



VRS Achieves 20.4 Percent Return In 2007

The Virginia Retirement System (VRS) announced a 20.4 percent return on its investment portfolio for fiscal year 2007, ending the year with \$58.3 billion in assets.

The fund's private equity and public equity investments (U.S. and international stocks) produced outstanding returns, at 32.0 percent and 24.5 percent respectively. Real estate investments also generated an exceptional return at 23.8 percent. The fund's credit and fixed income programs contributed returns of 13.6 percent and 6.0 percent respectively.

"Market conditions were favorable for all of our investment programs. A strong corporate sector fueled high returns in equity and credit related investments, while real estate continued to benefit from good operating fundamentals and strong investor demand. However, VRS expects returns to be more moderate in the years ahead, as represented in the fund's long-term investment return assumption of 7.5 percent," said Chief Investment Officer Charles W. Grant.

The portfolio included \$37.6 billion in public equity, \$11.2 billion in fixed income, \$3.6 billion in private equity, \$2.9 billion in real estate and \$2.1 billion in credit strategies, as of June 30, 2007.

You Can Bank On It

2008 DIRECT DEPOSIT SCHEDULE

MONTH	DEPOSIT DATE
January	December 31, 2007
February	February 1
March	February 29
April	April 1
May	May 1
June	May 30
July	July 1
August	August 1
September	August 29
October	October 1
November	October 31
December	December 1

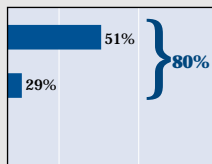
VRS deposits your benefit payment directly into your bank or credit union account on the first business day of each month. If the first day of the month falls on a weekend or holiday, VRS deposits the payment on the last business day of the preceding month.

If you move your account to another bank or credit union, fill out a new Authorization for Direct Deposit of Monthly Benefit (VRS-57). Visit the VRS Web site at www.varetire.org or call VRS at 1-888-VARETIR (827-3847) for the form. Attach a voided check with your new account information and return the form to VRS. It takes approximately 60 days for VRS to make the change, so don't close your old account until you've confirmed your benefit deposit into your new account.



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It's Tax Time Again

If you received a monthly retirement benefit from VRS in 2007, VRS will send you a 1099-R form by the end of January. Use the 1099-R form to complete your 2007 federal and state income tax returns.

The 1099-R shows:

- the total amount of your monthly benefit
- 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
- whether your benefit is for service retirement, disability retirement or is a benefit paid to a survivor.

Your 1099-R displays the health insurance premium amount you paid during the year. If you receive a health insurance credit reimbursement, the amount displayed is the amount you paid in health insurance premiums, less the health credit reimbursement amount. Your health credit reimbursement is a

non-taxable benefit and cannot be included with the taxable income on your 1099-R form.

If you live outside of Virginia, contact your state's taxation agency for more information. Your benefit is exempt from taxes if you retired under the guaranteed benefit for work-related disability.

To change your tax withholding, complete a Request for Income Tax Withholding (VRS-15), available on the Web site at www.varetire.org

How To Read Your 1099-R

Box 1 shows the benefit amount that VRS paid to you in 2007. This amount includes the total of your monthly benefit, cost-of-living increases and any supplements received from VRS.

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

Box 4 shows the total amount of federal income tax withheld in 2007, determined by the IRS Federal Tax Table. Your withholding is based on your marital status and number of allowances you provided on your Request for Income Tax Withholding (VRS-15).

Box 5 shows the amount of your benefit that is **not** subject to tax. This amount includes 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) for the amount shown in box 5.

Box 10 shows the total amount of state income tax withheld in 2007. The taxable amount is based on the total number of exemptions you provided on your Request for Income Tax Withholding (VRS-15).

Health Insurance Premiums shows your health insurance premium amount, less any health insurance credit.

PAYER'S name, street address, city, state and ZIP code Virginia Retirement System 1200 E. Main Street Richmond, VA 23219		1 Gross distribution \$ _____	2a Taxable amount \$ _____	3 Capital gain (included in box 2a) \$ _____
PAYER'S Federal identification number _____		RECIPIENT'S identification number _____		Account number (optional) _____
4 Federal income tax withheld \$ _____		5 Employee contributions or insurance premiums \$ _____		2b Taxable amount not determined <input type="checkbox"/>
6 Net unrealized appreciation in employer's securities \$ _____		7 Distribution code _____		Total Distribution <input type="checkbox"/>
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 \$ _____
Health Insurance Premiums \$ _____		Health Insurance Exclusion \$ _____		_____

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

Eligible Retired Public Safety Officers May Exclude Portion Of Health Insurance Premiums From Taxes

Beginning with tax year 2007, if you're an eligible retired public safety officer (law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew), you may exclude a portion of your accident or health insurance or long-term care premiums from federal income taxes.

