

## Assets Reach Record Level

**The fiscal 2005 return for the Virginia Retirement System (VRS) fund was 12 percent. The market value of the investment portfolio for fiscal year 2005 was \$44 billion.**

Each of the fund's five asset classes had a positive return during the fiscal year. Real estate had a 24.4 percent return and private equity had 21.5 percent. The public equity portfolio had a 12.3 percent return and the hedge fund portfolio had a 9.0 percent return. Credit strategies returned 7.6 percent and fixed income returned 7.2 percent.

The portfolio had \$27.6 billion in public equities, \$8.7 billion in fixed income, \$1.7 billion in credit strategies, \$1.8 billion in real estate, \$1.7 billion in hedge funds and \$2.2 billion in private equity as of June 30, 2005.

"The investment staff is very pleased with the investment results for fiscal year 2005. All of the investment programs generated above average returns and the total portfolio exceeded its performance benchmark by a significant margin," said Chief Investment Officer Charles W. Grant.

**"All of the investment programs generated above average returns..."**

## Your Direct Deposit Schedule For 2006



VRS electronically deposits your retirement benefit payment 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, the deposit is on the last business day of the preceding month.

If you change financial institutions, complete a new Authorization of Direct Deposit of Monthly Benefit (VRS-57). Attach a voided check or deposit slip with your new account information and return it to VRS. It takes approximately 60 days to change your deposit to a new financial institution. Do not close your old account until the first deposit is confirmed in your new account.

VRS sends earnings statements only when there is a change in the net amount of your payment.

The direct deposit payment schedule from January to December 2006:

<b>December 30, 2005</b> (for January 2006)	<b>June 30, 2006</b> (for July 2006)
<b>February 1, 2006</b>	<b>August 1, 2006</b>
<b>March 1, 2006</b>	<b>September 1, 2006</b>
<b>March 31, 2006</b> (for April 2006)	<b>September 29, 2006</b> (for October 2006)
<b>May 1, 2006</b>	<b>November 1, 2006</b>
<b>June 1, 2006</b>	<b>December 1, 2006</b>



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# It's Tax Season

Each year, VRS mails 1099-R forms to retirees. The 1099-R form provides important information you will need to file your federal and state tax returns. You should receive this form by the end of January.

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

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## How To Read Your 1099-R

**Box 4** shows the total amount of federal income tax withheld in 2005, which is determined by the IRS Federal Tax Table. It is based on your marital status and number of allowances you have reported on your Request for Income Tax Withholding (VRS-15).

**Box 5** shows the amount of your benefit that is not subject to tax and is the remainder of the amount in Box 1 (gross distribution) subtracted by the amount in Box 2a (taxable amount). This amount includes any contributions you made to VRS on which you already paid income taxes. This box does not include health insurance premiums. VRS does not deduct this amount from your benefit payments.

**Box 13** shows the amount of health insurance premiums you paid during 2005. 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.

**Box 1** shows the benefits VRS paid to you in 2005. 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.

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution	OMB No. 1545-0119	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		\$	2005	
PAYER'S Federal identification number		2a Taxable amount	Form 1099-R	Copy 1 For State, City, or Local Tax Department
RECIPIENT'S identification number		\$		
RECIPIENT'S name		2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	
Street address (including apt. no.)		3 Capital gain (included in box 2a)	4 Federal income tax withheld	
City, state, and ZIP code		\$	\$	
Account number (see instructions)		5 Employee contributions or insurance premiums	6 Net unrealized appreciation in employer's securities	
		\$	\$	
		7 Distribution code(s)	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 Local tax withheld	14 Name of locality	15 Local distribution
		\$		\$
		\$		\$

