Virginia Retirement System Comprehensive Annual Financial Report

For the Year Ended June 30, 2010

VIRGINIA RETIREMENT SYSTEM
FINANCIAL AND STATISTICAL HIGHLIGHTS – ALL PENSION TRUST FUNDS

(DOLLARS IN THOUSANDS)

	2010	2009	% Change
Activity for the Year:			
Contributions	$ 1,861,184	$ 2,097,403	-11.3%
Investment Income (Net of Investment Expenses)	$ 6,233,128	$ (11,501,006)	154.2%
Retirement Benefits	$ 3,035,274	$ 2,733,223	11.1%
Refunds	$ 93,086	$ 91,348	1.9%
Administrative Expenses (Net of Miscellaneous Income)	$ 27,364	$ 23,045	18.7%
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	$ 4,938,588	$ (12,251,219)	140.3%
Retirement Benefits as a Percentage of Contributions	163.1%	130.3%	
Retirement Benefits as a Percentage of Contributions and Investment Income	37.5%	-29.1%	
Net Assets Held in Trust for Benefits at Fiscal Year End:			
Virginia Retirement System (VRS)	$ 44,645,816	$ 39,889,754	11.9%
State Police Officers' Retirement System (SPORS)	$ 533,962	$ 484,119	10.3%
Virginia Law Officers' Retirement System (VaLORS)	$ 792,429	$ 690,606	14.7%
Judicial Retirement System (JRS)	$ 314,794	$ 283,934	10.9%
Investment Performance:			
One-Year Return on Investments	14.1%	-21.1%	
Three-Year Return on Investments	-4.9%	-3.2%	
Five-Year Return on Investments	3.1%	2.7%	
Participating Employers:			
Counties/Cities/Towns	253	250	
Special Authorities	194	192	
School Boards	144	144	
State Agencies	235	235	
Total Employers	826	821	0.6%
Members/Retirees:			
Active Members	342,609	346,929	-1.2%
Retired Members	148,496	141,746	4.8%

Investment return calculations were prepared using a time-weighted return methodology.

Virginia Retirement System

Comprehensive Annual Financial Report

For the Year Ended June 30, 2010

VRS STANDARDS OF CONDUCT

RESPONSIBILITY
We are loyal to members, beneficiaries and participants, discharging our duties for the exclusive purpose of administering benefits and providing customer services.

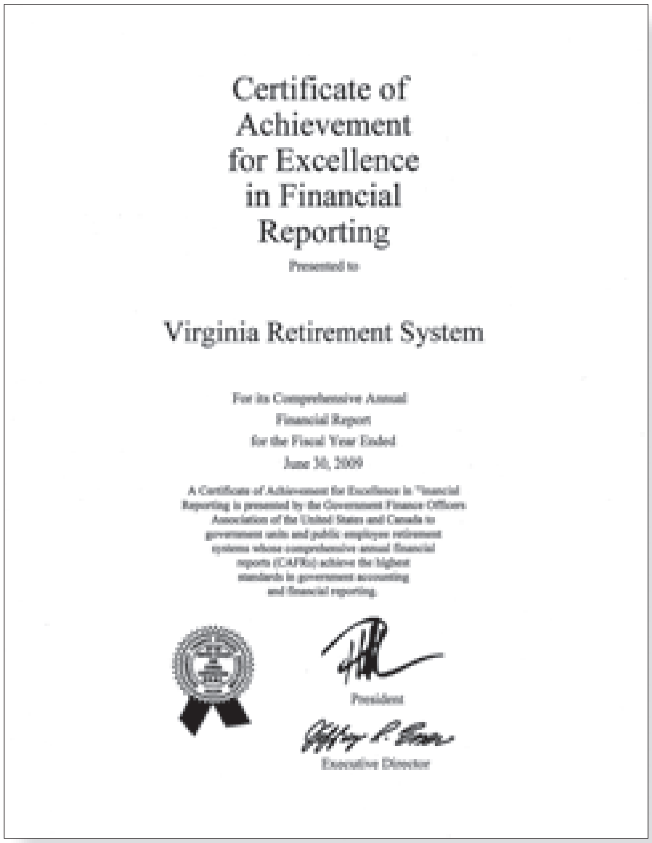
FAIRNESS
We work for all members, beneficiaries and participants, not for any one individual or group of individuals.

COMPETENCE
We strive to maintain and improve our skills and knowledge.

INTEGRITY
We conduct ourselves in a professional and ethical manner befitting the high level of trust bestowed upon us by our members, beneficiaries and participants.

AN INDEPENDENT AGENCY OF THE COMMONWEALTH OF VIRGINIA

This report was prepared by the financial, administrative and investment staff of the Virginia Retirement System.


Certificate of Achievement for Excellence in Financial Reporting

Presented to

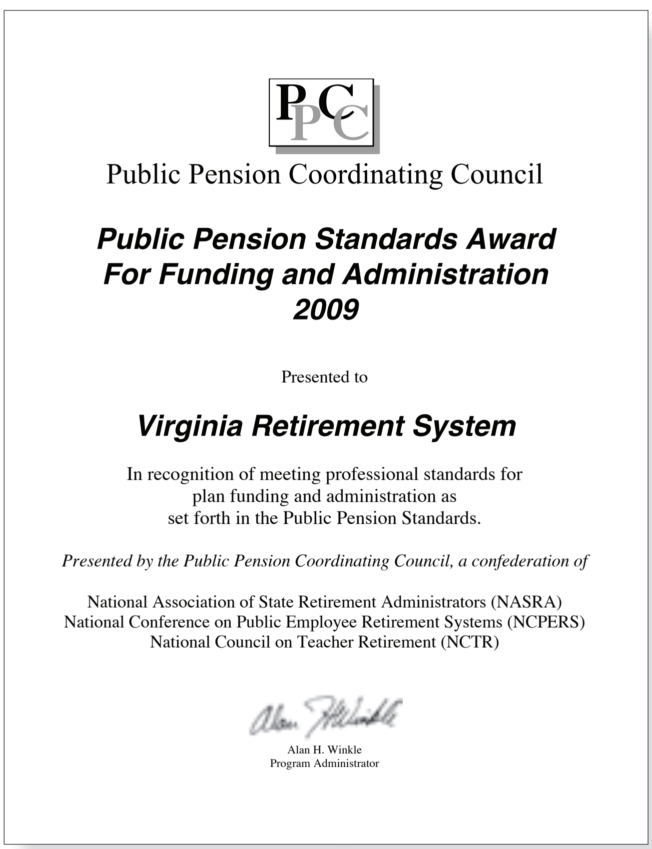
Virginia Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director


Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2009

Presented to

Virginia Retirement System

In recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Virginia Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2009. This was the 28th consecutive year that VRS achieved this prestigious recognition.

To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. The certificate is valid for a period of one year. The VRS *Comprehensive Annual Financial Report for FY 2010* continues to conform to the Certificate of Achievement Program requirements and will be submitted to GFOA to determine its eligibility for another certificate.

Public Pension Coordinating Council Achievement Award

VRS received the 2009 Achievement Award from the Public Pension Coordinating Council (PPCC) in recognition of the agency's excellence in meeting the Public Pension Standards. Developed by PPCC, these standards are the benchmark for measuring excellence in defined benefit plan administration. This is the System's seventh award from PPCC.

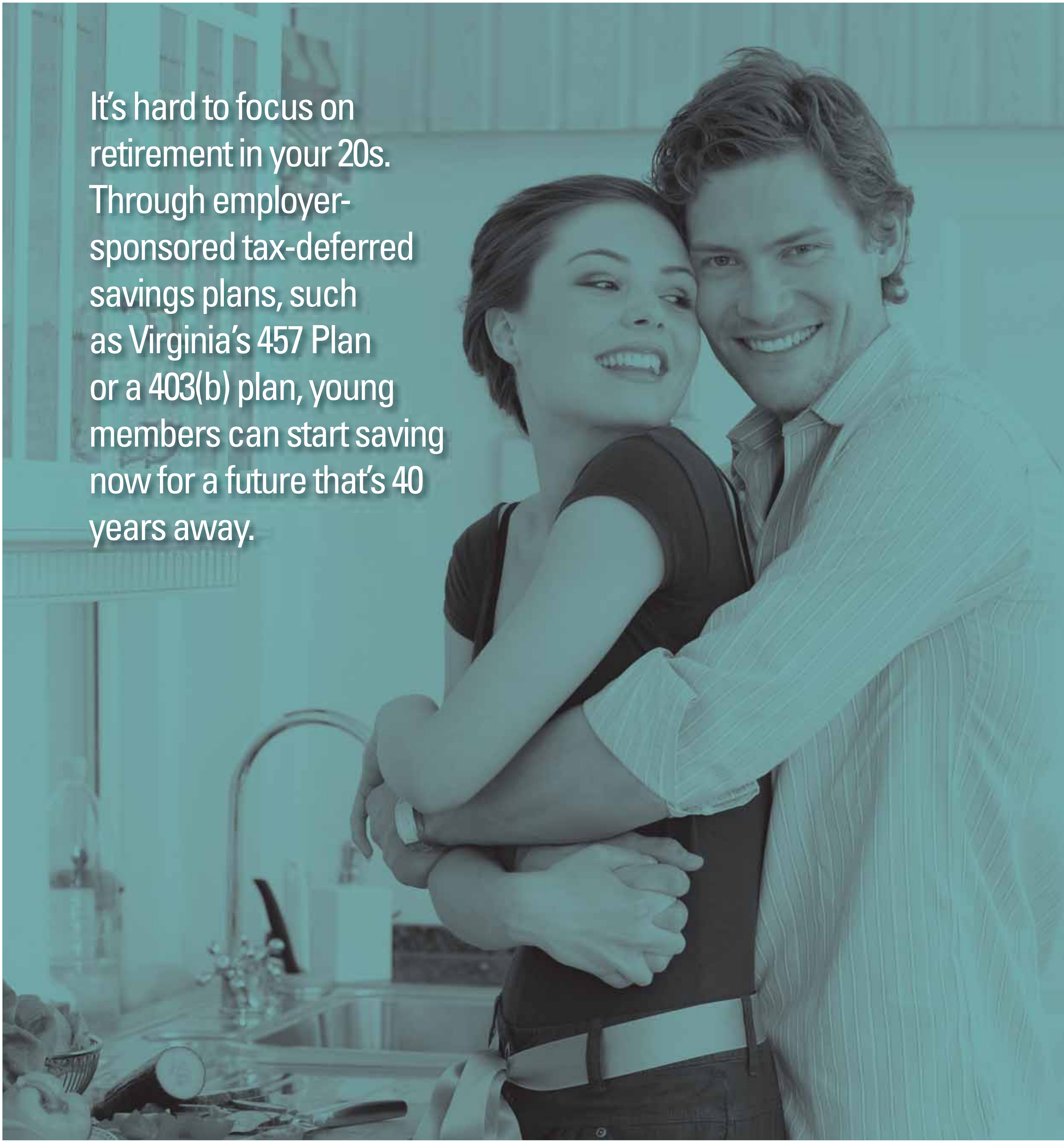
The purpose of the award is to promote high professional standards for public employee retirement systems and publicly commend systems that adhere to these standards. The PPCC is a coalition of the National Association of State Retirement Administrators (NASRA), National Conference on Public Employee Retirement Systems (NCPERS) and the National Council on Teacher Retirement (NCTR).

Table of Contents

Figures

1 introductory section

2010 Plan for tomorrow



Helping members plan for tomorrow, today.

Chairman’s Letter

Virginia Retirement System

Diana F. Cantor, Chairman
Robert P. Schultze, Director
Charles W. Grant, CFA, Chief Investment Officer

P.O. Box 2500 • 1200 East Main Street
Richmond, Virginia 23218-2500
Toll Free: 1-888-VARETIR (827-3847) • TDD: 804-344-3190

December 2, 2010

The Honorable Robert F. McDonnell, Governor of Virginia,
and Members of the General Assembly:

I was honored this year to be appointed Chairman of the Virginia Retirement System Board of Trustees. I am pleased to report that, in my short tenure, I have found an organization governed by a talented and committed group of Trustees and managed by a highly professional and skilled staff. The Governor and the Virginia General Assembly can be proud of the institution it has created to serve state and local employees and manage the funds set aside for their benefits.

In the wake of the “Great Recession” and its devastating impact on global markets, the Virginia Retirement System (VRS) recorded a 14.1% return on its investment portfolio. This is a significant improvement over the -21.1% return for the previous fiscal year. As a result, VRS ended the year with $47.7 billion in assets compared to a beginning balance of $42.6 billion on June 30, 2009.

Thanks to a highly skilled and experienced investment team, VRS took advantage of improved market conditions and achieved a superior investment return. The public equity program is the largest slice of the portfolio, and it produced a 14.8% return while the second largest slice of the portfolio, fixed income, generated a return of 14.2%. Other significant contributors to the portfolio were the smaller credit strategies and private equity programs with returns of 22.2% and 17.3%, respectively.

The VRS Board of Trustees is committed to sound long-term investment strategies, and we have established for our investment team a flexible and opportunistic investment policy in order to manage risk and take advantage of attractive investment opportunities. The Board is proud of our investment team and the results they produce on behalf of members and beneficiaries. Nonetheless, we believe the outlook for economic growth and equity returns will be muted as a result of fundamental imbalances that still exist in the worldwide economy. Therefore, the Board of Trustees has established a more realistic long-term investment return assumption of 7.0%, down from the previous assumption of 7.5%.

Historically, over two-thirds of VRS benefits have been funded by investment gains and the remainder by employer and employee contributions. The move to 7.0% means that we expect, over the long term, VRS will need to rely somewhat more on annual contributions to maintain a trust fund sufficient in size to pay future benefits.

Even with this year's investment gains, the portfolio has still not returned to its year-end high of $58.3 billion at the close of fiscal year 2007, just prior to the Great Recession. The 2008 and 2009 market declines, combined with reduced contribution levels set by the General Assembly, continue to weigh on the funded status of the plans and will have to be corrected with substantially higher contributions in coming years. The current contribution rates for FY 2011 and FY 2012 for the state employee plans and the teacher plan are about half of what the VRS actuary and the Board of Trustees have recommended.

Legislation enacted during the 2010 session of the General Assembly established a new retirement plan (Plan 2) for members joining the system on or after July 1, 2010, and promises to reduce required employer contributions over time. But significant savings from Plan 2 are not expected for about ten years. In the meantime, it is important for policy makers to appreciate the need for restoring contribution rates to actuarially prudent levels in the next budget period and beyond.

The Board is served by an able staff that continues to provide superior investment management, benefit administration and customer service. VRS' performance in the annual CEM, Inc. pension benchmarking survey underscores our conviction. In the most recent survey, VRS' cost per active member and annuitant was $53 compared to the peer median of $84. VRS also outperformed our peers with a total service score of 80 compared to the peer median of 75. In a separate review, the same organization found that the VRS investment department easily outdistanced the median one-year total returns of our peer pension funds. Furthermore, VRS staff produced this superior return while incurring lower investment management fees than comparably structured portfolios.

Our administrative team also successfully implemented major plan design changes enacted by the 2010 session of the Virginia General Assembly. In addition, the team processed an unprecedented surge in teacher retirements amounting to 5,371 retirement inceptions effective July 1, 2010, an increase of 48.2% from the previous year's 3,623 retirement applications. Finally, VRS continued its progress toward implementing the Modernization Program, which will introduce a new Web-based world for employers reporting to VRS, allow members and retirees to manage their benefits online and enhance customer service.

On behalf of the Board of Trustees and VRS staff, I would like to express our gratitude to you for your continued support and leadership. Please know that we stand ready to work as your partner to help the Commonwealth meet the challenges ahead.

Sincerely,

Diana F. Cantor
Chairman
Virginia Retirement System

Board of Trustees

Diana F. Cantor, Chairman
Alternative Investment Management

John M. Albertine, Ph.D., Vice Chairman
Albertine Enterprises

A. Marshall Acuff, Jr.
Cary Street Partners

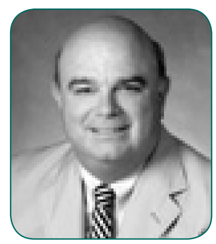
Edwin T. Burton III, Ph.D.
University of Virginia

Robert L. Greene
Syncom Venture Partners

Mitchell L. Nason
Prince William County Department of Fire and Rescue

Colette Sheehy
University of Virginia

Paul W. Timmreck
Virginia Commonwealth University (Retired)



Raymond B. Wallace, Jr.
Henrico County Public Schools (Retired)

COMPOSITION OF THE BOARD

Nine members serve on the VRS Board of Trustees. Their appointment is shared between the executive and legislative branches of state government. The Governor appoints five members, including the chairman. The Joint Rules Committee of the Virginia General Assembly appoints four members. The General Assembly confirms all appointments.

Of the nine Board members, four must be investment experts; one must be experienced in employee benefit plans; one must be a local government employee; one must be an employee of a Virginia public institution of higher education; one must be a state employee; and one must be a public school teacher. The public employee members may be either active or retired.

VRS Organization

BOARD OF TRUSTEES

ADMINISTRATION

Robert P. Schultze
Director

INVESTMENTS

Charles W. Grant, CFA
Chief Investment Officer

INTERNAL AUDIT

Franklin O. Berry
Internal Audit Director

Investment Advisory Committee

LEFT TO RIGHT: Joe Grills, Hance West, Rod Smyth, Thomas S. Gayner, Erwin H. Will, Jr., Gregory B. Fairchild, Ph.D., Christopher J. Brightman. NOT PICTURED: Deborah Allen Hewitt, Ph.D., Donald W. Lindsay

Rod Smyth, Chair
Chief Investment Strategist
Riverfront Investment Group

Christopher J. Brightman, Vice Chair
Director of Strategy
Research Affiliates, LLC

Gregory B. Fairchild, Ph.D.
Associate Professor of Business Administration
University of Virginia

Thomas S. Gayner
President and Chief Investment Officer
Markel Corporation

Joe Grills
Former Chief Investment Officer
IBM Retirement Funds

Deborah Allen Hewitt, Ph.D.
Clinical Professor
The College of William and Mary

Donald W. Lindsey
Chief Investment Officer
The George Washington University

Hance West
Managing Director
Investure

Erwin H. Will, Jr.
Chief Investment Officer (Retired), VRS;
President (Retired), Capitoline Investment Services

Executive Administrative Team

Robert P. Schultze
Director

Franklin O. Berry
Internal Audit Director

L. Farley Beaton, Jr.
Chief Technology Officer

Patricia S. Bishop
Director of Policy, Planning and Compliance

Donna M. Blatecky
Deputy Director

Jeanne L. Chenault
Director of Public Relations

Barry C. Faison
Chief Financial Officer

LaShaunda B. King
Executive Assistant

Kenneth C. Robertson, Jr.
Director of Human Resources

Executive Investment Team

Charles W. Grant, CFA
Chief Investment Officer

John P. Alouf, CFA
Director of Private Equity

John T. Grier, CFA
Director of Internal Equity

Field H. Griffith, CFA
Director of Real Estate Investments

Steven C. Henderson, CFA
Director of Fixed Income

Kenneth C. Howell, CFA
Director of Global Equity

Larry D. Kicher, CFA
Chief Operating Officer

Stephen R. McClelland, CFA
Director of Credit Strategies

Steven P. Peterson, Ph.D.
Director of Research

Professional Consultants

ACTUARY
Thomas J. Cavanaugh, FSA, FCA, EA, MAAA
Chief Executive Officer
Cavanaugh Macdonald Consulting, LLC

AUDITOR
Walter J. Kucharski
Auditor of Public Accounts
Commonwealth of Virginia

COMMONWEALTH OF VIRGINIA DEFERRED COMPENSATION PLAN
William Jasien
ING

COMMONWEALTH OF VIRGINIA VOLUNTARY GROUP LONG TERM CARE INSURANCE PROGRAM
Rhonda Todd
Genworth Life

LIFE INSURANCE CARRIER
Joseph K. W. Chang
Minnesota Life Insurance Company

MASTER CUSTODIAN
BNY Mellon

LEGAL COUNSEL
Office of the Attorney General
Commonwealth of Virginia

VIRGINIA SICKNESS AND DISABILITY PROGRAM
Michelle Jackson
Unum

Letter of Transmittal

Robert P. Schultze, Director
Barry C. Faison, Chief Financial Officer

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December 1, 2010

To the Members of the Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Virginia Retirement System (the System) for the fiscal year ended June 30, 2010. In addition to the Introductory Section, the System's CAFR contains a Financial Section, Investment Section, Actuarial Section and Statistical Section.

VRS' Comprehensive Annual Report for FY 2010 has been prepared in accordance with Section 51.1-1003 of the *Code of Virginia* (1950), as amended, which requires every retirement system to publish an annual report, and Section 4-10.00 of Chapter 872 of the 2010 Virginia Acts of Assembly, which requires an annual detailed statement of financial condition. The report has been mailed to the Governor, the members of his Cabinet and the members of the Virginia General Assembly. The report also is available on the VRS Web site at *www.varetire.org.*

VRS Overview

VRS administers benefits and services for approximately 600,000 members, retirees and beneficiaries covered under the following plans:

- Virginia Retirement System (VRS) for teachers, state employees and employees of participating political subdivisions, including full-time local law enforcement officers, firefighters, emergency medical technicians and jail officers
- State Police Officers' Retirement System (SPORS)
- Virginia Law Officers' Retirement System (VaLORS)
- Judicial Retirement System (JRS)

Benefits administered by the System include:

- Defined benefit plans
- Commonwealth of Virginia 457 Deferred Compensation and Cash Match Plans
- Optional retirement plans for political appointees, school superintendents and teaching, research and administrative faculty at Virginia's public colleges and universities
- Group Life Insurance Program

- Retiree Health Insurance Credit Program
- Virginia Sickness and Disability Program (VSDP) and VSDP Long-Term Care Plan
- Commonwealth of Virginia Voluntary Group Long Term Care Insurance Program

More than 800 employers participate in VRS on behalf of their employees. They include state agencies, public colleges and universities, school boards, political subdivisions and special authorities.

Fiduciary Responsibility of the Board

The VRS Board of Trustees (the Board) has full power to invest and reinvest the trust funds of the System. To fulfill its responsibility, the Board has adopted various investment policies and guidelines. The Board's investment objective for the VRS portfolio is to maximize long-term investment returns while targeting an acceptable level of risk. Primary risk measures are volatility in the plan's assets, funded status and contribution rates. As set forth in Section 11 of Article X of the *Constitution of Virginia,* the funds of the retirement system shall be deemed separate and independent trust funds; shall be segregated from all other funds of the Commonwealth; and shall be invested and administered solely in the interests of members, retirees and beneficiaries. The Board retains a professional investment staff, as well as outside managers, to advise and assist in the implementation of these policies and objectives.

The assets of the System are invested in a prudent manner that is intended to provide for the anticipated growth of VRS' pension liability. Section 51.1-124.30(C) of the *Code of Virginia* states that ". . . the Board shall invest the assets of the Retirement System with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims." Accordingly, the Board must sufficiently diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to do so.

VRS Milestones

1908 Retired Teachers Fund created

1942 Virginia Retirement System (VRS) created for teachers and state employees

1944 Political subdivisions have the option to join VRS

1950 State Police Officers' Retirement System (SPORS) created

1960 Group Life Insurance Program created

1970 Cost-of-Living Adjustment (COLA) established; Judicial Retirement System (JRS) created

Accounting System and Internal Control

The financial statements included in the CAFR for FY 2010 are the responsibility of the System's management and have been prepared in accordance with generally accepted accounting principles (GAAP) for governmental accounting and reporting under the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

The accrual basis of accounting is used in the preparation of the financial statements. Revenues are taken into account when they are earned and become measurable; expenses are recorded when the liabilities are incurred. Investments are reported at fair value as determined by the System's master custodian. Capital assets are recorded at cost and depreciated over their estimated useful life. Contributions to the System are based on the principle of level cost funding and are developed using the entry age normal cost method with current service financed on a current basis and prior service amortized within a period of 30 years or less. In management's opinion, the financial statements fairly present the plan net assets of the System at June 30, 2010 and the changes in its plan net assets for the period then ended.

GASB Statement Number 34 requires the System to include additional information in the CAFR. This additional information is provided in Management's Discussion and Analysis (MD&A) and includes an introduction as well as an overview and analysis of the System's financial activities for the current fiscal year and the two preceding years. The Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found in the Financial Section immediately following the report of the independent auditor.

The System's management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with GAAP. The internal control system includes the organization plan; the appropriate segregation of duties and responsibilities and sound practices in the performance of duties; and personnel with capabilities commensurate with their responsibilities. The System also has an internal audit program that reports to the Audit Committee of the Board of Trustees, and the budget for the System's administrative expenses is approved by the Board and appropriated by the General Assembly of Virginia.

The retirement funds held by the System are constitutionally established as independent trust funds dedicated to the exclusive benefit of its members, retirees and beneficiaries. In management's opinion, the internal controls in effect during the fiscal year ended June 30, 2010 adequately safeguard the System's assets and provide reasonable assurance regarding the proper recording of financial transactions.

Funding

The System's most recent actuarial valuation was prepared as of June 30, 2009. As expected, the report indicated a decline in the funded ratios for all of the plans. This decline resulted from the impact of the negative investment returns in FY 2009 on the Actuarial Value of Assets. The VRS, SPORS, VaLORS and JRS plans were actuarially funded at 80.2%, 73.6%, 64.7% and 72.5%, respectively, based on the actuarial valuation as of June 30, 2009. For the VRS, SPORS, VaLORS and JRS plans, this was a decrease from their funded ratios of 84.0%, 76.6%, 68.2% and 75.6%, respectively, based on the June 30, 2008 actuarial valuation. There were no changes in the primary actuarial assumptions for the investment rate of return or inflation. Further information on this valuation is included in the Financial Section and the Actuarial Section of the CAFR.