Up to \$3,000 per year of premiums being deducted from the monthly retirement benefit by VRS or another qualified plan may be excluded. The premiums may provide coverage for you, your spouse or dependents. The exclusion is provided by the Pension Protection Act of 2006. The amount excluded from your taxable income cannot be claimed as a medical expense deduction.

The amount of health insurance premiums deducted from your monthly benefit payments, less any health insurance credit you may have received, is included as an information item on the 1099-R form that VRS mails to you in January.

For more information on how to claim this new tax benefit, check with your tax advisor or read the "What's New" section in the upcoming income tax instruction booklet published by the Internal Revenue Service (IRS). The IRS also publishes instructions on this and other tax provisions concerning retirement and annuity income in Publication 575.



Need To Change Your Name?

Don't Forget Documentation

If you changed your name because of marriage or divorce, make sure your records remain accurate by sending a Name/Address Declaration for Retirees (VRS-58) to VRS.

Include proof of your name change, such as a marriage license, divorce decree or court order. VRS cannot accept drivers' licenses or Social Security cards as proof of a name change.

Send your completed form and documentation to VRS at P.O. Box 2500, Richmond, Virginia 23218-2500. It takes approximately 30 days for the change to become effective. You can find the VRS-58 on the Web site at www.varetire.org.



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Retirees Open To Online Services, Survey Shows



Recently retired members would be open to interacting with VRS in an online environment, according to a fall survey.

The survey, conducted for VRS by the Southeastern Institute of Research, Inc. (SIR), asked members who have retired within the last five years about their customer service expectations of VRS. More than 11,300 respondents completed the online survey or mailed a paper version to SIR, out of a field of nearly 35,000 retirees.

Ninety-five percent of retiree respondents have access to the Internet, and 69 percent use the Internet more than once a day. Eighty percent would be interested in secure online access to their retiree information, particularly information about cost-of-living adjustments, benefit payments, tax withholding and health insurance.

The survey indicated retirees also would want to be able to update personal information online.

“These results are excellent news for the development of *myVRS* for retirees,” said VRS Director Robert P. Schultze. Members and employers currently have secure online access through *myVRS* and *myVRS* for Employers. A version for retirees is planned for release in 2008.

“It’s also great news for our modernization program,” Mr. Schultze continued. “One of the important objectives of modernization is delivering the information members, retirees and employers

want through their preferred channels. This survey tells us that the online channel will be important to retirees in the future.”

When asked about their information needs, the majority of respondents expressed interest in health insurance, followed by investment information, benefits information in general, then budgeting information and life insurance information.

The survey also showed that most respondents are satisfied with life in retirement. In fact, 87 percent said their financial health was about where they expected or better.

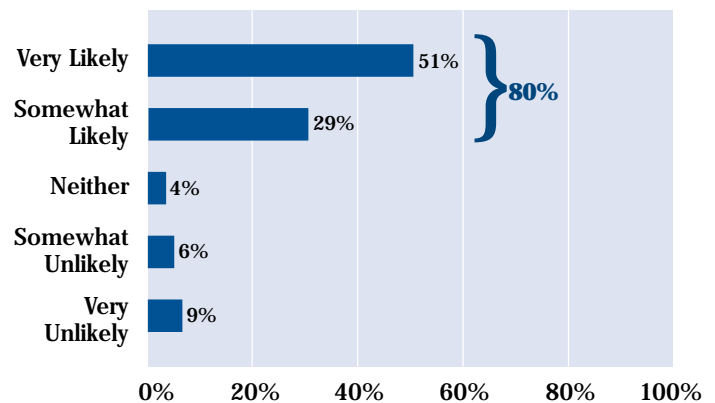
Three quarters indicated they have supplemental retirement income in addition to their VRS benefit and Social Security. More than a third said they are working part-time or full-time.

Finally, retirees seem to be satisfied with VRS according to the survey. In fact, they wouldn’t mind a little bit more interaction with VRS in the future.

“These results are excellent news for the development of *myVRS* for retirees.”