Form 1099-R Department of the Treasury - Internal Revenue Service

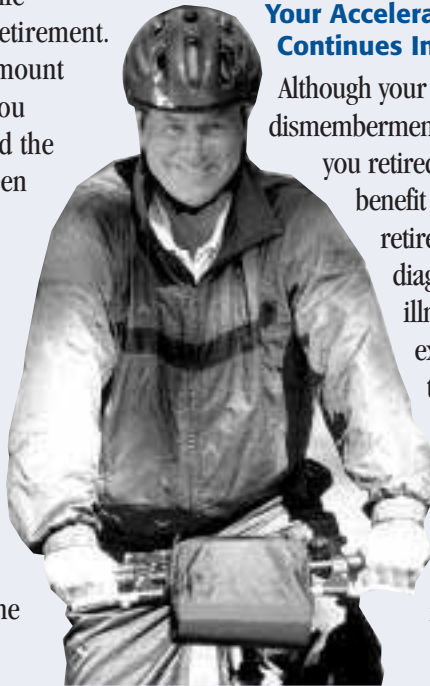
**Box 10** shows the total amount of state taxes withheld in 2005. The taxable amount is based on the total number of exemptions reported on your Request for Income Tax Withholding (VRS-15).

# Life Insurance Protects You After Retirement

## Basic Group Life Insurance Coverage

If your employer participated in the VRS Group Life Insurance Program and you met age and service requirements for retirement upon termination of employment, you have life insurance coverage in retirement. The current coverage amount depends on the salary you earned at retirement and the length of time you've been retired.

When you retired, the amount of your life insurance reduced by 25 percent annually beginning on January 1 of your first full year following retirement. The reductions continue until coverage reaches 25 percent of the value at retirement.



VRS handles the reduction differently for those who retired before July 1, 2001. If you retired before this date, your life insurance reduced at a rate of 2 percent a month, until it reached 25 percent of its value at retirement.

## Your Accelerated Benefit Continues In Retirement

Although your accidental death and dismemberment coverage ended when you retired, the accelerated benefit continues throughout retirement. If you are diagnosed with a terminal illness and are not expected to live longer than 12 months, you may withdraw any amount of your life insurance coverage as an accelerated benefit to help you meet your needs.

Any amount that remains in the plan would be paid as a benefit to your beneficiary. If you take the entire amount of your life insurance coverage, no benefit would remain for your beneficiary.

## Optional Group Life Insurance Provides Even More Protection

Optional life insurance offers additional protection for you, your spouse and your dependents, if you met eligibility requirements and chose to continue optional coverage after retirement.

Optional insurance amounts begin to reduce when you reach age 65 and optional insurance ends at age 80.

For more information, contact Minnesota Life at:

P.O. Box 1193  
Richmond, VA 23218-1193  
1/800/441-2258

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## It's Tax Season

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

You may want to change the amount of your withholding if you have married, divorced or had other changes affecting your tax status during the past year. You can change the withholding amount at any time during the year by filing a new Request for Income Tax Withholding (VRS-15).

If you live outside of Virginia, contact your state's taxation agency for information on filing your state income taxes.

Your benefit is exempt from taxes if you retired under the guaranteed benefit formula for work-related disability.

## VRS Info At A Glance

**\$44 billion\***

Total assets

**119,360\***

Total retirees and beneficiaries

**27th\***

Ranking of VRS among  
U.S. public and private pension plans

**66\***

VRS retirees age 100 or older

\* as of June 30, 2005

## New Fillable Forms Make Changes Easier



Need to make a change? Now it's easier than ever to change your address, update your beneficiary or change your income tax withholding.

Just visit the VRS Web site at [www.varetire.org](http://www.varetire.org), go to the Retiree Section for the form you need, complete it online, print it, then mail it to VRS. No phone calls to VRS, no waiting for the form to arrive, no house-wide searches for a pen that works.

The Web site includes easy-to-follow instructions for completing the forms, which include:

<b>Designation of Beneficiary (VRS-2)</b>	<b>Authorization for Direct Deposit of Monthly Benefit (VRS-57)</b>
<b>Designation of Beneficiary - Continuation (VRS-2A)</b>	<b>Name/Address Declaration for Retirees (VRS-58)</b>
<b>Request for Termination of Monthly Benefit (VRS-7)</b>	<b>Certification of Eligibility for Retiree Health Insurance Credit (VRS-76).</b>
<b>Request for Income Tax Withholding (VRS-15)</b>	
<b>Request for Health Insurance Credit (VRS-45)</b>	

## Would You Like To Share Your Knowledge With Others?

Are you a recently retired human resource professional or a teacher interested in a part-time job? VRS is looking for retirees to help answer questions from other retirees during times of high-call volume in the VRS Customer Contact Center.

