

## VRS Experiences 19.1 Percent Return for 2011

The Virginia Retirement System (VRS) experienced a 19.1 percent return (net return) on its investment portfolio for fiscal year 2011, ending the year with \$54.6 billion in assets.

“We are pleased with last year’s results, especially in light of steps taken in recent years to better diversify the fund. On a risk-adjusted basis, last year’s performance was outstanding,” said former VRS Chief Investment Officer Charles W. Grant.

During fiscal year 2011, the fund’s public equity program returned 27.2 percent and the real estate program returned 23.2 percent. The private equity program returned 17.6 percent and the credit strategies program returned 14.7 percent, while fixed income returned 5.8 percent.

The portfolio included \$25.9 billion in public equity, \$10.9 billion in fixed income, \$7.7 billion in credit strategies, \$4.8 billion in private equity and \$3.7 billion in real estate, as of June 30, 2011.

“The investment staff did a remarkable job by achieving these results after the board reduced the portfolio’s risk to better protect the trust fund from big market swings. Moreover, it marks the point at which the investment program earned back all the losses previously incurred during the market collapse in 2008 and 2009,” said VRS Board Chairman Diana F. Cantor. *VRS*

### Need forms, publications or more information about your benefits?

If you have access to the Internet, you can find all the forms, publications and benefit information you need on the VRS Web site at [www.varetire.org](http://www.varetire.org).

If you do not have a personal computer or a way to access the Internet, the resources and information in this newsletter are still available to you. Just call VRS toll free at 1-888-VARETIR (1-888-827-3847).

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### Your 2012 Direct Deposit Schedule

Payment for the month of:	Deposited on:
December	December 30, 2011
January	February 1, 2012
February	March 1
March	March 30
April	May 1
May	June 1
June	June 29
July	August 1
August	August 31
September	October 1
October	November 1
November	November 30
December	December 31, 2012

## Ron Schmitz Selected as New CIO

The Virginia Retirement System Board of Trustees appointed Ronald D. Schmitz to be the new VRS chief investment officer effective October 31, 2011.

Between 2003 and his appointment to VRS, Mr. Schmitz served as the chief investment officer for the \$60 billion Oregon Public Employees Retirement System (Oregon PERS) and managed the investment activities for Oregon PERS, the State Accident Insurance Fund, the Common School Fund, the Oregon Growth Account and the Short Term Fund.

Commenting on his appointment, Mr. Schmitz said, "I look forward to joining an organization that garners

a high level of respect in the investment community for its degree of professionalism and integrity, and has skillfully managed a large portfolio during the recent market downturn."

Before joining Oregon PERS, Mr. Schmitz served as chief investment officer for the Illinois State Board of Investment where he managed all aspects of the investment of pension assets for the general employee, judges and general assembly retirement systems. **VRS**



## You and Your Fellow Retirees – A Statistical View

As of June 30, 2011

### Number of Retirees

**156,165**

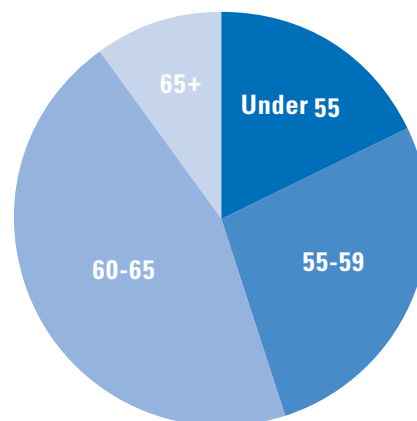
Total Retirees



From the VRS *Comprehensive Annual Financial Report* for the year ended June 30, 2011. The report is available on the VRS Web site at [www.varetire.org](http://www.varetire.org).

### All Retirees According to Age

Almost 3,300 VRS retirees are ages 90-99, and 114 are age 100 or older.



**18%**  
Under Age 55  
**27%**  
Ages 55-59

**45%**  
Ages 60-65  
**10%**  
Over Age 65

### All Retirees According to Payout Option Selected at Retirement

**72%**

Basic Benefit

**11%**

Survivor Option

**8%**

PLOP with Basic Benefit

**1%**

PLOP with Survivor Option

**8%**

Advance Pension Option

## It's Tax Time Already

If you received a monthly retirement benefit from VRS in 2011, you will receive a 1099-R form by the end of January to use to complete your 2011 federal and state income tax returns.

