING PROGRESS – VRS PENSION PLAN

(DOLLARS IN THOUSANDS)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
VRS - State						
2008	\$ 15,046,348	\$ 17,096,942	\$ 2,050,594	88.0%	\$ 3,640,692	56.3%
2007	13,857,342	16,279,781	2,422,439	85.1%	3,467,388	69.9%
2006	12,542,390	15,064,062	2,521,672	83.3%	3,301,286	76.4%
2005*	12,018,175	14,007,274	1,989,099	85.8%	3,100,479	64.2%
2004	11,981,566	12,669,013	687,447	94.6%	2,946,067	23.3%
2003	11,908,368	11,860,803	(47,565)	100.4%	2,852,370	(1.7%)
2002	11,967,337	11,490,889	(476,448)	104.1%	2,940,501	(16.2%)
2001	11,747,242	10,998,307	(748,935)	106.8%	2,922,448	(25.6%)
2000*	10,698,209	10,143,799	(554,410)	105.5%	2,811,520	(19.7%)
1999	9,505,990	9,973,627	467,637	95.3%	2,862,777	16.3%
VRS - Teachers						
2008	\$ 25,502,482	\$ 31,958,321	\$ 6,455,839	79.8%	\$ 6,896,432	93.6%
2007	23,204,871	29,669,838	6,464,967	78.2%	6,604,643	97.9%
2006	20,731,192	27,274,064	6,542,872	76.0%	6,195,421	105.6%
2005*	19,639,994	25,205,725	5,565,731	77.9%	5,844,860	95.2%
2004	19,343,319	22,173,218	2,829,899	87.2%	5,491,142	51.5%
2003	19,182,560	20,480,092	1,297,532	93.7%	5,109,840	25.4%
2002	19,028,338	19,148,318	119,980	99.4%	4,950,363	2.4%
2001	18,614,489	17,530,470	(1,084,019)	106.2%	4,648,059	(23.3%)
2000*	16,881,374	16,380,784	(500,590)	103.1%	4,341,411	(11.5%)
1999	14,482,981	15,646,474	1,163,493	92.6%	4,084,200	28.5%
VRS - Political Subdivisions						
2008	\$ 11,999,545	\$ 13,499,216	\$ 1,499,671	88.9%	\$ 4,021,468	37.3%
2007	10,753,237	12,166,854	1,413,617	88.4%	3,761,991	37.6%
2006	9,395,170	10,483,777	1,088,607	89.6%	3,504,844	31.1%
2005*	8,714,479	10,415,489	1,701,010	83.7%	3,266,806	52.1%
2004	8,366,677	9,116,119	749,442	91.8%	3,072,693	24.4%
2003	8,151,696	8,356,676	204,980	97.5%	2,922,419	7.0%
2002	7,961,580	7,625,953	(335,627)	104.4%	2,778,116	(12.1%)
2001	7,606,088	6,856,389	(749,699)	110.9%	2,574,705	(29.1%)
2000*	6,812,719	6,117,772	(694,947)	111.4%	2,375,735	(29.3%)
1999	5,815,019	5,798,641	(16,378)	100.3%	2,191,083	(0.7%)
VRS - Total						
2008	\$ 52,548,375	\$ 62,554,479	\$ 10,006,104	84.0%	\$ 14,558,592	68.7%
2007	47,815,450	58,116,473	10,301,023	82.3%	13,834,022	74.5%
2006	42,668,752	52,821,903	10,153,151	80.8%	13,001,551	78.1%
2005*	40,372,648	49,628,488	9,255,840	81.3%	12,212,145	75.8%
2004	39,691,562	43,958,350	4,266,788	90.3%	11,509,902	37.1%
2003	39,242,624	40,697,571	1,454,947	96.4%	10,884,629	13.4%
2002	38,957,255	38,265,160	(692,095)	101.8%	10,668,980	(6.5%)
2001	37,967,819	35,385,166	(2,582,653)	107.3%	10,145,212	(25.5%)
2000*	34,392,302	32,642,355	(1,749,947)	105.4%	9,528,666	(18.4%)
1999	29,803,990	31,418,742	1,614,752	94.9%	9,138,060	17.7%

*Revised economic and demographic assumptions due to experience study.

Other Employee Benefit Trust Funds

FIGURE 5.10 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS – GROUP LIFE INSURANCE FUND
FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN THOUSANDS)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Assets Available–										
Beginning of Year	\$ 959,501	\$1,015,682	\$ 938,119	\$ 838,601	\$ 751,747	\$ 778,464	\$ 771,817	\$ 751,361	\$ 962,328	\$ 937,146
Funding:										
Member and Employer Contributions and Other Additions	44	88,624	68,800	44	20	(31)	52	169,824	158,823	135,063
Claims and Administrative Expenses	(83,847)	(88,824)	(96,297)	(105,195)	(107,018)	(98,163)	(112,695)	(119,738)	(133,407)	(153,083)
Net Funding	(83,803)	(200)	(27,497)	(105,151)	(106,998)	(98,194)	(112,643)	50,086	25,416	(18,020)
Investment Income:										
Interest, Dividends and Other Investment Income	19,547	20,442	16,317	10,706	10,366	13,256	14,546	19,078	17,908	13,582
Net Appreciation (Depreciation) in Fair Value	120,437	(97,805)	(88,338)	7,591	123,349	78,291	77,641	141,803	(68,506)	(218,896)
Net Investment Income	139,984	(77,363)	(72,021)	18,297	133,715	91,547	92,187	160,881	(50,598)	(205,314)
Net Increase (Decrease)	56,181	(77,563)	(99,518)	(86,854)	26,717	(6,647)	(20,456)	210,967	(25,182)	(223,334)
Net Assets Available–										
End of Year	\$1,015,682	\$ 938,119	\$ 838,601	\$ 751,747	\$ 778,464	\$ 771,817	\$ 751,361	\$ 962,328	\$ 937,146	\$ 713,812



SCHEDULE OF GROUP LIFE INSURANCE ADDITIONS BY SOURCE

FISCAL YEARS 2000-2009

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Contributions				Investment Income (Loss)	Other	Total
	State	Teachers	Political Subdivisions	Sub-Total			
2009	\$ 40,369	\$ 58,855	\$ 35,839	\$ 135,063	\$ (205,314)	\$ -	\$ (70,251)
2008	52,503	60,405	45,915	158,823	(50,598)	-	108,225
2007	51,116	74,442	44,266	169,824	160,881	-	330,705
2006*	(2)	-	54	52	92,187	-	92,239
2005*	1	(33)	1	(31)	91,547	-	91,516
2004*	1	-	19	20	133,715	-	133,735
2003*	5	22	17	44	18,297	-	18,341
2002*	22,919	28,267	17,614	68,800	(72,021)	-	(3,221)
2001	29,703	37,027	21,894	88,624	(77,363)	-	11,261
2000*	1	2	41	44	139,707	277	140,028

*The group life insurance contribution rates for fiscal years 2006, 2005, 2004, 2003 and 2000 were zero as a result of a statutory premium holiday. Amounts shown are adjustments and contributions for new employers. There also was a premium holiday beginning in April 2002.