If you are interested, please contact the VRS Human Resources office at P.O. Box 2500, Richmond, Virginia 23218-2500.



## 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 credit, such as a change in your monthly premium payment.

Timely notification to VRS ensures that your health insurance credit amount is adjusted so there are no overpayments or underpayments of your health insurance credit benefit.

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

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



## Could Teaching Be The Key To A Long Life?

Two of these retired teachers are age 104 and two are age 102. In fact, 51 of the 66 retirees over the age of 100 are teachers.

Teachers are among the largest group of VRS retirees. Out of a total of more than 120,000 VRS retirees and other beneficiaries, 52,000 are retired teachers.

## Life Insurance Protects You After Retirement

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### Designating Your Beneficiary

It's important to keep your beneficiary designations current so that VRS can pay benefits to your loved ones according to your wishes.

If you have had a change in beneficiary through marriage, divorce, becoming a parent or losing a loved one, you should update your beneficiary designation.

Complete a Designation of Beneficiary (VRS-2) and return it to VRS at P.O. Box 2500, Richmond, Virginia 23218-2500. This will change your beneficiary for group life insurance and for any remaining contributions and interest in your VRS member account. You can call Minnesota Life at 1/800/441-2258 for a copy of the beneficiary change form. It is also available on the VRS Web site at [www.varetire.org](http://www.varetire.org)

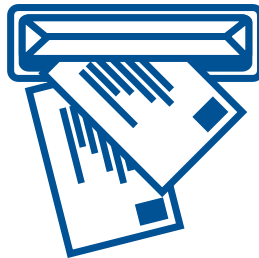
If there is no beneficiary designation on file, VRS pays life insurance benefits according to the following order of precedence:

- Spouse
- If no surviving spouse, then to children and descendants of deceased children
- If none of the above, then to parents
- If none of the above, to the duly appointed executor or administrator of the estate
- If no executor is named, to the next of kin under the laws of the state where the member resided at the time of death.

## Remember To Use Your Nine-Digit Zip Code

Do you know your whole zip code? More and more federal and state agencies are requiring the entire nine-digit zip code on forms and correspondence. By using your full zip code, you speed up delivery and help ensure accurate delivery of your correspondence.

If you don't know your full zip code, you can find out by contacting your local post office, by looking up your address through the Internet, or simply by checking your address label on this newsletter.



# Here Are A Few Reminders About The New Prescription Drug Benefit



The new Medicare prescription drug plan (Medicare Part D) begins January 1, 2006. Medicare Part D is designed to offer every Medicare recipient a prescription drug plan.

If you are a Medicare Part A or Part B participant, this fall you decided whether to remain with your existing health insurance coverage or change to another Medicare-coordinating plan.

Whether you decided to keep your Commonwealth of Virginia (COVA) Retiree Health Benefits plan or change to one of the other Medicare-coordinating plans that include prescription drug coverage, you still will be eligible for Medicare Part D.

For retirees covered under the COVA retiree health benefits plan, MEDCO now will administer prescription drug coverage for all Medicare-coordinating plans with prescription coverage (except Advantage 65—Medical Only Plans).

No changes have been made to the medical portion of the COVA Medicare-coordinating state health insurance plans. Anthem Blue Cross and Blue Shield administers all COVA Medicare-coordinating medical, dental and vision benefits plans.

Your prescription drug premium is included with your state-sponsored health insurance coverage if you are enrolled in Advantage 65, Advantage 65 with dental/vision, Option I, Option II and Option II with dental/vision.

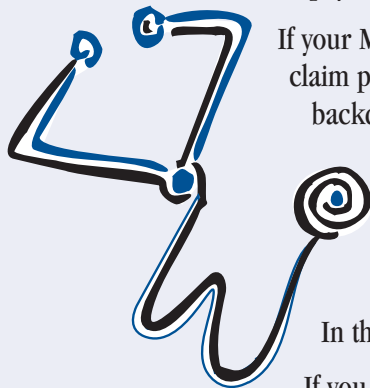
If you changed your COVA Medicare-coordinating plan, your new benefit, which includes your deductible, co-insurance and co-payment, will become effective January 1, 2006.