Talk to a professional tax advisor or your local Internal Revenue Service (IRS) office about your federal tax liability, particularly if you are not

having taxes withheld from your benefit payment. Or contact the IRS toll free at 1-800-829-1040 or visit [www.irs.gov](http://www.irs.gov).



For information regarding state taxes, contact your local commissioner of the revenue or a tax advisor. In Virginia, visit the Virginia Department of Taxation Web site at [www.tax.virginia.gov](http://www.tax.virginia.gov).

### Your 1099-R shows:

**Box 1 – Benefits VRS paid to you in 2011. Includes the total of your monthly benefit, any cost-of-living increases and any supplements you were paid.**

**Box 2a – Total taxable amount of your benefit. Equals the amount in Box 1 minus the amount in Box 5.**

**Box 4 – Total amount of federal income tax withheld in 2011. Based on the total number of exemptions reported on your Request for Income Tax Withholding (VRS-15).**

1 Gross distribution		2a Taxable amount		OMB No. 1545-0119 <b>2011</b> Form 1099-R: Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. <small>This information is being furnished to the Internal Revenue Service</small>
2b Taxable amount not determined		Total distribution		
3 Capital gain (included in Box 2a)		4 Federal income tax withheld		
5 Employee contributions/ Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities		
7 Distribution (IRA/ SEP/ SIMPLE)		8 Other		<b>COPY C</b> For Recipient's Records
9a Your percentage of total distribution		9b Total employee contributions		
10 Amount allocable to RRT within 5 years		11 1st year of desig. Roth contrib.		12 State tax withheld
13 State/Payer's state no.		14 State distribution		15 Local tax withheld
16 Name of locality		17 Local distribution		

**Box 5 – Amount of your benefit that is *not* subject to tax. Includes any contributions you made to VRS on which you already paid income taxes. Subtract the amount in Box 2a (taxable amount) from the amount in Box 1 (gross distribution) for the amount shown in this box.**

**Box 12 – Total amount of state taxes withheld if you lived in Virginia in 2011. Based on the total number of exemptions reported on your Request for Income Tax Withholding (VRS-15).**

**Live outside of Virginia? Contact your state's taxation agency for more information about completing your state income tax returns. VRS does not deduct taxes for other states.**

## Tax Ins and Outs

### Imputed income

You may receive a W-2 from VRS if you have imputed income. Imputed income is the value of VRS group life insurance coverage over \$50,000. The Internal Revenue Service (IRS) considers this amount as income to you and subject to income taxes and FICA (Social Security and Medicare) taxes. If you have VRS group life insurance coverage, VRS automatically withholds FICA taxes and sends you a W-2 form each year showing the amount of taxes withheld. This amount is to be reported on your federal and state income tax return. As your life insurance coverage reduces, the amount of imputed income also reduces. If your coverage reduces to \$50,000 or less, these taxes will no longer be withheld and you will no longer receive a W-2.

### If You Retired as a Public Safety Officer

The federal Healthcare Enhancement for Local Public Safety (HELPS) Retirees Act allows eligible retired public safety officers to exclude a certain

**Life Insurance Coverage Reduction –** Your life insurance coverage begins to reduce by 25 percent on the January 1 following one calendar year of retirement. It continues to reduce by 25 percent each January 1 until it reaches 25 percent of its original value.

For example, if you retired on June 1, 2011 and the value of your insurance coverage was \$100,000, your first 25 percent reduction will occur on January 1, 2013, when your coverage will reduce to \$75,000. Its final reduced value will be \$25,000, which will be reached on January 1, 2015.

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### Your W-2 shows:

a Control number		b Employer identification number 54-6095959		Copy B To Be Filed With Employee's FEDERAL Tax Return				OMB No. 1545-0008	
c Employer's name, address, and ZIP code Virginia Retirement System 1200 E. Main Street Richmond, VA 23219				1 Wages, tips, other compensation		2 Federal income tax withheld		4 Social security tax withheld	
				3 Social security wages		5 Medicare wages and tips		6 Medicare tax withheld	
d Employee's social security number				7 Social security tips		8 Allocated tips		11 Nonqualified plans	
				10 Dependent care benefits		12a Code		12b Code	
e Employee's name, address, and ZIP code				13		14 Other		12d Code	
				15 State		16 State wages, tips, etc.		17 State income tax	
VA		0014212558		19 Local income tax		20 Locality name		Department of the Treasury - Internal Revenue Service	