SCHEDULE OF GROUP LIFE INSURANCE DEDUCTIONS BY TYPE

FISCAL YEARS 2000-2009

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Group Life Claims			Administrative Expenses	Other	Total
	Active	Retired	Sub-Total			
2009	\$ 64,119	\$ 87,550	\$ 151,669	\$ 700	\$ 714	\$ 153,083
2008	55,814	76,279	132,093	686	628	133,407
2007	46,322	72,305	118,627	568	543	119,738
2006	43,140	68,350	111,490	716	489	112,695
2005	37,139	59,902	97,041	678	444	98,163
2004	42,290	63,741	106,031	615	372	107,018
2003	44,614	59,661	104,275	644	276	105,195
2002	39,617	56,008	95,625	474	198	96,297
2001	36,899	51,280	88,179	475	170	88,824
2000	34,113	48,912	83,025	626	196	83,847

FIGURE 5.11 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS – RETIREE HEALTH INSURANCE CREDIT FUND

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	2000*	2001	2002	2003	2004	2005	2006	2007	2008**	2009
Net Assets Available–Beginning of Year	\$ 65,008	\$ 38,143	\$ 53,980	\$ 76,184	\$ 92,222	\$120,895	\$146,956	\$178,068	\$224,606	\$251,634
Funding:										
Employer Contributions and Other Additions	17,592	73,901	85,209	74,123	78,383	81,995	86,913	92,919	148,908	146,333
Reimbursements and Administrative Expenses	(50,780)	(54,975)	(57,925)	(61,350)	(65,292)	(69,474)	(72,819)	(80,803)	(109,426)	(115,878)
Net Funding	(33,188)	18,926	27,284	12,773	13,091	12,521	14,094	12,116	39,482	30,455
Investment Income:										
Interest, Dividends and Other Investment Income	872	816	1,150	1,910	1,207	1,960	2,685	4,082	4,407	3,314
Net Appreciation (Depreciation) in Fair Value	5,451	(3,905)	(6,230)	1,355	14,375	11,580	14,333	30,340	(16,861)	(53,409)
Net Investment Income	6,323	(3,089)	(5,080)	3,265	15,582	13,540	17,018	34,422	(12,454)	(50,095)
Net Increase (Decrease)	(26,865)	15,837	22,204	16,038	28,673	26,061	31,112	46,538	27,028	(19,640)
Net Assets Available–End of Year	\$ 38,143	\$ 53,980	\$ 76,184	\$ 92,222	\$120,895	\$146,956	\$178,068	\$224,606	\$251,634	\$231,994

*No contributions were paid for state employees during FY 2000. The maximum health insurance credit amount for state employees increased to \$120.00 per month and for teachers to \$75.00 per month effective July 1, 1999.

**The health credit for teachers was raised to \$4.00 per month for each year of service with no cap on the benefit. The balance in the Enhanced Retiree Health Insurance Credit Program for Teachers was refunded to employers.

FIGURE 5.12 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS – DISABILITY INSURANCE TRUST FUND

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Assets Available–Beginning of Year	\$ 8,415	\$ 30,887	\$ 46,137	\$ 57,906	\$ 78,383	\$103,322	\$144,234	\$191,872	\$263,586	\$313,521
Funding:										
Employer Contributions and Other Additions	25,317	27,233	27,850	34,813	35,247	54,505	57,991	65,726	99,430	71,337
Disability Insurance Benefits and Administrative Expenses	(5,325)	(9,065)	(12,069)	(17,571)	(24,506)	(26,316)	(27,915)	(34,048)	(32,697)	(28,800)
Net Funding	19,992	18,168	15,781	17,242	10,741	28,189	30,076	31,678	66,733	42,537
Investment Income:										
Interest, Dividends and Other Investment Income	342	770	908	1,893	1,101	1,843	2,771	4,749	5,946	4,339
Net Appreciation (Depreciation) in Fair Value	2,138	(3,688)	(4,920)	1,342	13,097	10,880	14,791	35,287	(22,744)	(69,916)
Net Investment Income	2,480	(2,918)	(4,012)	3,235	14,198	12,723	17,562	40,036	(16,798)	(65,577)
Net Increase (Decrease)	22,472	15,250	11,769	20,477	24,939	40,912	47,638	71,714	49,935	(23,040)
Net Assets Available – End of Year	\$ 30,887	\$ 46,137	\$ 57,906	\$ 78,383	103,322	\$144,234	\$191,872	\$263,586	\$313,521	\$290,481

VRS-Participating Employers

More than 800 employers participate in the Virginia Retirement System (VRS) on behalf of their employees. Employers include state agencies, public colleges and universities, school divisions and political subdivisions. The following employers were participating in VRS as of June 30, 2009:

PARTICIPATING POLITICAL SUBDIVISIONS: 442

COUNTIES: 93

Accomack County	Dickenson County	King William County	Prince William County
Albemarle County	Dinwiddie County	Lancaster County	Pulaski County
Alleghany County	Essex County	Lee County	Rappahannock County
Amelia County	Fauquier County	Loudoun County	Richmond County
Amherst County	Floyd County	Louisa County	Roanoke County
Appomattox County	Fluvanna County	Lunenburg County	Rockbridge County
Augusta County	Franklin County	Madison County	Rockingham County
Bath County	Frederick County	Mathews County	Russell County
Bedford County	Giles County	Mecklenburg County	Scott County
Bland County	Gloucester County	Middlesex County	Shenandoah County
Botetourt County	Goochland County	Montgomery County	Smyth County
Brunswick County	Grayson County	Nelson County	Southampton County
Buchanan County	Greene County	New Kent County	Spotsylvania County
Buckingham County	Greensville County	Northampton County	Stafford County
Campbell County	Halifax County	Northumberland County	Surry County
Caroline County	Hanover County	Nottoway County	Sussex County
Carroll County	Henrico County	Orange County	Tazewell County
Charles City County	Henry County	Page County	Warren County
Charlotte County	Highland County	Patrick County	Washington County
Chesterfield County	Isle of Wight County	Pittsylvania County	Westmoreland County
Clarke County	James City County	Powhatan County	Wise County
Craig County	King & Queen County	Prince Edward County	Wythe County
Culpeper County	King George County	Prince George County	York County
Cumberland County			

CITIES AND TOWNS: 157

City of Alexandria	City of Hampton	City of Richmond	Town of Ashland
City of Bedford	City of Harrisonburg	City of Roanoke	Town of Berryville
City of Bristol	City of Hopewell	City of Salem	Town of Big Stone Gap
City of Buena Vista	City of Lexington	City of Staunton	Town of Blacksburg
City of Chesapeake	City of Lynchburg	City of Suffolk	Town of Blackstone
City of Colonial Heights	City of Manassas	City of Virginia Beach	Town of Bluefield
City of Covington	City of Manassas Park	City of Waynesboro	Town of Bowling Green
City of Danville	City of Martinsville	City of Williamsburg	Town of Boyce
City of Emporia	City of Norfolk	City of Winchester	Town of Boydton
City of Fairfax	City of Norton	Town of Abingdon	Town of Boykins
City of Falls Church	City of Petersburg	Town of Alberta	Town of Bridgewater
City of Franklin	City of Poquoson	Town of Altavista	Town of Broadway
City of Fredericksburg	City of Portsmouth	Town of Amherst	Town of Brodnax
City of Galax	City of Radford	Town of Appomattox	Town of Brookneal

Continued

CITIES AND TOWNS, CONTINUED

Town of Burkeville	Town of Gordonsville	Town of Middletown	Town of Smithfield
Town of Cape Charles	Town of Gretna	Town of Mineral	Town of South Boston
Town of Chase City	Town of Grottoes	Town of Montross	Town of South Hill
Town of Chatham	Town of Grundy	Town of Mt. Jackson	Town of St. Paul
Town of Chilhowie	Town of Halifax	Town of Narrows	Town of Stanley
Town of Chincoteague	Town of Hamilton	Town of New Market	Town of Stephens City
Town of Christiansburg	Town of Haysi	Town of Onancock	Town of Strasburg
Town of Clarksville	Town of Herndon	Town of Onley	Town of Stuart
Town of Clifton Forge	Town of Hillsville	Town of Orange	Town of Tappahannock
Town of Coeburn	Town of Hurt	Town of Parksley	Town of Tazewell
Town of Colonial Beach	Town of Independence	Town of Pearisburg	Town of Timberville
Town of Courtland	Town of Iron Gate	Town of Pembroke	Town of Urbanna
Town of Craigsville	Town of Jarratt	Town of Pennington Gap	Town of Victoria
Town of Crewe	Town of Jonesville	Town of Pound	Town of Vienna
Town of Culpeper	Town of Kenbridge	Town of Pulaski	Town of Vinton
Town of Dayton	Town of Kilmarnock	Town of Purcellville	Town of Wakefield
Town of Dillwyn	Town of La Crosse	Town of Quantico	Town of Warrenton
Town of Dublin	Town of Lawrenceville	Town of Remington	Town of Warsaw
Town of Dumfries	Town of Leesburg	Town of Rich Creek	Town of Waverly
Town of Edinburg	Town of Louisa	Town of Rocky Mount	Town of Weber City
Town of Elkton	Town of Luray	Town of Round Hill	Town of West Point
Town of Exmore	Town of Madison	Town of Rural Retreat	Town of Windsor
Town of Floyd	Town of Marion	Town of Saltville	Town of Wise
Town of Front Royal	Town of McKenney	Town of Scottsville	Town of Woodstock
Town of Gate City	Town of Middleburg	Town of Shenandoah	Town of Wytheville
Town of Glasgow			

AUTHORITIES, COMMISSIONS, DISTRICTS, REGIONAL INSTITUTIONS AND COMMUNITY SERVICES BOARDS: 192

Accomack-Northampton Planning District Commission	Big Sandy Soil & Water Conservation District	Capital Regional Airport Commission	Chesterfield County Health Center Commission
Albemarle County Service Authority	Big Stone Gap Redevelopment & Housing Authority	Central Rappahannock Regional Library	Clinch Valley Soil & Water Conservation District
Albemarle-Charlottesville Regional Jail	Big Walker Soil & Water Conservation District	Central Virginia Community Services Board	Coeburn-Norton-Wise Regional Water Treatment Authority
Alexandria Redevelopment & Housing Authority	Blacksburg-Christiansburg-VPI Water Authority	Central Virginia Regional Jail	Colonial Services Board
Alexandria Sanitation Authority	Blacksburg-VPI Sanitation Authority	Central Virginia Waste Management Authority	Colonial Soil & Water Conservation District
Alleghany Highlands Community Services Board	Blue Ridge Behavioral Healthcare Center	Charles Pickney Jones Memorial Library	Commonwealth Regional Council
Amherst County Service Authority	Blue Ridge Juvenile Detention Center	Charlottesville-Albemarle Airport Authority	Crater Juvenile Detention Home Commission
Anchor Commission	Blue Ridge Regional Jail Authority	Charlottesville Redevelopment & Housing Authority	Culpeper Soil & Water Conservation District
Appalachian Juvenile Commission	Bristol Redevelopment & Housing Authority	Chesapeake Bay Bridge & Tunnel District	Cumberland Mountain Community Services Board
Appomattox Regional Library	Brunswick Industrial Development Authority	Chesapeake Redevelopment & Housing Authority	Cumberland Plateau Regional Housing Authority
Appomattox River Water Authority	Campbell County Utilities & Service Authority		
Augusta County Service Authority			
Bedford County Public Service Authority			
Bedford Public Library			

