

VRS Director Announces Retirement

Virginia Retirement System Director W. Forrest Matthews, Jr. has announced that he will retire, effective April 1, 2005.

Matthews has served as director of VRS since March 2002. Before coming to VRS, he was the Director of Finance for the County of Henrico. He was also a member of the VRS Board of Trustees and, beginning in March 2001, served as its Chairman.

“I feel very fortunate that I have had the opportunity to serve as director of this premier pension system. However, it is time for me to take some time to relax and then to do some of the things that I want to accomplish from a personal perspective,” said Matthews.

The VRS Board of Trustees immediately will conduct a search for a new director.



It's Tax Time Again

It's that time of year again. Time to complete those forms and pay your taxes.

If you received a monthly retirement benefit from VRS in 2004, a form 1099-R will be mailed to you by the end of January. Use the 1099-R form to complete both this year's federal and state income tax returns.

The 1099-R shows the total amount of your monthly benefit; any cost-of-living increases and supplements (Gross distribution); the taxable amount of your benefit; the total amount of federal and state tax withheld during the year; the total amount of your benefit that is not taxable; and whether your benefit is for service retirement, disability retirement or is a benefit paid to a survivor.

See [Getting to Know Your 1099-R](#) on page 2.

If you receive a health insurance credit, the amount of the reimbursement is not reflected on your 1099-R form. Your health insurance credit reimbursement is a non-taxable benefit and cannot be included with the taxable income on your 1099-R form.

Tax laws may differ if you live outside of Virginia. Contact your accountant or the state taxation agency for more information.



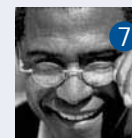
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Getting to Know Your 1099-R

Box 4 shows the total amount of federal income tax withheld in 2004. This amount is determined by the Internal Revenue Service (IRS) Federal Tax Table and is based on your marital status and number of allowances you have reported on your Federal and State Income Tax Withholding form (VRS-15).

Box 1 shows the total amount of the benefits VRS paid to you in 2004. This amount includes the total of your monthly benefit, cost-of-living increases and any supplements you were paid.

Box 2a shows the total taxable amount of your benefit. The taxable amount of your benefit equals the amount in box 1 minus the amount in box 5.

Copy 2 - File this copy with your state, city, or local income tax return, when required

1 Gross distribution \$

2a Taxable amount \$

3 Capital gain (included in box 2a)

PAYERS name, street address, city, state and ZIP code

RECIPIENT'S identification number

Account number (optional)

2b Taxable amount not determined

Total Distribution

RECIPIENT'S name, address, and ZIP code

4 Federal income tax withheld \$

5 Employee contributions or insurance premiums \$

PAYERS Federal Identification number

6 Net unrealized appreciation in employer's securities

7 Distribution code

IRA/SEP

8 Other \$

9a Your percentage of total distribution %

9b Total employee contributions \$

10 State tax withheld \$

11 State/Payer's state no.

12 State distribution \$

13 Health Insurance Premiums \$

Form 1099-R
Distributions From Pensions, Annuities,
Retirement or Profit-Sharing Plans,
IRA's, Insurance Contracts, etc.

OMB No. 1545-0119
Department of the Treasury
Internal Revenue Service

Box 5 "Employee contributions or insurance premiums". This box does not include health insurance premiums. VRS does not deduct this amount from your benefit payments. Box 5 shows the amount of your benefit that is not subject to tax. This amount includes any contributions you made to VRS on which you already paid income taxes. If you subtract the amount in box 2a (Taxable amount) from the amount in box 1 (Gross distribution), you will end up with the amount shown in box 5.

Box 10 shows the total amount of state taxes withheld in 2004. The taxable amount is based on your total number of exemptions reported on Federal and State Income Tax Withholding Form (VRS-15).

Box 13 shows the amount of health insurance premiums you paid during 2004. If you are eligible to receive a health insurance credit, the amount shown here is the difference between the total health insurance premium amount and health credit amount.

LIFE CHANGES AND YOUR BENEFITS—

Divorce

Sure, you can plan your life out in a neat, straight line. I'll start working **here**, marry **here**, have 2.3 children **here**, retire and buy that cabin in the woods **here**. But lives tend to resist straight lines. You might end up with those 2.3 children after you stop working, or fall in love after you buy that cabin. If life throws major changes your way, what happens to your retirement benefits?

DIVORCE AND YOUR BENEFICIARY

Make sure your beneficiary designation reflects your current wishes. If you divorce and need to change your beneficiary, complete a Designation of Beneficiary (VRS-2) and return it to VRS. Call Minnesota Life at 1/800/441-2258 for a copy of the VRS-2. The form is also available on the VRS Web site at www.varetire.org.

You do not receive a confirmation notice when you submit a designation form, so it is important to keep a copy of the form for your files.