Contributions for FY 2010 were based on the June 30, 2007 actuarial valuation. The rates increased for state employees, teachers and state police officers. For judges, Virginia law officers and political subdivision employees, the rates declined slightly. For state employees and teachers, the rates certified by the VRS Board of Trustees were not fully funded by the Governor and General Assembly. The funded rates for FY 2010 for state employees were slightly greater than the

VRS Milestones

1990 Health Insurance Credit for state retirees established

1992 Health Insurance Credit for retired teachers and political subdivision employees established

1995 Optional Group Life Insurance Program established

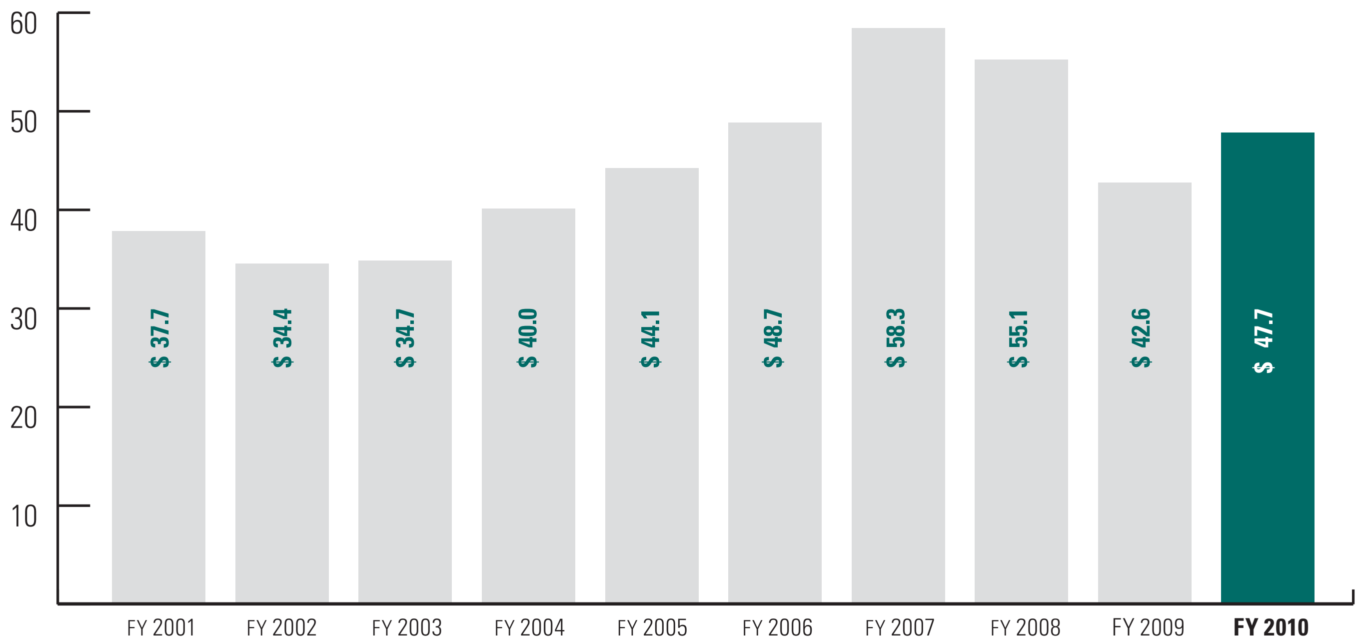
1999 Virginia Sickness and Disability Program (VSDP) for state employees established; Virginia Law Officers' Retirement System (VaLORS) created

2002 VSDP Long-Term Care Plan established

PLAN NET ASSETS AVAILABLE FOR BENEFITS

AS OF JUNE 30

(EXPRESSED IN BILLIONS)



funded rates in FY 2009. For the other groups, the funded rates for FY 2010 were the same as the funded rates for FY 2009. However, the actual employer contributions for the state employee groups and teachers were lower in FY 2010 because of the suspension of these contributions during the last quarter of the fiscal year. This is discussed in further detail in the Financial Section of the CAFR.

Investments

At June 30, 2010, the total value of the VRS investment portfolio was $47.9 billion. This is an increase from the investment balance of $43.2 billion at June 30, 2009. The increase in the portfolio resulted from an investment return of 14.1% for FY 2010. However, this was offset by reduced contributions and the increase in benefit payments during the year. The System's net assets at June 30, 2010 totaled $47.7 billion, an increase from the net asset balance of $42.6 billion at June 30, 2009.

Legislative Initiatives

During the 2010 session, the Virginia General Assembly enacted several bills that affect public employees and retirees covered under VRS:

PLAN DESIGN CHANGES. House Bill 1189 and Senate Bill 232 created a new benefit structure for members hired or rehired on or after July 1, 2010. The new provisions are referred to as Plan 2; current provisions are referred to as Plan 1. The new provisions apply to the defined benefit (DB) plan and the optional retirement plans (ORPs) authorized or administered by VRS.

PROVISIONS	VRS PLAN 1 *For members hired before July 1, 2010*	VRS PLAN 2 *For members hired or rehired on or after July 1, 2010*
Average Final Compensation	Average of 36 highest consecutive months of creditable compensation	Average of 60 highest consecutive months of creditable compensation
Member Contributions (DB Plans)	Employee or employer contributes 5% member contribution	State employees contribute the 5% member contribution. School and political subdivision employees may contribute some or all of the 5% member contribution, depending on the employer's election. Employee contributions are paid on a pre-tax salary reduction basis.
Member Contributions (ORP Plans)	10.4% employer contribution	8.5% employer contribution and 5% member contribution on a pre-tax salary reduction basis. Employers under the ORP for Higher Education may increase the employer contribution to 8.9%, provided it is paid with non-state funds.
Normal Retirement Age	VRS: Age 65	Normal Social Security retirement age
.	State Police Officers' Retirement System (SPORS) members, Virginia Law Officers' Retirement System (VaLORS) members and political subdivision VRS members eligible for enhanced hazardous duty coverage: Age 60	Same as Plan 1
	Judicial Retirement System (JRS): Age 65	Same as Plan 1
Retirement Multipliers	VRS: 1.7% SPORS: 1.85% VaLORS: 1.7% or 2.0% as elected by the member Sheriffs and regional jail superintendents: 1.85%	Same as Plan 1

PROVISIONS	VRS PLAN 1 *For members hired before July 1, 2010*	VRS PLAN 2 *For members hired or rehired on or after July 1, 2010*
Retirement Multipliers, continued	Eligible political subdivision hazardous duty employees: 1.7% or 1.85%, depending on employer's election JRS: 1.7%	Same as Plan 1
Unreduced Retirement	VRS: Age 65 with at least five years of service credit or age 50 with at least 30 years of service credit	VRS: Normal Social Security retirement age with at least five years of service credit or when age and service equal 90
	SPORS, VaLORS and eligible political subdivision hazardous duty employees: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit	Same as Plan 1
	JRS: Age 65 with weighted service equal to at least five years of service credit or age 60 with weighted service equal to at least 30 years of service credit	Same as Plan 1. *Note*: The weighting factors for members covered under the JRS Plan 2 vary from those for members covered under the JRS Plan 1.
Reduced Retirement	VRS: Age 55 with at least five years of service credit or age 50 with at least 10 years of service credit	VRS: Age 60 with at least five years of service credit
	SPORS, VaLORS and eligible political subdivision hazardous duty employees: Age 50 with at least five years of service credit	Same as Plan 1
	JRS: Age 55 with weighted service equal to at least five years of service credit	Same as Plan 1
Cost-of-Living Adjustment (COLA)	Matches first 3% increase in the Consumer Price Index-Urban and one-half the remaining increase up to a maximum COLA of 5 percent, when provided	Matches first 2% increase in the Consumer Price Index-Urban and one-half the remaining increase up to a maximum COLA of 6 percent, when provided
Purchase of Prior Service	Three-year eligibility period to purchase prior service at 5% of compensation or average final compensation. Cost is based on an actuarial equivalent rate after three years.	One-year eligibility period to purchase prior service at an approximate normal cost rate as a percentage of compensation or average final compensation. Cost is based on an actuarial equivalent rate after one year. *Exceptions:* Refunded service and no-cost military leave.

COST-OF-LIVING ADJUSTMENT (COLA). House Bill 562 clarifies that during periods of deflation, the VRS COLA will be 0 percent rather than a negative percentage that would result in a reduction in the monthly retirement benefit. Retirees become eligible for an annual COLA beginning July 1 of the second calendar year after retirement.

REFUNDS. House Bill 892 requires members to be vested to be eligible for a full refund of their member contribution account balance. Non-vested members who request a refund will receive any contributions they have made, plus accrued interest. They also are eligible for any contributions made by their employer before July 1, 2010 and the interest on these contributions. They are not eligible for any contributions made by their employer after July 1, 2010 or the interest on these contributions. The exception is non-vested members who are involuntarily separated from employment. They are eligible for a full refund of their member contribution account balance.

STATE POLICE. Effective July 1, 2010, Senate Bill 95 provides that a state police officer who incurs a work-related illness or injury in the line of duty will receive six months of short-term disability under the Virginia Sickness and Disability Program (VSDP) at 100 percent of pre-disability income. Following certification by the Superintendent of State Police based on a medical evaluation that the officer is likely to return to work within another six months, he or she may be eligible for an additional six months of short-term disability income replacement at 100 percent of pre-disability income. If the officer is still disabled after 12 months, he or she will be eligible for long-term disability income replacement at 60 percent of his or her pre-disability income.

OTHER LEGISLATIVE ACTIONS AFFECTING VRS

- Participants in the Commonwealth of Virginia 457 Deferred Compensation and Cash Match Plans or a 403(b) plan will receive a maximum cash match of $10 per period in FY 2011. The match will return to the current $20 maximum in FY 2012.
- The 2010 General Assembly established the Transitional Benefits Program that allows school divisions and VRS-participating political subdivisions to elect to provide a transitional severance benefit or an enhanced retirement benefit to employees who are involuntarily separated from employment.
- VRS will begin managing the investment of the Line of Duty Act (LODA) Fund, providing for benefits under the Virginia Line of Duty Act, effective July 1, 2011. The Commonwealth of Virginia and localities that employ paid and volunteer hazardous duty professionals will contribute to the LODA Fund for their respective covered individuals. Localities have the option to elect to self-fund LODA benefits rather than participate in the LODA Fund administered by VRS. The Department of Accounts will continue to administer LODA benefits.

Year in Review

MEMBER AND RETIREE HIGHLIGHTS. The total VRS membership increased from 596,226 in fiscal year 2009 to 596,879 in fiscal year 2010, an increase of 0.1%. The following are highlights from the fiscal year:

- The number of active VRS members decreased 1.2%, from 346,929 to 342,609.
- The number of retirees and beneficiaries increased 4.8%, from 141,746 to 148,496. VRS paid $3,035.3 million in benefits to annuitants, compared to $2,733.2 million during FY 2009.
- The number of inactive and deferred members decreased 1.7%, from 107,551 to 105,774.
- More than 62,700 members held accounts through the Commonwealth of Virginia 457 Deferred Compensation Plan at the end of the fiscal year. Of these participants, more than 58,400 received a cash match through the Virginia Cash Match Plan.

JULY 1 RETIREMENT APPLICATIONS SOAR. Applications for retirement effective July 1, 2010 increased to 5,371 from 3,623 retirements effective July 1, 2009, representing an unprecedented increase of 48.2%. The next highest year was 3,686 retirements effective July 1, 2004.

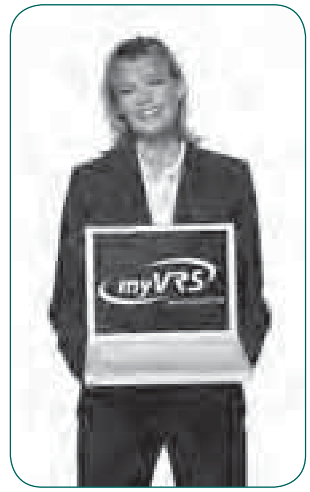
EXCEEDING BENCHMARKS. VRS personnel continued to exceed benchmarks for operating standards as the following highlights show:

OPERATING STANDARD	BENCHMARK	FY 2010 RESULT
Retiree Payroll *(benefits paid each month to retirees and other annuitants)*	100.0% of all monthly payrolls run no later than the first day of the month.	100.0% of monthly payrolls ran on time.
Customer Counseling Center Abandoned Call Rate *(rate of incoming calls going unanswered)*	The average abandoned call rate does not exceed 5.0%.	The average rate was 3.5%.
Service Retirements	Service retirement applications are processed in an average of 60 days with a 95.0% accuracy rate.	Service retirement applications were processed in an average of 27 days with a 99.9% accuracy rate.
Disability Retirements	98.0% of disability retirement applications are processed within 40 days of approval by the VRS Medical Board.	99.5% of disability retirement applications were processed within 16 days of approval by the VRS Medical Board.
Purchase of Prior Service	Cost letters sent to members applying to purchase prior service are processed within 30 days of receiving a completed application with a 95.0% accuracy rate.	Cost letters were processed within 11 days with a 99.9% accuracy rate.
Refunds	95.0% of requests for refunds of member contributions are processed within 60 days.	99.9% of refunds were processed within eight days.
Benefit Estimates	90.0% of requests for benefit estimates are completed within 30 days.	94.9% of estimates were completed within 14 days.
Employer Reports	96.0% of reports submitted to VRS by employers are processed within 30 days.	99.6% of employer reports were processed within 30 days.
Workflow Imaging	95.0% of documents VRS receives are imaged and available to customer service and operations personnel within 24 hours.	99.9% of documents were imaged and available within 24 hours.
System Availability	The system is available for all critical business functions 99.0% of the time.	The system was available 99.9% of the time.

In addition to these achievements, VRS staff provided counseling, education, workshops and training opportunities for members and employers throughout the state:

- The Member Counseling Team assisted more than 2,400 members in one-on-one counseling sessions and responded to more than 5,350 e-mails. Staff also conducted 172 retirement education and group counseling sessions, special presentations, videoconferences, webinars and benefit fairs, reaching approximately 11,800 members around the state.
- VRS' Employer Representatives made more than 88 site visits and held 59 workshops in locations around the state, attended by more than 755 employer contacts. In addition, the Employer Representatives assisted five new employers joining VRS; two employers adding enhanced coverage for hazardous duty employees; two employers adding an enhanced retirement multiplier for hazardous duty employees; three employers electing the health insurance credit; and 12 employers adopting defined contribution plans.
- The Employer Training Team provided 11 sessions for more than 260 human resource and payroll officers during FY 2010.
- During the fiscal year, the number of visits to the VRS Web site at *www.varetire.org* exceeded 1.5 million, reflecting an increase of nearly 20% over the previous June 30. Among the top publications accessed online was the spring 2010 edition of *Member News,* which covered the plan design changes enacted during the 2010 session of the Virginia General Assembly.
- The number of subscribers to the online *Employer Update* newsletter increased to 2,382 from 1,077 at the end of the previous fiscal year. During FY 2010, more than 2,000 subscribers accessed the link to Employer Update for a "click" rate of more than 87%.

Innovation Highlights

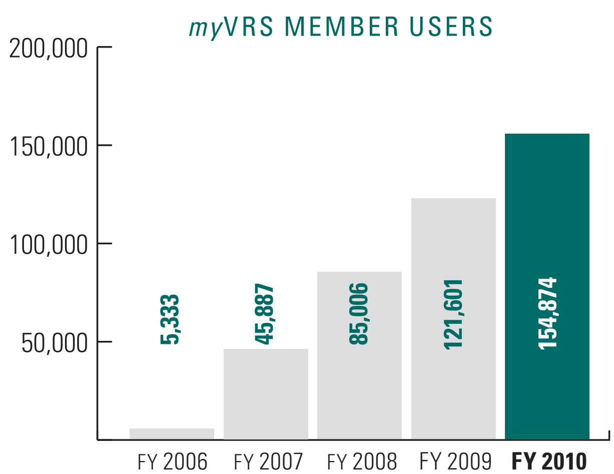


MODERNIZATION PROGRAM IN PROGRESS. The implementation of VRS' multi-year Modernization Program, begun in 2009, continued during the fiscal year with the achievement of major milestones in system design and security. A key activity was the selection of an off-site facility dedicated to computer and data storage in compliance with the security requirements of the Commonwealth of Virginia. Once the Modernization Program is fully implemented, remaining mainframe systems will be migrated to the new data center.

VRS also selected the name *my*VRS Navigator for the new Web-based solution to be implemented under the Modernization Program. *my*VRS is already familiar to customers through the *my*VRS suite of online services for employers, members and retirees. *my*VRS Navigator will be launched first to employers, replacing the current tools that employers use to provide data to VRS. Reporting online through *my*VRS Navigator will provide employers more streamlined, flexible capabilities than they have now. The roll-out to members and retirees will follow, offering them a more robust Web environment in which to manage their benefits online.

*my*VRS USAGE INCREASES. During the fiscal year, the secure online *my*VRS system continued to serve as a valuable resource for members, retirees and employers:

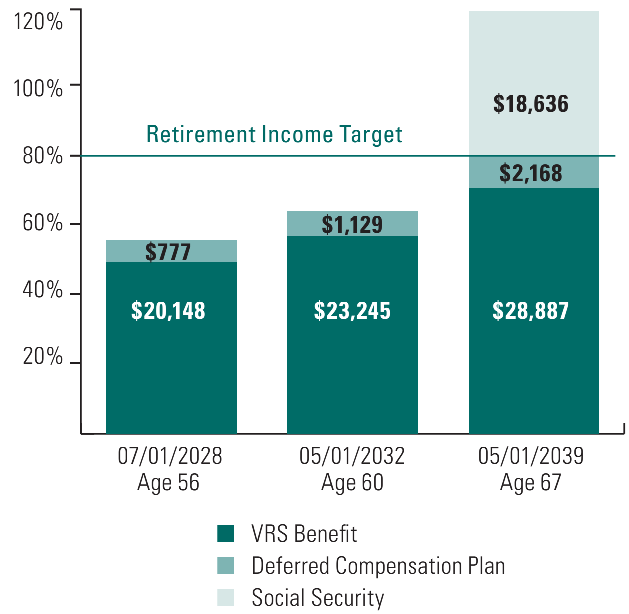
- During FY 2010, 31,893 members registered for *my*VRS. Members created 262,116 estimates through the Benefit Estimator and 35,167 Quick and Detailed Plans through the Retirement Planner during the fiscal year. A total of 154,874 members were registered for *my*VRS at June 30, 2010, compared to 121,601 registered members at June 30, 2009.
- Since 2008, when *my*VRS was opened to retirees, 27,704 retirees have created online accounts. Retirees completed 2,899 income tax transactions through the *my*VRS retiree tax tool last year.
- By the end of the fiscal year, 1,468 employer contacts eligible to access member information were registered for *my*VRS for Employers. During the fiscal year, employers created 95,142 benefit estimates for their employees.



VRS INTRODUCES NEW "INCOME ANALYSIS" MBP.

During FY 2010, VRS introduced a new "income analysis" feature in the MBPs for members eligible to participate in the Commonwealth of Virginia 457 Deferred Compensation and Cash Match Plans. This feature shows a future retirement income estimate combining the member's estimated VRS benefit, Social Security and any funds available for distribution from the member's Deferred Compensation Plan. The estimate is compared to 80 percent of the member's pre-retirement income based on his or her compensation as of June 30. The 80 percent target is often used by financial planners as a benchmark for maintaining a reasonable standard of living in retirement.

SAMPLE MEMBER BENEFIT PROFILE



During FY 2010, VRS also transitioned to an online-only MBP. Members can download and print their MBPs through *my*VRS as well as look up previous statements. Employers also can download MBPs for their employees through *my*VRS for Employers. This change will help save printing and delivery costs and is part of VRS' initiatives to "go green."

Acknowledgements

VRS' mission calls on us to provide the best service possible and to be responsible stewards of the funds in our care on behalf of our members, retirees and beneficiaries. This report provides complete and reliable information that supports management's decisions in carrying out this mission. Responsible stewardship, however, is more than sound management. It also encompasses the outstanding commitment of VRS staff to excellence, the support of VRS' affiliated employers and business partners and the guidance and dedication of the Board of Trustees. We would like to express our sincere thanks and appreciation to each of these exceptional individuals and representatives.

Finally, we wish to thank Governor Robert F. McDonnell and the members of the Virginia General Assembly for their continued commitment to the financial security of the members, retirees and beneficiaries of the Virginia Retirement System.

Respectfully submitted,

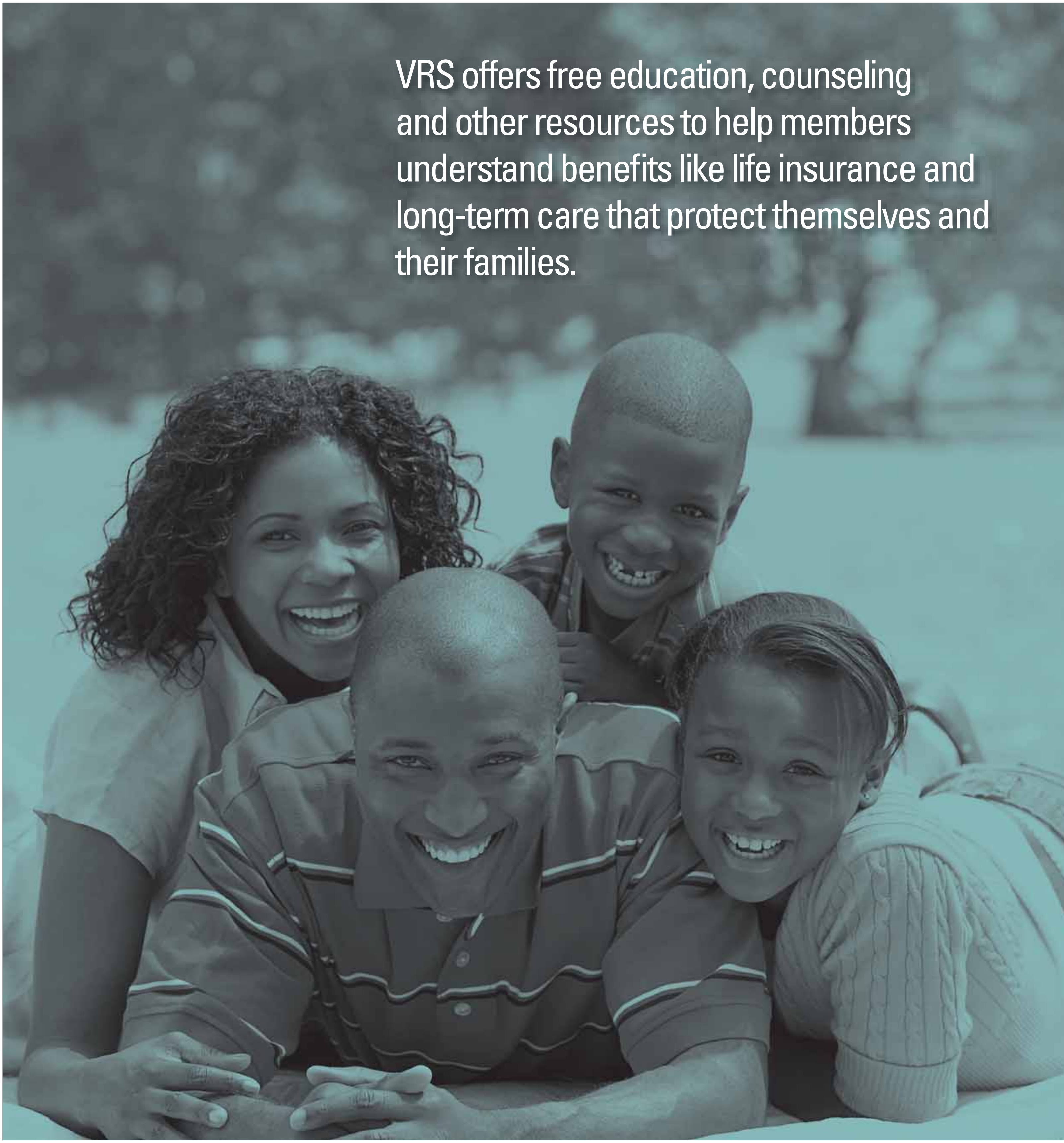
Robert P. Schultze
Director

Barry C. Faison
Chief Financial Officer

2 financial section

2010 Plan for tomorrow

VRS offers free education, counseling and other resources to help members understand benefits like life insurance and long-term care that protect themselves and their families.



Helping members plan for tomorrow, today.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

December 1, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
And Review Commission

Board of Trustees
Virginia Retirement System

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Virginia Retirement System** as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Virginia Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Virginia Retirement System's 2009 financial statements, and in our report dated December 2, 2009, we expressed an unqualified opinion on the respective financial statements of the Virginia Retirement System.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements of the System are intended to present the financial position and the changes in financial position of only that portion of the aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2010, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Virginia Retirement System as of June 30, 2010, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. The management's discussion and analysis, funding progress, and employer contributions included in the report on pages 27 through 37 and 71 through 73 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Virginia Retirement System. The introductory, investment, actuarial and statistical sections, and the schedules of administrative expenses, professional and consulting services, and investment expenses in the financial section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedules of administrative expenses, professional and consulting services, and investment expenses in the financial section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2010 on our consideration of the Virginia Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

MSM/clj

The Virginia Retirement System (the System) administers pension and other employee benefit plans for approximately 600,000 members, retirees and beneficiaries. The purpose of the Financial Section is to present the plans' net assets and changes in net assets for the fiscal year through the audited Basic Financial Statements. In support of this information, the Financial Section includes Management's Discussion and Analysis of activity affecting the plans and the operations of the System during the current and previous fiscal years. It also includes the Notes to Financial Statements, providing additional detail about the statements, as well as required schedules of historical funding information and additional schedules regarding the administration of the plans.

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis provides highlights of the funding of the plans and the performance and operations of the Virginia Retirement System (the System) for the fiscal year ended June 30, 2010. The information provided in the Introductory, Investment, Actuarial and Statistical Sections complements this discussion.

The System administers the following defined benefit retirement plans, which are defined as pension trust funds:

- Virginia Retirement System (VRS) for state employees, teachers, other eligible school division employees, employees of participating political subdivisions and other qualifying employees
- State Police Officers' Retirement System (SPORS) for state police officers
- Virginia Law Officers' Retirement System (VaLORS) for Virginia law officers other than state police officers
- Judicial Retirement System (JRS) for judges of state courts of record, state district courts and other qualifying employees

The System also administers the Group Life Insurance Fund, Retiree Health Insurance Credit Fund and Disability Insurance Trust Fund, which are defined as other employee benefit trust funds. Both the pension and other employee benefit trust funds are classified as fiduciary funds.

FINANCIAL HIGHLIGHTS

- The combined total net assets held in trust for benefits of the trust funds increased by $5,066.5 million, or 11.9%, during the fiscal year ended June 30, 2010. The increase was due to positive investment returns, offset by increased expenses for benefit payments and a decrease in contributions.
- The System's rate of return on investments during the fiscal year ended June 30, 2010 was 14.1% compared to a return of minus 21.1% for the fiscal year ended June 30, 2009. The increase is due primarily to the improved performance of the public equity investments.
- The VRS, SPORS, VaLORS and JRS plans were actuarially funded at 80.2%, 73.6%, 64.7% and 72.5%, respectively, based on the actuarial valuation as of June 30, 2009. For the VRS, SPORS, VaLORS and JRS plans, this was a decrease from their funded ratios of 84.0%,

76.6%, 68.2% and 75.6%, respectively, based on the June 30, 2008 actuarial valuation. There were no changes in the primary actuarial assumptions for the investment rate of return or inflation. The funded ratios of all the plans reflect the impact of the investment losses recorded in FY 2009 on the Actuarial Value of Assets. The impact was lessened because of the positive impact of the net investment gains recorded between FY 2005 and FY 2007 in the "five-year smoothing" asset valuation method used by the VRS actuary and the suspension of the 80% to 120% of market value-of-assets corridor on the Actuarial Value of Assets.

- The Group Life Insurance Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund were actuarially funded at 48.5%, 14.9% and 99.7%, respectively, based on the actuarial valuation as of June 30, 2009. For the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund, this was an increase from their funded ratios of 13.7% and 78.8%, respectively, based on the June 30, 2008 actuarial valuation. For the Group Life Insurance Fund, there was a decrease from the June 30, 2008 funded ratio of 55.0%. There were no changes in the primary actuarial assumptions for the investment rate of return or inflation. The funded ratios of these plans reflect the impact of the investment losses recorded in FY 2009 on the Actuarial Value of Assets. The impact was lessened because of the positive impact of the net investment gains recorded between FY 2005 and FY 2007 in the "five-year smoothing" asset valuation method used by the VRS actuary and the suspension of the 80% to 120% of market value-of-assets corridor on the Actuarial Value of Assets.