Continued

AUTHORITIES, COMMISSIONS, DISTRICTS, REGIONAL INSTITUTIONS AND COMMUNITY SERVICES BOARDS, CONTINUED

Daniel Boone Soil & Water Conservation District	Handley Regional Library	New River Valley Planning District Commission	Rappahannock Area Community Services Board
Danville-Pittsylvania Community Services Board	Harrisonburg-Rockingham Community Services Board	New River Valley Regional Jail	Rappahannock Juvenile Center
Danville Redevelopment & Housing Authority	Harrisonburg-Rockingham Regional Sewer Authority	Norfolk Airport Authority	Rappahannock-Rapidan Community Services Board
Dinwiddie County Water Authority	Henricopolis Soil & Water Conservation District	Norfolk Redevelopment & Housing Authority	Rappahannock-Rapidan Regional Planning District Commission
District 19 Community Services Board	Henry County Public Service Authority	Northern Neck-Essex County Group Home Commission	Rappahannock Regional Jail
Eastern Shore Community Services Board	Holston River Soil & Water Conservation District	Northern Neck Planning District Commission	Region Ten Community Services Board
Eastern Shore Public Library	Hopewell Redevelopment & Housing Authority	Northern Neck Regional Jail	Richmond Metropolitan Authority
Eastern Shore Soil & Water Conservation District	Institute for Advanced Learning and Research	Northern Shenandoah Valley Regional Commission	Richmond Redevelopment & Housing Authority
Economic Development Authority of Henrico County	James City Service Authority	Northern Virginia Health Care Center Commission	Richmond Regional Planning District Commission
Evergreen Soil & Water Conservation District	John Marshall Soil & Water Conservation District	Northern Virginia Juvenile Detention Home	Rivanna Solid Waste Authority
Fauquier County Water & Sanitation Authority	Lee County Redevelopment & Housing Authority	Northwestern Community Services Board	Rivanna Water & Sewer Authority
Ferrum Water & Sewage Authority	Lee County Public Service Authority	Opportunity Inc. of Hampton Roads	Riverside Regional Jail
Fort Monroe Area Development Authority	Lenwisco Planning District Commission	Pamunkey Regional Jail	Roanoke Higher Education Authority
Franklin Redevelopment & Housing Authority	Lonesome Pine Regional Library	Peaks of Otter Soil & Water Conservation District	Roanoke River Service Authority
Frederick County Sanitation Authority	Loudoun County Sanitation Authority	Peninsula Airport Commission	Robert E. Lee Soil & Water Conservation District
Fredericksburg-Stafford Park Authority	Massanuttan Regional Library	Pepper's Ferry Regional Wastewater Authority	Rockbridge Area Community Services Board
Giles County Public Service Authority	Meherrin Regional Library	Peter Francisco Soil & Water Conservation District	Rockbridge Area Social Services Department
Goochland-Powhatan Community Services Board	Middle Peninsula-Northern Neck Community Services Board	Petersburg Redevelopment & Housing Authority	Rockbridge County Public Service Authority
Greensville County Water & Sewer Authority	Middle Peninsula Planning District Commission	Peumansend Creek Regional Jail	Rockbridge Regional Library
Greensville-Emporia Department of Social Services	Middle Peninsula Regional Security Center	Piedmont Community Services Board	Russell County Public Service Authority
Halifax Service Authority	Middle River Regional Jail Authority	Piedmont Regional Jail	Russell County Water & Sewage Authority
Hampton-Newport News Community Services Board	Monacan Soil & Water Conservation District	Piedmont Regional Juvenile Detention Center	Scott County Public Service Authority
Hampton Redevelopment & Housing Authority	Montgomery Regional Solid Waste Authority	Pittsylvania County Service Authority	Scott County Redevelopment & Housing Authority
Hampton Roads Planning District Commission	Nelson County Service Authority	Planning District One Behavioral Health Services Board	Scott County Soil & Water Conservation District
Hampton Roads Regional Jail Authority	New River Resource Authority	Potomac and Rappahannock Transportation Commission	Shenandoah Valley Juvenile Detention Home Commission
Hampton Roads Sanitation District	New River Soil & Water Conservation District	Potomac River Fisheries Commission	Shenandoah Valley Regional Airport Commission
Hampton Roads Transit	New River Valley Community Services Board	Prince William County Service Authority	Skyline Soil & Water Conservation District
	New River Valley Juvenile Detention Home Commission	Prince William Soil & Water Conservation District	South Central Wastewater Authority

Continued

AUTHORITIES, COMMISSIONS, DISTRICTS, REGIONAL INSTITUTIONS AND COMMUNITY SERVICES BOARDS, CONTINUED

Southeastern Virginia Public Service Authority	Suffolk Redevelopment & Housing Authority	Virginia Biotechnology Research Park Authority	Western Tidewater Community Services Board
Southside Community Services Board	Sussex Service Authority	Virginia Coalfield Economic Development Authority	Western Tidewater Regional Jail
Southside Planning District Commission	Tazewell Soil & Water Conservation District	Virginia Highlands Airport Commission	Western Virginia Regional Jail Authority
Southside Regional Jail	Thomas Jefferson Planning District Commission	Virginia Peninsula Regional Jail	Western Virginia Water Authority
Southside Regional Juvenile Group Home Commission	Thomas Jefferson Soil & Water Conservation District	Virginia Peninsulas Public Service Authority	Wise County Public Service Authority
Southside Regional Library Board	Tidewater Regional Group Home Commission	Virginia Resources Authority	Wise County Redevelopment & Housing Authority
Southwest Virginia Regional Jail	Tidewater Soil & Water Conservation District	Virginia's Region 2000 Local Government Council	Wythe-Grayson Regional Library
Spotsylvania-Stafford-Fredericksburg Group Home Commission	Tri-County/City Soil & Water Conservation District	Washington County Service Authority	Wytheville Redevelopment & Housing Authority
Staunton Redevelopment & Housing Authority	Upper Occoquan Sewage Authority	Waynesboro Redevelopment & Housing Authority	
	Valley Community Services Board		

