

Do You Need to Update Your Income Tax Withholding?

As a retiree, you must pay federal and state taxes on your retirement benefit. Your VRS retirement benefit is exempt from taxes only if you have taken the guaranteed benefit formula under work-related disability retirement.

When you retired, a Federal and State Income Tax Withholding Form (VRS-15) was part of your retirement application. The withholding form tells VRS the amount of taxes you want withheld from your benefit each month. If VRS does not have this form on file, it must withhold taxes as if you were married claiming three allowances for federal income taxes and zero allowances for state income taxes.

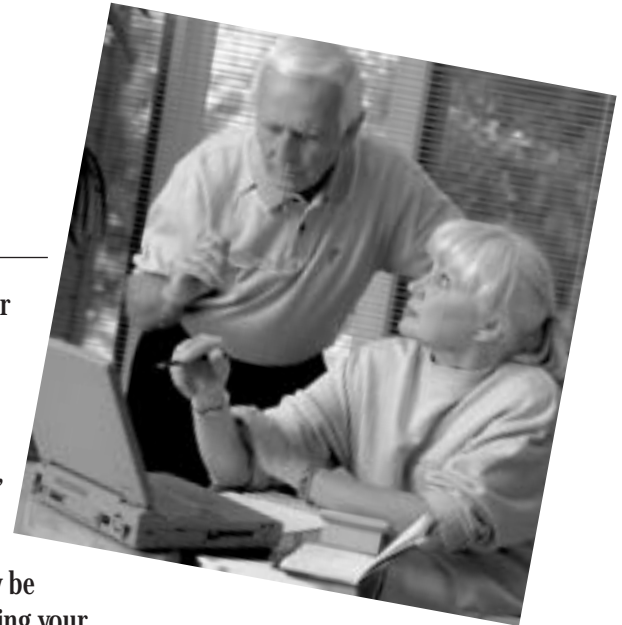
VRS sends you a 1099-R form each January. Your annual taxable income is shown in the taxable amount box on this form. Check the tax information form sent to you this January to make sure that enough income tax is being withheld. If the amount withheld or paid as estimated taxes does not cover the taxes that you owe, the Internal Revenue Service (IRS) may charge you a penalty. You can change your withholding at any time during the year by filing a new tax withholding form with VRS.

You may also need to change your withholding if you have married, divorced or had other changes in your life.

If you do not want taxes withheld, use the tax withholding form to notify VRS not to take taxes out of your benefit payment. You may be responsible, however, for estimating your tax liability and paying the IRS and the Commonwealth of Virginia directly each quarter. There also may be tax penalties if your withholding and estimated tax payments are not sufficient.

The staff of your nearest IRS office or your personal tax advisor can help you determine your federal tax liability. Contact your local Commissioner of the Revenue, Director of Finance or Supervisor of Assessment, or the taxpayer assistance unit of the Virginia Department of Taxation to help you determine your state tax liability.

You can download the Federal and State Income Tax Withholding Form (VRS-15) from the VRS Web site (www.varetire.org). You can also call VRS at 804/649-8059 or toll free at 1/888/827-3847 to request a form.

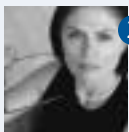


This Year's COLA Is 2.3 Percent

The Cost-of-Living Adjustment (COLA) for 2004 is 2.3 percent. You will see this increase in your August 1 retirement benefit payment. You are eligible for this increase if you retired on or before January 1, 2003.

You are eligible for cost-of-living adjustments on July 1 of the second calendar year after you retire. For example, if you retired on June 1, 2004, you'll be eligible for cost-of-living increases beginning July 1, 2006. Any increases after that will be yearly.

Under current law, cost-of-living adjustments may not exceed 5 percent.



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Going Back to Work?

Read This First

People are retiring earlier and living longer. With all that time after retirement, you can take another job for some extra income or develop an interest into a second career. But before you return to work, make sure you know how it could affect your retirement benefits.

You may return to work without affecting your retirement benefits, if you work part time, or work in a job that isn't covered by VRS. Your VRS retirement benefits won't be affected as long as your new position is not a full-time, permanent or part-time, classified position covered under VRS, the Judicial Retirement System (JRS), State Police Officers' Retirement System (SPORS), Law Enforcement Officers' coverage (LEOS), Virginia Law Officers' Retirement System (VaLORS), or an Optional Retirement Plan (ORP). If you do accept employment in one of these covered positions, your monthly benefit stops. When your period of employment ends, your benefit is recalculated to include the additional service credit and salary, if the salary is greater than your previous salary. You must retire, however, under the same retirement option you chose the first time you retired.