Overview of the Financial Statements and Accompanying Information

BASIC FINANCIAL STATEMENTS. The System presents the Basic Financial Statements for the year ended June 30, 2010 with comparative information from the previous fiscal year. The statements were prepared on the accrual basis of accounting and are used to account for the resources the System administers on behalf of plan members and beneficiaries. These statements include:

- Statement of Plan Net Assets–Defined Benefit Pension Trust Funds and Other Employee Benefit Trust Funds. This statement reflects the balance of the resources available to pay benefits to members, retirees and beneficiaries at the end of the fiscal year.
- Statement of Changes in Plan Net Assets–Defined Benefit Pension Trust Funds and Other Employee Benefit Trust Funds. This statement reflects the changes in the resources available to pay benefits to members, retirees and beneficiaries during the fiscal year.

A summary of the Basic Financial Statements is presented in Figures 2.1 and 2.2. The full statements follow Management's Discussion and Analysis.

NOTES TO FINANCIAL STATEMENTS. The Notes to Financial Statements provide detailed information and are integral to the Basic Financial Statements.

REQUIRED SUPPLEMENTARY SCHEDULES. These schedules include:

- Required Supplemental Schedule of Funding Progress-Pension Plans
- Required Supplemental Schedule of Employer Contributions-Pension Plans
- Required Supplemental Schedule of Funding Progress-Other Post-Employment Benefit Plans
- Required Supplemental Schedule of Employer Contributions-Other Post-Employment Benefit Plans

ADDITIONAL FINANCIAL INFORMATION. The following schedules provide additional information not included in the Basic Financial Statements:

- Schedule of Administrative Expenses
- Schedule of Professional and Consulting Services
- Schedule of Investment Expenses

FIGURE 2.1 – SUMMARY OF PLAN NET ASSETS

AT JUNE 30

(EXPRESSED IN MILLIONS)

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Assets:					
Cash, Receivables and Capital Assets	$ 2,765.5	$ (322.4)	$ 3,087.9	$ (480.1)	$ 3,568.0
Investments	47,923.8	4,760.7	43,163.1	(13,313.4)	56,476.5
Security Lending Collateral	4,084.1	2,200.6	1,883.5	(1,543.5)	3,427.0
Total Assets	**$ 54,773.4**	**$ 6,638.9**	**$ 48,134.5**	**$ (15,337.0)**	**$ 63,471.5**
Liabilities:					
Accounts Payable	$ 1,086.6	$ (131.4)	$ 1,218.0	$ 865.9	$ 352.1
Investment Purchases Payable	1,943.5	(496.3)	2,439.8	(2,144.3)	4,584.1
Oligations Under Securities Lending	4,092.1	2,200.1	1,892.0	(1,541.4)	3,433.4
Total Liabilities	**$ 7,122.2**	**$ 1,572.4**	**$ 5,549.8**	**$ (2,819.8)**	**$ 8,369.6**
Total Net Assets	**$ 47,651.2**	**$ 5,066.5**	**$ 42,584.7**	**$ (12,517.2)**	**$ 55,101.9**

FIGURE 2.2 – SUMMARY OF CHANGES IN PLAN NET ASSETS

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Additions:					
Member Contributions	$ 89.0	$ (12.2)	$ 101.2	$ (19.4)	$ 120.6
Member Contributions Paid by Employers	761.7	(8.0)	769.7	27.2	742.5
Employer Contributions	1,237.0	(342.2)	1,579.2	(92.0)	1,671.2
Net Investment Income	6,423.2	18,245.3	(11,822.1)	(8,967.9)	(2,854.2)
Miscellaneous Revenue and Transfers	1.2	(8.3)	9.5	(12.2)	21.7
Total Additions	**$ 8,512.1**	**$ 17,874.6**	**$ (9,362.5)**	**$ (9,064.3)**	**$ (298.2)**
Deductions:					
Retirement Benefits	$ 3,035.3	$ 302.1	$ 2,733.2	$ 196.9	$ 2,536.3
Refunds of Member Contributions	93.1	1.8	91.3	(11.6)	102.9
Insurance Premiums and Claims	137.8	(13.9)	151.7	19.6	132.1
Retiree Health Insurance Credit Reimbursements	120.3	5.0	115.3	11.5	103.8
Disability Insurance Benefits	27.6	(0.4)	28.0	(3.2)	31.2
Administrative and Other Expenses	31.5	(3.7)	35.2	0.9	34.3
Total Deductions	**$ 3,445.6**	**$ 290.9**	**$ 3,154.7**	**$ 214.1**	**$ 2,940.6**
Net Increase (Decrease) in Net Assets	**$ 5,066.5**	**$ 17,583.7**	**$ (12,517.2)**	**$ (9,278.4)**	**$ (3,238.8)**

Analysis of Financial Activities – Pension Plans

The System's funding objective is to meet its long-term benefit obligations through investment income and contributions. Accordingly, the collection of contributions and the income from investments provide the reserves needed to finance the benefits provided under the plans.

MEMBERS, RETIREES AND BENEFICIARIES AND EMPLOYERS

Approximately 342,609 active members were employed with 826 VRS-participating employers as of June 30, 2010. The number of retirees and other annuitants totaled approximately 148,496 at year end. The distribution of active members, retirees and beneficiaries and employers is shown in Figures 2.3, 2.4 and 2.5.

FIGURE 2.3 – DISTRIBUTION OF ACTIVE MEMBERS

AT JUNE 30

	2010		2009		2008	
	Number	Percent of Total	Number	Percent of Total	Number	Percent of Total
State Employees (VRS)	78,613	22.9%	80,808	23.3%	81,206	23.5%
Teachers (VRS)	147,817	43.2%	148,461	42.8%	147,149	42.6%
Political Subdivision Employees (VRS)	104,385	30.5%	105,404	30.4%	104,803	30.3%
State Police Officers (SPORS)	1,766	0.5%	1,826	0.5%	1,840	0.5%
Virginia Law Officers (VaLORS)	9,620	2.8%	10,014	2.9%	10,330	3.0%
Judges (JRS)	408	0.1%	416	0.1%	409	0.1%
Total Members	**342,609**	**100.0%**	**346,929**	**100.0%**	**345,737**	**100.0%**

Additional information about the membership is presented in Note 2 and in the Statistical Section.

FIGURE 2.4 – DISTRIBUTION OF RETIREES AND BENEFICIARIES

AT JUNE 30

	2010		2009		2008	
	Number	Percent of Total	Number	Percent of Total	Number	Percent of Total
State Employees (VRS)	45,837	30.9%	43,682	30.8%	42,536	31.2%
Teachers (VRS)	63,566	42.8%	61,057	43.1%	58,689	43.0%
Political Subdivision Employees (VRS)	35,249	23.7%	33,462	23.6%	31,894	23.4%
State Police Officers (SPORS)	1,100	0.7%	1,065	0.8%	1,036	0.8%
Virginia Law Officers (VaLORS)	2,303	1.6%	2,049	1.4%	1,814	1.3%
Judges (JRS)	441	0.3%	431	0.3%	425	0.3%
Total Retirees	**148,496**	**100.0%**	**141,746**	**100.0%**	**136,394**	**100.0%**

Additional information about retirees is presented in the Statistical Section.

FIGURE 2.5 – DISTRIBUTION OF EMPLOYERS

AT JUNE 30

	2010	2009	2008
Cities and Towns	160	157	157
Counties	93	93	93
School Boards*	144	144	144
Special Authorities	194	192	188
State Agencies	235	235	239
Total Employers	**826**	**821**	**821**

**Of the 144 school boards, 134 also provide coverage for support staff and are treated as political subdivisions. A list of VRS-participating employers and additional employer information are presented in the Statistical Section.*

CONTRIBUTIONS AND INVESTMENT EARNINGS

The retirement benefits provided by the plans are funded from pension trust fund revenue. As shown in Figure 2.6, the primary sources of revenue are contributions from active members made by members or employers, contributions from employers and investment income generated from the investment of plan assets.

Total contributions and investment earnings for the year ended June 30, 2010 amounted to $8,095.5 million. This was an increase of $17,489.8 million when compared with the activity for FY 2009, and it represents a significant improvement from the decrease of $8,768.8 million recorded in FY 2009.

Total member contributions decreased by $2.0 million. The portion members paid, however, increased by $6.0 million due primarily to an increase in the purchase of refunded and other qualified prior service.

For FY 2010, employer contributions decreased by $234.2 million for a total decrease in all contributions of $236.2 million from the previous fiscal year. The decrease in employer contributions was due primarily to the suspension of employer contributions for state employees for the months of April, May and the first half of June 2010 and for teachers for the entire last quarter of FY 2010. This decrease was partially offset by payroll growth in some employer groups and the election of special and enhanced coverage by some local governments. Employer contributions for pensions are discussed further in Notes 2 and 12.

During FY 2009, the System experienced growth in total member contributions of $22.4 million and a decrease in employer contributions of $73.2 million. Unlike in FY 2010, the contributions paid by members in FY 2009 were affected by a decline in the number of members purchasing service. The decline in employer contributions was related primarily to the decreased contribution rates as a result of the June 30, 2007 actuarial valuation. This decrease was partially offset by payroll growth, the addition of some new local government employers and the election of enhanced hazardous duty or other coverage by some local governments.

FIGURE 2.6 – SUMMARY OF PENSION CONTRIBUTIONS, INVESTMENT EARNINGS AND MISCELLANEOUS REVENUES

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN MILLIONS)

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Member Contributions	$ 26.5	$ 6.0	$ 20.5	$ (4.8)	$ 25.3
Member Contributions Paid by Employers	761.7	(8.0)	769.7	27.2	742.5
Employer Contributions	1,073.0	(234.2)	1,307.2	(73.2)	1,380.4
Net Investment Income	6,233.1	17,734.1	(11,501.0)	(8,726.7)	(2,774.3)
Miscellaneous Revenue and Transfers	1.2	(8.1)	9.3	8.7	0.6
Total Contributions, Investment Earnings and Miscellaneous Revenues	**$ 8,095.5**	**$ 17,489.8**	**$ (9,394.3)**	**$ (8,768.8)**	**$ (625.5)**

INVESTMENTS

The System holds contributions from members and employers in a commingled pool, which is invested to provide for the payment of current and future benefits to members when they retire. Each plan–VRS, SPORS, VaLORS and JRS–owns an equity position in the pool and receives a proportionate share of the total investment income or loss from the pool.

As shown in Figure 2.6, there was net investment income for FY 2010 of $6,233.1 million, which represented an increase of $17,734.1 million from FY 2009. This compares with the net investment income decrease of $8,726.7 million in FY 2009. Total pension trust fund investments increased to $46,504.5 million at fair value at June 30, 2010. This was an increase of $4,630.4 million from the fair value of $41,874.1 million at June 30, 2009. The total pension trust fund investments decreased in FY 2009 by $13,045.1 million from their fair value of $54,919.2 million at June 30, 2008.

The total return on pension trust fund investments for the year ended June 30, 2010 was 14.1%. The annualized return was minus 4.9% over the past three years and 3.1% over the past five years. An explanation of investment policies and strategies as well as the portfolio's composition is included in the Investment Section. A review of investment activity and results for FY 2010 also is provided in that section.

EXPENSES – DEDUCTIONS FROM PLAN NET ASSETS

As shown in Figure 2.7, the primary expenses of the pension trust funds include annuity benefits for retirees and beneficiaries, refunds of contributions to former members and expenses associated with the administration of the retirement plans. Expenses for FY 2010 totaled $3,156.9 million, an increase of $300.0 million, or 10.5%, over the 2009 period.

Benefit payments were $3,035.3 million in FY 2010. This is an increase of $302.1 million compared to an increase of $196.9 million for FY 2009. The increase in FY 2010 was due to continued growth in the number of retirees and beneficiaries receiving benefits. The FY 2010 increase also reflects a cost-of-living adjustment (COLA) of 3.84%, effective July 1, 2009.

FIGURE 2.7 – SUMMARY OF PENSION PLAN PRIMARY EXPENSES

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN MILLIONS)

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Benefits	$ 3,035.3	$ 302.1	$ 2,733.2	$ 196.9	$ 2,536.3
Refunds	93.1	1.8	91.3	(11.6)	102.9
Administrative and Other Expenses	28.5	(3.9)	32.4	6.6	25.8
Total Primary Expenses	**$ 3,156.9**	**$ 300.0**	**$ 2,856.9**	**$ 191.9**	**$ 2,665.0**

Refunds of contributions to members who terminated employment during FY 2010 amounted to $93.1 million (13,798 refunds), compared with $91.3 million refunded (14,060 refunds) during FY 2009 and $102.9 million refunded (14,497 refunds) during FY 2008. The change during FY 2010 reflects a slight decrease in the volume of refunds but an increase in the average refund amount compared to FY 2009.

Administrative and other expenses for FY 2010 were $28.5 million, compared with $32.4 million for FY 2009 and $25.8 million for FY 2008. Administrative and other expenses decreased by $3.9 million for FY 2010. This compares to an increase in FY 2009 of $6.6 million. The decrease for FY 2010 is related primarily to the System's capitalization of the FY 2010 design and development costs of the Modernization Program under the Government Accounting Standards Board (GASB) Statement No. 51. Further details are provided in the Schedule of Administrative Expenses following the Required Supplemental Schedules.

PENSION PLAN ACTIVITY

FISCAL YEAR 2010 (EXPRESSED IN MILLIONS)

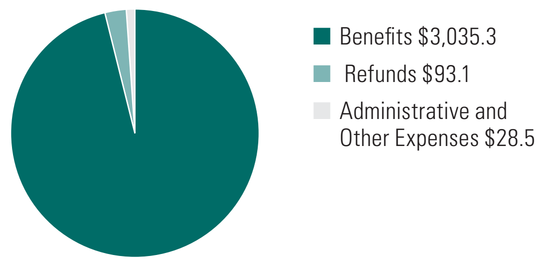


FIGURE 2.8 – SUMMARY OF PENSION PLAN RESERVE BALANCES

AT JUNE 30 (EXPRESSED IN MILLIONS)

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Member Reserves	$ 10,545.9	$ 417.8	$ 10,128.1	$ 530.5	$ 9,597.6
Employer Reserves	35,741.1	4,520.8	31,220.3	(12,781.7)	44,002.0
Total Reserve Balances	**$ 46,287.0**	**$ 4,938.6**	**$ 41,348.4**	**$ (12,251.2)**	**$ 53,599.6**

These balances also reflect transfers between the Member and Employer Reserves for interest credited to member accounts and member contributions transferred to the Employer Reserve upon a member's retirement. For FY 2010, the amount of interest credited to member accounts was $385.7 million, and the amount of member balances transferred to the Employer Reserve for retirements was $659.4 million. For FY 2009, the interest and retirement transfers were $366.3 million and $510.1 million, respectively.

RETIREMENT RESERVES

The funds accumulated by the pension plans to meet current and future obligations to retirees and beneficiaries are derived from the excess of revenues over expenses. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential. As shown in Figure 2.8, revenues exceeded expenses for FY 2010, leading to a net increase of $4,938.6 million in the retirement reserves held by the plans. This increase follows a decrease of $12,251.2 million in the retirement reserves in FY 2009. The increase for FY 2010 was related primarily to the investment performance for the year, which improved significantly from FY 2009.

ACTUARIAL VALUATIONS AND FUNDING PROGRESS – PENSION PLANS

The System's actuarial firm performs actuarial valuations of VRS, SPORS, VaLORS and JRS at least every two years to determine funding requirements. The funding policy provides for periodic employer contributions at actuarially determined rates that will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of all benefits when due.

According to the latest valuations of the pension plans performed by Cavanaugh Macdonald Consulting, LLC as of June 30, 2009, the ratio of assets accumulated by the plans to their total actuarial accrued liabilities for benefits was 80.2% for VRS, 73.6% for SPORS, 64.7% for VaLORS and 72.5% for JRS. The valuations reflect full pre-funding of the statutory cost-of-living adjustment (COLA) for retirees.

Historical information for the pension plans is presented in the Required Supplemental Schedule of Funding Progress–Pension Plans following the Notes to Financial Statements. Additional information also is presented in Note 2 and in the Actuarial Section.

Analysis of Financial Activities – Other Employee Benefit Plans

GROUP LIFE INSURANCE PROGRAM

The Group Life Insurance Program provides basic group life insurance coverage for natural death, accidental death, accidental dismemberment and other coverage to the majority of members covered under the pension plans, as well as to other qualifying employees. Employers and their covered employees pay the premiums for group life insurance coverage; many employers pay the employees' portion.

During FY 2010, the System remitted $137.8 million to the third-party administrator for claims and administrative costs. This is a decrease from the $151.7 million remitted for FY 2009. Approximately 358,562 active members were covered under the Group Life Insurance Program at June 30, 2010.

The difference between the amounts collected and paid by the System is added to the reserve established to pre-fund group life insurance coverage for retirees. The reserve had net assets held in trust for benefits of $783.1 million at June 30, 2010; investment income, including net securities lending income, was $113.7 million during the fiscal year. For FY 2009, this reserve had investment income of minus $205.4 million and ended the year with a reserve balance of $713.8 million, down from the $937.2 million at June 30, 2008.

For FY 2010, the increase is primarily the result of positive investment income, combined with a decrease in claims and an increase in administrative and other costs. There also was a decline in contributions, reflecting a reduction in the contribution rate as a result of using the June 30, 2008 actuarial valuation for funding combined with a suspension of contributions for the last quarter of FY 2010. Approximately 130,915 retired members were covered under the Group Life Insurance Program at June 30, 2010.

Members covered under the Basic Group Life Insurance Program are eligible to elect additional coverage through the Optional Group Life Insurance Program. This program provides life insurance, accidental death and accidental dismemberment coverage as a supplement to the basic group plan. Members also may cover their spouses and dependent children. Members pay the premiums through payroll deduction. Approximately 63,643 active members and 1,836 retirees were enrolled in the Optional Group Life Insurance Program at June 30, 2010.

Additional information about the Group Life Insurance Program is provided in Note 3.

RETIREE HEALTH INSURANCE CREDIT PROGRAM

The Retiree Health Insurance Credit Program provides a tax-free reimbursement for the portion of health insurance premiums eligible retirees pay for single coverage under qualifying health insurance plans. During FY 2010, the System collected $100.6 million in retiree health insurance credit contributions from participating employers and provided reimbursements to retirees of $120.3 million. During FY 2009, the System collected $146.3 million in retiree health insurance credit contributions from participating employers and provided reimbursements of $115.3 million.

The decline in contributions reflects a reduction in the contribution rates for most employers as a result of using the June 30, 2008 actuarial valuation for funding combined with a suspension of contributions for the last quarter of FY 2010 for teachers and for April, May and the first half of June for state employees. The growth in health insurance credit reimbursements reflects an increase in the number of eligible retirees.

The Retiree Health Insurance Credit Fund reserve had net assets held in trust for benefits of $245.0 million at June 30, 2010; investment income, including net securities lending income, was $33.2 million for the fiscal year. The reserve balances at June 30, 2009 and June 30, 2008 were $232.0 million and $251.6 million, respectively.

Approximately 92,126 retired members were receiving the health insurance credit program at June 30, 2010. Additional information is provided in Note 3.

VIRGINIA SICKNESS AND DISABILITY PROGRAM

The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund, provides eligible state employees with sick, family and personal leave and short-term and long-term disability benefits for non-work related and work-related illnesses and injuries. The System is responsible for administering the disability program and the payment of long-term disability benefits. Employers are responsible for administering the leave program and the payment of short-term disability benefits.

During FY 2010, the System collected $31.0 million in VSDP contributions from participating employers and incurred long-term disability benefits and administrative costs of $27.6 million. This is a decrease from the $71.3 million in contributions collected and a slight decrease from the $28.0 million in benefits and administrative costs paid in FY 2009. Contribution decreases reflect a reduction in the contribution rate as a result of using the June 30, 2008 actuarial valuation for funding combined with a suspension of contributions for April, May and the first half of June for state employees.

The benefit costs reflect growth in the number of members receiving long-term disability benefits, the amount of these benefits and the operating costs of the program, offset by reduced costs for long-term care associated with switching from a fully insured, premium-based product to a self-funded program and other program improvements. The Disability Insurance Trust Fund reserve had net assets held in trust for benefits of $336.2 million at June 30, 2010; investment income, including net securities lending income, was $43.1 million during the fiscal year. The reserve balances at June 30, 2009 and June 30, 2008 were $290.5 million and $313.5 million, respectively.

Approximately 73,569 active members and 2,592 former members were receiving benefits at June 30, 2010. Additional information is provided in Note 3.

ACTUARIAL VALUATIONS AND FUNDING PROGRESS - OTHER EMPLOYEE BENEFIT PLANS

The System's actuarial firm performs actuarial valuations of other employee benefit plans administered by the System at least every two years to determine funding requirements. The funding policy provides for periodic employer contributions at actuarially determined rates that will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of all benefits when due.

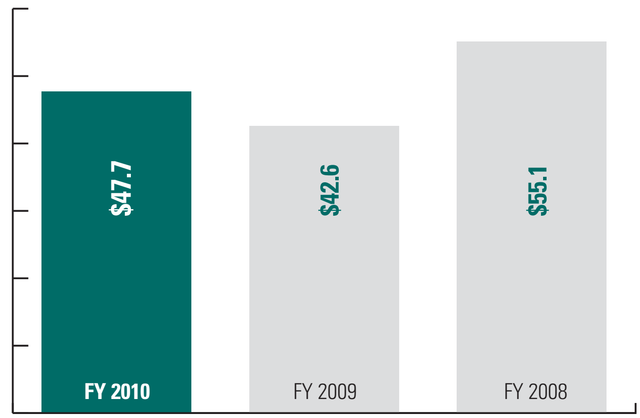
According to the latest valuations of these plans, performed by Cavanaugh Macdonald Consulting, LLC as of June 30, 2009, the ratio of assets accumulated by the plans to their total actuarial accrued liabilities for benefits was 48.5% for the Group Life Insurance Fund, 14.9% for the Retiree Health Insurance Credit Fund and 99.7% for the Disability Insurance Trust Fund. Funding progress for these plans is presented in the Required Supplemental Schedule of Funding Progress–Other Post-Employment Benefit Plans.

Request for Information

This financial report is designed to provide an overview of the System's finances. Questions concerning the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer of the Virginia Retirement System, P.O. Box 2500, Richmond, Virginia 23218-2500.

SYSTEM NET ASSETS

AT JUNE 30 (EXPRESSED IN BILLIONS)



VIRGINIA RETIREMENT SYSTEM STATEMENT OF PLAN NET ASSETS – DEFINED BENEFIT PENSION TRUST FUNDS AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

AS OF JUNE 30, 2010 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2009

	Pension Trust Funds				
	Virginia Retirement System	State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	Total Pension Trust Funds
Assets:					
Cash (Note 5)	$ 10,691	$ 248	$ 366	$ 146	$ 11,451
Receivables:					
Contributions	133,385	2,069	6,142	1,643	143,239
Interest and Dividends	179,583	2,150	3,175	1,267	186,175
Receivable for Security Transactions	1,697,751	20,331	30,015	11,979	1,760,076
Other Investment Receivables	541,689	6,487	9,577	3,822	561,575
Other Receivables	1,818	2	4	1	1,825
Total Receivables	**2,554,226**	**31,039**	**48,913**	**18,712**	**2,652,890**
Investments (Note 5):					
Bonds and Mortgage Securities	16,047,096	192,164	283,704	113,227	16,636,191
Stocks	15,264,046	182,787	269,860	107,702	15,824,395
Fixed Income Commingled Funds	1,621,594	19,419	28,669	11,442	1,681,124
Index and Pooled Funds	5,076,708	60,794	89,753	35,821	5,263,076
Real Estate	2,484,361	29,750	43,922	17,529	2,575,562
Private Equity	4,297,037	51,457	75,969	30,320	4,454,783
Short-Term Investments	66,952	802	1,184	472	69,410
Total Investments	**44,857,794**	**537,173**	**793,061**	**316,513**	**46,504,541**
Collateral on Loaned Securities	3,822,830	45,778	67,586	26,974	3,963,168
Property, Plant, Furniture, Equipment and Intangible Assets (Note 6)	13,855	-	-	-	13,855
Total Assets	**51,259,396**	**614,238**	**909,926**	**362,345**	**53,145,905**
Liabilities:					
Retirement Benefits Payable	231,485	3,964	4,689	2,586	242,724
Refunds Payable	4,131	-	145	-	4,276
Accounts Payable and Accrued Expenses	25,201	273	402	161	26,037
Compensated Absences Payable	1,961	-	-	-	1,961
Insurance Premiums and Claims Payable	-	-	-	-	-
Payable for Security Transactions	1,819,138	21,784	32,161	12,836	1,885,919
Other Investment Payables	700,322	8,387	12,382	4,941	726,032
Other Payables	1,000	-	-	-	1,000
Obligations Under Security Lending Program	3,830,342	45,868	67,718	27,027	3,970,955
Total Liabilities	**6,613,580**	**80,276**	**117,497**	**47,551**	**6,858,904**
Net Assets Held in Trust for Benefits (Note 4)	**$ 44,645,816**	**$ 533,962**	**$ 792,429**	**$ 314,794**	**$ 46,287,001**

The accompanying Notes to Financial Statements are an integral part of this statement.