**Box 16 – Virginia wages, tips, etc.**

**Box 13 – A "C" in this box means that funds represent imputed income (e.g., your life insurance imputed income), not earned income.**

**Box 1, 3 & 5 – These boxes show your imputed income (tax liability for the cost of group life insurance for the amount over \$50,000) and any Social Security earnings or Medicare payments.**

**Box 4 & 6 – These boxes show any Social Security & Medicare tax and FICA taxes withheld year to date.**

# Working After Retirement: Five Frequently Asked Questions

**Y**ou may be thinking about returning to work. And you probably have questions about the effect that would have on your VRS retirement benefit. Here are answers to the most common questions.

## 1. Can I work and still receive my retirement benefits?

You can continue to receive your VRS retirement benefits if you work for an employer that does not participate in VRS, such as a private company or firm, non-profit agency or the federal government, or if you are self-employed.

Note that if you retired on disability and accept a position with any VRS-participating or non-VRS participating employer that requires the same or similar duties as those you performed before you left employment, your disability retirement benefits must stop.

## 2. I've been offered a part-time job with a VRS-participating employer. Can I accept this position and still receive my retirement benefits?

In some cases, you can work in a non-covered (part-time) position with a VRS-participating employer and continue to receive your retirement benefits. If you want to work in a part-time position for the employer from which you retired, you must have a bona fide break in service of at least one full calendar month from your retirement date over a period you normally would work to continue receiving your retirement benefits. Periods of leave with or without pay, summer breaks and intersession periods do not count toward satisfying this break in service.

The Commonwealth of Virginia, including all state agencies and public colleges and universities, is considered one employer. School divisions and

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## What is Covered and Non-Covered Employment?

**Covered employment** is a full-time permanent, salaried position with an employer that participates in VRS. Some part-time permanent, salaried state positions also are covered under VRS.

**Non-covered employment** is a temporary, hourly or other position with a VRS-participating employer that does not provide eligibility for benefits. Most non-covered positions are part-time wage positions. Some full-time positions may be considered non-covered if they are temporary and paid on an hourly basis.

**What is a bona fide break in service?** A bona fide break in service is a break of at least one full calendar month after you retire or leave covered employment over a period you normally would work. Leave with or without pay, summer breaks and intersession periods do not count toward satisfying this break in service. This requirement includes teachers who retire under an early retirement incentive program. If you return to work in a non-covered position with a different VRS-participating employer from the one from which you retired, you are not required to have a one-month break in service.

## **Working After Retirement: Five Frequently Asked Questions,** CONTINUED FROM PAGE 5

political subdivisions are considered separate employers. For example, if you retired from the Virginia Department of Transportation and are offered a part-time position with Fauquier County, you would not be required to have a break in service. However, if you were offered a part-time (non-covered) position with the Virginia Department of Corrections, you would be required to have a break in service before accepting the job.

### **3. What is the work schedule for part-time positions with a VRS-participating employer?**

If you want to work for a VRS-participating employer and continue to receive your retirement benefits, you must work less than 80 percent of the hours required of a full-time employee in the same or a comparable VRS-covered position. Employers, not VRS, classify positions as full time or part time and define the hours applicable to each classification according to the following guidelines:

- Full-time employment is typically considered to be 40 hours a week. Thirty-two hours is the usual minimum number for a full-time position.
- Part-time employment is typically less than 80 percent of a comparable full-time position. Part-time employment is paid on an hourly (wage) basis and can be part time or temporary. Temporary employment may be full time, provided the position has a start and end date and requires less than 80 percent of the hours per year

that would be considered full time and permanent for that position.

- Part-time employees may work various hours during a pay period provided the total number of hours worked for the year is less than 80 percent of the hours per year that would be considered full time and permanent for that position.

### **4. I have heard about K-12 critical shortage positions open to retirees. What is this about?**

Each year, school divisions can designate positions as “critical shortage” if they lack enough qualified candidates to fill the position on a permanent salaried basis. Critical shortage positions are full time and temporary (non-covered) for the current school year. You do not have to be a retired teacher or administrator to qualify, provided you have a Virginia Board of Education license for the position you will hold; not have deferred retirement; and, if you are a former teacher, not have retired with a reduced VRS benefit under an Early Retirement Incentive Program (ERIP). If you qualify, you will continue to receive your retirement benefits. For more information on critical shortage designations and how to apply, visit the Department of Education Web site at [www.doe.virginia.gov](http://www.doe.virginia.gov) or contact the school system where you would like to work.

