



VRS Achieves 12.4 Percent Return

The Virginia Retirement System (VRS) announced a 12.4 percent return on its investment portfolio for fiscal year 2006, ending the year with \$48.5 billion. This return surpassed the benchmark of 11.8 percent for investments of the type held by the VRS Trust Fund.

The fund's private equity and real estate investments produced outstanding returns, at 28.6 percent and 23.4 percent respectively. In addition, the system saw a 15.3 percent return in public equity (U.S. and international stocks), a 5.3 percent return in credit strategies and a -0.6 percent return in fixed income.

"The economy was strong, and market conditions were favorable for equity and real estate investments. We are pleased that the fund's diversified portfolio produced attractive returns at an acceptable level of risk," said Chief Investment Officer Charles W. Grant.

The portfolio included \$31.8 billion in public equity, \$9.7 billion in fixed income, \$2.7 billion in private equity, \$2.3 billion in real estate and \$2.0 billion in credit strategies, as of June 30, 2006. The three-year annualized return was 14.0 percent and the five-year annualized return was 7.1 percent.

"The economy was strong, and market conditions were favorable for equity and real estate investments. We are pleased that the fund's diversified portfolio produced attractive returns at an acceptable level of risk"

Direct Deposit Puts Money In Your Bank

VRS deposits your retirement benefit payment electronically 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 your payment 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). Attach a voided check with your new account information and return the form to VRS.

VRS sends you an earnings statement only if the net amount of your payment changes.

2007 Direct Deposit Schedule

December 29, 2006 (for January 2007)	June 29 (for July)
February 1	August 1
March 1	August 31 (for September)
March 30 (for April)	October 1
May 1	November 1
June 1	November 30 (for December)

OMB NO. 1545-0047

2006

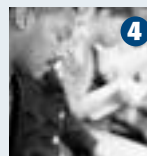
Form 1099-R

Total

2 Watch For 1099s To Arrive In January



3 Residential Energy Efficiency Can Earn You Tax Credits



4 Educational Seminars Focus On Financial Planning After Retirement



8 Have You Scheduled Your Annual Retirement Check-Up?

Watch For 1099s To Arrive In January

Each January, VRS mails you a 1099-R form. This form provides important information you need to file your federal and state income tax returns. The 1099-R shows the total amount of your monthly benefit, including cost-of-living increases and supplements. It shows the taxable amount of your benefit, the total amount of federal and state income 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 if it is a benefit paid to a survivor.

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. Change the withholding amount at any time by completing a new Request for Income Tax Withholding (VRS-15) and mailing it to VRS. You can find the form on the VRS Web site at www.varetire.org.

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

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

Why Does VRS Send Me A W-2?

You receive a W-2 from VRS in January if the value of your VRS basic group life insurance is more than \$50,000. The amount over \$50,000 is subject to federal adjusted gross income (FICA) taxes. VRS automatically withholds the taxes and sends you a W-2 form showing the amount withheld. When your life insurance amount falls below \$50,000, you no longer receive the W-2.

How To Read Your 1099-R

Box 4 shows the total amount of federal income tax withheld in 2006, as determined by the IRS Federal Tax Table. It is based on your marital status and number of allowances reported on your Request for Income Tax Withholding (VRS-15).

Box 5 shows the amount of your benefit not subject to tax. This amount includes any contributions to your VRS account on which you have already paid tax. Subtract the amount in box 2a (taxable amount) from the amount in box 1 (gross distribution), to get the amount in box 5. This box does not include health insurance premiums.

Box 10 shows the total amount of state income tax withheld in 2006. The taxable amount is based on the total number of exemptions reported on your Request for Income Tax Withholding (VRS-15).

Box 1 shows the benefit amount that VRS paid to you in 2006. This includes the total of your monthly benefit, cost-of-living increases and any supplements paid.