(EXPRESSED IN THOUSANDS)

Other Employee Benefit Trust Funds				Totals	
Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Total Other Employee Benefit Trust Funds	2010	2009
$ 385	$ 117	$ 154	$ 656	$ 12,107	$ 104,255
443	2,560	1,441	4,444	147,683	174,843
3,334	1,016	1,331	5,681	191,856	158,695
31,524	9,605	12,587	53,716	1,813,792	1,851,800
10,058	3,065	4,016	17,139	578,714	784,566
-	10	5,698	5,708	7,533	7,326
45,359	**16,256**	**25,073**	**86,688**	**2,739,578**	**2,977,230**
297,961	90,786	118,968	- 507,715	17,143,906	18,626,141
283,421	86,356	113,163	482,940	16,307,335	12,098,525
30,110	9,174	12,022	51,306	1,732,430	1,811,139
94,264	28,721	37,637	160,622	5,423,698	3,892,160
46,129	14,055	18,418	78,602	2,654,164	2,834,191
79,787	24,310	31,857	135,954	4,590,737	3,794,814
1,243	379	496	2,118	71,528	106,102
832,915	**253,781**	**332,561**	**1,419,257**	**47,923,798**	**43,163,072**
70,982	21,628	28,341	120,951	4,084,119	1,883,479
-	-	-	-	13,855	6,440
949,641	**291,782**	**386,129**	**1,627,552**	**54,773,457**	**48,134,476**
-	-	-	-	242,724	212,561
1,003	673	135	1,811	6,087	6,624
424	10,227	2,706	13,357	39,394	87,998
-	-	-	-	1,961	1,851
47,254	-	-	47,254	47,254	48,431
33,778	10,292	13,486	57,556	1,943,475	2,439,846
13,003	3,962	5,191	22,156	748,188	859,061
-	-	-	-	1,000	1,372
71,121	21,670	28,398	121,189	4,092,144	1,892,032
166,583	**46,824**	**49,916**	**263,323**	**7,122,227**	**5,549,776**
$ 783,058	**$ 244,958**	**$ 336,213**	**$ 1,364,229**	**$ 47,651,230**	**$ 42,584,700**

VIRGINIA RETIREMENT SYSTEM STATEMENT OF CHANGES IN PLAN NET ASSETS – DEFINED BENEFIT PENSION TRUST FUNDS AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

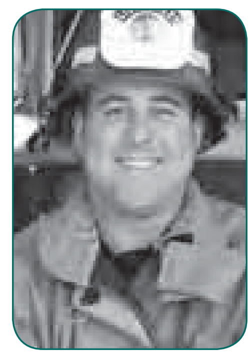
FOR THE YEAR ENDED JUNE 30, 2010 WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2009

	Pension Trust Funds				
	Virginia Retirement System	State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	Total Pension Trust Funds
Additions:					
Contributions:					
Members	$ 26,225	$ 47	$ 196	$ 30	$ 26,498
Member Contributions Paid by Employers	736,413	4,945	17,208	3,108	761,674
Employers	1,001,246	15,755	38,943	17,068	1,073,012
Total Contributions	**1,763,884**	**20,747**	**56,347**	**20,206**	**1,861,184**
Investment Income:					
Net Appreciation/(Depreciation) in Fair Value of Investments	5,267,441	63,589	90,632	37,160	5,458,822
Interest, Dividends and Other Investment Income	1,014,848	12,251	17,461	7,159	1,051,719
Total Investment Income Before Investment Expenses	6,282,289	75,840	108,093	44,319	6,510,541
Investment Expenses	(280,340)	(3,384)	(4,823)	(1,978)	(290,525)
Net Investment Income	**6,001,949**	**72,456**	**103,270**	**42,341**	**6,220,016**
Security Lending Income:					
Gross Income	14,054	170	242	99	14,565
Less Borrower Rebates and Agent Fees	(1,402)	(17)	(24)	(10)	(1,453)
Net Security Lending Income	**12,652**	**153**	**218**	**89**	**13,112**
Miscellaneous Revenue	1,083	-	-	-	1,083
Transfers In	-	-	104	-	104
Total Additions	**7,779,568**	**93,356**	**159,939**	**62,636**	**8,095,499**
Deductions:					
Retirement Benefits	2,907,204	42,714	53,758	31,598	3,035,274
Refunds of Member Contributions	88,671	496	3,919	-	93,086
Insurance Premiums and Claims	-	-	-	-	-
Retiree Health Insurance Credit Reimbursements	-	-	-	-	-
Disability Insurance Premiums and Benefits	-	-	-	-	-
Administrative Expenses	23,720	257	373	151	24,501
Other Expenses	3,807	46	66	27	3,946
Transfers Out	104	-	-	-	104
Total Deductions	**3,023,506**	**43,513**	**58,116**	**31,776**	**3,156,911**
Net Increase (Decrease)	4,756,062	49,843	101,823	30,860	4,938,588
Net Assets Held in Trust for Benefits - Beginning of Year	39,889,754	484,119	690,606	283,934	41,348,413
Net Assets Held in Trust for Benefits - End of Year	**$ 44,645,816**	**$ 533,962**	**$ 792,429**	**$ 314,794**	**$ 46,287,001**

The accompanying Notes to Financial Statements are an integral part of this statement.

(EXPRESSED IN THOUSANDS)

Other Employee Benefit Trust Funds				Totals	
Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Total Other Employee Benefit Trust Funds	2010	2009
$ 62,485	$ -	$ -	$ 62,485	$ 88,983	$ 101,250
-	-	-	-	761,674	769,710
32,375	100,613	31,021	164,009	1,237,021	1,579,176
94,860	**100,613**	**31,021**	**226,494**	**2,087,678**	**2,450,136**
99,602	29,096	37,768	166,466	5,625,288	(12,596,213)
19,190	5,606	7,277	32,073	1,083,792	1,020,906
118,792	34,702	45,045	198,539	6,709,080	(11,575,307)
(5,301)	(1,549)	(2,010)	(8,860)	(299,385)	(274,420)
113,491	**33,153**	**43,035**	**189,679**	**6,409,695**	**(11,849,727)**
266	78	101	445	15,010	50,729
(27)	(8)	(10)	(45)	(1,498)	(23,199)
239	**70**	**91**	**400**	**13,512**	**27,530**
-	-	-	-	1,083	9,126
-	-	-	-	104	403
208,590	**133,836**	**74,147**	**416,573**	**8,512,072**	**(9,362,532)**
-	-	-	-	3,035,274	2,733,223
-	-	-	-	93,086	91,348
137,833	-	-	137,833	137,833	151,669
-	120,269	-	120,269	120,269	115,278
-	-	27,574	27,574	27,574	28,016
663	582	814	2,059	26,560	33,785
848	21	27	896	4,842	979
-	-	-	-	104	403
139,344	**120,872**	**28,415**	**288,631**	**3,445,542**	**3,154,701**
69,246	12,964	45,732	127,942	5,066,530	(12,517,233)
713,812	231,994	290,481	1,236,287	42,584,700	55,101,933
$ 783,058	**$ 244,958**	**$ 336,213**	**$ 1,364,229**	**$ 47,651,230**	**$ 42,584,700**



Notes to Financial Statements

JUNE 30, 2010 AND 2009

1. Summary of Significant Financial Policies, Administration and Management

A. FINANCIAL REPORTING ENTITY

The Virginia Retirement System (the System) is an independent agency of the Commonwealth of Virginia. The System administers a defined benefit pension plan and other employee benefit plans, and is included in the basic financial statements of the Commonwealth of Virginia. As required by generally accepted accounting principles (GAAP), the System's financial statements include all funds for which financial transactions are recorded in its accounting system and for which the Board of Trustees exercises administrative responsibility.

Effective January 1, 1997, the *Constitution of Virginia* was amended to strengthen the independence of the Virginia Retirement System. As set forth in Section 11 of Article X, the funds of the retirement system shall be deemed separate and independent trust funds, segregated from all other funds of the Commonwealth, and invested and administered solely in the interests of members and beneficiaries.

Fiduciary Responsibility of the VRS Board of Trustees – As stated in Section 51.1-124.30(C) of the *Code of Virginia:* ". . . the Board shall invest the assets of the Retirement System with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims." Accordingly, the Board must sufficiently diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to do so. Primary risk measures are volatility in the plan's assets, funded status and contribution rates.

B. ADMINISTRATION AND MANAGEMENT

1. Pension Plans and Other Employee Benefit Plans. The Board of Trustees (the Board) is responsible for the general administration and operation of the defined benefit pension plans and other employee benefit plans. The Board has full power to invest and reinvest the trust funds of the System through the adoption of investment policies and guidelines that fulfill the Board's investment objective to maximize long-term investment returns while targeting an acceptable level of risk.

The Board consists of five members appointed by the Governor and four members appointed by the Joint Rules Committee of the Virginia General Assembly, all subject to confirmation by the General Assembly. The Board appoints a director to serve as the chief administrative officer of the System and a chief investment officer to direct, manage and administer the investment of the System's funds. The Board also retains outside managers to advise and assist in the implementation of these policies. The Board of Trustees has appointed Mellon Trust as the custodian of designated assets of the System.

The Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), the Virginia Law Officers' Retirement System (VaLORS) and the Judicial Retirement System (JRS) are administered in accordance with Title 51.1, Chapters 1, 2, 2.1, 3 and 4, respectively, of the *Code of Virginia* (1950), as amended. The Group Life Insurance Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund are administered in accordance with Title 51.1, Chapters 5, 14 and 11, respectively, of the *Code of Virginia* (1950), as amended.

The Optional Life Insurance Fund is administered in accordance with Sections 51.1-512 and 51.1-512.1 of the *Code of Virginia* (1950), as amended. Optional life insurance is an insured product, and the premium collection is handled by the third-party administrator. The Board provides only oversight for the program with limited administrative responsibility.

State statutes governing the plans administered by the System may be amended only by the General Assembly of Virginia. Additional information about the plans is provided in Notes 2 and 3.

2. Other Plans Established by the Commonwealth of Virginia. The Board has oversight and limited administrative responsibility, but no investment responsibility, for several other plans of the Commonwealth. Because the Board neither owns nor has custody of the assets, their financial transactions are not recorded in the System's accounting system. Therefore, these programs are not included in the System's Basic Financial Statements:

- Commonwealth of Virginia 457 Deferred Compensation Plan, qualified under Section 457(b) of the Internal Revenue Code, and the Virginia Cash Match Plan for state employees and employees of participating political subdivisions. Additional information about the 457 Plan is provided in the Statistical Section.
- Defined contribution plans, referred to as optional retirement plans, for political appointees, certain employees of public institutions of higher education and certain employees of public school divisions and teaching hospitals.
- Commonwealth Health Research Fund, which provides financial support for human health research on behalf of citizens of the Commonwealth.
- Volunteer Firefighters' and Rescue Squad Workers' Service Award Fund, which provides service awards to eligible volunteer firefighters and rescue squad workers.

C. ACCOUNTING BASIS

The accounting and presentation of the defined benefit pension plans and other employee benefit plans use the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of related cash flows. Member and employer contributions are recognized as revenues when due, pursuant to formal commitments as well as statutory or contractual requirements. Investment income is recognized as earned by the plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

D. ACTUARIAL BASIS AND CONTRIBUTION RATES

The funding policy for the pension plans provides for periodic employer contributions at actuarially determined rates, which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all benefits when due. Member and employer contributions are required by Title 51.1 of the *Code of Virginia* (1950), as amended.

Contribution rates are developed using the entry age normal cost method for both normal cost and amortization of the unfunded actuarial accrued liability. Gains and losses are reflected in the unfunded Actuarial Accrued Liability (AAL), which is being amortized as a level percentage of covered payroll within 30 years or less.

In addition to determining contribution requirements, actuarial computations present an estimate of the discounted present value of the prospective accrued liability contributions that employers will have to pay to ensure that such contributions–when combined with the assets on hand, the normal contributions to be made in the future by employers and members and investment income–will be sufficient to pay all benefits due to current members in the future as well as to annuitants and designated beneficiaries.

Actuarial valuations estimate the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include future employment, mortality and the use of the benefit. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future. The Required Supplemental Schedules of funding progress and employer contributions, which follow the Notes to Financial Statements, present historical information about the increase or decrease of the actuarial values of the plans' assets over time relative to the AAL for benefits.

E. GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

- Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, requires disclosures related to deposits, authorized investments and investment risk. Required investment risk disclosures address interest rate risk; credit risk, to include custodial credit risk and concentrations of credit risk; and foreign currency risk. The statement also requires disclosures of custodial credit risk and foreign currency risk for depository accounts. Information about the System's deposit and investment risk is provided in Note 5.
- GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, requires additional reporting and disclosures for other post-employment benefits (OPEBs). The statement became effective for VRS-administered OPEBs beginning with the fiscal year ended June 30, 2007. The Required Supplemental Schedules of funding progress and employer contributions for the pension plans and other employee benefit plans present information about contributions in comparison to the annual required contribution (ARC), which is actuarially determined in

accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities or funding excess over a period not to exceed 30 years.

- GASB Statement No. 50, Pension Disclosures–An Amendment to GASB Statements No. 25 and No. 27, more closely aligns the financial reporting requirements for pensions with those for OPEBs. The statement became effective beginning with the fiscal year ended June 30, 2008. Information about the pension plans and other employee benefit plans administered by the System is presented in Notes 2 and 3.
- GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, establishes a "specific conditions" approach to recognizing intangible assets, specifically computer software. The statement became effective beginning with the fiscal year ended June 30, 2010. Capitalized costs are incurred during the Application Development Stage and consist of design of chosen path, including software configuration and software interfaces; coding; installation of hardware; testing, including the parallel processing phase; and data conversion to the extent that the data are necessary to make the computer software operational. Other costs incurred before or after the Application Development Stage are expensed when incurred. Additional disclosures resulting from the implementation of this statement are presented in Note 6.
- GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, establishes accounting and financial reporting standards for governments that enter into derivative instruments. The statement became effective beginning with the fiscal year ended June 30, 2010. The objective of the statement is to enhance the usefulness and comparability of derivative financial instrument information reported by state and local governments. It provides a comprehensive framework for the measurement, recognition and disclosure of derivative instrument transactions. Additional disclosures resulting from the implementation of this statement are presented in Note 5.

F. INVESTMENTS

1. Investment Valuation. Investments are reported at fair value as determined by the System's master custodian, Mellon Trust, from its Global Pricing System. This system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. The master custodian monitors prices supplied by these sources daily.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers; or internal calculations are applied, if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships and real estate assets from statements received from the funds, partnerships or investment managers.

The pricing sources used by the master custodian provide daily prices for equity securities; corporate, government and mortgage-backed fixed income securities; private placement securities; futures and options on futures; open-ended funds; and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations (CMOs), adjustable rate mortgages (ARMs) and asset-backed securities are priced daily, weekly or twice a month as well as at month end. Municipal fixed income securities and options on U.S. Treasury/GNMA securities are priced at month end.

2. Investment Transactions and Income. Security transactions and related gains and losses are recorded on a trade-date basis. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. Futures contracts are valued daily, with the resulting adjustments recorded as realized gains or losses arising from the daily settlement of the variation margin. Gains and losses related to forward contracts and options are recognized at the time the contracts are settled. Investments in limited partnerships are accounted for on the equity method of accounting, and their earnings or losses for the period are included in investment income using the equity method.

G. PROPERTY, PLANT, FURNITURE, EQUIPMENT AND INTANGIBLE ASSETS

Tangible capital assets are recorded at cost at the time of acquisition and are reported net of accumulated depreciation. The System capitalizes all property, plant and equipment that have a cost or value greater than $5,000. Depreciation is computed on the straight-line basis over the estimated useful life of the property, ranging from five to 40 years. Intangible capital assets for the System include internal and external costs incurred during VRS' current Application Development Stage. These costs are depreciated over the software's useful life.

H. ACCUMULATED LEAVE AND DISABILITY CREDITS

Employees of the System participate in the Commonwealth's annual leave program and in its sick leave program or the Virginia Sickness and Disability Program (VSDP), which is administered by the System. Additional information about VSDP is presented in Note 3. Unused annual leave may be accumulated and is paid at the time of permanent separation from service up to the maximum calendar-year limit. For vested employees who are not covered under VSDP, unused sick leave is paid at a rate of 25% of the amount accumulated, not to exceed $5,000, at the time of permanent separation. VSDP-covered employees with unused disability credits converted from sick leave at the time of enrollment may be paid in the same manner as for non-VSDP employees or convert these credits to service credit at a rate of 173 disability credits to one month of service.

The accrued liability for unused annual leave, sick leave and disability credits for System employees at June 30, 2010 and 2009 was computed using salary rates in effect at those times and represents annual and sick leave earned up to the allowable ceilings as well as unused, converted disability credits. This information is included in the Statement of Plan Net Assets–Defined Benefit Pension Trust Funds and Other Employee Benefit Trust Funds.

I. ADMINISTRATIVE EXPENSES AND BUDGET

The Board of Trustees approves expenses related to the administration and management of the trust fund. These expenses are included in a budget prepared in compliance with the Commonwealth's biennial budgetary system (cash basis). Appropriations are controlled at the program level and lapse at the end of the fiscal year. Administrative expenses are funded exclusively from investment income. Expenses for goods and services received but not paid for prior to the System's fiscal year end are accrued for financial reporting purposes in accordance with generally accepted accounting principles (GAAP). A reconciliation of the difference between the GAAP basis and budgeted basis is presented in the Schedule of Administrative Expenses following the Required Supplemental Schedules.

J. INVESTMENT INCOME ALLOCATION

Income earned on investments is distributed monthly to the VRS, SPORS, VaLORS and JRS retirement plans; the Group Life Insurance Fund; the Retiree Health Insurance Credit Fund; and the Disability Insurance Trust Fund. Distribution of investment income is based on the respective equity of each trust fund in the common investment pool.

The retirement plans distribute their cumulative investment income, net of administrative expenses, in the following manner:

- Investment income is distributed to each individual member contribution account based on a rate of 4.00% applied to each member's cumulative balance as of the close of the preceding fiscal year.
- The remaining portion is allocated quarterly to the participating employer retirement allowance accounts based on the ratio of their member account and employer account balances to the total of all such balances.

K. USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for benefits at June 30, 2010. Actual results could differ from those estimates.

L. SUMMARIZED COMPARATIVE DATA/ RECLASSIFICATIONS

The Basic Financial Statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

2. Pension Plans

A. PLAN DESCRIPTIONS

1. Establishment of the System. The Virginia Retirement System (the System) was established on March 1, 1952 as the administrator of VRS, a governmental retirement plan qualified under Section 401(a) of the Internal Revenue Code. Its mission is to provide a defined benefit plan for state employees, teachers, other eligible school employees and employees of political subdivisions that elect to participate in the System. VRS is a mixed agent, cost-sharing, multiple-employer retirement plan. The System also administers the following single-employer retirement plans:

- State Police Officers' Retirement System (SPORS), established on July 1, 1950 for state police officers
- Virginia Law Officers' Retirement System (VaLORS), established on October 1, 1999 for Virginia law officers other than state police
- Judicial Retirement System (JRS), established on July 1, 1970 for judges of a court of record or a district court of the state and other eligible judicial employees

The System is required by law to use the plans' accumulated assets to pay benefits when due to eligible members and beneficiaries. Full-time permanent, salaried employees of VRS-participating employers are covered automatically under VRS, SPORS, VaLORS or JRS upon employment; some part-time permanent, salaried state employees also are covered under VRS. Information regarding the membership is presented in Figure 2.9. Teaching, research and administrative faculty of the state's public colleges and universities who elect an optional retirement plan in lieu of the VRS retirement plan, as well as permanent, salaried employees of the state's two public teaching hospitals, are not covered under the VRS defined benefit plan.

2. Pension Plan Provisions and Requirements. Members are vested after attaining five years of service credit. They become eligible to retire with an unreduced or reduced benefit when they meet the age and service requirements for their plans. The unreduced benefit is actuarially reduced to calculate the reduced benefit amount. A cost-of-living adjustment (COLA), based on changes in the Consumer Price Index-Urban and limited to 5.00% per year, is granted on July 1 of the second calendar year after retirement and is effective each July 1 thereafter.

Members not covered under the Virginia Sickness and Disability Program (VSDP) (see Note 3) are eligible to be considered for VRS disability retirement. If a member dies while in active service, his or her beneficiary or survivor may qualify for a death-in-service benefit. Provisions for the defined benefit plans are presented in Figure 2.10.

FIGURE 2.9 – ACTIVE, RETIRED AND TERMINATED MEMBERS AND BENEFICIARIES

AT JUNE 30

	2010				2010	2009
	VRS	SPORS	VaLORS	JRS	Total	Total
Retirees and Beneficiaries Receiving Benefits	144,652	1,100	2,303	441	148,496	141,746
Terminated Employees Entitled to Benefits						
but Not Receiving Them	33,734	68	360	7	34,169	33,567
Total	**178,386**	**1,168**	**2,663**	**448**	**182,665**	**175,313**
Active Members:						
Vested	227,997	1,508	5,968	355	235,828	228,914
Non-Vested	102,818	258	3,652	53	106,781	118,015
Total	**330,815**	**1,766**	**9,620**	**408**	**342,609**	**346,929**

FIGURE 2.10 – DEFINED BENEFIT PLAN PROVISIONS

AS ESTABLISHED BY TITLE 51.1 OF THE *CODE OF VIRGINIA* (1950), AS AMENDED

Virginia Retirement System (VRS): Non-Hazardous Duty Members. Full-time permanent, salaried employees of state agencies, including public colleges and universities, as well as local public school divisions and VRS-participating political subdivisions are covered automatically under VRS upon employment. Some part-time permanent, salaried state employees also are covered under VRS.

VRS members are eligible to retire with an unreduced benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit. (Some political subdivisions elected different eligibility requirements based on previous plan provisions.) The lifetime monthly benefit under VRS is based on 1.70% of the member's average final compensation for each year of service credit. Average final compensation is the average of the member's 36 consecutive months of highest compensation as a covered employee.

Virginia Retirement System (VRS): Members Eligible for Enhanced Hazardous Duty Coverage. Full-time permanent, salaried sworn sheriffs, deputy sheriffs and regional jail superintendents and officers are covered automatically for enhanced hazardous duty under VRS upon employment. Political subdivisions may elect enhanced hazardous duty coverage for other full-time, salaried sworn law enforcement officers, firefighters and emergency medical technicians.

VRS hazardous duty members are eligible to retire with an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. The lifetime monthly benefit for VRS-covered sheriffs and superintendents of regional jails is based on 1.85% of the member's average final compensation for each year of service credit. The retirement multiplier for other eligible hazardous duty members is 1.70%. Political subdivisions providing enhanced coverage have the option to elect the 1.85% multiplier for these employees. VRS hazardous duty members who have at least 20 years of hazardous duty service credit at retirement also are eligible for a hazardous duty supplement. The supplement is added to the monthly benefit and continues until the member's normal retirement age under Social Security.

State Police Officers' Retirement System (SPORS). State police officers are covered automatically under SPORS upon employment. SPORS members are eligible to retire with an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. The lifetime monthly benefit for SPORS members is based on 1.85% of the member's average final compensation for each year of service credit. SPORS members who have at least 20 years of hazardous duty service credit at retirement also are eligible for a hazardous duty supplement. The supplement is added to the monthly benefit and continues until the member's normal retirement age under Social Security.

Virginia Law Officers' Retirement System (VaLORS). Virginia law officers other than state police are covered automatically under VaLORS upon employment. VaLORS members are eligible to retire with an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. The lifetime monthly benefit for VaLORS members is based on 2.00% of the member's average final compensation for each year of service credit, with no eligibility for the hazardous duty supplement. VaLORS members hired before July 1, 2001 were allowed to make a one-time irrevocable election to retire under the 2.00% multiplier or retain the 1.70% multiplier with eligibility for the supplement, which continues until age 65 for these VaLORS members.

Judicial Retirement System (JRS). Judges are covered automatically under JRS upon employment. They earn one month of service credit, multiplied by a weighting factor of 2.5 for each month they are employed. The weighting factor for judges who entered JRS before January 1, 1995 is 3.5. JRS members are eligible to retire with an unreduced benefit beginning at age 65 with weighted service equal to at least five years of service credit or age 60 with weighted service equal to at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with weighted service equal to at least five years of service credit.The lifetime monthly benefit for JRS members is based on 1.70% of the member's average final compensation for each year of service credit.

FIGURE 2.11 – MEMBER AND EMPLOYER CONTRIBUTIONS

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	2010				2010	2009
	VRS	SPORS	VaLORS	JRS	Total	Total
Employer Contributions	$ 1,001,246	$ 15,755	$ 38,943	$ 17,068	$ 1,073,012	$ 1,307,150
Member Contributions Paid by Employers	736,413	4,945	17,208	3,108	761,674	769,710
Member Contributions	26,225	47	196	30	26,498	20,543
Total Contributions	**$ 1,763,884**	**$ 20,747**	**$ 56,347**	**$ 20,206**	**$ 1,861,184**	**$ 2,097,403**

B. CONTRIBUTIONS

Members and employers are required to contribute to the retirement plans as provided by Title 51.1 of the *Code of Virginia* (1950), as amended. Members, or their employers on their behalf, contribute 5.00% of their compensation each month to their member contribution accounts. Members leaving covered employment are eligible to request a refund of their accumulated contributions and interest. Each participating employer is required to contribute the remaining amounts necessary to fund the pension plans using the entry age normal actuarial cost method adopted by the Board of Trustees.

The System's former actuary, Wachovia Retirement Services, computed the amount of contributions to be provided by state agency, state police and Virginia law officer employers; each participating political subdivision employer; and state judicial employers. The contribution rates for FY 2010 and FY 2009 were based on the actuary's valuation as of June 30, 2007. In addition, the actuary computed a separate contribution requirement for the teacher cost-sharing pool for each year using the same valuation dates.

As shown in Figure 2.11, contributions for the fiscal years ended June 30, 2010 and 2009 totaled $1,861,184,000 and $2,097,403,000, respectively, in accordance with statutory requirements. These contributions covered employers' normal costs and amortization of a portion of the unfunded actuarial accrued liabilities as determined by the June 30, 2007 valuation. However, the contributions for FY 2010 also reflect the suspension of employer contributions for state employees for the months of April, May and the first half of June 2010 and for teachers for the entire last quarter of FY 2010.

Included in the FY 2010 employer contributions of $1,073,012,000 were $1,562,000 from school boards for payments toward early retirement program costs and $88,000 from state agencies for payments toward Workforce Transition Act (WTA) costs. Included in the FY 2010 member contributions of $26,498,000 were $24,286,000 paid for the purchase of previously refunded service and other qualifying service.

Employer contributions to the VRS cost-sharing pool for teachers represented 8.81% of covered payrolls. Employer contributions for state employees represented 6.26% of covered payrolls. Each political subdivision's contributions ranged from zero (0.00%) to 24.99% of covered payrolls. State employer contributions to SPORS, VaLORS and JRS represented 20.05%, 14.23% and 34.51%, respectively. With the exception of the state employee rate, which was increased from 6.23% to fund early retirements, these rates were the same as the employer contribution rates used in FY 2009. The actual contributions to the System for FY 2010 were less because the employer contributions for state employees were suspended for April, May and the first half of June 2010, and those for teachers were suspended for the entire last quarter of FY 2010. Member contributions for both years represented 5.00% of covered payrolls.

C. FUNDED STATUS AND FUNDING PROGRESS – PENSION PLANS

The most recent actuarial valuation prepared for the pension plans is as of June 30, 2009. The following schedule presents selected information from that valuation report. Additional information is presented in the Required Supplemental Schedule of Funding Progress–Pension Plans following the Notes to Financial Statements as well as in the Actuarial Section.

SCHEDULE OF FUNDING PROGRESS – PENSION PLANS

AS OF JUNE 30, 2009

(DOLLARS IN MILLIONS)

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Virginia Retirement System	$ 53,185	$ 66,323	$ 13,138	80.2%	$ 14,948	87.9%
State Police Officers' Retirement System	647	879	232	73.6%	101	230.0%
Virginia Law Officers' Retirement System	913	1,412	499	64.7%	359	138.9%
Judicial Retirement System	378	521	143	72.5%	63	228.4%

The actuarial methods and assumptions used to determine funding requirements are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial methods and assumptions are presented in the Actuarial Section. The following schedule presents selected information as of the latest actuarial valuation:

SCHEDULE OF ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS – PENSION PLANS

	VRS	SPORS	VaLORS	JRS
Valuation Date	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Pay, Open	Level Percent of Pay, Open	Level Percent of Pay, Open	Level Percent of Pay, Open
Payroll Growth Rate:				
State Employees	3.00%	3.00%	3.00%	3.00%
Teachers	3.00%	N/A	N/A	N/A
Political Subdivision Employees	3.00%	N/A	N/A	N/A
Remaining Amortization Period	20 Years	20 Years	20 Years	20 Years
Asset Valuation Method	5-Year, Smoothed Market	5-Year, Smoothed Market	5-Year, Smoothed Market	5-Year, Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.50%	7.50%	7.50%	7.50%
Projected Salary Increases:*				
State Employees	3.75% to 5.60%	3.50% to 4.75%	3.50% to 4.75%	4.50%
Teachers	3.75% to 6.20%	N/A	N/A	N/A
Political Subdivision– Non-Hazardous Duty Employees	3.75% to 5.60%	N/A	N/A	N/A
Political Subdivision– Hazardous Duty Employees	3.50% to 4.75%	N/A	N/A	N/A
Post-Retirement Benefit Increases**	2.50%	2.50%	2.50%	2.50%

**Includes inflation at 2.50%. **Compounded annually.*

3. Other Employee and Post-Employment Benefit Plans (OPEBs)

A. PLAN DESCRIPTIONS

The System administers other employee and post-employment benefit plans for active, deferred and retired members of VRS, SPORS, VaLORS and JRS. These plans are the Group Life Insurance Program, the Retiree Health Insurance Credit Program and the Virginia Sickness and Disability Program (VSDP).