The name of your beneficiary cannot be provided over the phone. If you are not sure of your current beneficiary designation, send a request in writing to:

Minnesota Life
Richmond Branch Office
P. O. Box 1193
Richmond, VA 23218-1193

DIVORCE AND MARITAL PROPERTY

In a divorce, your VRS benefit may be considered marital property in a property

settlement. VRS must make direct payment to your former spouse if the court awards your former spouse part of your VRS benefit. The court decides whether to divide your retirement benefit and how it is to be divided.

VRS carries out the court decision only if it receives a certified Approved Domestic Relations Order (ADRO) and only if the order does not require VRS to make a distribution contrary to *Code of Virginia* provisions regarding payment of benefits or distributions from a member's account.

Once VRS has approved the court-ordered ADRO, the distribution can be stopped only with a court-ordered nullification of the current ADRO.

The language of the order must conform to VRS guidelines. Your attorney can obtain a copy of the guidelines by contacting VRS. Your attorney should provide VRS with the ADRO before filing it with the court to ensure that the language of the order is acceptable to VRS.

VRS will not release information about your benefit to anyone other than yourself without your written permission. Information may be secured by a subpoena, however, without your authorization.

Your benefits could also be subject to attachment for child support or other marital rights, as stated in an ADRO or divorce decree.



Visit VRS The Easy Way - On The Web

Sometimes as many as 1,000 retirees visit VRS a day. And it's not even crowded. There's lots of room in cyberspace.

The VRS Web site offers many of the services you may have thought you could receive only in person. Read breaking news about cost-of-living adjustments. See if you're eligible for a health insurance credit. Download and print forms to change your address or update your beneficiary. Find out if legislation affects your future.

There is an explanation of benefits and a section on what's new. Need more information about your benefits? Check out the frequently asked questions.

You also have the first chance to read VRS publications, including this newsletter.

The Web site is always open and always available for you to use. So come visit www.varetire.org.



If life throws major changes your way, what happens to your retirement benefits?

You And Disability Retirement

Both you and VRS have responsibilities if you retire because of a disability. VRS provides you with a benefit as long as you are disabled and cannot perform your job. In turn, if you are no longer disabled, or if the disability improves enough for you to return to work, you must notify VRS.



The VRS Medical Board, composed of Commonwealth of Virginia board certified physicians, has the authority to review your case annually until you reach normal retirement age. The Board can also require a physical exam by an independent medical examiner.

If the Medical Board requires an exam, you are notified and an appointment is made for you. VRS pays the expense of these exams. If you refuse to have a follow-up exam, your benefits stop until you comply. VRS can also require you to provide updated medical information from your treating physician.

Your benefit stops if the Medical Board determines you no longer meet the standard for disability and are able to return to work. You are given service credit for the period of your disability retirement.

Notify VRS immediately if you accept any employment. If the employment violates the agreement of your disability retirement, you must repay VRS any benefit amount you receive after your re-employment.

Report On Investment Earnings For Fiscal Year 2004

The market value of the VRS investment portfolio for fiscal year 2004 was just over \$40 billion.

The fiscal 2004 return for the total fund was 17.9 percent.

The portfolio had \$26.9 billion invested in public equities, \$8.1 billion in fixed income, \$1.2 billion in hedge funds, \$1.9 billion in private equity, and \$1.5 billion in real estate at fiscal year end.

You Can Bank On It –

Your Direct Deposit Schedule for 2005

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

If you change financial institutions, fill out a new Authorization for Direct Deposit of Monthly Benefit (VRS-57). Attach a voided deposit slip or check with your new account information and return the form to VRS. It takes approximately 60 days for VRS to change your deposit to a new financial institution.

When you have direct deposit of your benefit payments, VRS sends you an earnings statement only when there is a change in the net amount of your payment.

Here is the schedule for direct deposit payments from January to December 2005:

December 31, 2004

(for January 2005)

February 1, 2005

March 1, 2005

April 1, 2005

April 29, 2005

(for May 2005)

June 1, 2005

July 1, 2005

August 1, 2005

September 1, 2005

September 30, 2005

(for October 2005)

November 1, 2005

December 1, 2005

Where's The Money?

You just retired on December 1. When can you expect that first retirement payment?



If you got your completed retirement application to VRS 90 days before your retirement date, you should receive your first benefit payment on the first of the month following the month you retired.

This means that if you retired on December 1, 2004 and had your retirement application to VRS by September 1, 2004, you should receive your first payment on December 31, 2004. This will be your retirement benefit for December.

As a December 1, 2004 retiree, you can expect your first cost-of-living adjustment effective July 1, 2006. It will be included in your August 1, 2006 benefit. Cost-of-living adjustments are effective July 1 of each year. You must be retired for one full calendar year before you are eligible.