Box 2a shows the taxable amount of your benefit. This 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.
		\$		2006		
		2a Taxable amount				
PAYER'S federal identification number		RECIPIENT'S identification number		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>
RECIPIENT'S name		3 Capital gain (include in box 2a)		4 Federal income tax withheld		
Street address (including apt. no.)		\$		\$		
City, state, and ZIP code		5 Employee contributions / Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities		
Account number (see instructions)		7 Distribution code(s)		8 Other		
1st year of desig. Roth contrib.		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		14 Name of locality		15 Local distribution
		\$				\$

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

Box 13 shows the amount of health insurance premiums you paid during 2006. If you are receiving a health insurance credit, the amount shown here is the difference between your total health insurance premium amount and your health credit amount.

Residential Energy Efficiency Can Earn You Tax Credits

Those of you who made energy-conscious purchases during 2006 may enjoy tax benefits when you file next year's tax returns. A new federal law provides tax credits for homeowners who increase the energy efficiency of their homes and who buy certain energy efficient items.



The law provides a 10 percent credit for qualified energy efficiency improvements you make to your primary residence in the United States between December 31, 2005 and January 1, 2008.

The following items are eligible:

- Insulation systems that reduce heat loss or gain.
- Exterior windows, including skylights.
- Exterior doors and metal roofs that meet applicable Energy Star requirements.

In addition, you receive a tax credit for your primary home's qualified residential energy property expenses. The following expenses are eligible:

- \$50 for each advanced main air circulating fan.
- \$150 for each qualified natural gas, propane or oil furnace or hot water heater.
- \$300 for each item of qualified energy efficient property.

You also may receive a tax credit for adding qualified solar panels, solar water heating equipment, or a fuel cell power plant to your home.

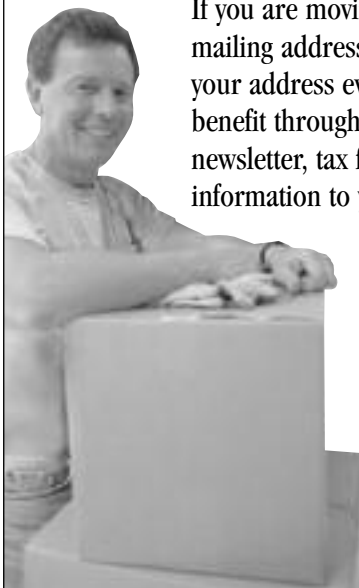
For more information on tax credits and qualifying purchases, visit the Internal Revenue Service Web site at www.irs.gov.

New Tax Law Permits Non-Spouse Rollovers Into IRAs

The Pension Protection Act of 2006 allows a deceased member's beneficiary who is not the member's spouse, to roll over the refund of contributions and interest credited to the member's account into his or her own Individual Retirement Account (IRA). Previously, this option was available only to the spouse. This provision is effective January 1, 2007.

Rolling over the funds directly into an IRA enables the beneficiary to defer federal taxes until the time of withdrawal. Then, withdrawals from the IRA can be spread over the beneficiary's life expectancy.

Moving? Take Us With You



If you are moving, notify VRS of your new mailing address as soon as possible. VRS needs your address even if you are receiving your benefit through direct deposit. VRS mails your newsletter, tax forms and other important information to your home address.

Use the Name/Address Declaration for Retirees (VRS-58), which is available on the VRS Web site at www.varetire.org or call 1-888-VARETIR (827-3847) to report an address change.



Educational Seminars Focus On Financial Planning After Retirement

This spring, you can learn about financial planning in retirement by attending one of the Deferred Compensation Plan's (DCP) Regional

Education and Enrollment Meetings (REEMs). These meetings include educational sessions for retirees.

The Post-Retirement Strategies sessions cover retirement income risks, such as the impact of longevity, inflation, health care, market fluctuations, liabilities and debts on income. You learn ways to fill retirement income gaps and manage your retirement income.

The National Association of Government Defined Contribution Administrators (NAGDCA) recently presented VRS with a

Leadership Award for expanding the DCP education and enrollment meetings to include retirees.

VRS Director Robert P. Schultze said, "The Deferred Compensation Plan is an important retirement savings vehicle for our members. With the expansion of REEMs to include post-retirement strategies, we are responding to our members' interests in managing their retirement income as well as saving for retirement. We are honored to receive national recognition for leadership in this area."