Contributions and payments for other employee benefit plans for active members occur on a current basis; therefore, the System does not record these plan net assets and is not required to report their funding progress and employer contributions. The System records plan net assets and reports funding progress and employer contributions for post-employment benefit plans. This information is provided in the Required Supplemental Schedules following the Notes to Financial Statements. Additional information also is presented in the Statistical Section.

1. Group Life Insurance Program. The Group Life Insurance Program is a cost-sharing, multiple-employer plan. Members whose employers participate in the Group Life Insurance Program are covered automatically under the Basic Group Life Insurance Program upon employment. They also are eligible to elect additional coverage for themselves as well as their spouses and dependent children through the Optional Group Life Insurance Program.

Participating employers and covered employees are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute to the cost of group life insurance benefits. Employers may assume employees' contributions. A portion of the premium contributions collected during members' active careers is placed in an Advance Premium Deposit Reserve to fund coverage for eligible retired and deferred members. Approximately 358,562 active members and 130,915 retirees were covered under the Basic Group Life Insurance Program at June 30, 2010.

For members who elect optional group life insurance coverage, the third-party administrator bills employers directly for the premiums. Employers deduct the premiums from members' paychecks and pay the premiums to the third-party administrator. Premiums are based on members' ages and approved by the Board of Trustees. Any differences and adjustments are settled between the employer and the third-party administrator. Approximately 63,643 active members and 1,836 retirees were covered under the Optional Group Life Insurance Program at June 30, 2010.

2. Retiree Health Insurance Credit Program. The Retiree Health Insurance Credit Program is an agent, multiple-employer plan. It provides eligible retirees a tax-free reimbursement for health insurance premiums for single coverage under qualifying health plans, including coverage under a spouse's plan, not to exceed the amount of the monthly premium or the maximum credit, whichever is less. Premiums for health plans covering specific conditions are ineligible for reimbursement. Employers are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute to the program. The amount is financed based on contribution rates determined by the System's actuary. Approximately 92,126 retirees were covered under the health insurance credit program at June 30, 2010.

3. Virginia Sickness and Disability Program. The Virginia Sickness and Disability Program (VSDP) is a single-employer plan. It provides state employees with sick, family and personal leave and short-term and long-term disability benefits. State agencies are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute to the cost of providing long-term disability benefits and administering the program. Approximately 73,569 members were covered under VSDP at June 30, 2010, and approximately 2,592 former members were receiving benefits from the program during the fiscal year.

Provisions for other employee benefit and post-employment benefit plans are presented in Figure 2.12.

FIGURE 2.12 – OTHER EMPLOYEE BENEFIT AND POST-EMPLOYMENT BENEFIT PLAN PROVISIONS

AS ESTABLISHED BY TITLE 51.1 OF THE *CODE OF VIRGINIA* (1950), AS AMENDED

Basic Group Life Insurance. The Group Life Insurance Program was established on July 1, 1960 for state employees, teachers and employees of VRS-participating political subdivisions that elect the program. Eligible employees are covered automatically under the Basic Group Life Insurance Program upon employment. Benefits include a natural death benefit equal to the member's compensation rounded to the next highest thousand and then doubled and an accidental death benefit equal to twice the natural death benefit. Other benefits include an accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit and accelerated death benefit option for members who have been diagnosed with a terminal condition and have fewer than 12 months to live.

Members covered under the Basic Group Life Insurance Program are eligible for post-employment group life insurance coverage if they retire or have met the age and service requirements for retirement upon termination. Those who retire on disability also are eligible for post-employment coverage. Members who leave employment before becoming eligible for retirement or who take a refund of their member contributions and interest are not eligible for post-employment group life insurance coverage. Natural death coverage for eligible retired and deferred members begins to reduce by 25% on the January 1 following one calendar year from separation. It continues to reduce by 25% each January 1, until it reaches 25% of its original value. Natural death coverage for members who retire on disability begins to reduce by 25% on the January 1 following one calendar year from their 65th birthday. The provisions that allow for double the natural death benefit for accidental death and dismemberment end upon retirement or leaving covered employment. Eligible retired and deferred members remain eligible for the accelerated death benefit option.

Optional Group Life Insurance. Members covered under the Basic Group Life Insurance Program may purchase additional coverage for natural death, accidental death and accidental dismemberment for themselves as well as their spouses and dependent children through the Optional Group Life Insurance Program. Members pay the premiums through payroll deduction.

Members may elect coverage for themselves equal to one, two, three or four times their compensation rounded to the next highest thousand, up to a maximum of $700,000. Members may cover their spouses for up to half the maximum amount of their coverage and each dependent child who is at least 15 days old for $10,000, $20,000 or $30,000, depending on the option they select for themselves. Coverage for the spouse and dependent children ends if the member leaves covered employment before retirement eligibility or takes a refund of his or her member contributions and interest. Spousal coverage also ends if a couple divorces. Coverage for dependent children ends when the members' coverage ends or the children marry, become self-supporting, reach age 21 or reach age 25 as a dependent attending college full time. Coverage continues for dependent unmarried children who are disabled.

Members may continue a portion of their optional group life insurance coverage into retirement. They, as well as their spouses and dependent children as applicable, must have been covered continuously under the program during the 60 months preceding retirement or leaving covered employment. Insurance amounts begin to reduce at retirement; coverage ends at age 80. Members have the option to convert their optional group life insurance coverage, provided they do so within 31 days of retirement or leaving covered employment.

Retiree Health Insurance Credit Program. The Retiree Health Insurance Credit Program was established on January 1, 1990 for retired state employees, state police officers, other Virginia law officers and judges who retire with at least 15 years of service credit. The program was opened to retired teachers and eligible employees of participating political subdivisions on July 1, 1993. Members who retire on disability or are on long-term disability through the Virginia Sickness and Disability Program (VSDP) also are eligible for the health insurance credit.

The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against the portion of health insurance premiums retirees pay for single coverage. Retired state employees and teachers are eligible for a credit of $4.00 per month per year of service credit, with no cap on the monthly amount. Retired local constitutional officers and their employees, general registrars and their employees and local social workers are eligible for $1.50 per month per year of service credit, with a maximum monthly credit of $45.00. Political subdivisions may elect a $1.00 enhancement, with a maximum monthly credit of $75.00, and have the option to elect the health insurance credit for other retired local covered employees at $1.50 per month per year of service credit, with a maximum monthly credit of $45.00.

State employees who retire on disability or who are on long-term disability through VSDP are eligible for the higher of $4.00 per year of service credit per month or $120.00 per month, not to exceed the amount of the individual health insurance premium. Those who retire after being on VSDP long-term disability must have at least 15 years of service credit to qualify for the health insurance credit in retirement. Political subdivision employees are eligible for up to $45.00 per year of service credit. Teachers are eligible for $4.00 multiplied by (1) twice their service credit or (2) the service they would have earned if they had been active until age 60, whichever is less.

Virginia Sickness and Disability Program. The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund, was established on January 1, 1999 to provide income protection in the event of a non-work related or work-related disability for full-time permanent, salaried state employees covered under VRS, SPORS and VaLORS. Part-time permanent, salaried state employees who work at least 20 hours a week also are eligible for VSDP benefits. Employees covered under VSDP are not eligible for VRS disability retirement. State employees hired before January 1, 1999 had the option to make an irrevocable election to participate in VSDP or remain under the Commonwealth's leave program and retain their eligibility for VRS disability retirement. Members hired effective January 1, 1999 have been enrolled automatically upon employment. Members new to VaLORS following its establishment on October 1, 1999 also have been enrolled automatically. Teaching, research and administrative faculty who elect VRS as their retirement plan must make an irrevocable election to participate in VSDP or the institution's disability program. If the institution does not offer a program, the faculty member is enrolled automatically in VSDP.

VSDP benefits include sick, family and personal leave and short-term and long-term disability coverage for non-work related and work-related illnesses and injuries. Short-term disability coverage begins after a seven-calendar day waiting period from the first day of disability. The benefit pays 100% of the member's pre-disability income, which reduces to 80% and then 60% according to the member's months of career state service. Members hired on or after July 1, 2009 must be employed for one year before becoming eligible for non-work related disability coverage. In addition, during their first five years of employment, they are eligible for income replacement at 60% of pre-disability income. After five years, they become eligible for income replacement beginning at 100%.

Long-term disability coverage begins after 125 workdays of short-term disability. The benefit pays 60% of the member's pre-disability income. Long-term disability benefits end when the member returns to work, retires or reaches his or her normal retirement age. Members on short-term or long-term disability who are receiving 60% of their pre-disability income are eligible for 80% if their condition is or becomes catastrophic. The income replacement level returns to 60% when the condition is no longer considered catastrophic. VSDP-covered members also are covered under the VSDP Long-Term Care Plan, a self-funded program that assists with long-term care services such as nursing home care or in-home care. The maximum daily benefit amount is $96 with a lifetime maximum of $70,080.

B. FUNDED STATUS AND FUNDING PROGRESS – OTHER EMPLOYEE BENEFIT PLANS

The most recent actuarial valuation prepared for other employee benefit plans administered by the System is as of June 30, 2009. The following schedule presents selected information from that valuation report. Additional information is presented in the Required Supplemental Schedule of Funding Progress–Other Post-Employment Benefit Plans following the Notes to Financial Statements as well as in the Actuarial Section.

SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFIT PLANS

AS OF JUNE 30, 2009 (DOLLARS IN MILLIONS)

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Group Life Insurance Fund	$ 967	$ 1,995	$ 1,028	48.5%	$ 16,728	6.1%
Retiree Health Insurance Credit Fund	294	1,976	1,682	14.9%	13,589	12.4%
Disability Insurance Trust Fund	267	268	1	99.7%	4,080	0.0%

Actuarial methods and assumptions for other post-employment benefit plans are presented in the Actuarial Section. The following schedule presents selected information as of the latest actuarial valuation:

SCHEDULE OF ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS – OTHER POST-EMPLOYMENT BENEFIT PLANS

	Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund
Valuation Date	June 30, 2009	June 30, 2009	June 30, 2009
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit
Amortization Method	Level Percent of Pay, Open	Level Percent of Pay, Open	Level Percent of Pay, Open
Payroll Growth Rate:			
State Employees	3.00%	3.00%	3.00%
Teachers	3.00%	3.00%	N/A
Political Subdivision Employees	3.00%	3.00%	N/A
State Police and Virginia Law Officers	3.00%	3.00%	3.00%
Judges	3.00%	3.00%	N/A
Remaining Amortization Period	27 Years	27 Years	27 Years
Asset Valuation Method	5-Year, Smoothed Market	5-Year, Smoothed Market	Market Value
Actuarial Assumptions:			
Investment Rate of Return*	7.50%	7.50%	7.50%
Projected Salary Increases:*			
State Employees	3.75% to 5.60%	3.75% to 5.60%	3.75% to 5.60%
Teachers	3.75% to 6.20%	3.75% to 6.20%	N/A
Political Subdivision-- Non-Hazardous Duty Employees	3.75% to 5.60%	3.75% to 5.60%	N/A
Political Subdivision-- Hazardous Duty Employees	3.50% to 4.75%	3.50% to 4.75%	N/A
State Police and Virginia Law Officers	3.50% to 4.75%	3.50% to 4.75%	3.50% to 4.75%
Judges	4.50%	4.50%	N/A

**Includes inflation at 2.50%. Projected salary increases for the Retiree Health Insurance Credit Fund are used in the application of the actuarial cost method.*

4. Reserve Accounts

The reserve account balances available for benefits at June 30, 2010 and 2009 are presented in Figure 2.13. These funds are required by Titles 51.1 and 2.2 of the *Code of Virginia* (1950), as amended, to provide for the payment of current and future benefits as follows:

- Member and employer contributions and investment income fund the member and employer reserves. Each member has a member contribution account that accumulates member contributions plus annual interest of 4.00%. Each employer has a retirement allowance account that accumulates employer contributions, transfers of investment income, less administrative expenses incurred in operating the retirement plans, and transfers of member contributions and interest upon a member's retirement. Benefit payments are charged to employers' retirement allowance accounts.
- The Group Life Insurance Advance Premium Deposit Reserve accumulates a portion of insurance premium contributions collected during members' active careers and their investment earnings, and is charged for life insurance benefits paid and expenses incurred in operating the Group Life Insurance Program.
- Employer contributions and investment income fund the Retiree Health Insurance Credit Reserve. It is charged for credit reimbursements applied to the monthly health insurance premiums of eligible retired members and expenses incurred in operating the Retiree Health Insurance Credit Program.
- Employer contributions and investment income fund the Disability Insurance Trust Fund. It is charged for long-term disability benefits and for expenses incurred in operating the Virginia Sickness and Disability Program (VSDP).

FIGURE 2.13 – RESERVE BALANCES AVAILABLE FOR BENEFITS

AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2010	2009
Virginia Retirement System		
Member Reserve	$ 10,227,892	$ 9,822,173
Employer Reserve	34,417,924	30,067,581
Total VRS	**44,645,816**	**39,889,754**
State Police Officers' Retirement System		
Member Reserve	78,302	75,131
Employer Reserve	455,660	408,988
Total SPORS	**533,962**	**484,119**
Virginia Law Officers' Retirement System		
Member Reserve	203,101	195,202
Employer Reserve	589,328	495,404
Total VaLORS	**792,429**	**690,606**
Judicial Retirement System		
Member Reserve	36,591	35,633
Employer Reserve	278,203	248,301
Total JRS	**314,794**	**283,934**
Group Life Insurance Advance Premium Deposit Reserve	**783,058**	**713,812**
Retiree Health Insurance Credit Reserve	**244,958**	**231,994**
Disability Insurance Trust Fund (VSDP)	**336,213**	**290,481**
Total Pension and Other Employee Benefit Reserves	**$ 47,651,230**	**$ 42,584,700**

5. Deposits and Investments

A. DEPOSITS

Deposits of the System maintained by the Treasurer of Virginia at June 30, 2010 and 2009, as shown in Figure 2.14, were entirely insured under the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the *Code of Virginia* (1950), as amended, which provides for an assessable, multiple financial institution collateral pool. Deposits with the System's master custodian, Mellon Trust, were entirely insured by federal depository insurance coverage.

FIGURE 2.14 – DEPOSITS

AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2010 Carrying Amount	2009 Carrying Amount
Treasurer of Virginia	$ 10,784	$ 104,255
Master Custodian	1,323	-
Total Deposits	**$ 12,107**	**$ 104,255**

B. INVESTMENTS

1. Authorized Investments. The Board of Trustees of the System has full power to invest and reinvest the trust funds in accordance with Section 51.1-124.30 of the *Code of Virginia* (1950), as amended. This section requires the Board to discharge its duties solely in the interests of members, retirees and beneficiaries. It also requires the Board to invest the assets with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Investment value and earnings of the investment pool are proportionally allocated among the System's trust funds on the basis of each fund's equity interest in the common investment pool. An Investment Summary is included in the Investment Section. The equity interest of each fund as of June 30, 2010 and 2009 is presented in Figure 2.15.

FIGURE 2.15 – EQUITY INTERESTS

AT JUNE 30

Fund	2010	2009
Virginia Retirement System	93.60%	93.58%
State Police Officers' Retirement System	1.12%	1.14%
Virginia Law Officers' Retirement System	1.66%	1.62%
Judicial Retirement System	0.66%	0.67%
Group Life Insurance Fund	1.74%	1.77%
Retiree Health Insurance Credit Fund	0.53%	0.55%
Disability Insurance Trust Fund (VSDP)	0.69%	0.67%
Total Equity Interests	**100.00%**	**100.00%**

2. Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The risk is managed within the portfolio using the effective duration or option-adjusted methodology, as shown in Figure 2.16. It is widely used in the management of fixed income portfolios in that it quantifies, to a much greater degree, the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending on the degree of change in rates and the slope of the yield curve. All of the System's fixed income portfolios are managed in accordance with investment guidelines, most of which are specific as to the degree of interest rate risk that can be taken.

FIGURE 2.16 – EFFECTIVE DURATION OF DEBT SECURITIES BY INVESTMENT TYPE

AS OF JUNE 30, 2010 (DOLLARS IN THOUSANDS)

Investment Type	Market Value	Weighted Avg. Effective Duration (Years)
U.S. Government	$ 2,027,853	6.02
Agencies	2,302,520	3.53
Municipal Securities	160,083	10.20
Asset-Backed Securities	403,369	0.52
Collateralized Mortgage Obligations	376,414	1.78
Commercial Mortgages	287,386	2.85
Corporate and Other Bonds	11,381,899	3.30
Fixed-Income Commingled Funds	1,732,430	6.01
Cash and Cash Equivalents	9,928	0.08
Total Debt Securities	**$18,681,882**	**3.86**

3. Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. As of June 30, 2010, the System's fixed income assets that are not government guaranteed represented 89% of the fixed income assets.

The System's policy for credit risk is based on the concept of a risk budget rather than specific limitations related to the rating of an individual security. The System's risk budget is allocated among the different investment strategies. The System's fixed income portfolio credit quality and exposure levels as of June 30, 2010 are summarized in Figure 2.17.

Credit risk for derivative instruments held by the System results from counterparty risk assumed by the System. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the System's credit risk related to derivatives is found in Note 5.B.7. Policies related to credit risk pertaining to the System's securities lending program are found in Note 5.B.5.

FIGURE 2.17 – CREDIT QUALITY AND EXPOSURE LEVELS OF NONGOVERNMENT GUARANTEED SECURITIES

AS OF JUNE 30, 2010

(EXPRESSED IN THOUSANDS)

Credit Rating Level	Agencies	Municipal Securities	Asset-Backed Securities	Collateralized Mortgage Obligations	Commercial Mortgages	Corporate and Other Bonds	Fixed-Income Commingled Funds	Cash and Cash Equivalents
U.S.Government, Short-Term and Not-Rated Debt:								
U.S. Government Agencies:								
FHLB	$ 20,911	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FHLMC	685,196	-	-	30,479	-	-	-	-
FNMA	1,285,990	-	-	28,267	-	-	-	-
Other	56,209	-	-	614	-	2,859	-	-
VMIG2	-	-	-	-	-	391	-	-
Not Rated	171,516	1,497	12,134	72,981	89,271	1,931,883	154,030	9,928
Long-Term Debt:								
Aaa	53,940	83,522	128,872	56,909	169,611	3,128,979	-	-
Aa1	-	48,933	2,648	4,426	-	114,655	-	-
Aa2	17,595	2,683	25,153	1,925	24,579	174,583	-	-
Aa3	-	2,507	8,803	808	-	227,310	-	-
A1	-	11,277	12,398	14,994	507	321,583	87,693	-
A2	11,163	1,926	8,052	830	-	570,314	86,300	-
A3	-	7,737	10,308	-	-	465,611	162,201	-
Baa1	-	-	6,442	3,583	-	581,274	654,817	-
Baa2	-	-	6,001	3,042	-	623,766	-	-
Baa3	-	-	6,312	2,329	-	375,564	433,697	-
Ba1	-	-	5,837	1,191	299	201,330	-	-
Ba2	-	-	3,093	-	-	256,970	-	-
Ba3	-	-	5,950	7,095	-	428,345	-	-
B1	-	-	27,654	21,807	-	649,515	-	-
B2	-	-	16,018	6,753	-	409,362	-	-
B3	-	-	13,747	21,404	912	488,076	-	-
Caa1	-	-	5,660	34,046	-	265,487	104,281	-
Caa2	-	-	18,433	19,886	-	76,906	-	-
Caa3	-	-	16,601	25,284	2,207	53,583	-	-
Ca	-	-	43,281	16,332	-	22,338	-	-
C	-	-	19,972	1,429	-	11,215	49,411	-
Total	**$ 2,302,520**	**$ 160,082**	**$ 403,369**	**$ 376,414**	**$ 287,386**	**$11,381,899**	**$ 1,732,430**	**$ 9,928**

VRS used Moody's ratings for this presentation. A large portion of the securities are not rated by Moody's but are rated by other rating agencies.

- **Concentration of Credit Risk.** This is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. The System's investment guidelines for each specific portfolio limits investments in any corporate entity to no more that 5.00% of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5.00% or more of plan net assets available for benefits.
- **Custodial Credit Risk.** This is the risk that in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The System's market value of securities that were uninsured and held by a counterparty at June 30, 2010 and 2009 are presented in Figure 2.18.

FIGURE 2.18 – CUSTODIAL CREDIT RISK

AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2010	2009
U.S. Government and Agency Mortgage Securities	$ 137,797	$ 81,042
Corporate and Other Bonds	-	-
Held by Broker-Dealer Under Securities Lending Program:		
U.S. Government and Agency Mortgage Securities	2,803	1,085
Corporate and Other Bonds	-	-
Common and Preferred stocks	563,408	396,256
Total	**$704,008**	**$ 478,383**

4. Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The System's currency risk exposures, or exchange rate risk, primarily exist in the international and global equity investment holdings. From time to time, the System's external managers may hedge their portfolios' foreign currency exposures with currency forward contracts, depending on their views about a specific foreign currency relative to the U.S. dollar. The System's exposure to foreign currency risk as of June 30, 2010 is highlighted in Figure 2.19.

FIGURE 2.19 – CURRENCY EXPOSURES BY ASSET CLASS

AS OF JUNE 30, 2010

(EXPRESSED IN THOUSANDS)

Currency	Cash and Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	International Funds	Total
U.S. Dollar	$ -	$ -	$ -	$ -	$ -	$ 805,464	$ 805,464
British Pound Sterling	2,517	668,482	105,636	1,824	7,122	-	785,581
Japanese Yen	233	679,249	15,140	-	2	-	694,624
Hong Kong Dollar	5,659	543,176	-	-	-	-	548,835
South Korean Won	1,974	392,201	-	-	-	-	394,175
Swedish Krona	1,598	114,525	209,487	426	-	-	326,036
Indian Rupee	5,610	286,810	-	-	-	-	292,420
Euro Currency Unit	24,783	603,278	(381,322)	22,482	-	-	269,221
Canadian Dollar	1,713	286,749	(21,871)	-	-	-	266,591
New Taiwan Dollar	8,157	245,168	-	-	-	-	253,325
Swiss Franc	4,839	154,580	65,434	-	-	-	224,853
Brazil Real	4,939	212,113	782	-	-	-	217,834
South African Comm Rand	873	108,362	-	-	-	-	109,235
New Turkish Lira	561	94,558	-	-	-	-	95,119
New Zealand Dollar	501	35,011	54,218	-	-	-	89,730
Australian Dollar	1,932	59,475	16,728	-	-	-	78,135
Mexican New Peso	234	76,000	-	-	-	-	76,234
Thailand Baht	75	74,207	-	-	-	-	74,282
Malaysian Ringgit	73	70,814	-	-	-	-	70,887
Singapore Dollar	425	52,700	-	-	-	-	53,125
Indonesian Rupian	432	37,739	-	-	-	-	38,171
Norwegian Krone	285	36,367	(10,109)	-	-	-	26,543
Polish Zloty	247	25,177	888	-	-	-	26,312
Danish Krone	782	24,448	-	-	-	-	25,230
Israeli Shekel	269	14,478	-	-	-	-	14,747
Egyptian Pound	34	13,207	-	-	-	-	13,241
Russian Ruble (New)	-	9,937	-	-	-	-	9,937
Philippines Peso	989	7,467	-	-	-	-	8,456
Turkish Lira	7,189	-	-	-	-	-	7,189
Hungarian Forint	58	5,036	-	-	-	-	5,094
Czech Koruna	257	4,032	-	-	-	-	4,289
Omani Rial	-	1,919	-	-	-	-	1,919
UAE Dirham	-	1,636	-	-	-	-	1,636
Moroccan Dirham	42	1,104	-	-	-	-	1,146
Chilean Peso	-	522	-	-	-	-	522
Pakistan Rupee	-	296	-	-	-	-	296
Total	**$ 77,280**	**$ 4,940,823**	**$ 55,011**	**$ 24,732**	**$ 7,124**	**$ 805,464**	**$ 5,910,434**

5. Securities Lending. Under authorization of the Board, the System lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities or an irrevocable letter-of-credit issued by a major bank, and have a market value equal to at least 102% of the market value for domestic securities and 105% for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent and related distributions and if the collateral is inadequate to replace the securities lent. All securities loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 24 days. At year end, the System had no credit risk exposure to borrowers because the amounts it owes the borrowers exceeded the amounts the borrowers owe it. All securities are marked to market daily and carried at market value.

The market value of securities on loan at June 30, 2010 and 2009 was $4,603,717,000 and $2,536,121,000, respectively. The June 30, 2010 and 2009 balances were composed of U.S. government and agency securities of $1,792,822,000 and $744,402,000, respectively; corporate and other bonds of $380,507,000 and $209,435,000, respectively; and common and preferred stocks of $2,430,388,000 and $1,582,284,000, respectively. The value of collateral (cash and non-cash) at June 30, 2010 and 2009 was $4,813,736,000 and $2,642,711,000, respectively. Securities on loan are included with investments on the statement of net assets. The invested cash collateral is included in the statement of net assets as an asset and corresponding liability.

At June 30, 2010, the invested cash collateral had a market value of $4,084,119,000 and was composed of commercial paper of $1,038,472,000, time deposits of $235,193,000, certificates of deposit of $448,683,000, floating rate notes of $1,747,969,000, asset-backed securities of $13,328,000 and repurchase agreements of $600,474,000. As of June 30, 2010, the System's cash collateral reinvestment pool had an unrealized loss of $24 million.

6. Accounts Receivable/Accounts Payable for Security Transactions. In addition to unsettled purchases and sales, accounts receivable and accounts payable for security transactions at June 30, 2010 and 2009 include (1) receivables for deposits with brokers for securities sold short of $701,190,000 and $698,757,000, respectively; and (2) payables for securities sold short and not covered with market values of $610,164,000 and $633,185,000, respectively.

7. Derivative Financial Instruments. Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options and swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities, such as collateralized mortgage obligations (CMOs), which are sensitive to changes in interest rates and pre-payments. Futures, forwards, options and swaps generally are not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The System is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements.

At June 30, 2010, the System had four types of derivative financial instruments: futures, currency forwards, options and swaps. Futures, currency forwards and options contracts provide the System with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

8. Futures. Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require an initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily, in cash, with the exchanges. The net gains or losses resulting from the daily settlements are included in the System's financial statements. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. The notional value of the System's investment in futures contracts at June 30, 2010 and 2009 is shown in Figure 2.20.

9. Currency Forwards. Currency forwards represent foreign exchange contracts and are used by the System to effect settlements and to protect the base currency ($US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates. Information on the System's currency forwards contracts at June 30, 2010 and 2009 is shown in Figure 2.21.

FIGURE 2.20 – FUTURES

AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2010	2009
	Notional Value	
Cash and Cash Equivalent Derivatives Futures:		
Long	$ -	$ 2,094,118
Short	(82,430)	(101,968)
Equity Derivatives Futures:		
Long	3,301,983	4,179,034
Short	(134,667)	(568,136)
Fixed Income Derivatives Futures:		
Long	758,934	1,712,041
Short	(655,468)	(337,336)
Total	**$3,188,352**	**$6,977,753**

10. Options. Options may be either exchange-traded or negotiated directly between two counterparties over-the-counter. Options grant the holder the right, but not the obligation, to purchase (call) or sell (put) a financial instrument at a specified price and within a specified period of time from the writer of the option. As a purchaser of options, the System typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The System then retains the right, but not the obligation, to exercise the options and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss.