If you are returning to work, even in a part-time position, soon after retiring, remember that you must have at least a 30-day separation from service during a normal work period, before returning to work.

If you retired under disability and want to return to work in a permanent position covered by VRS, or any of the retirement systems mentioned above, your disability benefit stops

during your employment. The period of disability retirement counts as credited service. Your disability benefit stops if you take a position not covered by VRS or one of the other VRS-administered retirement systems and the duties of the position are similar to those you were previously found unable to perform.

Check with the human resource office at your new job if you are planning to return to work. If your new job is covered under VRS, you and your new employer must complete a Request for Termination of Monthly Benefits (VRS-7).

For further information on the guidelines for returning to work, see the VRS Web site.

PRESERVING YOUR IDENTITY

Protect Yourself Against Identity Theft

**You buy a book over the Internet.
You write a check at the drug store.
You take out the trash.
Which of these innocent activities
could lead to identity theft?
Any one of them.**

According to the AARP, 27 million Americans had their identities stolen in the last five years.

Criminals can use your Social Security number, credit card or bank account numbers to buy everything from clothes to cars, to borrow money, or to open other credit card accounts.

You can face thousands of dollars of unexplained bills, the loss of your good credit rating, and at best, hours of frustration trying to straighten out the mess.

DON'T BE A VICTIM

There are ways to protect yourself.

- Don't give your credit card or bank account number over the phone, through the mail, or over the Internet, unless you made the contact and know that you are dealing with a legitimate business.
- Shred your credit card receipts, ATM receipts, bank statements, expired credit cards, credit offers and other material with personal information.
- Don't carry extra credit cards, your Social Security card, birth certificate, or passport in your wallet or purse.
- Don't have your Social Security number printed on your checks.
- Memorize your passwords to debit cards, etc.
- Check your credit report at least once a year and correct any errors. Monitor your credit card statements.
- Make a list of your bank accounts and credit cards, account numbers, expiration dates, and the telephone numbers of the customer service departments of your card issuers.

To help with the problem, as of July 1, 2002, the Virginia DMV began to assign identification numbers to drivers' licenses instead of Social Security numbers

HOW TO FIGHT BACK

If, despite all your efforts, identity theft happens to you, contact your bank, your credit card issuers and your local law enforcement immediately.

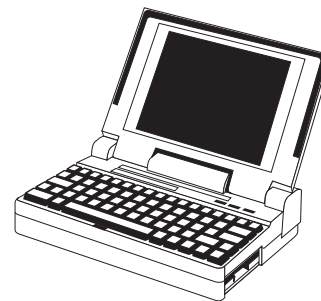
Identity theft resources suggest that you then check your credit standing. Contact the three major credit reporting agencies (Equifax, Experian and TransUnion). Alert the agencies that you are a victim of identity theft and ask for a copy of your credit report.

If there is evidence of fraud in your credit report, get in touch with each of the issuers of

fraudulent accounts by phone and then in writing. When you write, include a declaration of fraud, supporting documentation, proof of identity and a police statement if available. The letter should be sent certified mail, return receipt requested.

Depending on your situation, you may have to also contact your bank, the postal service, the Social Security Administration and the Department of Motor Vehicles.

For more information go to www.consumer.gov/idtheft



IDENTITY THEFT

For victims who live in Virginia, the Virginia Office of the Attorney General can help. The Office of the Attorney General Web site (<http://www.oag.state.va.us/default.htm>) offers practical advice on dealing with identity theft. It also highlights resources to use if you become a victim.

Help for Virginia Victims

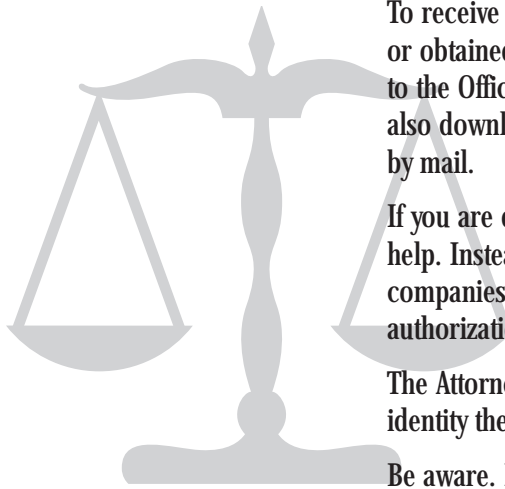
If you have filed a police report, you may apply for an Identity Theft Passport. The Passport protects you from arrest for crimes committed by someone else under a stolen identity. Present the card to law enforcement officers or other individuals who may challenge you about your identity.