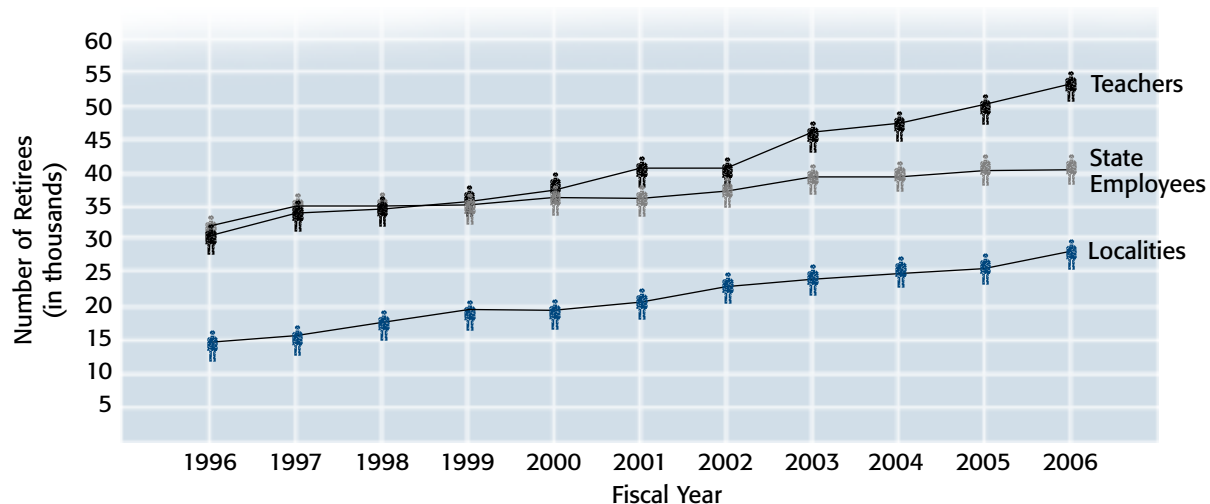
The REEMs are open to everyone and pre-registration is not required. The schedule for the post-retirement REEMs is on page 7 of this newsletter and on the VRS Web site under the retiree tab.

You're Not Alone – A Decade Of Growth In The Number Of VRS Retirees

In 1996, the number of retired members of VRS was just over 81,000. Now, you're one of over 124,000 VRS retirees. As you can see from the chart below, the number of retirees has increased steadily over the last decade. By 2010,

approximately 33,000 or 9.9 percent of the current VRS membership will be eligible to retire.

VRS uses its fund of over \$50 billion to pay benefits to you and the growing number of your fellow retirees.



Events In Your Life May Require A Beneficiary Change

You may want to complete a new beneficiary designation form if you have married, divorced or if your beneficiary has died. Keeping your beneficiary information up to date is the only way you can be sure that benefits are paid according to your wishes.

You can find the Designation of Beneficiary (VRS-2) on the VRS Web site at www.varetire.org or by calling VRS at 1-888-VARETIR (827-3847).

Contact Minnesota Life at 1-800-441-2258 to receive information through the mail about your existing beneficiary.

If there is no beneficiary designation on file, VRS follows the order of precedence established by law. The order of precedence requires VRS to pay benefits in the following order:

- First to your spouse;
- If no spouse, then to your children or any children of deceased children;
- If no children, to your parents;
- If no living parents, to the duly appointed executor of your estate; or
- To your next of kin.

The VRS Web Site – What's On It For You?

As a retiree, you have your very own resource on the VRS Web site. Just click on the retiree tab on the VRS home page at www.varetire.org.

Got a question on the latest cost-of-living adjustments (COLA)? How much? Are you eligible? It's there, under Cost-of-Living Adjustments.