A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the System receives a premium at the outset.

FIGURE 2.21 – CURRENCY FORWARDS

AT JUNE 30 (EXPRESSED IN THOUSANDS)

Currency	Cost	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Market Value 2010	Market Value 2009
Australian Dollar	$ (242,726)	$ 113,548	$ (357,225)	$ (243,677)	$ 367,448
Brazil Real	(4,187)	-	(4,244)	(4,244)	(4,541)
British Pound Sterling	(385,743)	449,850	(842,401)	(392,551)	(333,605)
Canadian Dollar	(183,094)	239,745	(424,522)	(184,777)	(30,138)
Danish Krone	(36,520)	966	(37,633)	(36,667)	(11,306)
Euro Currency Unit	(2,264,104)	609,180	(2,842,914)	(2,233,734)	(916,508)
Hong Kong Dollar	(52,470)	53,270	(105,762)	(52,492)	(42,990)
Israeli Shekel	(18,870)	145	(19,001)	(18,856)	-
Japanese Yen	(530,462)	331,793	(880,559)	(548,766)	(390,420)
Mexican New Peso	(2,196)	22	(2,119)	(2,097)	8,355
New Zealand Dollar	89,417	147,042	(61,664)	85,378	49,071
Norwegian Krone	(4,716)	54,100	(58,602)	(4,502)	64,137
South African Comm Rand	(2,174)	-	(2,123)	(2,123)	(4,402)
Singapore Dollar	(45,969)	24,092	(70,041)	(45,949)	(22,668)
Swedish Krona	87,111	306,297	(224,922)	81,375	(166,564)
Swiss Franc	(108,697)	142,856	(250,360)	(107,504)	(232,028)
U.S. Dollar	3,705,400	6,099,704	(2,394,304)	3,705,400	1,628,363
Total Forwards Subject to Foreign Currency Risk				**$ (5,786)**	**$ (37,796)**

This premium is reflected as a liability on the financial statements, and the System bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Information on the System's options balances at June 30, 2010 and 2009 is shown in Figure 2.22.

FIGURE 2.22 – OPTIONS

AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2010	2009
	Notional Value	
Cash and Cash Equivalent Options:		
Call	$ -	$ (34)
Put	12	(12)
Equity Options:		
Call	(350)	-
Put	(29)	-
Fixed Income Options:		
Call	(89)	(2,451)
Put	-	(656)
Swaptions:		
Call	(6,783)	-
Put	(1,499)	-
Total	**$ (8,738)**	**$ (3,153)**

11. Swap Agreements. Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indices. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the System generally requires collateral on any material gains from these transactions. During FY 2010, the System entered into credit defaults, inflation, interest rate and total return swaps. Information on the System's swap balances at June 30, 2010 and 2009 is shown in Figure 2.23.

FIGURE 2.23 – SWAPS

AS OF JUNE 30

Counterparty	Notional Amount	VRS Rate	Counterparty Rate
Credit Default Swaps:			
Barclays Global Investors	$ 60,000		
Credit Suisse AG	25,000		
Deutsche Bank AG/New York NY	400		
Deutsche Bank AG/New York NY	5,000		
Deutsche Bank AG/New York NY	10,000		
Deutsche Bank AG/New York NY	5,800		
Deutsche Bank AG/New York NY	100,000		
Deutsche Bank AG/New York NY	3,000		
Deutsche Bank AG/New York NY	5,000		
Deutsche Bank AG/New York NY	5,000		
Deutsche Bank AG/New York NY	5,000		
Deutsche Bank AG/New York NY	7,200		
Deutsche Bank Securities Inc	98,700		
Goldman Sachs & Co	800		
Goldman Sachs & Co	5,000		
Goldman Sachs & Co	575		
Goldman Sachs & Co	1,200		
Goldman Sachs & Co	9,147		
Goldman Sachs & Co	4,400		
Goldman Sachs & Co	1,000		
Goldman Sachs & Co	4,400		
Goldman Sachs & Co	10,000		
Goldman Sachs & Co	5,000		
Goldman Sachs & Co	450		
Goldman Sachs & Co	480		
Goldman Sachs & Co	575		
Goldman Sachs & Co	1,000		
Goldman Sachs & Co	1,200		
Goldman Sachs & Co	1,740		
Goldman Sachs & Co	2,810		
Goldman Sachs & Co	4,400		
Goldman Sachs & Co	9,350		
Goldman Sachs & Co	9,473		
Goldman Sachs & Co	10,350		
Goldman Sachs & Co	25,000		
Goldman Sachs & Co	110,000		
Merrill Lynch	2,500		
UBS Financial Services Inc	3,000		
UBS Financial Services Inc	2,840		
UBS Financial Services Inc	4,475		
UBS Financial Services Inc	6,500		
UBS Financial Services Inc	13,000		
UBS Financial Services Inc	3,625		
UBS Financial Services Inc	4,475		
UBS Financial Services Inc	5,500		
UBS Financial Services Inc	6,000		
UBS Financial Services Inc	6,500		
UBS Financial Services Inc	8,000		
Total Credit Default Swaps	**$ 614,865**		

(DOLLARS EXPRESSED IN THOUSANDS)

Maturity Date	Buying/Selling Protection	Pay/Receive Rate	Market Value 2010	Market Value 2009
6/20/14	Selling	1.0000%	$ -	$ (839)
6/20/15	Selling	5.0000%	(1,370)	-
9/20/10	Selling	5.0000%	1	-
9/20/14	Selling	5.0000%	568	-
9/20/14	Selling	5.0000%	1,136	-
3/20/15	Selling	1.0000%	(528)	-
6/20/15	Selling	5.0000%	(5,480)	-
6/20/15	Selling	1.0000%	(340)	-
6/20/15	Selling	1.0000%	(483)	-
6/20/15	Selling	1.0000%	(229)	-
6/20/15	Selling	1.0000%	(251)	-
6/20/15	Buying	1.0000%	292	-
6/20/14	Buying	1.0000%	-	1,426
12/20/10	Selling	1.0000%	(1)	-
6/20/11	Selling	1.0000%	(4)	-
6/20/12	Selling	5.0000%	34	-
6/20/12	Buying	Variable Rate	23	-
12/20/12	Selling	1.4000%	(268)	-
9/20/13	Buying	2.6700%	(164)	-
12/20/13	Buying	5.0000%	(4)	-
3/20/15	Selling	1.0000%	(400)	-
3/20/15	Selling	1.0000%	(427)	-
6/20/15	Selling	1.0000%	(836)	-
3/20/13	Buying	7.3000%	-	(99)
3/20/14	Buying	5.0000%	-	21
6/20/12	Selling	5.0000%	-	13
12/20/13	Buying	5.0000%	-	1
6/20/12	Buying	Variable Rate	-	59
3/20/13	Buying	7.5000%	-	(396)
6/20/12	Selling	0.7500%	-	(172)
9/20/13	Buying	2.6700%	-	132
6/20/11	Buying	3.2000%	-	(292)
12/20/12	Selling	1.4000%	-	(986)
3/20/14	Buying	3.1000%	-	443
6/20/12	Selling	0.7500%	-	(1,527)
6/20/14	Selling	-	-	(1,718)
8/25/37	Selling	0.1500%	-	(2,425)
9/20/12	Selling	5.0000%	127	-
12/20/13	Buying	1.6000%	(59)	-
12/20/13	Buying	1.8000%	(104)	-
3/20/14	Selling	3.1500%	246	-
6/20/15	Selling	5.0000%	(712)	-
12/20/13	Buying	1.6000%	-	132
12/20/13	Buying	1.8000%	-	(171)
3/20/14	Buying	3.1000%	-	236
3/20/14	Buying	3.0000%	-	(385)
3/20/14	Selling	3.1500%	-	(256)
9/20/14	Buying	7.7000%	-	(489)
			$ (9,233)	**$ (7,292)**

FIGURE 2.23 – SWAPS, CONTINUED

AS OF JUNE 30

Counterparty		Notional Amount	VRS Rate	Counterparty Rate
Inflation Swaps:				
Deutsche Bank AG/New York NY	$	25,000	CPI Urban Consumers NSA	2.8300%
Goldman Sachs & Co		4,900	US CPI Urban Consumer	2.4900%
Goldman Sachs & Co		4,900	US CPI Urban Consumer	2.4300%
Total Inflation Swaps	**$**	**34,800**		
Interest Rate Swaps:				
Credit Suisse AG	$	40,000	3-month LIBOR	1.2438%
Deutsche Bank Securities Inc		9,000	3-month LIBOR	3.2270%
Deutsche Bank Securities Inc		20,000	3-month LIBOR	5.0250%
Deutsche Bank Securities Inc		20,000	3-month LIBOR	4.4725%
Deutsche Bank Securities Inc		20,000	3-month LIBOR	3.5000%
Deutsche Bank Securities Inc		45,000	3-month LIBOR	5.1300%
Goldman Sachs & Co		20,000	3-month LIBOR	1.1500%
Goldman Sachs & Co		8,800	2.4275%	3-month LIBOR
Goldman Sachs & Co		17,000	5.7250%	3-month LIBOR
Goldman Sachs & Co		15,254	4.0770%	3-month LIBOR
Goldman Sachs & Co		15,000	3-month LIBOR	4.3900%
Goldman Sachs & Co		16,000	3-month LIBOR	3.0800%
Goldman Sachs & Co		24,800	2.4275%	3-month LIBOR
Goldman Sachs & Co		26,600	3-month LIBOR	1.7483%
Goldman Sachs & Co		30,000	3-month LIBOR	5.3680%
Goldman Sachs & Co		36,000	5.7250%	3-month LIBOR
Goldman Sachs & Co		38,000	3-month LIBOR	3.7763%
Goldman Sachs & Co		43,800	4.0000%	3-month LIBOR
Goldman Sachs & Co		65,000	3-month LIBOR	5.2710%
J.P. Morgan Securities Inc		34,000	3-month LIBOR	1.4740%
Merrill Lynch		182,300	4.0000%	3-month LIBOR
UBS Financial Services Inc		40,000	3-month LIBOR	1.6675%
UBS Financial Services Inc		38,970	0%	3-month LIBOR
UBS Financial Services Inc		25,200	3-month LIBOR	1.6100%
UBS Financial Services Inc		40,000	3-month LIBOR	1.3200%
UBS Financial Services Inc		110,000	3-month LIBOR	2.5525%
Total Interest Rate Swaps	**$**	**980,724**		
Total Return Swaps:				
Goldman Sachs & Co	$	220,730	3-month LIBOR	MSCI AC World Index IMI
Goldman Sachs & Co		59,693	3-month LIBOR - 110 bps	
Goldman Sachs & Co		71,804		3-month LIBOR
UBS Financial Services Inc		117,000	1-month LIBOR +5 bps	1-month LIBOR
UBS Financial Services Inc		21,400	1-month LIBOR +7 bps	1-month LIBOR
UBS Financial Services Inc		4,800	1-month LIBOR -10 bps	1-month LIBOR
UBS Financial Services Inc		101,300	1-month LIBOR	
Total Total Return Swaps	**$**	**596,727**		
Total Swaps	**$**	**2,227,116**		

(DOLLARS EXPRESSED IN THOUSANDS)

Maturity Date	Buying/Selling Protection	Pay/Receive Rate	Market Value 2010	Market Value 2009
			-	-
1/13/20			$ 1,236	$ -
6/8/20			70	-
6/10/20			41	-
			$ 1,347	**$ -**
6/7/12			$ 221	$ -
5/5/19			-	(363)
8/23/12			-	1,709
11/23/12			-	1,391
6/24/16			-	119
8/3/10			-	2,023
5/13/12			104	-
4/9/14			(260)	-
7/9/17			(3,515)	-
11/15/21			(393)	-
5/4/40			2,051	-
3/16/19			-	(891)
4/9/14			-	461
6/22/11			-	128
6/21/10			-	1,308
7/9/17			-	(5,503)
7/2/19			-	-
6/17/19			-	(952)
8/6/12			-	5,979
5/5/11			-	41
6/17/19			-	(3,963)
6/7/13			434	-
2/15/25			(3,159)	-
2/4/11			-	124
6/2/11			-	(100)
5/5/14			-	(1,616)
			$ (4,517)	**$ (105)**
3/31/11			$ (1,268)	$ -
			-	10
9/18/09			-	5
9/30/10			1,309	-
10/31/10			239	-
12/31/10			-	-
			-	13
			$ 280	**$ 28**
			$ (12,123)	**$ (7,369)**

6. Capital Assets

The System's non-depreciable and depreciable capital assets for the year ended June 30, 2010 are presented in Figure 2.24.

FIGURE 2.24 – PROPERTY, PLANT, FURNITURE, EQUIPMENT AND INTANGIBLE ASSETS

FOR THE YEAR ENDED JUNE 30, 2010 (EXPRESSED IN THOUSANDS)

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Non-Depreciable Capital Assets:				
Land	$ 1,368	$ -	$ -	$ 1,368
Intangible Assets-Construction in Progress	-	7,194	-	7,194
Total Non-Depreciable Capital Assets	**1,368**	**7,194**	**-**	**8,562**
Depreciable Capital Assets:				
Building	4,632	-	-	4,632
Furniture and Equipment	4,439	746	-	5,185
Total Depreciable Capital Assets	**9,071**	**746**	**-**	**9,817**
Less Accumulated Depreciation				
Building	1,274	116	-	1,390
Furniture and Equipment	2,725	409	-	3,134
Total Accumulated Depreciation	**3,999**	**525**	**-**	**4,524**
Total Depreciable Capital Assets - Net	**5,072**	**221**	**-**	**5,293**
Total Net Capital Assets	**$ 6,440**	**$ 7,415**	**$ -**	**$ 13,855**

Depreciation expense amounted to $510,000 and $652,000 in 2010 and 2009, respectively.

7. Operating Leases

The System has commitments under various operating leases for equipment and office space. In general, the leases are for a three-year term. In most cases, the System expects that in the normal course of business, these leases will be replaced by similar leases. Total rental expense for the year ended June 30, 2010 was $2,170,00. The System's total future minimum rental payments as of June 30, 2010 are presented in Figure 2.25.

FIGURE 2.25 – OPERATING LEASES-FUTURE PAYMENTS

AT JUNE 30, 2010 (EXPRESSED IN THOUSANDS)

Year	Amount
2011	$ 898
2012	758
2013	755
2014	774
2015	793
2016-2017	1,368
Total Future Minimum Rental Payments	**$ 5,346**

8. System Employee Benefit Plan Obligations

All full-time permanent, salaried employees of the System are employees of the Commonwealth of Virginia and included in the Commonwealth's participation as an employer in VRS. The Commonwealth, not the System, has overall responsibility for contributions to the VRS pension trust fund as well as other employee benefit and post-employment benefit trust funds for System employees. There were approximately 45,837 state retirees, including System retirees, at June 30, 2010. Note 2.B provides the state's contribution requirements toward funding the defined benefit plan for state employees for FY 2010 and FY 2009. The System's contribution requirement for its employees for FY 2010 and FY 2009 was $1,611,000 and $2,090,000, respectively.

The System's financial obligations for other employee benefit and post-employment benefit plans were as follows:

- The state's contribution requirement for the Group Life Insurance Program for the years ended June 30, 2010 and 2009 was 0.79% and 0.82% of covered payroll, respectively. There were approximately 88,796 active state employees and 39,335 state retirees, including System employees and retirees, eligible for group life insurance coverage at June 30, 2010. The System's contribution requirement for its employees and retirees for FY 2010 and FY 2009 was $109,000 and $153,000, respectively.
- The state's contribution requirement for the Retiree Health Insurance Credit Program for the years ended June 30, 2010 and 2009 was 1.00% and 1.18%, respectively. There were approximately 36,798 state retirees, including System retirees, receiving the health insurance credit at June 30, 2010. The System's contribution requirement for its employees for FY 2010 and FY 2009 was $148,000 and $219,000, respectively.
- The state's contribution requirement for the Virginia Sickness and Disability Program (VSDP) for the years ended June 30, 2010 and 2009 was 1.00% and 1.79% of covered payroll, respectively. There were approximately 73,569 state employees, including System employees, enrolled in VSDP at June 30, 2010. The System's contribution requirement for its employees for FY 2010 and FY 2009 was $147,000 and $331,000, respectively.

Information regarding the Commonwealth's funding progress is presented in the Commonwealth's Comprehensive Annual Financial Report. Information about the pension plans is provided in Note 2; information about other employee and post-employee benefit plans is presented in Note 3.

9. Litigation

The System, including its Board of Trustees, officers and employees, is a defendant in claims and lawsuits that are pending, in progress or have been settled since June 30, 2010. The Attorney General and outside counsel have reviewed the status of these claims, lawsuits and the System's potential liability arising from them. Based on their review, it is the opinion of management that such liability, if any, would have no material adverse effect on the System's financial condition.

10. Risk Management

To cover its exposure to various risks of loss, the System, as an independent agency of the Commonwealth of Virginia, participates in the Commonwealth's self-insurance programs for state employee health care and risk management. The latter program includes property, general (tort) liability, medical malpractice and automobile plans. The System's employees are covered by the Virginia Workers' Compensation Program administered by the Department of Human Resource Management. In addition, the System is self-insured for fiduciary liability as well as directors' and officers' liability under a program administered by the Commonwealth's Division of Risk Management. There were no claims in excess of coverage and no reductions in coverage during FY 2010 and the three preceding fiscal years.

11. Commitments

The System extends investment commitments in the normal course of business. At June 30, 2010 and 2009, these commitments amounted to $3,742,311,000 and $3,850,987,000, respectively.

12. Statutory Contribution Adjustment

For FY 2009, pension contributions due or required were based on the June 30, 2007 actuarial valuation, which used a 20-year funding period for the UAAL. The General Assembly funded less than the rate determined by the actuary by extending the funding period for these groups from 20 years to 30 years, increasing the investment return assumption from 7.50% to 8.00% and increasing the inflation assumption from 2.50% to 3.00%. As a result, the FY 2009 rate for teachers was reduced from 11.84% to 8.81%, and the rate for state employees was reduced from 8.02% to 6.23%. Additionally, the rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 24.09%, 16.78% and 38.04% to 20.05%, 14.23% and 34.51%, respectively.

Other post-employment plan contributions due or required for FY 2009 were based on the June 30, 2007 actuarial valuation, which used a 29-year funding period for the UAAL. The General Assembly funded less than the rates determined by the actuary by extending the funding period for each of the plans from 29 years to 30 years, increasing the investment return assumption from 7.50% to 8.00% and increasing the inflation assumption from 2.50% to 3.00%. As a result, the FY 2009 rate for the Group Life Insurance Program was reduced from 0.89% to 0.82%, and the rate for the Virginia Sickness and Disability Program (VSDP) was reduced from 1.96% to 1.79%. Additionally, the rate for the Retiree Health Insurance Credit Program for state employees was reduced from 1.22% to 1.18% and for teachers from 1.12% to 1.08%.

For FY 2010, pension contributions due or required also were based on the June 30, 2007 actuarial valuation, which used a 20-year funding period for the UAAL. The General Assembly again funded less than the rate determined by the actuary by extending the funding period for these groups from 20 years to 30 years, increasing the investment return assumption from 7.50% to 8.00% and increasing the inflation assumption from 2.50% to 3.00%. As a result, the FY 2010 rate for teachers was reduced from 11.84% to 8.81%, and the rate for state employees was reduced from 8.02% to 6.23%. For FY 2010, the state employee rate was increased from 6.23% to 6.26% to fund early retirements. Additionally, the rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 24.09%, 16.78% and 38.04% to 20.05%, 14.23% and 34.51%, respectively. Employer contributions also were suspended for state employees for April, May and the first half of June 2010 and for teachers for the entire last quarter of FY 2010.

For FY 2010, other post-employment plan contributions due or required also were based on the June 30, 2007 actuarial valuation, which used a 29-year funding period for the UAAL. The General Assembly again funded less than the rates determined by the actuary by using the results of the June 30, 2008 actuarial valuations, extending the funding period for each of the plans from 29 years to 30 years, increasing the investment return assumption from 7.50% to 8.00% and increasing the inflation assumption from 2.50% to 3.00%. As a result, the FY 2010 rate for the Group Life Insurance Program was reduced from 0.89% to 0.79%, and the rate for VSDP was reduced from 1.96% to 1.00%. Additionally, the rate for the state employee Retiree Health Insurance Credit Program was reduced from 1.22% to 1.00% and for the teacher Retiree Health Insurance Credit Program from 1.12% to 1.04%. For the last quarter of FY 2010, contributions were suspended for all employee groups for the Group Life Insurance Program and for teachers for the Retiree Health Insurance Credit Program. For April, May and the first half of June 2010, contributions were suspended for state employees for the Retiree Health Insurance Credit Program and VSDP.

REQUIRED SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS – PENSION PLANS

(DOLLARS IN MILLIONS)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
			Virginia Retirement System (VRS)			
2009*	$ 53,185	$ 66,323	$ 13,138	80.2%	$ 14,948	87.9%
2008	52,548	62,554	10,006	84.0%	14,559	68.7%
2007	47,815	58,116	10,301	82.3%	13,834	74.5%
2006	42,669	52,822	10,153	80.8%	13,002	78.1%
2005*	40,372	49,628	9,256	81.3%	12,212	75.8%
2004	39,691	43,958	4,267	90.3%	11,510	37.1%
2003	39,243	40,698	1,455	96.4%	10,885	13.4%
2002	38,957	38,265	(692)	101.8%	10,669	(6.5%)
2001	37,968	35,384	(2,584)	107.3%	10,145	(25.5%)
2000 *	34,392	32,643	(1,749)	105.4%	9,529	(18.4%)
			State Police Officers' Retirement System (SPORS)			
2009*	$ 647	$ 879	$ 232	73.6%	$ 101	230.0%
2008	646	844	198	76.6%	103	193.2%
2007	595	806	211	73.8%	101	209.4%
2006	539	730	191	73.8%	94	204.1%
2005*	514	673	159	76.4%	91	174.8%
2004	510	656	146	77.8%	82	178.0%
2003	509	616	107	82.6%	79	135.4%
2002	508	595	87	85.4%	81	107.4%
2001	495	557	62	88.9%	83	74.7%
2000*	441	513	72	86.0%	81	88.9%
			Virginia Law Officers' Retirement System (VaLORS)			
2009*	$ 913	$ 1,412	$ 499	64.7%	$ 359	138.9%
2008	873	1,281	408	68.2%	368	110.8%
2007	766	1,166	400	65.7%	341	117.2%
2006	656	1,096	440	59.9%	321	137.0%
2005*	575	980	405	58.7%	307	132.0%
2004	509	927	418	54.9%	298	140.3%
2003	458	854	396	53.6%	292	135.6%
2002	418	806	388	51.9%	306	126.8%
2001	393	628	235	62.6%	320	73.4%
2000*	307	680	373	45.1%	315	118.4%
			Judicial Retirement System (JRS)			
2009 *	$ 378	$ 521	$ 143	72.5%	$ 63	228.4%
2008	374	495	121	75.6%	61	199.9%
2007	340	442	102	76.9%	58	177.3%
2006	302	424	122	71.3%	54	224.1%
2005*	288	402	114	71.5%	52	220.7%
2004	285	366	81	78.0%	48	168.8%
2003	282	348	66	81.1%	48	137.5%
2002	281	352	71	79.8%	48	147.9%
2001	277	342	65	80.9%	47	138.3%
2000*	245	330	85	74.2%	45	188.9%

**Revised economic and demographic assumptions due to experience study.*

REQUIRED SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLANS

(DOLLARS IN THOUSANDS)

Year Ended June 30	Annual Required Contribution	Percentage Contributed*	Statutory Required Contribution	Percentage Contributed
		Virginia Retirement System (VRS)		
2010	$ 1,489,124	66.57%	$ 991,334	100.00%
2009	1,501,018	81.25%	1,219,645	100.00%
2008	1,378,993	92.58%	1,276,645	100.00%
2007	1,299,606	85.89%	1,116,217	100.00%
2006	864,245	89.51%	773,553	100.00%
2005	810,944	85.26%	691,415	100.00%
2004	469,200	91.66%	430,064	100.00%
2003	450,766	67.61%	304,784	100.00%
2002	459,613	79.68%	366,239	100.00%
2001	630,458	99.99%	630,370	100.00%
		State Police Officers' Retirement System (SPORS)		
2010	$ 23,791	66.05%	$ 15,714	100.00%
2009	24,241	83.23%	20,175	100.00%
2008	22,941	91.49%	20,989	100.00%
2007	19,402	84.31%	16,358	100.00%
2006	23,132	65.96%	15,258	100.00%
2005	21,946	65.96%	14,475	100.00%
2004	20,187	51.16%	10,328	100.00%
2003	19,866	44.20%	8,781	100.00%
2002	20,190	50.00%	10,095	100.00%
2001	20,420	100.00%	20,420	100.00%
		Virginia Law Officers' Retirement System (VaLORS)		
2010	$ 57,894	67.41%	$ 39,027	100.00%
2009	60,059	84.80%	50,932	100.00%
2008	61,325	91.20%	55,929	100.00%
2007	56,190	86.03%	48,338	100.00%
2006	77,414	67.96%	52,611	100.00%
2005	74,301	67.96%	50,495	100.00%
2004	72,752	55.80%	40,596	100.00%
2003	72,699	48.00%	34,895	100.00%
2002	77,417	32.30%	25,006	100.00%
2001	51,072	100.00%	51,072	100.00%
		Judicial Retirement System (JRS)		
2010	$ 23,638	72.20%	$ 17,065	100.00%
2009	23,148	90.72%	21,000	100.00%
2008	23,599	94.86%	22,386	100.00%
2007	22,557	91.02%	20,530	100.00%
2006	23,871	67.89%	16,206	100.00%
2005	22,490	67.89%	15,269	100.00%
2004	21,341	71.18%	15,190	100.00%
2003	21,110	64.44%	13,604	100.00%
2002	21,282	50.00%	10,641	100.00%
2001	20,822	100.00%	20,822	100.00%

**Contributions made by employers during the fiscal years ended June 30, 2001 through June 30, 2010 were not in in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.*

REQUIRED SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFIT PLANS

(DOLLARS IN MILLIONS)

Actuarial Valuation Date June 30	Actuarial Value of Assets(a)	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
			Group Life Insurance Fund			
2009	$ 967	$ 1,995	$ 1,028	48.5%	$ 16,728	6.1%
2008	975	1,772	797	55.0%	16,267	4.9%
2007	880	1,552	672	56.7%	14,822	4.5%
2006*	751	1,436	685	52.3%	13,923	4.9%
			Retiree Health Insurance Credit Fund			
2009	$ 294	$ 1,976	$ 1,682	14.9%	$ 13,589	12.4%
2008	261	1,908	1,647	13.7%	12,986	12.7%
2007	204	1,845	1,641	11.0%	11,334	14.5%
2006*	175	1,316	1,141	13.3%	9,965	11.4%
			Disability Insurance Trust Fund			
2009	$ 267	$ 268	$ 1	99.7%	$ 4,080	0.0%
2008	286	363	77	78.8%	4,111	1.9%
2007	264	451	187	58.5%	3,909	4.8%
2006*	192	423	231	45.4%	3,716	6.2%

**2006 was the first actuarial valuation prepared using the required parameters of GASB 43.*

REQUIRED SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS – OTHER POST-EMPLOYMENT BENEFIT PLANS

(DOLLARS IN THOUSANDS)