VRS DIRECTOR
ROBERT P. SCHULTZE

The Large Majority (80%) Say They Would Be Likely To Use A Secure Online System For Retirees



VRS Changes The Look Of The Web Site

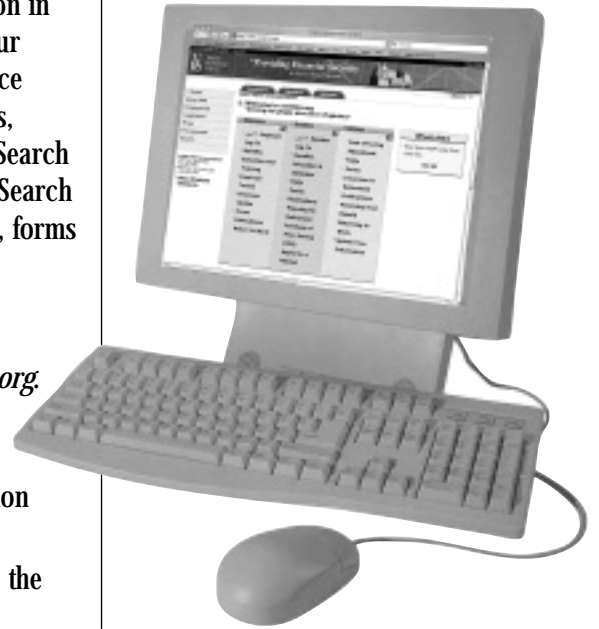
Have you visited the VRS Web site recently? VRS changed the look of the Web site this summer. You may notice that:

- The retiree section features information specifically for retirees, along with retiree forms and publications.
- The pages feature more color and images to help orient users and to make the site easier to navigate.
- Print-friendly pages are in a simple black-and-white format that provides a readable hard copy of the information on the screen.

- Each page has the search function in the upper right corner. Enter your keyword or keywords in the space provided. For advanced searches, select the + icon or “Advanced Search Options” from the search page. Search the entire site or just Web pages, forms or publications.

What stayed the same?

- Same address: *www.varetire.org*
- Same accessibility standards that allow users with disabilities to access information on the site.
- Most bookmarked pages from the old site will work.



Updating Your Information Is Easier Than Ever

Change your tax-withholding amount. Notify VRS that you've moved. Add your latest grandchild as your beneficiary. Sign up for direct deposit. All the forms you need are on the Web site at *www.varetire.org*. You can fill out these forms online, print them and mail them to VRS.

Available forms include:

- Designation of Beneficiary (VRS-2)
- Request for Income Tax Withholding (VRS-15)
- Request for Health Insurance Credit (VRS-45)
- Authorization for Direct Deposit of Monthly Benefit (VRS-57)
- Name/Address Declaration for Retirees (VRS-58)

- Authorization to Discuss VRS Account Information (VRS-900)
- VRS Durable Power of Attorney (VRS-901)

If you need to speak to a Customer Contact Center specialist to order a form or ask a question, call from 8:30 a.m. to 5 p.m., Monday through Friday, except state holidays. The telephone number is 1-888-VARETIR (827-3847). When calling VRS, please have your Social Security number available.

If you prefer to put your questions in writing, include your full name and Social Security number and mail the correspondence to:

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

You also can e-mail VRS at *vrs@varetire.org*. If you use e-mail, remember that VRS e-mail is not a secured system. To protect your personal information, please do not include your Social Security number or banking information. VRS can provide general information through e-mail, but cannot include confidential account information.



News For State Retiree Health Benefits Program Participants

Eligible For Medicare? Sign Up For Hospital Part A And Medical Part B For Full Coverage



As a state retiree, when you become eligible for Medicare, you must sign up for both Hospital Part A and Medical Part B. Without both parts of Medicare, you will not receive the full level of benefits from the plan. You also must select one of the state health plans to coordinate with Medicare.

Selecting Your Prescription Drug Coverage (Medicare Part D)

You can choose either a state or non-state Medicare Part D plan, depending on your prescription drug needs. If you participate in the State Retiree Health Benefits Program and select a state Medicare-coordinating plan that includes prescription drug coverage, you are enrolled automatically in Medicare Part D prescription drug coverage. Enrollment in any other prescription drug program ends your state prescription drug coverage. You will not have another opportunity to enroll in the state's program.

Complete and submit a State Health Benefits Program Enrollment Form For Retirees, Survivors And LTD Participants to VRS when you become eligible for Medicare. For a form, go to the VRS Web site at www.varetire.org or call VRS at 1-888-VARETIR (827-3847).

For more information on your retiree health benefits, visit the Virginia Department of Human Resource Management (DHRM) Web site at www.dhrm.virginia.gov.

Health Insurance Premiums Are Changing On January 1

The Department of Human Resource Management announced that health insurance premium rates will change for State Retiree Health Benefits Program participants on Medicare, beginning January 1, 2008.

VRS automatically deducts health premiums from most state retirees' benefits. If you're billed directly by your health insurance provider, remember to pay your total monthly premium as soon as possible. If you do not pay premiums within 31 days of the due date, your coverage could be cancelled.