You will see changes in your February 1, 2006 benefit payment if you pay your health insurance premiums through payroll deduction. If you pay by direct bill, Anthem will send your new premium amount in your December bill.

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## Enrollment Information For Medicare-Eligible Participants

Remember to enroll in Medicare Parts A and B if you are eligible for Medicare. The COVA Retiree Health Benefits Program will not pay Medicare-eligible claims that should have been paid by Medicare.



If your Medicare coverage was effective before you enrolled in a Medicare-coordinating plan, primary claim payments made by the plan provider may have been paid in error. The plan provider will backdate those claims paid in error to the following:

- Up to January 1 of the previous year;
- The date you were eligible for Medicare;
- The date your coverage began in the retiree group.

In these cases, you may need to ask your plan provider to file claims for Medicare coverage.

If you are eligible for Medicare regardless of age and participate in the COVA Retiree Health Benefits plan, you are required to enroll in one of the COVA Medicare coordinating plan.

For more information, contact the Virginia Department of Human Resource Management (DHRM) at 101 North 14th Street, Richmond, VA 23219; or visit the Web site at <http://www.dhrm.state.va.us/>



# News

FOR PARTICIPANTS IN THE DEFERRED COMPENSATION PLAN (DCP)



## Do You Have Funds In Other Retirement Plans?

### You Could Roll Them Over To The Commonwealth Plans.

The Virginia Cash Match Plan and the Optional Retirement Plans administered by VRS now allow retirees to roll over assets from other retirement plans.

Previously, rollovers were allowed only while a participant was employed.

There are a number of advantages to rolling over funds from other retirement plan accounts into the Commonwealth's plans. The Commonwealth's plans offer investments that carry low management and administrative fees. The plans offer a number of investment choices, including a self-directed brokerage account. Participants have access to a customized Web site, on-line statements and account management tools, access to registered representatives, and the ability to change distribution options (other than annuity payments) as circumstances require.

## New Workshops Offered

VRS and Great West Retirement Services will offer Post-Retirement Strategies Workshops in spring 2006. These specialized educational sessions allow participants to explore the management of their assets after retirement. The schedule for these sessions will be posted at [www.vadcp.com](http://www.vadcp.com) by mid-January 2006.

## The DCP Can Help You Save If You Return To Work

Retirees who return to work part-time in a wage position with an employer offering the Commonwealth's Deferred Compensation Plan (DCP) may delay paying taxes by deferring wages into the plan.

In 2006, participants in the DCP can contribute up to 100 percent of compensation or \$15,000, whichever is less, into the DCP. Employees age 50 and over may defer the lesser of 100 percent of compensation or \$20,000. The minimum contribution is \$10 per pay period.

Wage employees are not eligible to receive the employer cash match.



## Here Are A Few Reminders About The New Prescription Drug Benefit

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If you are enrolled in one of the COVA Medicare-coordinating plans, check your Medicare number. If the number is anything other than your Social Security number with the letter "A" behind it, complete the special enrollment form in the Medicare Part D information package you received from the Department of Human Resource Management (DHRM) in October and return it to VRS. Without this information, you may not be able to access your prescription drug benefit on January 1, 2006.

For more information about Medicare Part D, check the following Web sites:

Medicare: [www.medicare.gov](http://www.medicare.gov)

Virginia Department of Human Resource Management (DHRM): <http://www.dhrm.state.va.us/>

Virginia Retirement System: [www.varetire.org](http://www.varetire.org)

AARP: <http://www.aarp.org/>

**Director**  
Robert P. Schultze

**Public Relations Director**  
Jeanne Chenault

**Communications Manager**  
Ann Black

**Communications Editor**  
Kathleen Dimond

**Newsletter Design**  
Office of Graphic Communications  
Virginia Department of General Services

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

Post Office Box 2500  
Richmond, Virginia 23218-2500

Phone 804/649-8059  
Toll Free 888/827-3847  
(VA-RETIR)

e-mail: [vrs@varetire.org](mailto:vrs@varetire.org)  
Web Site: [www.varetire.org](http://www.varetire.org)



Virginia  
Retirement  
System

PRSRRT STD  
US Postage  
PAID  
Richmond, VA 23232  
Permit No. 457

Virginia Retirement System  
Post Office Box 2500  
Richmond, Virginia 23218-2500