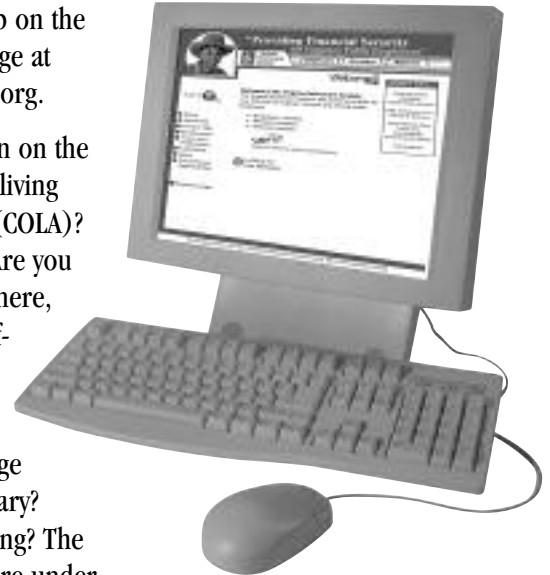
Need to change your beneficiary? Tax withholding? The forms are there under

Forms and Publications. Need to know if you are eligible for the health insurance credit? The Web site features a page dedicated to the health insurance credit.

Find answers to frequently asked questions about designating a beneficiary, returning to work, changing your name or address and other issues that might come up during your retirement.

You also can go to the Forms and Publications Section on the Web site for this newsletter and the *Retiree Handbook*.

It's all there for you at www.varetire.org.



Calling VRS

Effective December 31, the toll-free number is now your one number to call VRS.

Call toll-free 1-888-VARETIR (827-3847).

Press 2 for the Virginia Informational Phone System (VIPS), the automated response system.

Press 3 to speak to a Customer Contact Center specialist. Then, press 1 to identify yourself as a retiree. You will be asked to provide your Social Security number.

TDD for hearing impaired VRS members: 1-804-344-3190.



Review Your Medicare Options Carefully

State Retiree Health Benefits Program Participants Eligible For Medicare Should Take Time To Review Options

When you first become eligible for Medicare, regardless of age, you must secure both Medicare Part A and Part B and select one of the state Medicare-coordinating plan options. Medicare becomes your primary insurer and the state plan your secondary insurer.

If you do not have both parts of Medicare, you will not receive the full level of benefits from the plan and may have a gap in coverage. Contact your local Social Security Administration before the date you become eligible for Medicare.

Selecting Your Prescription Drug Coverage (Medicare Part D)

- There are many Medicare Part D plans and you have the option of choosing a non-state plan. It's up to you to look at your prescription drug needs and select the plan that will work best for you.
- As a participant in the State Retiree Health Benefits Program, if you select a state Medicare-coordinating plan that includes prescription drug coverage, you are automatically enrolled in Medicare Part D prescription drug coverage. Enrollment in any other prescription drug program will terminate the state prescription drug coverage and you will not have another opportunity to enroll in the state's program.
- Medicare approves enrollments for the prescription drug program (Medicare Part D). If Medicare denies your prescription drug enrollment for any reason, your prescription drug benefit is cancelled and you automatically are enrolled in one of the state Medical Only Medicare Plan Options.
- Complete and submit a Retiree Enrollment/Waiver form to VRS before the date you become eligible for Medicare. For a form, contact VRS at 1-888-827-3847 or go to the VRS Web site at www.varetire.org.
- Medicare Part D enrollment can be a lengthy process. Fill your prescriptions before the date of your Medicare eligibility.

Effective January 1, 2007 when a medical claim is filed with Medicare it will be filed automatically with Anthem Blue Cross Blue Shield.



In November, the Department of Human Resource Management (DHRM) mailed letters to Medicare-eligible retirees detailing changes to their benefits. If there were changes to your Retiree Health Benefits Program 2007 premium amount, it will be reflected in your benefit paid on February 1, 2007. If you are billed directly for your premiums, Anthem will send you a bill in December.

Visit the following Web sites for information to help with understanding your retiree health benefits:

Virginia Department of
Human Resource Management (DHRM)
www.dhrm.virginia.gov

Medicare
www.medicare.gov

Social Security Administration
www.socialsecurity.gov

Centers for Medicare and
Medicaid Services
www.cms.hhs.gov/

For information on your prescription drug benefit, contact MEDCO Customer Service at 1-800-572-4098 or visit the Web site at www.medco.com.