MEDICARE-ELIGIBLE PLANS

(Effective January 1 - December 31, 2008)

	One Person	Two Persons*
Advantage 65	\$277	\$554
Advantage 65 + Dental/Vision	\$308	\$616
Advantage 65 – Medical Only	\$126	\$252
Advantage 65 – Medical Only + Dental/Vision	\$157	\$314
THE FOLLOWING PLANS ARE NOT AVAILABLE TO NEW ENROLLEES		
Option I – Medicare Complementary	\$237	\$474
Option II – Medicare Supplemental	\$319	\$638
Option II + Dental/Vision	\$350	\$700

* Two persons may choose the same plan or different Medicare-eligible plans; the total premium is the sum of each selection.

NON-MEDICARE PLANS

(Effective July 1, 2007 - June 30, 2008)

Statewide Plans	One Person	Two Persons	Three Or More
COVA Care	\$437	\$809	\$1,182
ADDITIONAL COVERAGE OPTIONS			
COVA Care w/out- of-network	\$447	\$823	\$1,201
COVA Care w/expanded dental	\$450	\$834	\$1,220
COVA Care w/vision, hearing and expanded dental	\$459	\$851	\$1,242
COVA Care w/out-of-network and expanded dental	\$460	\$848	\$1,238
COVA care w/out-of-network, vision and hearing and expanded dental	\$469	\$864	\$1,259
COVA High Deductible Health Plan	\$350	\$648	\$ 947
Kaiser Permanente HMO	\$434	\$803	\$1,172

Regional Enrollment And Education Meetings Resume In March 2008

The spring Regional Enrollment and Education Meetings (REEMs) offered by VRS and Great-West Retirement Services to Commonwealth of Virginia 457 Deferred Compensation Plan participants begin in March 2008.

The presentation on “Account Management Strategies and Tools” will help participants use available resources to manage their accounts. This session is for anyone with a 457 Plan or Virginia Cash Match Plan account, including participants who are retired.

The presentation, “Retirement Planning and Distribution Options” is for participants who are retired and those approaching retirement. Visit www.vadcp.com or contact Great-West at 1-804-643-1882 or toll free at 1-866-226-6682 (option 2) for more information or to schedule an annual account review.

Pre-registration is not required.



Deferred Compensation Plan News

REGIONAL ENROLLMENT AND EDUCATION MEETINGS

ACCOUNT MANAGEMENT STRATEGIES AND TOOLS 10:30 A.M. - 11:45 A.M.		RETIREMENT PLANNING AND DISTRIBUTION OPTIONS NOON - 1:15 P.M.	
DATE	LOCATION/PRESENTER		
March 4	Virginia Department of Transportation Fairfax Room 14685 Avion Parkway, Chantilly, VA 20151 Catherine Pfeilsticker, 1-866-226-6682, Ext. 107		
March 11	Virginia Department of Transportation Auditorium 870 Bonham Road, Bristol, VA 24203 Nancy Roth, 1-866-226-6682, Ext. 115		
March 22 Saturday	John Tyler Community College 13101 Jefferson Davis Hwy, Chester, VA 23831 Tom Ferguson, 1-866-226-6682, Ext. 102		
March 27	Department of Environmental Quality Large Training Room 5636 Southern Blvd, Virginia Beach, VA 23462 Mackenzie Hayden, 1-866-226-6682, Ext. 110		
April 5 Saturday	Blue Ridge Community College Boardroom, P1241 College Lane, Weyers Cave, VA 24486 Catherine Pfeilsticker, 1-866-226-6682, Ext. 107		
April 9	Department of Environmental Quality 3019 Peters Creek Road, Roanoke, VA 24019 Nancy Roth, 1-866-226-6682, Ext. 115		
April 23	Woodrow Wilson Rehabilitation Center Mary Switzer Building, Large Classroom 394 Hornet Road, Fishersville, VA 22939 Catherine Pfeilsticker, 1-866-226-6682, Ext. 107		
April 24	J. Sargeant Reynolds Community College North Run Office Park 1630 East Parham Road, Richmond, VA 23228 Tom Ferguson, 1-866-226-6682, Ext. 102		
April 29	Danville Community College Regional Center for Advanced Technology and Training 121 Slayton Avenue, Danville, VA 24541 Nancy Roth, 1-866-226-6682, Ext. 115		
April 30	Christopher Newport University Human Resources Training Room, Sun Trust Building 301 Hiden Boulevard, Newport News, VA 23606 Mackenzie Hayden, 1-866-226-6682, Ext. 110		

Are You Moving?

If you're planning a move, notify VRS of your new address even if you receive your retirement benefit through direct deposit. VRS sends your retiree newsletter, tax forms and other important information to your home address.

To notify VRS of your new address, fill out a Name/Address Declaration for Retirees (VRS-58), which you can download from the Web site at www.varetire.org or request from the VRS Customer Contact Center.

You can also write a letter to VRS to change your home mailing address. Include your name, Social Security number, new address and signature in the letter.



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