To receive a Passport, you must have filed a police report in a Virginia jurisdiction or obtained a court order expunging your record in a Virginia court. You can write to the Office of the Attorney General for an application for the Passport. You can also download it from the Web site. All applications must be submitted in person or by mail.

If you are disputing fraudulent debts and accounts, the Identity Theft Affidavit can help. Instead of filling out forms for each affected account, use the Affidavit to alert companies that a new account was opened in your name, without your authorization.

The Attorney General's Web site provides information about the most common identity theft scams while alerting you to new ones as they appear.

Be aware. Be informed. Know what to do if identity theft happens to you.



VRS Takes Steps to Protect You From Identity Theft



VRS understands the importance of protecting your identity. VRS has made changes to protect you against the theft of your Social Security number. The changes include:

- Removing Social Security numbers and account numbers from the VRS Earnings Statements.
- Sending a confirmation letter to both your old and new address if you move and notify VRS.
- Removing personal information in your e-mail before responding. VRS does not provide information specific to your VRS retirement benefits through e-mail.

In addition to these initiatives, VRS will soon remove your Social Security number from correspondence and documents being sent to you. If a document mailed to you must include your Social Security number, it will be mailed in a security envelope.

Your Direct Deposit Schedule for July Through December 2004

VRS deposits your benefit payment directly into your bank or credit union account through electronic transfer on the first business day of each month. If the first day is on a weekend or holiday, VRS deposits the payments on the last business day of the preceding month.

If you change financial institutions, complete a new Authorization for Direct Deposit of Monthly Benefit (VRS-57) available on the VRS Web site, under Forms and Publications. Attach a voided deposit slip or check with your new account information and return the form to VRS. It takes approximately 60 days before VRS is able to change your deposit to a new financial institution.

VRS sends you an earnings statement only when there is a change in the net amount of your payment. If you have FICA withholding on your basic group life insurance coverage in excess of \$50,000, for example, you receive an earnings statement each month until your life insurance coverage reduces below \$50,000. When this reduction occurs and the FICA withholding ends, VRS does not send you an earnings statement until there is a change in your net payment amount.

Here is the schedule for direct deposit payments for the rest of 2004:

July 30, 2004
(for August 2004)
September 1, 2004
October 1, 2004
November 1, 2004
December 1, 2004
December 30, 2004
(for January 2005)

Read All About It – Visit www.varetire.org

You can find out this year's COLA months before you see it reflected in your benefit. When the tax deadline looms, you can review guidelines for completing your return.

A summary of the health insurance credit answers your questions about insurance premiums. Need to change your address? Print out the form without leaving your chair.



Go to www.varetire.org to read Retirees News online, to order tax forms, beneficiary designation forms, health insurance forms. Click on "What's New?" to check out cost-of-living increases, the latest legislation, new board members, and benefits news. The Web site also has the Handbook for Retirees, health and life insurance information and a page that lists and defines all your benefits under VRS.

Don't miss out – visit the VRS Web site often.

Take The Plunge And Surf The Net

Every person is different. This universal truth applies whether you are retired or are working part time. Whether you are age 52 or 80.

Whether you surf the net like a California dude or think the Web is something you got rid of during spring cleaning.



So, here is a list of retirement and benefit-related Web sites you may find interesting. Some of them, such as the Eldercare Locator site, help manage problems that could arise as you grow older. Other sites, such as the Elderhostel site, offer opportunities for learning and adventure. And some sites, such as the AARP site, give you a huge variety of information, from the cautions about identity theft highlighted in the article on page 3 of this newsletter to ideas on where to go for a memorable vacation.

Why not dive in and sample a few.

AARP - www.aarp.org

Eldercare Locator - www.eldercare.gov

Elderhostel - www.elderhostel.org

IRS - www.irs.gov

Social Security Administration - www.socialsecurity.gov

Anthem - Blue Cross/Blue Shield of Virginia - www.anthem.com

Virginia Credit Union - www.vacu.org

Virginia Defined Contribution Plans - www.vadcp.com

Virginia Department for the Aging - www.aging.state.va.us

Virginia Department of Taxation - www.tax.state.va.us/

Notify VRS of Health Premium Changes

If you are receiving a health insurance credit, it's important to notify VRS of any changes that might affect your health credit. For example, if your covered dependent becomes ineligible for health insurance, or if there is a change in your monthly premium payment, you must notify VRS.



Complete a Request for Health Insurance Credit (VRS-45) available on the VRS Web site (www.varetire.org), or call 804/649-8059 or toll free at 1/888/827-3847.

Be sure to send in the form so that you will not need to reimburse VRS for an overpayment.