Achooo! Join The Flu Fighters

Not everyone was lucky enough to receive a flu shot this fall. If you missed out, there are still ways to avoid a chilled, achy, feverish winter.

The AARP Web site offers some tips:

- Stay away from crowded, indoor areas.
- Don't spread the misery. Stay home if you're sick.
- Keep germs away. The flu virus can live on doorknobs, telephones, and other people's hands. Wash your hands often and thoroughly, especially before eating.
- Keep germs isolated. Avoid touching your eyes, nose, or mouth.
- Take care of yourself. Be sure to get enough rest, exercise, and healthy foods. Don't ruin the holidays by getting sick.
- Yecch. Cover your mouth and nose with a tissue when you cough or sneeze.



How To Contact VRS

The quickest and easiest way to get in touch with VRS is through the Virginia Informational Phone System (VIPS). This is an interactive voice response system that gives you information about your VRS benefits. You can use VIPS seven days a week from 7 a.m. to midnight. You can find out about your taxes, life insurance, and direct deposit. You may also listen to details about your most recent benefit payment and the option you selected at retirement.

You can register for VIPS by calling 804/649-0126 or toll free at 1/877/770-8477. During your first call, provide your Social Security number and date of birth. Then select a four-digit personal identification number (PIN). VRS does not keep track of PINs. Make sure to record your PIN for future use. To maintain security, do not share your PIN with anyone else.

If you need to speak to a Customer Contact Center agent, call from 8:30 a.m. to 5:00 p.m., Monday through Friday, except state holidays. The telephone numbers are:

Richmond area: 804/649-8059

Toll free: 1/888/VA-RETIR (827-3847)

VRS receives a high volume of calls at the beginning of each month and at the beginning of each week. If you are making a routine call, you will receive an answer faster if you call Wednesday through Friday during the middle of the month. When calling VRS, please have your Social Security number available.

Address all correspondence to:

Virginia Retirement System
P. O. Box 2500
Richmond, VA 23218-2500
Fax: 804/786-1541

E-Mail: vrs@varetire.org

Include your full name and Social Security number on written correspondence.

If you use e-mail, remember that the VRS e-mail is not a secured system. To protect your personal information, please do not include your Social Security number or banking information when e-mailing VRS.

The quickest and easiest way to get in touch with VRS is through the Virginia Informational Phone System (VIPS).

Medicare Drug Discount Cards Help Seniors Save

Medicare-approved drug discount cards are helping seniors save on medical expenses. The cards, made available through the Medicare Prescription Drug Improvement and Modernization Act of 2003, can trim 15 to 30 percent off the usual retail price of most brand name drugs and more on generics at neighborhood pharmacies.

Low-income seniors can get these savings and an additional \$600 a year – or \$1,200 over the next 18 months – to help pay for prescriptions.

Discount prescription drug cards are currently available through a variety of sources, including pharmaceutical benefit managers, some Medigap insurers and retail drug stores. Many discount care programs charge an annual enrollment fee, though some have no fee.

Enrollees who present their card when they purchase a prescription receive a discount off the full retail price of the

prescription. Some discount cards offer mail order programs, which are often associated with still deeper discounts.

How much you save varies with the card you choose. They don't all offer the same discounts. It's important to research and compare. It's also important to check with your pharmacy to see if it accepts the card you choose.

Information about prescription drug discount cards can be found on the Medicare Web site at www.medicare.gov, or by calling the 1/800/MEDICARE toll-free line.

The U.S. Department of Health and Human Services has published a detailed "Guide to Choosing a Medicare-Approved Drug Discount Card" that explains the program, including eligibility and enrollment information, and provides step-by-step guidance for comparing discount cards and choosing one. The booklet is posted at www.medicare.gov.

The Health Insurance Credit for Retirees

You may be eligible for a health insurance credit. 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 30 years.

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

The 2004 General Assembly passed legislation changing the retiree health insurance credit eligibility requirements for constitutional officers, employees of constitutional officers and

local social service employees. Now to qualify for the health insurance credit, you must have at least 15 years of combined, creditable service as a constitutional officer, an employee of a constitutional officer, or have 15 years as a local social service employee. You are no longer required to retire directly from one of these positions to be eligible for the credit. The 15 years could have occurred anywhere in your career.

Constitutional officers include: the treasurer, commissioner of the revenue, attorney for the Commonwealth, clerk of a court, sheriff of any county or city, or deputy or employee of any such officer.

If you think this may apply to you, contact the employer where you held the qualifying position. Ask the employer to complete and submit a Certification of Employment for Health Insurance Credit Eligibility form (VRS-76) to VRS. VRS will then notify you if you are eligible for the health insurance credit.