SCHOOLS: 144

COUNTY SCHOOLS: 94

Accomack County Schools*	Cumberland County Schools*	King William County Schools*	Pulaski County Schools*
Albemarle County Schools*	Dickenson County Schools*	Lancaster County Schools*	Rappahannock County Schools*
Alleghany County Schools*	Dinwiddie County Schools*	Lee County Schools*	Richmond County Schools*
Amelia County Schools*	Essex County Schools*	Loudoun County Schools*	Roanoke County Schools*
Amherst County Schools*	Fairfax County Schools	Louisa County Schools*	Rockbridge County Schools*
Appomattox County Schools*	Fauquier County Schools*	Lunenburg County Schools*	Rockingham County Schools*
Arlington County Schools*	Floyd County Schools*	Madison County Schools*	Russell County Schools*
Augusta County Schools*	Fluvanna County Schools*	Mathews County Schools*	Scott County Schools*
Bath County Schools*	Franklin County Schools*	Mecklenburg County Schools*	Shenandoah County Schools*
Bedford County Schools*	Frederick County Schools*	Middlesex County Schools*	Smyth County Schools*
Bland County Schools*	Giles County Schools*	Montgomery County Schools*	Southampton County Schools*
Botetourt County Schools*	Gloucester County Schools*	Nelson County Schools*	Spotsylvania County Schools*
Brunswick County Schools*	Goochland County Schools*	New Kent County Schools*	Stafford County Schools*
Buchanan County Schools*	Grayson County Schools*	Northampton County Schools*	Surry County Schools*
Buckingham County Schools*	Greene County Schools*	Northumberland County Schools*	Sussex County Schools*
Campbell County Schools*	Greensville County Schools*	Nottoway County Schools*	Tazewell County Schools*
Caroline County Schools*	Halifax County Schools*	Orange County Schools*	Warren County Schools*
Carroll County Schools*	Hanover County Schools*	Page County Schools*	Washington County Schools*
Charles City County Schools*	Henrico County Schools*	Patrick County Schools*	Westmoreland County Schools*
Charlotte County Schools*	Henry County Schools*	Pittsylvania County Schools*	Wise County Schools*
Chesterfield County Schools*	Highland County Schools*	Powhatan County Schools*	Wythe County Schools*
Clarke County Schools*	Isle of Wight County Schools*	Prince Edward County Schools*	York County Schools*
Craig County Schools*	King & Queen County Schools*	Prince George County Schools*	
Culpeper County Schools*	King George County Schools*	Prince William County Schools*	

**Non-professional employees also are covered (133 school boards).*

Continued

CITY AND TOWN SCHOOLS: 39

Alexandria City Schools*	Falls Church Public Schools	Manassas Park City Schools*	Roanoke City Schools*
Bristol City Schools*	Franklin City Schools*	Martinsville City Schools*	Salem City Schools*
Buena Vista City Schools*	Fredericksburg City Schools*	Newport News Public Schools	Staunton City Schools*
Charlottesville Public Schools*	Galax City Schools*	Norfolk Public Schools*	Suffolk City Schools*
Chesapeake Public Schools*	Hampton City Schools*	Norton City Schools*	Virginia Beach City Schools*
Colonial Beach Schools	Harrisonburg City Schools*	Petersburg City Schools*	Waynesboro City Schools*
Colonial Heights City Schools*	Hopewell City Schools*	Poquoson City Schools*	West Point Schools
Covington City Schools*	Lexington City Schools*	Portsmouth City Schools*	Williamsburg-James City County Schools*
Danville City Schools*	Lynchburg Public Schools*	Radford City Schools*	Winchester Public Schools*
Fairfax City Schools	Manassas City Schools*	Richmond Public Schools*	

OTHER SCHOOLS: 11

Amelia-Nottoway Vocational Center	Jackson River Vocational Technical Center*	New Horizons Technical Center*	Rowanty Vocational Technical Center
Appomattox Regional Governor's School*	Maggie Walker Governor's School for Government and International Studies	Northern Neck Regional Special Education Program	The Pruden Center for Industry and Technology*
Charlottesville-Albemarle Vocational Technical Center		Northern Neck Regional Vocational Center*	Valley Vocational Technical Center*

*Non-professional employees also are covered (133 school boards).

AGENCIES OF THE COMMONWEALTH OF VIRGINIA, INCLUDING PUBLIC COLLEGES AND UNIVERSITIES: 235

TOTAL VRS-PARTICIPATING EMPLOYERS: 821

FIGURE 5.13 – VRS EMPLOYER RANKING

AS OF JUNE 30, 2009

Employer	Active Employees	Percentage of Total
1. Fairfax County Schools - Professional Employees	19,492	5.62%
2. Virginia Beach City Schools - Professional Employees	8,466	2.44%
3. Prince William County Schools - Professional Employees	7,495	2.16%
4. Loudoun County Schools - Professional Employees	6,856	1.98%
5. Chesterfield County Schools - Professional Employees	6,300	1.82%
6. City of Virginia Beach - General Government	6,006	1.73%
7. University of Virginia - Academic Division	5,512	1.59%
8. Norfolk City Schools - Professional Employees	5,214	1.50%
9. Henrico County - General Government	5,036	1.45%
10. Henrico County Schools - Professional Employees	4,992	1.44%
All Others	271,560	78.27%
Total	346,929	100.00%



Commonwealth of Virginia 457 Deferred Compensation Plan

Program with Oversight by VRS

457 PLAN OVERVIEW

The Commonwealth of Virginia 457 Deferred Compensation Plan is qualified under section 457(b) of the Internal Revenue Code and regulated by Title 51.1, Chapter 6, of the *Code of Virginia*. The 457 Plan provides eligible members a way to save for retirement through deferrals of compensation each pay period.

The Virginia Retirement System (the System) has oversight but no investment responsibility for the 457 Plan. The plan's assets, therefore, are not included in the System's Basic Financial Statements.

FIGURE 5.14 – STATEMENT OF CHANGES IN 457 PLAN ACCUMULATION ASSETS
FOR THE YEARS ENDED JUNE 30

	2009	2008
Plan Assets on July 1	\$1,059,350,294	\$ 1,055,424,937
Contributions	123,977,871	124,491,852
Distributions	(38,048,870)	(52,543,564)
Plan Transfers ¹	549,743	682,835
Third-Party Administrative Fees ²	(1,995,288)	(2,570,155)
Period Earnings	(149,572,183)	(66,135,611)
Plan Assets on June 30	\$ 994,261,567	\$ 1,059,350,294

¹ Represents plan transfers from other eligible Section 457(b) plans into the Commonwealth's plan.