### **5. What happens if I “un-retire” from VRS?**

If you return to covered employment (“un-retire”), your retirement benefits will stop, and you will come under the provisions of your new position. You also will return under Plan 1 or Plan 2 according to the plan from which you retired. When you retire again, your subsequent benefit will be based on the additional service credit you earn and any changes in your average final compensation. Any cost-of-living adjustments (COLAs) you are receiving now will not continue when you retire again. You will become eligible for

**Before returning to work – If you want to work after you retire, call VRS toll free at 1-888-VARETIR (1-888-827-3847) to determine the effect of accepting covered or non-covered employment on your retirement benefits. Also contact the Social Security Administration toll free at 1-800-772-1213 or visit [www.ssa.gov](http://www.ssa.gov) for information on the effect of earnings during retirement on your eligibility for Social Security benefits.**

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## Use myVRS to Update Your Tax Withholdings Online

Through the secure myVRS system, you can change your tax withholdings online. Your new tax withholdings will be updated to reflect the changes within 30 days. Not registered for myVRS? Select myVRS Access from [www.varetire.org](http://www.varetire.org), then Retirees-Register and follow the step-by-step instructions.

If you don't want to go into myVRS, you can obtain a copy of the Request for Income Tax Withholding (VRS-15) from [www.varetire.org](http://www.varetire.org) or call VRS toll free at 1-888-VARETIR (1-888-827-3847) to have one mailed to you. Just complete the form and return it to VRS.



## Notice: Congress May Extend the 4.2 Percent Tax Rate for Social Security Payroll Tax

Congress may extend the 4.2 percent tax rate for Social Security payroll tax. However, if Congress does allow the tax rates to expire, the rates will revert to 6.2 percent, which is the level before January 1, 2011. If you have life insurance coverage valued at \$50,000 or above, this may affect your benefit payment. For more information, visit the Internal Revenue Service (IRS) website at [www.irs.gov](http://www.irs.gov) or call the IRS toll free at 1-800-829-1040.

### Working After Retirement: Five Frequently Asked Questions

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an annual COLA effective July 1 of the second calendar year after your subsequent retirement date.

Before deciding to return to covered employment, be aware that under some conditions, your subsequent retirement benefit may be less than what you are receiving now. *Examples:*

- If you have been receiving the COLA for several years and return to work, your subsequent benefit may be smaller, even with the additional service credit and any increase in your average final compensation, because of the loss of the COLAs when you retire again.
- If you retire under a severance benefits program, you will lose any additional retirement credits used to calculate the previous benefit upon your subsequent retirement. [VRS](#)

### Tax Ins and Outs

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amount per year from retirement income used for qualified health insurance premiums or long-term care insurance premiums. Premiums covering yourself as well as a spouse or dependent children may be eligible for this exclusion. You must claim the premium exclusion on your tax return. The 1099-R reflects total taxable income without any adjustment for this benefit. For more information, contact a tax advisor or the IRS toll free at 1-800-829-1040 or [www.irs.gov](http://www.irs.gov).

**Note: The Internal Revenue Service (IRS) is considering a change in the 2012 Federal Tax Withholding Chart**

**If this change occurs, it may result in a change in your retirement benefit beginning with your February 1, 2012 payment. For more information, visit the IRS Web site at [www.irs.gov](http://www.irs.gov) or call the IRS toll free at 1-800-829-1040.**

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## Learn About Your DCP Options At a Meeting Near You

VRS and ING, the record keeper for the Commonwealth of Virginia 457 Deferred Compensation Plan, have scheduled 2012 winter and spring Regional Education Meetings throughout Virginia. The session, Retirement Distribution Strategies, is specially designed for 457 Plan participants who are retired or nearing retirement.

- The meetings are open to those who participate in the Commonwealth's 457 Plan.
- The meetings are free and registration is not required.
- Topics cover distribution options and taxes.
- Presenters are available following the afternoon session for individual questions.

For session dates and locations, call 1-VRS-DCPLAN1 (1-877-327-5261) and choose Option 2, or go to go to the VRS Web site at [www.varetire.org](http://www.varetire.org) and select the Defined Contribution Plans tab, then Commonwealth of Virginia Deferred Compensation Plan (457) from the drop-down menu.

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