Health Insurance Information

FOR PARTICIPANTS ENROLLED IN THE STATE RETIREE HEALTH BENEFITS PROGRAM

NEW MONTHLY PREMIUM RATES FOR MEDICARE-COORDINATING PLAN PARTICIPANTS WILL BE EFFECTIVE JANUARY 1, 2005.

Plan	Current (2004) Single Premium	Your New 2005 Premium
Advantage 65	\$244	\$293
Advantage 65 + Dental/Vision	\$271	\$320
Medicare Complementary (Option I)	\$216	\$259
Medicare Supplemental (Option II)	\$302	\$317
Option II + Dental/Vision	\$329	\$344

Participants who pay premiums through deduction from their VRS retirement benefits will see the first deduction on the February 1 retirement payment. Participants who pay by direct bill were billed for their new January premiums in December.

Premium increases for 2005 were the result of substantial increases in claims expense. Even though Medicare is the primary payer of claims for medical expenses under these plans, increased use of medical services had an impact on premium levels. However, the cost of prescription drugs had the greatest impact on premium increases.

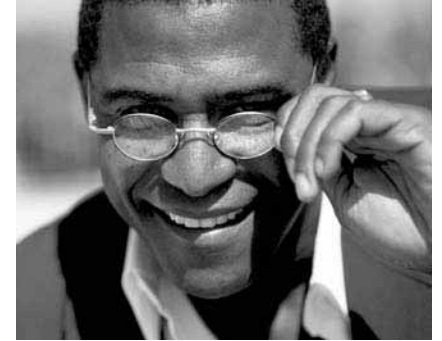
CHANGE IN PRESCRIPTION DRUG ADMINISTRATION FOR ADVANTAGE 65 AND MEDICARE COMPLEMENTARY (OPTION I) PARTICIPANTS

Effective January 1, 2005, prescription drug benefits under these two plans will be administered directly by Medco. Participants will receive a separate Medco prescription drug card in addition to a medical card from Anthem Blue Cross and Blue Shield. Starting January 1, Advantage 65 and Option I participants must present their new Medco cards at participating pharmacies to use the prescription drug benefit.

All drug pre-authorizations and existing refill information will transfer to the Medco system. Participants using the Home Delivery Pharmacy may continue to use the same Medco Web site and toll-free number they used in 2004. However, they may go directly to the Medco Web site at www.medcohealth.com, instead of accessing the Web site through Anthem.

Advantage 65 and Option I participants who have not received their new Medco cards by December 27 should contact Medco at 1/800/355-8279.

In addition, participants should receive new Anthem cards by December 28. If Anthem cards are not received by that date, participants may contact Anthem at 1/800/552-2682; in Richmond at 804/355-8506.



NOTE FOR MEDICARE SUPPLEMENTAL (OPTION II) PARTICIPANTS

All medical benefits, including prescription drug benefits, for Option II participants, will continue to be administered by Anthem Blue Cross and Blue Shield in 2005. Option II participants will not receive a Medco card, but will receive a new Anthem Card for use starting January 1, 2005. Participants who do not receive the new card by December 28, 2004, should contact Anthem at 1/800/552-2682; in Richmond at 804/355-8506. Participants should present the new Anthem card at a participating pharmacy for any prescription drugs obtained after December 31, 2004.

AUTOMATIC BANK DRAFT AVAILABLE TO DIRECT-BILL PARTICIPANTS

State Retiree Health Benefits Program participants who are billed directly by Anthem Blue Cross and Blue Shield for their monthly health plan premiums will have a new payment option starting in January.

Instead of writing monthly premium checks, they may enroll in the Automatic Bank Draft Program, which will deduct their monthly premiums from their bank checking accounts. For more information, contact Anthem Blue Cross and Blue Shield at 1/800/552-2682; in Richmond at 804/355-8506.

REMEMBER THAT PREMIUMS MUST BE PAID PROMPTLY

Starting in January 2005, retiree group participants billed directly by Anthem Blue Cross and Blue Shield, who do not pay premiums by the due date on the monthly invoice will have their

Health Insurance Information for Participants Enrolled in the State Retiree Health Benefits Program

CONTINUED FROM PAGE 7

claims put on hold (including prescription drugs) until premiums are paid. Monthly premiums that remain unpaid for 31 days after the due date will result in termination of coverage.

INFORMATION FOR MEDICARE ELIGIBLE PARTICIPANTS UNDER AGE 65

Effective January 1, 2005, State Retiree Health Benefits Program participants who are eligible for Medicare coverage, but who have not reported that eligibility, will have primary claim payments made in error retracted to either the Medicare claim filing limit, the date of Medicare eligibility or the date that retiree group coverage began. Participant will then have the responsibility of arranging for submission of retracted claims to Medicare.

Enrollment in Medicare Parts A and B is critical to program participants who are eligible since the state plan will not pay claims that should have been paid by Medicare had the participant been properly enrolled in Medicare coverage.

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