² The third-party administrator, ING Institutional Plan Services, is compensated based on an annual recordkeeping and communication fee of 19 basis points (0.19%) capped at combined account balances of \$130,000. In addition, VRS incurred administrative costs in FY 2009 and FY 2008 of \$769,410 and \$617,418, respectively. These costs are funded by the employers participating in the plan.

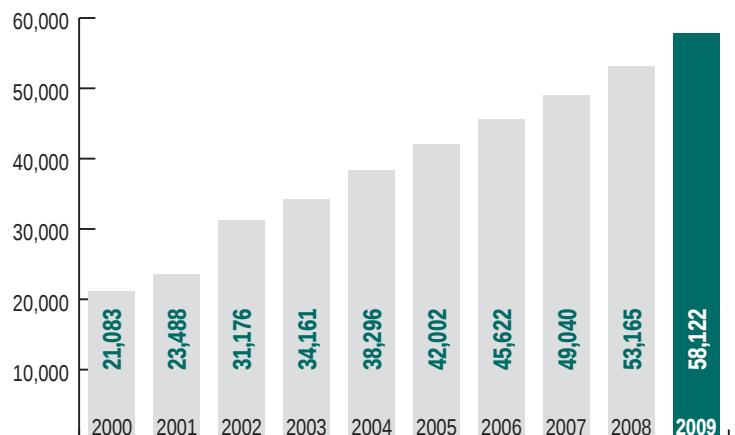
ELIGIBILITY

New and re-hired salaried state employees are automatically enrolled in the 457 Plan upon employment with two opportunities to opt out of the plan. The 457 Plan is voluntary to salaried state employees hired before January 1, 2008 and eligible political subdivision employees whose employers have elected to participate in the plan.

Approximately 8,595 employees were enrolled in the plan during the fiscal year ended June 30, 2009. As shown in Figure 5.15, there were approximately 58,122 employees in the plan at June 30, 2009. Contributions to the plan during FY 2009 and FY 2008 were \$123,977,871 and \$124,491,852, respectively. Figure 5.14 presents details of 457 Plan activity for the years ended June 30, 2009 and 2008.

Current state legislation establishing the 457 Plan allows participants to use plan funds to purchase eligible prior service credit in their defined benefit plan. Approximately 92 plan participants used the trustee-to-trustee transfer provision to buy VRS service credit.

FIGURE 5.15 – ACTIVE AND INACTIVE 457 PLAN PARTICIPANTS
AT JUNE 30



Description of 457 Plan Funds

AS OF JUNE 30, 2009

The 457 Plan offers the following core investment options to plan participants. Total participant accounts in each option as of June 30, 2009 (Figure 5.16), accumulated 457 Plan assets for the years ended June 30, 2008 and 2009 (Figure 5.17) and an investment option performance summary for the year ended June 30, 2009 follow the fund descriptions.

TIER I: PASSIVELY MANAGEMENT ASSET ALLOCATION FUNDS

Income & Growth Fund: Seeks to provide income and a modest level of capital growth by investing in a combination of bonds and stocks, which is anticipated to provide long-term total returns that are slightly higher than inflation with the possibility of occasional short-term losses.

U.S. Bonds - 75.0% U.S. Stocks - 22.0% Foreign Stocks - 3.0%

Balanced Growth Fund: Seeks to provide income and a modest level of capital growth by investing in a combination of bonds and stocks, which is anticipated to provide long-term total returns that are higher than inflation with the possibility of short-term losses.

U.S. Bonds - 50.0% U.S. Stocks - 43.0% Foreign Stocks - 7.0%

Long-Term Growth Fund: Seeks to provide capital growth by investing in a combination of bonds and stocks, which is anticipated to provide long-term total returns that are higher than inflation with the possibility of significant short-term losses.

U.S. Stocks - 64.0% U.S. Bonds - 25.0% Foreign Stocks - 11.0%

VRS Investment Portfolio – Interim Account: Seeks to provide a daily valued investment account, using the Long-Term Growth Fund as described above, where contributions and investment transfers are held until invested in the Virginia Retirement System Investment Portfolio (VRSIP).

U.S. Stocks - 64.0% U.S. Bonds - 25.0% Foreign Stocks - 11.0%

TIER II: PASSIVELY MANAGED FUNDS

Bond Index Fund: Seeks to track the total return performance of the Barclays Capital Aggregate Bond Index. This index is comprised of government, corporate, mortgage-backed and asset-backed securities.

Mortgage-Backed Securities - 37.9% Treasury - 25.7% Industrial - 9.8% Agency - 9.7%
Finance - 6.6% Non-Corporates - 3.8% CMBS - 3.3% Utilities - 2.3%
Asset-Backed Securities - 0.5% Cash - 0.4%

S&P 500 Index Fund: Seeks to track the performance of the Standard & Poor's 500 Index. This index is comprised of 500 widely held U.S. stocks chosen by Standard & Poor's.

Information Technology - 18.4%	Health Care - 14.0%	Financials - 13.5%	Energy - 12.4%	Consumer Staples - 12.0%
Industrials - 9.9%	Consumer Discretionary - 9.0%	Utilities - 4.1%	Telecommunication Services - 3.5%	Materials - 3.2%

Russell 1000 Value Index Fund: Seeks to track the performance of the Russell 1000 Value Index. This index is comprised of stocks in the Russell 1000 that have lower price-to-book ratios and lower forecasted growth values.

Financials - 23.0%	Energy - 19.6%	Industrials - 10.0%	Health Care - 9.9%	Consumer Discretionary - 9.0%
Utilities - 7.8%	Telecommunication Services - 6.3%	Consumer Staples - 5.9%		
Information Technology - 4.9%	Materials - 3.6%			

Russell 1000 Growth Index Fund: Seeks to track the performance of the Russell 1000 Growth Index. This index is comprised of stocks in the Russell 1000 that have higher price-to-book ratios and higher forecasted growth values.

Information Technology - 31.4%	Health Care - 17.2%	Consumer Staples - 16.5%
Consumer Discretionary - 10.2%	Industrials - 9.9%	Financials - 5.0%
Utilities - 1.0%	Telecommunication Services - 0.6%	Energy - 4.3%
		Materials - 3.9%

Russell 3000 Index Fund: Seeks to track the performance of the Russell 3000 Index. This index is comprised of the 3,000 largest stocks in the U.S. market and accounts for approximately 97% of the U.S. stock market capitalization.