Year Ended June 30	Annual Required Contribution	Percentage Contributed*	Statutory Required Contribution	Percentage Contributed
		Group Life Insurance Fund		
2010	$ 145,228	65.54%	$ 95,185	100.00%
2009	146,545	92.13%	135,019	100.00%
2008	158,740	100.00%	158,740	100.00%
		Retiree Health Insurance Credit Fund		
2010	$ 148,956	66.70%	$ 99,356	100.00%
2009	150,048	96.63%	144,989	100.00%
2008	147,524	100.00%	147,524	100.00%
		Disability Insurance Trust Fund		
2010	$ 76,530	40.32%	$ 30,861	100.00%
2009	78,120	91.33%	71,344	100.00%
2008	97,975	80.00%	78,380	100.00%

**Contributions made by employers during the fiscal years ended June 30, 2008 through June 30, 2010 were not in in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.*

SCHEDULE OF ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN THOUSANDS)

	2010	2009
Personal Services:		
Salaries and Wages	$ 19,843	$ 22,066
Per Diem Services	287	333
Retirement Contributions	1,698	2,180
Social Security	1,380	1,429
Group Life and Medical Insurance	2,572	2,770
Compensated Absences	258	317
Total Personal Services	**26,038**	**29,095**
Professional Services:		
Data Processing	10,304	10,343
Actuarial and Consulting Services	1,854	1,927
Legal Services	674	555
Medical Review Services	803	841
Management Services	571	144
Personnel Development Services	60	139
Total Professional Services	**14,266**	**13,949**
Communication Services:		
Media Services	15	10
Printing	830	795
Postage and Delivery Services	512	543
Telecommunications	529	501
Total Communication Services	**1,886**	**1,849**
Rentals:		
Business Equipment	476	652
Office Space	1,694	1,377
Total Rentals	**2,170**	**2,029**
Other Services and Charges:		
Skilled and Clerical Services	119	97
Depreciation	510	652
Dues and Membership	96	94
Building Expense	181	513
Equipment	2,555	750
Insurance	39	32
Repairs and Maintenance	12	11
Supplies and Materials	83	113
Travel and Transportation	345	421
Miscellaneous	125	150
Total Other Services and Charges	**4,065**	**2,833**
Total Administrative Expenses	**48,425**	**49,755**
Adjustment for Capitalization of Expenses	(7,940)	(131)
Total Administrative Expenses (GAAP Basis)	**40,485**	**49,624**
Adjustments Necessary to Convert Administrative Expenses on the GAAP Basis to the Budgetary Basis at Year End (Net)	7,084	(157)
Administrative Expenses (Budgetary Basis)	**$ 47,569**	**$ 49,467**
Administrative Expenses Appropriated	**$73,449**	**$65,907**
Distribution of Administrative Expenses:		
Total Administrative Expenses (GAAP Basis)	$40,485	$49,624
Less In-House Investment Management	(13,925)	(15,839)
Net Administrative Expenses	**$ 26,560**	**$ 33,785**

SCHEDULE OF PROFESSIONAL AND CONSULTING SERVICES

FOR THE YEAR ENDED JUNE 30, 2010 (EXPRESSED IN THOUSANDS)

Actuarial, Legal and Oversight Services:			
Joint Legislative Audit Review Commission	Oversight Responsibilities	$ 204.7	
Cavanaugh MacDonald Consulting, LLC	Actuarial Services & Benefits Consulting	1,075.2	
Troutman Sanders, LLP	Legal Services	84.7	
Total Actuarial, Legal and Oversight Services			**$ 1,364.6**
Consulting Services:			
Advantage 2000	Social Security Advocacy & Disability Tracking	$ 168.8	
Advent Software	Software Maintenance	37.9	
Albourne America, LLC	Investment Consulting Services	380.0	
Randall Scott Billingsley	Investment Consulting Services	13.3	
Captech Ventures, Inc.	Investment Reporting Services Development	30.3	
Cavallaro Consulting	IT Consulting	35.6	
CEM Benchmarking, Inc.	Benchmarking Analysis	35.0	
Ennis Krupp & Associates, Inc.	Investment Compensation Study	40.0	
FX Transparency, LLC	Investment Advisory Services	26.1	
R. Louis Harrison, PC	Fact Finding Hearing Officer for Disability Cases	46.1	
Harrison & Turk, PC	Fact Finding Hearing Officer for Disability Cases	126.0	
Hewitt Associates	Retirement Benefits Planning Tool	7.8	
Katzen & Frye, PC	Fact Finding Hearing Officer for Disability Cases	137.6	
Kroll	Investment Advisory Services	106.4	
David J. MacCabe	Internal Audit Peer Review	9.8	
McCaul, Martin, Evans and Cook, PC	Fact Finding Hearing Officer for Disability Cases	8.3	
McGinley, Elsberg & Hutcheson, PLC	Fact Finding Hearing Officer for Disability Cases	52.2	
McLagan Partners, Inc.	Investment Compensation Study	28.7	
Milliman, Inc	Long-Term Care Plan Consulting	123.0	
Bertini O'Donnell	Fact Finding Hearing Officer for Disability Cases	32.1	
Property & Portfolio Research, Inc.	Investment Consulting Services	125.0	
Sagitec Solutions, LLC	VRS "Modernization Project" Solution Vendor	4,414.2	
Strategic Economic Decisions, Inc.	Economic Advisory Services	10.0	
Townsend Group	Investment Consulting Services	170.0	
United Review Services, Inc.	Medical Board Review and Examinations	995.1	
Vector Consultants	IT Contractor	9.9	
Wachovia Wealth Management	VolSAP Participant Recordkeeping	8.9	
Total Consulting Services			**7,178.1**
Total Professional and Consulting Services			**$ 8,542.7**

SCHEDULE OF INVESTMENT EXPENSES

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN THOUSANDS)

	2010	2009
Management Fees:		
Domestic Managers	$ 11,389	$ 17,400
Non-U.S. Equity Managers	24,442	20,295
Global Equity Managers	13,798	13,564
Fixed Income Managers	15,722	12,950
Credit Strategies Managers	36,597	32,338
Real Estate Managers	28,647	33,906
Alternative Investment Managers	78,326	70,460
Hedge Fund Managers	52,352	45,241
Total Management Fees	**261,273**	**246,154**
Performance Fees	**18,344**	**7,758**
Miscellaneous Fees and Expenses:		
Custodial Fees	4,673	3,971
Legal Fees	407	219
Other Fees and Expenses	763	479
Total Miscelaneous Fees and Expenses	**5,843**	**4,669**
In-House Investment Management	**13,925**	**15,839**
Total Investment Expenses	**$ 299,385**	**$ 274,420**

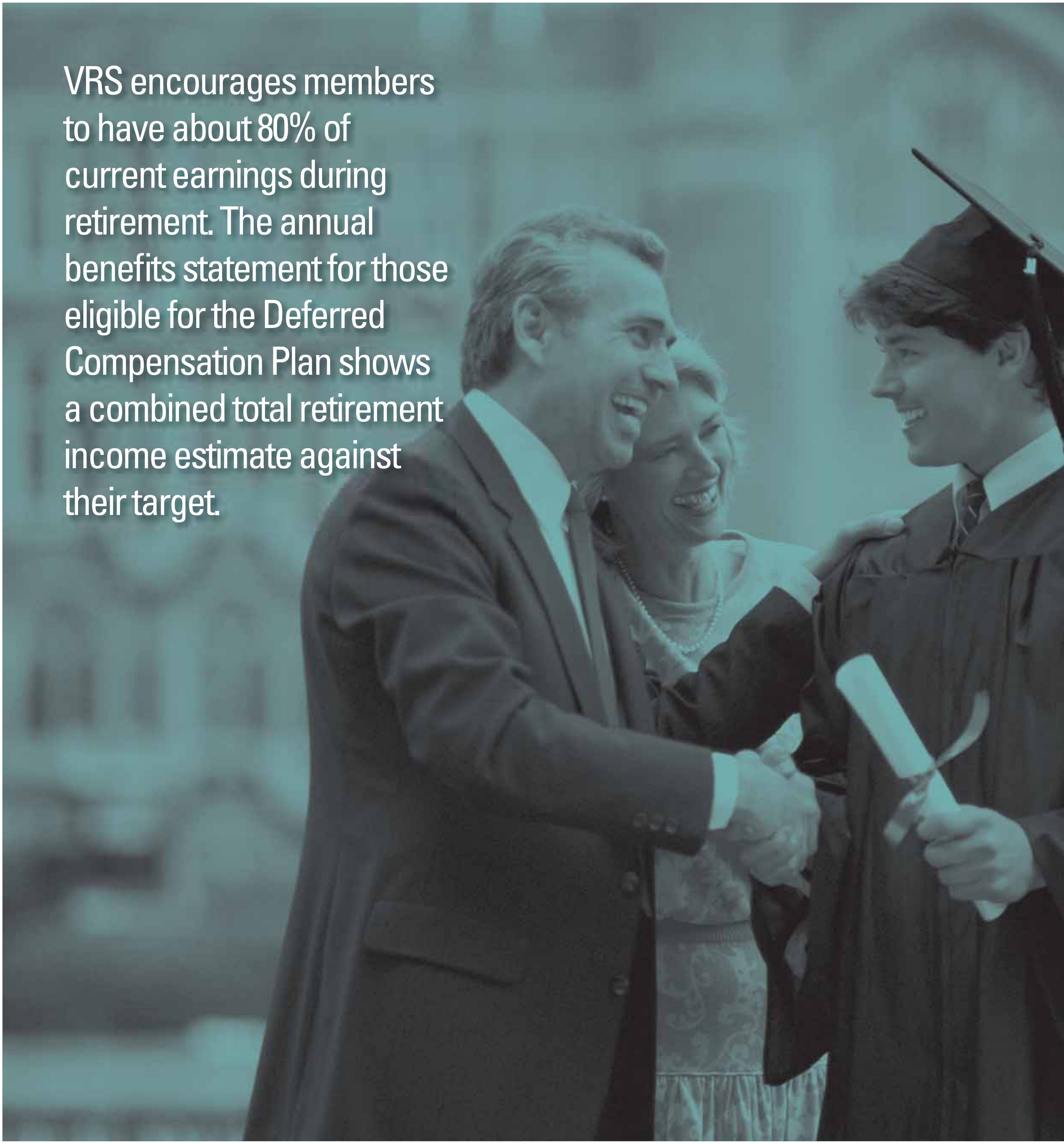
FY 2009 data for Fixed Income Managers, Credit Strategies Managers and Hedge Fund Managers were reclassified to match the 2010 presentation.

3 investment section

2010

Plan for tomorrow

VRS encourages members to have about 80% of current earnings during retirement. The annual benefits statement for those eligible for the Deferred Compensation Plan shows a combined total retirement income estimate against their target.



Helping members plan for tomorrow, today.

Chief Investment Officer's Letter

Virginia Retirement System

Charles W. Grant, CFA, Chief Investment Officer

P.O. Box 2500 • 1200 East Main Street
Richmond, Virginia 23218-2500
Toll Free: 1-888-VARETIR (827-3847) • TDD: 804-344-3190

December 2, 2010

To the Members of the Board of Trustees and
Participants of the Virginia Retirement System:

The VRS investment fund posted a 14.1% return in fiscal 2010, as the financial markets and the economy rebounded from the financial crisis and the Great Recession. We are pleased with last year's performance, especially in light of a number of defensive tilts initiated in the portfolio in recent years.

The following table shows annualized total fund performance for various timeframes along with intermediate and long-term policy benchmarks:

PERIODS ENDING JUNE 30, 2010

	1 Year	3 Years	5 Years	10 Years
Total Fund	14.1	-4.9	3.1	3.1
Intermediate Benchmark	15.3	-4.4	2.9	2.8
Long-Term Benchmark	14.2	-4.0	1.7	1.6

The National Bureau of Economic Research has dated the end of the recession as June 2009, resulting in the longest and deepest recession since the Great Depression. A strong equity market rally began in March 2009 when investors became convinced that policy measures would be sufficient to end the financial crisis and provide the necessary conditions for a resumption of growth. Almost all risk assets surged higher from March 2009 through March 2010, after investors no longer discounted their worst fears about the financial system and the economy. The last quarter of the fiscal year saw renewed weakness in the market when the strength of the recovery came into question and the European debt crisis took center stage, highlighting growing concern about unsustainable trends in many developed countries' fiscal policies.

The fund's top performing investment program in fiscal 2010 was credit strategies, which produced a 22.2% return. VRS began a dedicated program focused on credit-related opportunities in 2004 in recognition that higher yielding debt instruments and convertible bonds frequently offer good opportunities for attractive risk-adjusted returns. We believe that long-term returns from the credit portfolio will be competitive with equity returns but with substantially less risk. Since inception, this program has delivered a higher return than stocks with approximately half the volatility exhibited in the equity market. Last year was a particularly strong year for credit, and the fund benefited significantly from additions to credit from equities during the financial crisis when so much of the credit sector had cheapened materially.

Corporate equity investments also were strong performers last year, with the fund's public equities returning 14.8% and private equity returning 17.3%. (Note that private equity is reported with a three-month lag.) The public equity portfolio outperformed policy benchmarks despite a meaningful tilt towards higher quality and lower volatility stocks and strategies. Notable for fiscal 2010 was the completion of a multi-year effort to reorient the portfolio towards a global equity benchmark, reflecting a policy framework that allows portfolio managers to take advantage of the most attractive investment opportunities, wherever they may be. While generating a strong return, the fund's private equity portfolio underperformed its benchmark, which is derived from the performance of the public equity markets. It is not unusual for private equity valuations to lag temporarily behind a strong upturn in public equities.

The fixed income portfolio returned 14.2%, almost matching the return on public equities and significantly outperforming the policy benchmark. This is an exceptional return for an intermediate duration high quality fixed income portfolio. It reflects the combination of declining interest rates and significant spread tightening that occurred in non-Treasury securities, which were overweight in the VRS portfolio. After experiencing severe mark-to-market declines during the financial crisis, the fixed income team maintained its position in what were judged to be "money good" investments, despite the extreme market volatility, and it is gratifying to see the strong recovery in values last year.

Our commercial real estate investments returned 1.5% last year and exceeded the policy benchmark. Public real estate securities rallied strongly, and the fund benefited from a moderate allocation to REITS. However, the major portion of our commercial real estate portfolio is invested through private vehicles. Private real estate values lag the business cycle, and many of the fund's commercial real estate holdings were written down in value over the past two years. Fortunately, the portfolio took advantage of a number of opportunistic situations relating to real estate debt, and these investments posted strong gains, which cushioned the markdowns on equity holdings. While the real estate market has been weak over the last several years, over the last 10 years commercial real estate has been the top performing asset class for VRS, with a return of 8.2%, while providing good cash flow and diversification benefits.

Looking ahead, we remain concerned about the intermediate term outlook – the economy and the financial markets are facing a number of challenges. The economic recovery is weaker than normal, reflecting continued deleveraging in the private sector and rising debt loads in the public sector. Many developed country governments have run larger than normal deficits in recent years as they tried to stimulate growth. These policy actions have damaged an already difficult fiscal position that is expected to deteriorate further in the years ahead as entitlement spending ramps up significantly. While much of the developed world is facing similar structural problems, many emerging countries are in better fiscal condition and have excellent prospects for higher growth. This is expected to create attractive investment opportunities, not only for equities domiciled in developing countries but also for domestic U.S. companies that are well positioned to capitalize on this global growth.

The Chairman of the Federal Reserve Board, Ben Bernanke, recently described the current environment as "unusually uncertain." We agree and currently hold a large portion of the fund in higher income producing debt investments and lower volatility equity strategies. Currently, approximately 40% of the fund is invested in a combination of high-quality fixed income, credit strategies and real estate debt strategies. The remainder of the fund is invested in public equity (46%), private equity (9%) and commercial real estate (5%). Our public equity program, the fund's largest program, is significantly tilted towards high-quality assets and lower volatility strategies. Overall, the fund is expected to generate a significant portion of its total return from annual cash flow, which has never been stronger.

Based on a recommendation by the investment staff and the Investment Advisory Committee, the Board of Trustees recently adjusted the equity weight in the fund's long-term policy benchmark downward from 70% to 60%. This moderate decrease in policy risk reflects several factors, including (1) the fund's aging demographics and shortening liabilities; (2) recognition that the market is regularly subjected to higher volatility regimes; and (3) forward-looking return estimates offering only moderate risk premiums for equities versus bonds. The Board also reduced the long-term investment return assumption used for actuarial valuation purposes from 7.5% to 7%. We believe this is a realistic appraisal of our long-term return prospects, and the fund is well positioned to achieve this objective.

I want to thank the Investment Advisory Committee, a talented group of external investment experts who share their time and expertise with VRS. I also want to thank the Board of Trustees for their guidance and support and for structuring an excellent policy framework. Finally, I want to thank the investment staff for their expertise, hard work and excellent teamwork that allows the fund to invest successfully in today's challenging investment environment.

Respectfully submitted,

Charles W. Grant, CFA
Chief Investment Officer

The Investment Section provides detailed information regarding the performance of the commingled investment pool. This information includes asset allocations, portfolio highlights, a list of VRS' money managers and public equity commissions for the fiscal year. The section also presents the System's investment management fees and expenses and an investment summary.

Investment Account

The VRS Board of Trustees has fiduciary responsibility to invest the fund solely in the interest of the beneficiaries of the System. As established by the *Code of Virginia,* "the Board shall invest the assets of the Retirement System with the care, skill, prudence, and due diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims."

Benefit payments are projected to occur over a long period of time. This allows VRS to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the VRS investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the VRS balance sheet in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact on funded status and contribution rates.

The Chief Investment Officer has been delegated authority by the Board to allocate the System's investments within the approved asset allocation policy and within the Board-approved active risk budget. The total fund active risk budget describes the degree of tolerance for yearly variation in the fund's performance relative to the Intermediate Term Benchmark. The primary risk measure used for this purpose is Total Fund Tracking Error, calculated as the standard deviation of the difference between the fund's return and the return of the Intermediate Term Benchmark. From this measure, probability estimates can be derived to help the Board estimate the risk of underperforming the benchmark by certain margins.

The investment staff manages the VRS portfolio on a day-to-day basis according to policies and guidelines established by the Board. The staff manages assets on a direct basis and through outside investment managers. Managers employ both active and passive investment strategies. The Board has established various performance benchmarks to serve as tools for measuring progress toward the achievement of intermediate and longer-term investment goals.

The asset allocation mix of the VRS fund as of June 30, 2010 is shown in Figure 3.1:

FIGURE 3.1 – ASSET ALLOCATION MIX
AS OF JUNE 30, 2010

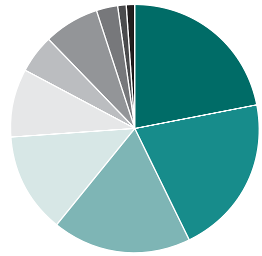


FIGURE 3.2 – INVESTMENT PERFORMANCE SUMMARY
ANNUALIZED DATA FOR THE PERIOD ENDING JUNE 30, 2010

	1 Year	3 Years	5 Years
1. Total Fund			
VRS	14.1%	-4.9%	3.1%
Total Fund Intermediate Benchmark	15.3%	-4.4%	2.9%
2. Total Public Equity			
VRS	14.8%	-9.5%	1.2%
Custom Benchmark	14.3%	-9.1%	1.4%
3. Total Fixed Income			
VRS	14.2%	8.3%	6.0%
Custom Benchmark	9.0%	7.9%	5.8%
4. Total Credit Strategies			
VRS	22.2%	2.4%	5.1%
Custom Benchmark	22.4%	1.6%	4.7%
5. Total Real Estate			
VRS	1.5%	-8.8%	3.0%
Custom Benchmark	-1.5%	-5.6%	4.0%
6. Total Private Equity			
VRS	17.3%	1.9%	12.5%
Custom Benchmark	54.9%	-1.3%	5.0%

Investment return calculations were prepared using a time-weighted return methodology.

Portfolio Highlights

PUBLIC EQUITY

The market value of the Total Public Equity Program as of June 30, 2010 was $21.3 billion, representing approximately 45% of the total fund. Forty-five percent was invested in Domestic Equity and 55% in International Equity. Twenty-one percent was invested in passive strategies, and 32% was managed internally. The objective of the portfolio is to exceed the return of the Custom Benchmark over longer-term periods, net of all costs. At fiscal year end, the Custom Benchmark was comprised of 43.8% of the MSCI U.S. Investible Market Index (IMI), 43.0% of the MSCI World excluding U.S. IMI (50% hedged) and 13.2% in the MSCI Emerging IMI.

The Total Public Equity Program outperformed the Custom Benchmark during the fiscal year by 0.5%. During the year, the U.S. benchmark was up 15.7%, the Non-U.S. Developed (50% hedged) benchmark was up 9.7% and the Emerging Markets benchmark was up 24.6%. Public markets were up around the world as the economic recovery progressed.

The Total Public Equity Program is dominated by traditional, long-only strategies (82.3% of program, or $17.5 billion). The program also employs traditional long-short strategies (3.2% of program, or $0.7 billion) and equity-oriented hedge fund strategies (14.5% of program, or $3.1 billion).

FIGURE 3.3 – TOTAL PUBLIC EQUITY PROGRAM BENCHMARKS

Benchmark Category	VRS Return	Benchmark Return	VRS Weight	Benchmark Weight
U.S. Active Standard	15.25%	14.84%	21.21%	20.50%
U.S. Active Small Cap	22.33%	22.25%	5.80%	3.93%
U.S. Passive	14.23%	14.52%	2.35%	2.35%
Non-U.S. Developed Small Cap	18.40%	16.86%	3.95%	3.13%
Non-U.S. Developed Standard	7.54%	8.83%	18.39%	23.23%
Emerging	24.33%	24.56%	14.62%	13.18%
Global	13.44%	11.17%	19.21%	19.21%
Hedge Funds	11.05%	12.16%	14.47%	14.47%
Total Program	**14.79%**	**14.26%**	**100.00%**	**100.00%**

One-year weights and returns ending June 30, 2010.

There were some differences among the Total Public Equity portfolio versus the Custom Benchmark based on sectors and region weights:

FIGURE 3.4 – CUSTOM BENCHMARK SECTORS AND REGIONS

Sectors	VRS	Strategic Benchmark
Consumer Discretionary	11.37%	10.29%
Consumer Staples	10.09%	9.34%
Energy	8.88%	9.93%
Financials	18.23%	20.89%
Health Care	11.13%	8.95%
Industrials	9.99%	11.42%
Information Technology	15.22%	12.31%
Materials	7.17%	8.42%
Telecommunication Services	4.46%	4.27%
Utilities	3.46%	4.18%
	100.00%	**100.00%**

Regions	VRS	Strategic Benchmark
North America	69.22%	67.52%
Europe/Middle East/Africa	12.69%	14.57%
Asia Pacific	14.66%	15.11%
Latin and South America	3.43%	2.80%
	100.00%	**100.00%**

Based on Barra's classification of sectors and regions.

The top 10 holdings in the Total Public Equity Program comprised 6.5% of the program at fiscal year end. In comparison to last year, two companies fell from the list. Procter & Gamble and Chevron were replaced with Samsung and Vodafone.

FIGURE 3.5 – PUBLIC EQUITY: TOP 10 EXPOSURES

Company	Market Value	Shares
Apple Inc.	$208,719,913	829,801
Exxon Mobil Corporation	149,373,098	2,617,366
J.P. Morgan Chase & Co.	148,809,704	4,064,728
Microsoft Corporation	147,867,839	5,810,204
Google, Inc.	136,236,212	306,183
Samsung Electronics	129,685,653	213,440
Pfizer Incorporated	118,382,997	8,162,787
Royal Dutch Shell	117,869,405	4,710,774
Vodafone Group	115,055,778	50,242,708
Petrobras	113,400,807	3,843,739

Aggregated various share classes based on parent company. VRS maintains a complete list of portfolio holdings.

FIXED INCOME

VRS invests a portion of its portfolio in fixed income investments in order to reduce total fund volatility, produce income and provide for some protection in the event of a deflationary environment. At year end, approximately $10.6 billion was invested in fixed income assets, representing 22% of the VRS portfolio. Of this amount, approximately 75% was invested in a core plus fixed income style (of which 53% was managed internally), and 25% was invested in opportunistic strategies.

The objective of the entire program is to maximize the return (net of all costs) relative to the Citigroup Broad Investment Grade Index, while staying in compliance with risk limits. The fixed income program return was 14.2%, and the benchmark return was 9.0% for the fiscal year.

The yield curve flattened over the course of the last fiscal year as the economy continued its recovery, in part due to unprecedented fiscal and monetary policy, from the "Great Recession" of 2008. The immense stimulus as well as falling inflation led market participants to be simultaneously worried about near-term deflation and long-term inflation. During the fiscal year, two-year rates decreased by 51 basis points to 0.61%, and 10-year rates decreased by 60 basis points to 2.93%. Very liquid spread sectors (MBS and Agencies) as well as credit-sensitive and less liquid sectors (Corporate Bonds and CMBS) all tightened significantly over the year as risk assets rallied while depressionary fears subsided.

FIGURE 3.6 – FIXED INCOME PORTFOLIO

AS OF JUNE 30, 2010

Sector Allocation

Sector	% Portfolio
Treasury	16.0%
Agency	6.0%
Corporate	42.0%
Mortgage	22.0%
Asset Backed	3.0%
CMBS	5.0%
Foreign	1.0%
Other	5.0%
Total	**100.0%**

Credit Quality Breakdown

Rating	% Portfolio
AAA	47.8%
AA	3.8%
A	14.1%
BBB	21.8%
BB	2.2%
B	0.9%
Below B	2.1%
NR	7.3%
Total	**100.0%**

FIGURE 3.7 – FIXED INCOME: TOP 10 HOLDINGS BY MARKET VALUE

AS OF JUNE 30, 2010

Par	Security Description	Market Value
$ 150,000,000	US Treasury Notes 2.625% due 12/31/14	$ 156,256,500
130,000,000	US Treasury Notes 2.375% due 09/30/14	134,283,500
100,000,000	US Treasury Notes 1.125 % due 12/15/12	100,832,000
90,000,000	FHLMC Disc Note due 06/15/12	91,809,000
80,000,000	US Treasury Notes 1.375 % due 05/15/12	81,180,800
80,000,000	US Treasury Notes 1.375 % due 11/15/12	81,152,800
76,300,000	US Treasury Bonds 4.625% due 02/15/40	85,804,400
75,500,000	US Treasury Bonds 4.375% due 11/15/39	81,472,200
75,000,000	FNMA Disc Note due 09/16/14	78,782,250
70,000,000	US Treasury Notes 1.000 % due 12/31/11	70,512,400

SHORT-TERM INVESTMENTS

Generally, VRS desires to remain fully invested at all times and seeks to minimize its holdings of cash investments. Temporary cash balances are invested in short-term money market instruments with the goal of maintaining high credit quality and liquidity.