If your premium amount has not changed, you do not need to notify VRS.

NEWS FOR PARTICIPANTS OF THE STATE RETIREE HEALTH BENEFITS PROGRAM

If you are enrolled in the State Retiree Health Benefits program and VRS is deducting your health insurance premium from your monthly benefit, your new premium will be reflected in your benefit dated August 1. Participants billed directly by their carrier should have a bill by the end of June.



Automatic Bank Draft of Premiums Coming in January

Starting in January 2005, retiree group health insurance program participants who are billed directly by Anthem can have their premiums automatically deducted from their bank accounts. For many participants, this will be a welcome relief from submitting a monthly premium payment. Participants will receive additional information and enrollment materials before the end of the year.



Plan	Single Premium	Two-Person Premium	Family Premium
COVA Care Basic	\$334	\$619	\$903
COVA Care + Out-of-Network	\$342	\$630	\$917
COVA Care + Expanded Dental	\$344	\$638	\$933
COVA Care + Vision, Hearing and Expanded Dental	\$351	\$651	\$949
COVA Care + Out-of-Network and Expanded Dental	\$352	\$649	\$947
COVA Care + Out-of-Network and Vision, Hearing and Expanded Dental	\$359	\$662	\$963
Kaiser Permanente HMO	\$337	\$623	\$910

The Health Insurance Credit for Retirees Should You Be Receiving It?

You may be eligible for a health insurance credit and not know it.

The health insurance credit helps you with the cost of your health insurance premiums. It is a dollar amount, set by the General Assembly, for each year of your service, up to a maximum of 30 years.

To be eligible for the credit, you must have a minimum of 15 years of total creditable service with a VRS-covered employer and your last employer must participate in the program. Retirees with 30 years or more of service are eligible for the maximum health insurance credit amount. Disability retirees are eligible for the maximum health insurance credit regardless of length of service. Retirees of state agencies, teachers, and employees of certain political subdivisions are eligible for the health insurance credit. If you are eligible, it will be reflected on your retirement certificate.

Need more information? Check out the following questions.



What health insurance plans qualify for reimbursement of premiums under the health insurance credit?

- Medicare Part B coverage
- Employer-sponsored plans
- Dental, vision and prescription drug plans
- Medicare supplemental plans
- Any plan that provides a broad range of medically necessary services
- Coverage as a dependent under a spouse's plan

What plans do not qualify for the health insurance credit reimbursement?

- Coverage supplied through dread disease policies (such as cancer insurance),
- Policies that restrict payment of benefits to procedures required to treat specific illness,

- Hospital indemnity policies that pay a daily amount of money for each day spent in the hospital,
- Home health care,
- Long-term care,
- Long-term disability, and
- Life insurance policies.

How is the reimbursable amount determined?

The amount that you are reimbursed is based on the lesser of the health insurance credit amount itself, or your portion of the premium amount, minus any payments provided by sources other than VRS.



Do I need to complete a form if VRS is taking my health deduction?

No. If VRS is taking deductions for your health insurance plan, the health insurance credit is automatically added to your monthly retirement payment. If you are retired from a school board or local government and enrolled in a health insurance plan in addition to the employer-sponsored plan that VRS is taking deductions for, contact your former employer who will submit the health insurance credit information on your behalf. If you are a state retiree who has a health insurance plan in addition to the one that VRS is taking deductions for, send a completed Request for Health Insurance Credit (VRS-45) to VRS.

For a form or for additional information on the health insurance credit benefit, visit the VRS Web site (www.varetire.org), or call 804/649-8059 (in Richmond) or 888/827-3847 (toll free).

When else do I need to submit a request for reimbursement?

You must submit a request for reimbursement each time you have a policy or a premium change to ensure that you are receiving the appropriate health insurance credit amount. If the new policy or premium amount does not reduce the health credit amount that you are receiving, your health insurance credit amount will not change.

The Health Insurance Credit for Retirees Should You Be Receiving It?

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You will also receive an annual reminder from VRS about changes in policy or premium amount. If nothing has changed with your health insurance then you can disregard the reminder.

Will I still be entitled to the health insurance credit if VRS is no longer taking the health insurance premium deduction from my benefit?

Yes. You are still eligible for the health insurance credit as long as you are enrolled in one of the health insurance plans described above and are paying a premium.

If I submit my Request for Health Insurance Credit form after the start date of my health insurance coverage, will I be entitled to retroactive reimbursement of my health insurance premium amount?

Yes. You can receive reimbursement retroactive to your eligibility date and, if applicable, up to a maximum 12-month period from the date your completed Request for Health Insurance Credit (VRS-45) is received by VRS.

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