Information Technology - 18.6%	Financials - 14.1%	Health Care - 13.6%	Energy - 11.3%
Consumer Staples - 10.7%	Industrials - 10.5%	Consumer Discretionary - 9.9%	Utilities - 4.3%
Materials - 3.8%	Telecommunication Services - 3.2%		

Small/Mid Capitalization Equity Index Fund: Seeks to track the performance of the Russell Small Capitalization Completeness Index. This index is considered indicative of the small to mid-capitalization sector of the U.S. Stock Market in general.

Information Technology - 18.5%	Financials - 18.5%	Industrials - 14.2%	Consumer Discretionary - 14.2%
Health Care - 12.3%	Materials - 5.9%	Energy - 5.8%	Utilities - 5.0%
Consumer Staples - 3.8%	Telecommunication Services - 1.8%		

International Equity Index Fund: Seeks to track the performance of the Morgan Stanley Capital International Europe, Australasia, Far East Index (MSCI EAFE). This index is comprised of stocks in 21 countries in Europe and the Pacific Basin.

Financials - 24.4%	Industrials - 11.5%	Consumer Discretionary - 10.1%	Consumer Staples - 10.1%
Materials - 9.2%	Energy - 8.6%	Health Care - 8.4%	Utilities - 6.3%
Information Technology - 5.3%	Other - 0.1%	Telecommunication Services - 6.0%	

Real Estate Investment Trust Fund Index: Seeks to track the performance of the Dow Jones U.S. Select REIT Index. This index is a market capitalization weighted index of publicly traded Real Estate Investment Trusts (REITs).

Apartments - 15.5%	Health Care-14.3%	Regional Malls-13.2%	Office - 12.5%	Retail Strip Centers - 10.2%
Industrial - 7.8%	Self Storage - 7.0%	Diversified - 6.7%	Hotels - 6.2%	Mixed Industrial/Office - 5.1%
	Manufactured Homes - 0.8%	Factory Outlets - 0.7%		

TIER III: ACTIVELY MANAGED FUNDS

Money Market Fund: Seeks to provide safety of principal, daily liquidity and a competitive yield by investing in high quality money market instruments.

CDs, ECDs, TDs, BAs - 59.0%	Repurchase Agreements - 22.3%	Commercial Paper - 14.7%
Agency - 2.8%	Bank Notes Corporates/MTNs - 1.2%	

Active Inflation-Protected Bond Fund: Seeks to provide inflation protection and income consistent with investment in inflation-indexed securities.

U.S. Treasury/Agency - 100.2%	Other - (0.2%)
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Active Bond Fund: Seeks to provide maximum total return, consistent with preservation of capital and prudent investment management by investing in a diversified portfolio of primarily high-quality bonds that is actively managed to maximize return in a risk controlled framework.

Mortgage - 54.0%	U.S. Government/Agency - 24.0%	Investment Grade Credit - 18.0%	Emerging Markets - 3.0%
Municipal - 3.0%	Non-U.S. Developed - 2.0%	High Yield Credit - 2.0%	Net Cash Equivalents - (6.0%)

Active High-Yield Bond Fund: Seeks to provide a high level of current income and long-term returns, which exceed the performance of the custom benchmark consisting of 95% Barclays Capital High-Yield ex-CCC Index and 5% Barclays Capital 1-3 Year Treasury Index.

Communication - 19.5%	Consumer, Non-Cyclical - 15.6%	Consumer, Cyclical - 13.3%	Utilities - 12.2%
Basic Industry - 10.3%	Energy - 9.6%	Finance - 5.2%	Capital Goods - 5.1%
	U.S. Treasury/Agency - 3.1%	Transportation - 2.3%	Technology - 3.5%
		Industrial Other - 0.3%	

Active Global Equity Fund: Seeks to provide long-term growth of capital with current income, which exceed the performance of the MSCI World Index. This index is a measure of the global developed market.

Geographic Breakdown: Europe - 44.9%	United States - 22.0%	Asia/Pacific Basin - 14.9%	Cash & Equivalents - 12.7%
	Canada & Latin America - 4.9%	Other - 0.6%	

Stable Value Fund: Seeks to provide a safety of principal while earning a reasonable level of interest income consistent with an underlying portfolio of short to intermediate duration high-yield fixed-income (bond) securities, and liquidity to accommodate participant transactions.

Security Backed Contracts (Wrap Providers): State Street Bank & Trust - 40.3% JP Morgan Chase Bank - 21.6%
Royal Bank of Canada - 18.6% Stable Value Funds: Wells Fargo Stable Return Fund - 19.5%

VRS Investment Portfolio: Seeks to maximize return while managing risk within an acceptable range. Due to the long-term nature of the define benefit plan’s liabilities, the horizon for investment decisions is generally defined as 10 years or longer.

Fixed Income - 26.8% Domestic Equity - 21.1% Non-U.S. Equity (Dev) - 13.7% Credit Strategies - 10.0%
Private Equity - 8.4% Private Real Estate - 7.2% Emerging Markets - 5.8% Convertibles - 4.2%
Cash - 1.5% Public Real Estate - 1.3%

TIER IV: SELF-DIRECTED BROKERAGE OPTION

The Self-Directed Brokerage Account (SDBA) allows investors to select from thousands of mutual funds in addition to the core investment options in Tier I, Tier II and Tier III. The SDBA option is offered through Ameritrade Corporate Services, a division of Ameritrade, Inc. The SDBA option is for knowledgeable investors who acknowledge and understand the risks and costs associated with the mutual fund investments contained in this option. Participants cannot invest in individual securities such as stocks, bonds or options. In addition to the annual recordkeeping and communication services fee, there is a plan fee of \$12.50 per quarter, as well as transaction fees charged by Ameritrade, and investment management fees and expenses charged by the mutual fund investment managers.