News

FOR PARTICIPANTS IN THE DEFERRED COMPENSATION PLAN

Cash Match Plan Allows You To Consolidate Retirement Plans

During 2006, the VRS Board of Trustees adopted amendments to the Virginia Cash Match Plan allowing participants in the Commonwealth of Virginia 457 Deferred Compensation Plan (DCP) to consolidate rollovers from other retirement plans into the Cash Match Plan.

Retirees who contributed to the DCP Plan and retired before the Cash Match Plan was available may use the Cash Match Plan to consolidate retirement funds, as long as they have not

taken a total distribution of their DCP account balance.

The types of plans from which incoming rollovers are allowed include 401(a) plans, 403(b) accounts, 457 plans, 401(k) plans and traditional Individual Retirement Accounts (IRAs).

For more information, visit www.vadcp.com or contact Great-West Retirement Services at 1-804-643-1882 or toll free at 1-866-226-6682 (option 2); TDD 1-800-766-4952.

VRS Offers Deferred Compensation Plan Regional Education Meetings

VRS and Great-West Retirement Services offer regional educational sessions on the Commonwealth of Virginia Deferred Compensation Plan. These educational meetings include a new workshop on Post-Retirement Strategies, which addresses the management of resources during retirement. The free sessions are for both active and retired participants. Pre-registration is not required.

Date	Plan Features & Benefits	Account Management Strategies	Advantages of Budgeting	Post-Retirement Strategies	Location/Presenter
3/3/07 (Saturday)	9:00 am	10:15 am	11:30 am	1:30 pm	John Tyler Community College 13101 Jefferson Davis Highway, Chester, VA 23831 Tom Ferguson 1-866-226-6682, opt 2; Ext 102
3/6/07	9:00 am	10:15 am	11:30 am	1:30 pm	Virginia Department of Transportation Northern Virginia District Office 14685 Avion Parkway, Chantilly, VA 20151 Fairfax Room Catherine Pfeilsticker 1-866-226-6682, opt. 7; Ext 107
3/8/07	9:00 am	10:15 am	11:30 am	1:30 pm	Virginia Department of Transportation Lynchburg District Office 4219 Campbell Ave., Lynchburg, VA 24501 Learning Center A & B Nancy Roth 1-866-226-6682, opt 2; Ext 115
3/28/07	9:00 am	10:15 am	11:30 am	1:30 pm	Virginia Department of Transportation Old Highway Building, First Floor Auditorium 1221 E Broad Street, Richmond, VA 23219 Tom Ferguson 1-866-226-6682, opt 2; Ext 102
3/29/07	9:00 am	10:15 am	11:30 am	1:30 pm	Virginia Department of Transportation Hampton Roads District Office 1700 N Main Street, Suffolk, VA 23434 Tom Ferguson 1-866-226-6682, opt 2; Ext 102
4/4/07	9:00 am	10:15 am	11:30 am	1:30 pm	Northern Virginia Graduate Center 7054 Haycock Road, Falls Church, VA 22043 Room 219 Catherine Pfeilsticker 1-866-226-6682, opt 2; Ext 107
4/11/07	9:00 am	10:15 am	11:30 am	1:30 pm	Virginia Western Community College Natural Science Center, (Behind the Arboretum) 3102 Colonial Avenue, SW, , Roanoke, VA 24038 Nancy Roth 1-866-226-6682, opt 2; Ext 115
4/18/07	9:00 am	10:15 am	11:30 am	1:30 pm	Woodrow Wilson Rehabilitation Center 394 Hornet Road, Fishersville, VA 22939 Activities Building, Auditorium Tom Ferguson 1-866-226-6682, opt 2; Ext 102

NEWS FOR PARTICIPANTS IN THE DEFERRED COMPENSATION PLAN, CONTINUED

Have You Scheduled Your Annual Retirement Check-Up?

If you participate in the Commonwealth of Virginia's Deferred Compensation Plan (DCP), you are eligible for an annual account review. Think of it as an annual check-up on the condition of your retirement.

Your representative presents an overview of the plan's investment options and information on your specific fund choices. You can discuss distribution projections, minimum required distribution rules and recent changes.

Call 1-866-226-6682, option 2 or 1-804-643-1882, then press "0" for the local service center staff.



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