FIGURE 5.16 – TOTAL PARTICIPANT ACCOUNTS IN EACH FUND OPTION

AT JUNE 30, 2009

Fund Name	Total Participant Accounts*	Fund Name	Total Participant Accounts*
Income & Growth Fund	6,708	International Equity Index Fund	9,956
Balanced Growth Fund	16,296	Real Estate Investment Trust Index Fund	7,547
Long-Term Growth Fund	9,388	Money Market Fund	4,994
VRS Investment Portfolio Interim Account	274	Active Inflation-Protected Bond Fund	3,650
Bond Index Fund	6,651	Active Bond Fund	5,356
S&P 500 Index Fund	22,345	Active High-Yield Bond Fund	2,509
Russell 1000 Value Index Fund	7,402	Active Global Equity Fund	5,162
Russell 1000 Growth Index Fund	4,818	Stable Value Fund	23,260
Russell 3000 Index Fund	2,343	VRS Investment Portfolio	277
Small/Mid Cap Equity Index Fund	12,452	Self-Directed Brokerage	159

*The number of participant accounts exceeds the number of participants as a participant may invest in more than one fund.

FIGURE 5.17 – 457 PLAN ACCUMULATION ASSETS BY FUND

FOR THE YEARS ENDED JUNE 30

Allocation by Fund Manager	FY 2009	FY 2008
Income & Growth Fund	\$ 23,366,806	\$ 21,577,392
Balanced Growth Fund	95,241,620	107,997,735
Long-Term Growth Fund	33,647,485	36,762,991
VRS Investment Portfolio - Interim Account	478,890	144,363
Bond Index Fund	46,347,451	40,426,492
S&P 500 Index Fund	180,988,456	242,429,444
Russell 1000 Value Index Fund	32,817,862	43,658,212
Russell 1000 Growth Index Fund	17,586,065	21,139,294
Russell 3000 Index Fund	6,481,921	6,898,204
Small/Mid Cap Equity Index Fund	63,939,232	84,392,447
International Equity Index Fund	43,060,520	62,893,226
Real Estate Investment Trust Index Fund	17,480,851	26,935,758
Money Market Fund	33,516,550	23,166,624
Active Inflation-Protected Bond Fund	20,650,296	18,109,498
Active Bond Fund	25,329,734	22,269,990
Active High-Yield Bond Fund	5,562,628	4,540,335
Active Global Equity Fund	19,236,139	25,991,602
Stable Value Fund (Galliard)	319,401,818	261,767,580
VRS Investment Portfolio	2,107,494	-
Self-Directed Brokerage	7,019,749	8,249,107
Total Accumulation Plan Assets	\$ 994,261,567	\$ 1,059,350,294

457 Plan Investment Option Performance Summary

FOR THE PERIOD ENDING JUNE 30, 2009

(RETURNS GREATER THAN ONE YEAR ARE ANNUALIZED)

TIER I: PASSIVELY MANAGED ASSET ALLOCATION FUNDS

Investment Options	1 Year	3 Years	5 Years	Expense Ratio
Income & Growth Fund	-2.12%	3.18%	3.81%	0.07%
Benchmark (75% Barclays Capital Aggregate Bond, 22% Russell 3000, 3% MSCI EAFE indices)	-2.67%	2.92%	3.66%	
Balanced Growth Fund	-10.69%	-0.46%	2.34%	0.08%
Benchmark (50% Barclays Capital Aggregate Bond, 43% Russell 3000, 7% MSCI EAFE indices)	-11.17%	-0.70%	2.19%	
Long-Term Growth Fund	-18.76%	-4.14%	0.76%	0.09%
VRS Investment Portfolio Interim Account	-18.76%	-4.14%	0.76%	0.09%
Benchmark (25% Barclays Capital Aggregate Bond, 64% Russell 3000, 11% MSCI EAFE indices)	-19.37%	-4.42%	0.58%	

TIER II: PASSIVELY MANAGED FUNDS

Investment Options	1 Year	3 Years	5 Years	Expense Ratio
Bond Index Fund	6.27%	6.57%	5.10%	0.06%
Barclays Capital Aggregate Bond Index	6.05%	6.43%	5.01%	
S&P 500 Index Fund	-26.04%	-8.15%	-2.19%	0.03%
S&P 500 Index	-26.21%	-8.22%	-2.24%	
Russell 1000 Value Index Fund	-28.98%	-11.04%	-2.10%	0.10%
Russell 1000 Value Index	-29.03%	-11.11%	-2.13%	
Russell 1000 Growth Index Fund	-24.47%	-5.47%	-1.86%	0.11%
Russell 1000 Growth Index	-24.50%	-5.45%	-1.83%	
Russell 3000 Index Fund	-26.12%	-8.16%	-1.72%	0.11%
Russell 3000 Index	-26.56%	-8.35%	-1.84%	
Small/Mid Cap Equity Index Fund	-27.44%	-8.60%	-0.22%	0.18%
Russell Small Cap Completeness Index	-27.83%	-8.79%	-0.36%	
International Equity Index Fund	-31.07%	-7.80%	2.42%	0.15%
MSCI EAFE Index	-31.35%	-7.98%	2.31%	
Real Estate Investment Trust Index Fund	-45.50%	-19.82%	-3.49%	0.33%
Dow Jones U.S. Select REIT Index	-45.35%	-19.73%	-3.28%	

TIER III: ACTIVELY MANAGED FUNDS

Investment Options	1 Year	3 Years	5 Years	Expense Ratio
Money Market Fund	1.36%	3.62%	3.44%	0.10%
91-Day Treasury Bill Average	0.62%	2.97%	3.12%	
Active Inflation-Protected Bond Fund	-2.34%	5.46%	4.74%	0.09%
Barclays Capital US Treasury Inflation Notes Index	-1.12%	5.78%	4.94%	
Active Bond Fund	9.26%	8.41%	6.36%	0.52%
Barclays Capital Aggregate Bond Index	6.05%	6.43%	5.01%	
Active High-Yield Bond Fund	-3.60%	1.12%	2.97%	0.18%
Custom Composite Index	-1.65%	2.64%	4.39%	
Active Global Equity Fund	-26.46%	-3.57%	4.94%	0.50%
MCSI World Index	-29.50%	-8.02%	0.03%	
Stable Value Fund	4.21%	4.98%	5.12%	0.22%
The Stable Value Fund current yield as of June 30, 2009 was 2.38%				
VRS Investment Portfolio (VRSIP)*	-24.60%	-2.86%	3.23%	0.49%
Intermediate-Term Benchmark	-25.01%	-3.80%	2.14%	
Long-Term Benchmark	-22.10%	-3.67%	0.78%	

*VRSIP and benchmark performance returns are reported with a one month lag. Information is as of May 31, 2009.





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