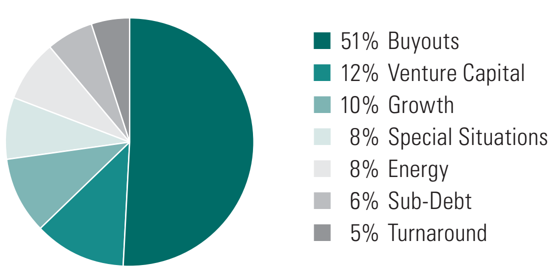
PRIVATE EQUITY

VRS invests in private equity in order to achieve returns greater than those available in the public equity markets. Specifically, the program seeks to outperform the Russell 3000 Index by 2.5% per year. Program returns are calculated on both a time-weighted basis and a dollar-weighted or internal rate-of-return (IRR) basis. On a time-weighted basis, the program return for FY 2010 was 17.3%, which significantly underperformed the one-year benchmark of 54.9%. Not having fallen as much in 2008 as the public market, the private equity program was unable to match the rally of the public market in 2009. On a dollar-weighted or IRR basis, the private equity one-year return was 17.7% as of March 31, 2010.

As of June 30, 2010, the carrying value of the program was approximately $4.3 billion. Most of the program is invested in limited partnerships. Sectors in which the program invests include leveraged buyouts, venture capital, growth, sub-debt, turnaround, energy and special situations. The Private Equity Program's market value by sub-class was as follows:

FIGURE 3.8 – PRIVATE EQUITY PROGRAM

AS OF JUNE 30, 2010



REAL ESTATE

A portion of the portfolio is invested in real estate to help diversify the total fund by providing exposure to an asset class that has a low historical correlation with the public markets. After producing a -28.3% return for fiscal year 2009, the portfolio stabilized in 2010 with a total return of 1.5%, outperforming the benchmark by 3.0%. The REIT market rebounded by 39.3% in FY 2010 while the private asset portion of the portfolio saw continued writedowns and delivered a -6.3% return for the year. Since private property values increased slightly in the last quarter of the year, it appears that private asset values are approaching the bottom of this cycle.

Over the course of the year, the percentage of the total fund represented by the real estate portfolio decreased from 8.5% to 6.5% due to continued private real estate writedowns and increases in total fund assets. At fiscal year end, the portfolio was composed of approximately 18% REITs and 82% private accounts. Portfolio leverage as a percentage of total real estate assets was 42% as of March 31, 2010.

FIGURE 3.9 – REAL ESTATE BY PROPERTY TYPE
AS OF MARCH 31, 2010

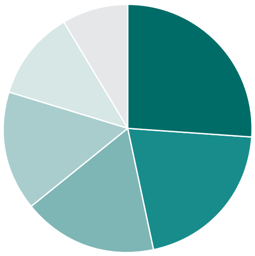
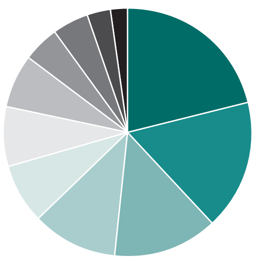


FIGURE 3.10 – REAL ESTATE BY GEOGRAPHIC REGION
AS OF MARCH 31, 2010

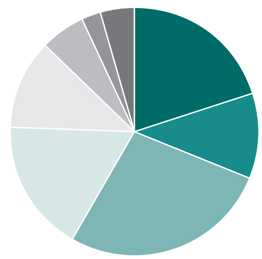


CREDIT STRATEGIES

VRS allocates a portion of the portfolio to credit-related investments. This allocation has been an alternative to investing in equity securities. Investments in this program are primarily debt instruments that are intended to provide diversification benefits, higher levels of income and lower levels of volatility compared to equities while achieving a similar level of returns over time. Over the course of the fiscal year, the program returned 22.2%, while the program's custom benchmark returned 22.4%, and the custom benchmark for the VRS Public Equity program returned 14.3%.

Credit markets and, in particular, high-yield bonds were among the best-performing asset classes over the past fiscal year. The general level of interest rates fell during fiscal year 2010. Through the course of the year, 10-year Treasury bond yields fell from 3.5% to 2.9%. Additionally, credit spread levels contracted due to strong demand and improving fundamentals. Both of these factors caused credit yields to decline and prices to rise.

FIGURE 3.11 – CREDIT STRATEGIES
AS OF JUNE 30, 2010



MORE INFORMATION

A complete list of the investment portfolio is available upon request. Address requests to the Investment Compliance Officer, Virginia Retirement System, P.O. Box 2500, Richmond, VA 23218-2500.

VRS Money Managers

The diversified investment structure as of June 30, 2010 is reflected in the following tables, which list VRS managers by investment program and style.

PUBLIC EQUITY MONEY MANAGERS

External Managers	Style Description
Acadian Asset Management	U.S. Large, Non-U.S. Small & Emerging Markets
AllianceBernstein	Global
Arrowstreet Capital	Global
BlackRock	Global
GMO	U.S. Large, Emerging Markets
J.P. Morgan	U.S. Large
LSV Asset Management	Non-U.S. Small
Relational Investors	U.S. Large
Russell Investment Group	U.S. Large, Non-U.S. Large & Currency Overlay
Select Equity Group	U.S. Small
T. Rowe Price	Emerging Markets & Global
The Boston Company	Emerging Markets
TimesSquare Capital Management	U.S. Small

Internal Portfolios	Style Description
Afton	U.S. Small
Dogwood	Non-U.S. Large
Madison	U.S. Large
Mobjack	U.S. Large
Potomac	U.S. Large
Public Equity Currency Overlay	Currency Overlay

Hedge Funds – Top 10 Managers	Style Description
Blue Ridge, LP	Long/Short
Maverick Capital	Long/Short
ValueAct Capital	Long/Short
Lansdowne Partners	Long/Short
FrontPoint Partners	Long/Short
New Mountain Capital	Long/Short
Ironbound Partners	Long/Short
Clough Capital Partners	Long/Short
TPG-Axon Partners	Long/Short
Clovis Capital	Long/Short

FIXED INCOME MANAGERS

External Managers	Style Description
Agincourt	Core/External Active
BlackRock	Core/External Active
Prudential	Core/External Active
Smith Breeden	Core/External Active
Wellington	Core/External Active
Western Asset Management	Core/External Active
Bridgewater	Pure Alpha/External Active
PIMCO	IG Credit/External Active
ING Clarion	CMBS/External Active
VPCM	CMBS Loans/External Active
State Street Global Advisors	IG Credit/External Passive
BlackRock	Active Currency
First Quadrant	Active Currency

Internal Portfolio	Style Description
VRS Internal	Core/Internal Active

PRIVATE EQUITY – TOP 10 MANAGERS

	Style Description
Hellman and Friedman	Buyout
Credit Suisse	Customized Separate Account
Summit Partners	Growth & Sub-Debt
Welsh, Carson, Anderson and Stowe	Buyout & Sub-Debt
TPG	Buyout
First Reserve	Energy
Apax Partners	Buyout
Nordic Capital	Buyout
TA Associates	Growth & Sub-Debt
Madison Dearborn	Buyout

CREDIT STRATEGY MANAGERS

	Style Description
Anchorage Advisors, LLC	Long Short Credit & Opportunity Fund
Angelo Gordon	Distressed Credit
Babson Capital	Mezzanine Credit
Beach Point Capital Management	Bank Loans, High Yield Credit, Distressed
BlackRock Kelso Advisors	Bank Loans & Mezzanine Credit
Brookfield Asset Management	Structured Credit
King Street Capital Management, LLC	Opportunity Fund

Credit Strategy Managers, continued

	Style Description
Oaktree Capital Management	Mezzanine Credit, Convertibles, Public High Yield, Distressed Credit
Pacific Investment Management	Bank Loans, High Yield Credit
Post Advisory Group	High Yield Credit
Prudential	High Yield Credit & Mezzanine Credit
Stone Harbor Investment Partners	High Yield Credit and Emerging Markets Debt
Solus Alternative Asset Management LP	Opportunity Fund
Western Asset Management	Bank Loans
Zazove Associates	Convertibles

REAL ESTATE MANAGERS

Public Real Estate Securities	Style Description
Morgan Stanley	REIT Portfolio
Internal-Monroe	REIT Portfolio
Urdang Securities Management, Inc.	REIT Portfolio

Private Real Estate	Style Description
AMLI Residential	Core
Angelo Gordon & Co.	Core
ING Clarion Capital	Core
J.P. Morgan Asset Management	Core
Morgan Stanley	Core
Security Capital Research & Management, Inc.	Core
TA Associates Realty	Core
AvalonBay Communities, Inc.	Enhanced Core
CIM Group	Enhanced Core
Guggenheim Partners	Enhanced Core
ING Clarion Partners	Enhanced Core
Koll Bren Schreiber	Enhanced Core
Liquid Realty Partners	Enhanced Core
ProLogis	Enhanced Core
Prudential Real Estate Investors	Enhanced Core
AMB Investment Management, Inc.	Opportunistic
Blackstone Real Estate Partners	Opportunistic
Capmark Investments	Opportunistic
Colonnade Properties	Opportunistic
JER Partners	Opportunistic
Koll Bren Schreiber	Opportunistic
Lazard Frères Real Estate Investors	Opportunistic
Morgan Stanley	Opportunistic
Oaktree Capital Management	Opportunistic
Penwood Real Estate Investment Management, Inc.	Opportunistic

Public Equity Commissions

AS OF JUNE 30, 2010

Broker	Commission
Goldman Sachs & Co., New York	$ 2,077,224
Credit Suisse, New York	1,990,128
Investment Technology Group, New York	1,910,982
Morgan Stanley & Co., New York	953,469
Goldman Sachs Execution & Clearing, New York	855,383
Deutsche Bank Securities, Inc., New York	741,031
Instinet Corp., New York	683,520
Merrill Lynch Pierce Fenner Smith, Inc. New York	559,924
Citigroup Global Markets, Inc., New York	559,849
Pershing LLC, Jersey City	464,151
J.P. Morgan Clearing Corp., New York	403,449
UBS Securities LLC, Stamford	385,990
ITG Inc., New York	341,548
Merrill Lynch Pierce Fenner, Wilmington	320,688
Barclays Capital Markets, New York	318,307
UBS Equities, London	306,824
Bernstein Sanford C & Co., New York	280,911
Citigroup Global Markets Ltd., London	266,198
Weeden & Co. New York	254,863
Credit Suisse (Europe), London	227,481
Credit Suisse, Mumbai	219,197
Merrill Lynch International London Equities	190,401
MacQuarie Securities Ltd, Hong Kong	188,155
ITG (Europe) Ltd., Dublin	179,454
UBS Warburg Asia Ltd., Hong Kong	172,495
Calyon Securities, New York	171,333
Citigroup Global Markets/Salomon, New York	168,819
Barclays Capital LE, Jersey City	165,821
Jefferies & Co., Inc., New York	165,767
Liquidnet, Inc. Brooklyn	162,804
Credit Lyonnais Securities, Seoul	155,135
Nomura Securities International, Inc., New York	152,808
Instinet Europe Ltd., London	151,262
J. P. Morgan Securities, Inc., Brooklyn	150,600
Goldman Sachs International, London	134,324
Wells Fargo Securities LLC, Charlotte	131,209
RBC Capital Markets Corp., Minneapolis	123,664
SG Securities (London) Ltd., London	120,272
Credit Lyonnais Securities, Singapore	118,281
DSP Merrill Lynch Ltd., Mumbai	116,031
Deutsche Bank International Equities, London	112,862
SG Securities, Hong Kong	109,494
J. P. Morgan Securities Ltd., London	105,984
Other Brokers	4,558,412
Total	**$ 21,926,504**

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2010 (EXPRESSED IN THOUSANDS)

	Fair Value of Assets Under Management*	Management Fees and Expenses
External Management:		
Domestic Managers	$ 2,211,370	$ 14,895
Non-U.S. Equity Managers	3,891,419	24,442
Global Equity Managers	3,985,254	15,303
Fixed Income Managers	13,601,674	16,696
Credit Strategies Managers	5,504,494	49,125
Real Estate Managers	3,218,401	28,478
Private Equity Managers	4,590,737	78,326
Hedge Fund Managers	4,161,445	52,352
Internal Management	6,749,076	13,925
Miscellaneous Fees and Expenses:		
Custodian Fees	-	4,673
Legal Fees	-	407
Other Fees and Expenses	-	763
Total	**$ 47,913,870**	**$ 299,385**

**Does not include short-term investments managed by the Treasurer of Virginia and the VRS Master Custodian.*

Investment Summary

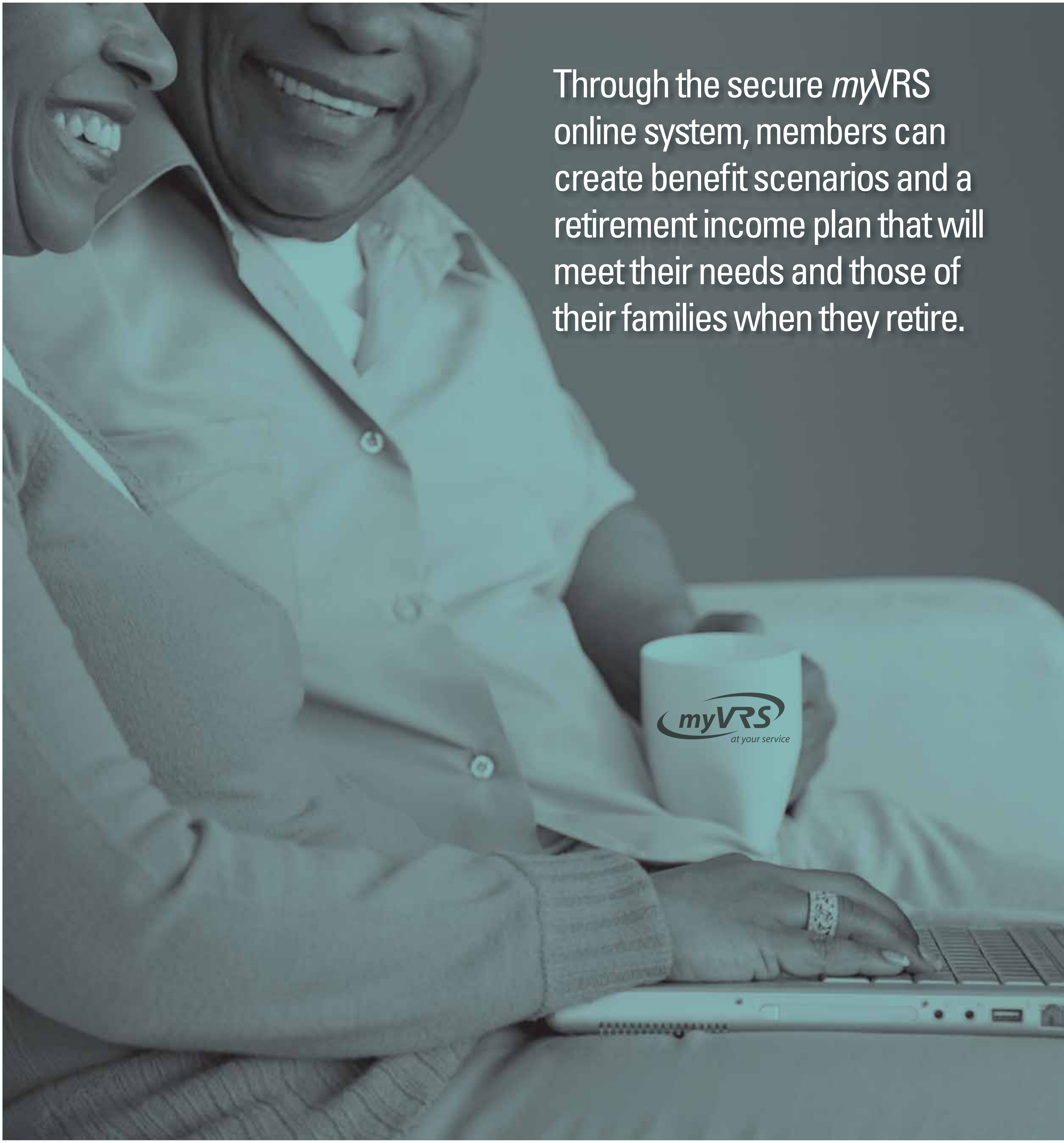
In accordance with Section 51.1-124.31 of the *Code of Virginia* (1950), as amended, the Board of Trustees has pooled substantially all assets of the Virginia Retirement System, the State Police Officers' Retirement System, the Virginia Law Officers' Retirement System, the Judicial Retirement System, the Group Life Insurance Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund into a common investment pool. The common investment pool of the pension trust funds and other employee benefit trust funds held the following composition of investments at June 30, 2010 and 2009:

(EXPRESSED IN THOUSANDS)

	2010 Fair Value	Percent of Total Value	2009 Fair Value	Percent of Total Value
Bonds and Mortgage Securities:				
U.S. Government and Agencies	$ 2,587,011	5.40%	$ 1,649,485	3.82%
Mortgage Securities	2,485,042	5.18%	3,262,361	7.56%
Corporate and Other Bonds	12,071,853	25.19%	13,714,295	31.77%
Total Bonds and Mortgage Securities	**17,143,906**	**35.77%**	**18,626,141**	**43.15%**
Common and Preferred Stocks	**16,307,335**	**34.02%**	**12,098,525**	**28.03%**
Index and Pooled Funds:				
Equity Index and Pooled Funds	5,423,697	11.32%	3,892,160	9.02%
Fixed Income Commingled Funds	1,732,430	3.61%	1,811,139	4.20%
Total Index and Pooled Funds	**7,156,127**	**14.93%**	**5,703,299**	**13.22%**
Real Estate - Private Real Estate	**2,654,165**	**5.54%**	**2,834,191**	**6.57%**
Private Equity	**4,590,737**	**9.58%**	**3,794,814**	**8.79%**
Short-Term Investments:				
Treasurer of Virginia – LGIP Investment Pool	2,725	0.01%	21,641	0.05%
TBC Pooled Employee Trust fund	7,203	0.02%	5,671	0.01%
Foreign Currencies	61,600	0.13%	78,790	0.18%
Total Short-Term Investments	**71,528**	**0.16%**	**106,102**	**0.24%**
Total Investments	**$ 47,923,798**	**100.00%**	**$ 43,163,072**	**100.00%**

4 actuarial section

2010 Plan for tomorrow



Helping members plan for tomorrow, today.

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CONSULTING, LLC
The experience and dedication you deserve

November 30, 2010

Board of Trustees
Virginia Retirement System
1200 E. Main Street
Richmond, VA 23219

Dear Trustees:

We are pleased to submit the results of the annual actuarial valuation for the following retirement plans administered by the Virginia Retirement System, prepared as of June 30, 2009:

- State Employees (VRS)
- Teachers (VRS)
- Employees of Participating Political Subdivisions (VRS)
- State Police (SPORS)
- Virginia Law Officers (VaLORS)
- Judicial (JRS)

The purpose of this report is to provide a summary of the funded status of the plans as of June 30, 2009, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability.

Contribution rates for participating employers are established every two years. The actuarially calculated employer contribution rates based on the June 30, 2009 results presented in this report are the recommended employer contribution rates for FY 2011 and FY 2012.

The promised benefits of the plans are included in the actuarially calculated contribution rates, which are developed using the entry age normal cost method. Five-year smoothed market value of assets is used for actuarial valuation purposes. For the June 30, 2009 actuarial valuation, the Board has elected to suspend the 80% to 120% of market value-of-assets corridor on the actuarial value of assets. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 20-year period, on the assumption that payroll will increase by 3% annually. The assumptions

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recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27. The valuation reflects changes in the actuarial assumptions adopted by the Board that were recommended in the experience study of VRS for the four-year period ending June 30, 2008.

The following schedules (or updates to them) were prepared by VRS from information prepared by us during the 2009 actuarial valuation or from supplemental information prepared by us for use in the System's Comprehensive Annual Financial Report. We have reviewed them for inclusion in the 2010 Comprehensive Annual Financial Report. All historical information that references a valuation date prior to June 30, 2008 was prepared by a previous actuarial firm.

- Schedule of Funding Progress
- Schedule of Actuarial Methods and Significant Assumptions
- Schedule of Employer Contributions
- Solvency Test
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries
- Analysis of Actuarial Gains and Losses
- Schedules of Selected Experience Rates

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations of public retirement systems; that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board; and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures based on the current provisions of the System and on actuarial assumptions that are internally consistent and reasonably based on the actuarial experience of the System.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Thomas J Cavanaugh

Thomas J. Cavanaugh, FSA, FCA, EA, MAAA
Chief Executive Officer

Jose I. Fernandez, ASA, FCA, EA, MAAA
Consulting Actuary

The Actuarial Section presents information about the assumptions adopted by the Board of Trustees and used by the VRS actuary to evaluate the funded status of the pension plans. This information includes trend data about retirements, disabilities, terminations and salary increase rates. The section also provides summaries of the provisions of and changes to the pension plans administered by the System.

ACTUARIAL ASSUMPTIONS AND METHODS – PENSION PLANS

	2000/2001	2002-2004	2005-2009
Valuation Interest Rate	8.0%	8.0%	7.5%
Salary Scale Inflation Factor	3.0%	3.0%	2.5%
Change in Decremental Assumptions	Yes	No	Yes
Value of Ancillary Benefits Included	Yes	Yes	Yes
Value of Post-Retirement Adjustments to Date Included	Yes	Yes	Yes
Assets Valued At	Modified Market	Modified Market	Modified Market

SOLVENCY TEST

(EXPRESSED IN THOUSANDS)

Valuation Date (June 30)	Aggregate Accrued Liabilities for: (1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members*	Valuation Assets	Portion of Accrued Liabilities Covered by Assets: (1)	(2)	(3)
Virginia Retirement System (VRS)							
2009	$ 8,876,564	$ 31,589,747	$ 25,856,700	$ 53,185,033	100.00%	100.00%	49.19%
2008	8,389,773	29,225,652	24,939,054	52,548,375	100.00%	100.00%	59.88%
2007	8,154,046	23,339,386	23,623,041	47,815,450	100.00%	100.00%	56.39%
2006	6,988,172	23,055,815	22,777,916	42,668,752	100.00%	100.00%	55.43%
2005	6,555,402	21,140,882	21,932,204	40,372,648	100.00%	100.00%	57.80%
2004	6,139,908	18,971,864	18,846,578	39,691,562	100.00%	100.00%	77.36%
2003	5,703,557	17,223,070	17,770,944	39,242,624	100.00%	100.00%	91.81%
2002	5,285,338	15,878,494	17,101,328	38,957,256	100.00%	100.00%	104.05%
2001	4,847,656	14,411,943	16,119,211	37,967,820	100.00%	100.00%	116.06%
2000	4,639,007	12,652,663	15,350,685	34,392,303	100.00%	100.00%	111.40%
State Police Officers' Retirement System (SPORS)							
2009	$ 74,662	$ 474,622	$ 329,896	$ 646,960	100.00%	100.00%	29.61%
2008	71,160	444,025	329,010	646,277	100.00%	100.00%	39.84%
2007	70,796	408,085	327,147	594,985	100.00%	100.00%	35.49%
2006	66,055	378,636	285,236	538,646	100.00%	100.00%	32.94%
2005	62,917	337,017	273,239	514,330	100.00%	100.00%	41.87%
2004	61,529	310,306	284,509	510,604	100.00%	100.00%	48.77%
2003	59,097	277,282	279,243	508,576	100.00%	100.00%	61.67%
2002	57,152	253,687	283,797	507,889	100.00%	100.00%	69.43%
2001	54,507	215,658	286,463	494,952	100.00%	100.00%	78.47%
2000	50,044	199,822	262,761	440,903	100.00%	100.00%	72.70%
Virginia Law Officers' Retirement System (VaLORS)							
2009	$ 181,760	$ 581,887	$ 648,197	$ 912,922	100.00%	100.00%	23.03%
2008	173,039	510,878	597,560	873,473	100.00%	100.00%	31.72%
2007	169,393	458,383	538,203	766,243	100.00%	100.00%	25.73%
2006	156,310	412,767	527,291	656,668	100.00%	100.00%	16.61%
2005	148,890	330,502	500,705	575,327	100.00%	100.00%	19.16%
2004	143,836	246,872	536,424	508,561	100.00%	100.00%	21.97%
2003	135,144	195,554	523,138	457,615	100.00%	100.00%	24.26%
2002	127,975	110,426	567,716	418,518	100.00%	100.00%	31.73%
2001	111,143	5,639	510,857	392,815	100.00%	100.00%	54.03%
2000	108,538	27,356	543,943	307,301	100.00%	100.00%	31.51%
Judicial Retirement System (JRS)							
2009	$ 41,793	$ 287,543	$ 192,127	$ 378,212	100.00%	100.00%	25.44%
2008	38,785	271,276	184,707	373,850	100.00%	100.00%	34.54%
2007	38,675	242,825	160,998	340,200	100.00%	100.00%	36.46%
2006	34,756	240,005	149,637	302,734	100.00%	100.00%	18.69%
2005	32,143	229,942	140,216	287,825	100.00%	100.00%	18.36%
2004	30,176	211,228	124,171	285,178	100.00%	100.00%	35.25%
2003	28,766	198,005	121,265	282,326	100.00%	100.00%	45.81%
2002	28,089	186,886	137,029	281,056	100.00%	100.00%	48.22%
2001	23,595	176,142	142,095	276,542	100.00%	100.00%	54.05%
2000	24,079	191,146	115,127	244,721	100.00%	100.00%	25.62%

**Employer-financed portion.*

Aggregate Accrued Liabilities are determined under the entry age normal cost method (System-funded method used to determine employer contribution requirements).

The progress of a retirement system in accumulating assets to pay benefits when due can be measured by examining the extent to which assets accumulated for benefits cover 1) active member contributions to the system; 2) liabilities for future benefits to retirees and beneficiaries; and 3) liabilities for the employer-financed portion of service already rendered by active members. In a system receiving actuarially determined employer contributions, the liabilities for member contributions and future benefits to retirees and beneficiaries will generally be fully covered by accumulated assets. In addition, the liabilities for service already rendered will be partially covered by the remainder of the accumulated assets and will increase over time.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date (June 30)	Active Members: Number	Annual Payroll (000s)	Average Annual Pay	Annualized % Increase in Average Pay	Number of Employers
Virginia Retirement System (VRS)					
2009	333,049	$ 14,947,644	$ 44,881	2.3%	587
2008	331,851	14,558,592	43,871	3.5%	583
2007	326,218	13,834,022	42,407	4.4%	578
2006	320,065	13,001,551	40,622	4.1%	575
2005	312,981	12,212,145	39,019	3.5%	571
2004	305,388	11,509,902	37,689	4.1%	565
2003	300,612	10,884,629	36,208	1.1%	559
2002	297,921	10,668,980	35,811	2.9%	551
2001	291,621	10,145,212	34,789	3.9%	551
2000	284,486	9,528,666	33,494	4.7%	545
State Police Officers' Retirement System (SPORS)					
2009	1,828	$ 100,974	$ 55,237	-0.2%	1
2008	1,852	102,466	55,327	3.8%	1
2007	1,890	100,785	53,325	2.1%	1
2006	1,795	93,742	52,224	4.1%	1
2005	1,811	90,865	50,174	7.3%	1
2004	1,755	82,100	46,781	2.2%	1
2003	1,727	79,020	45,756	-1.3%	1
2002	1,740	80,680	46,368	-1.5%	1
2001	1,771	83,339	47,058	2.7%	1
2000	1,768	80,977	45,801	5.3%	1
Virginia Law Officers' Retirement System (VaLORS)					
2009	10,087	$ 359,070	$ 35,597	0.2%	1
2008	10,370	368,255	35,512	6.3%	1
2007	10,213	341,035	33,392	3.1%	1
2006	9,904	320,869	32,398	3.8%	1
2005	9,819	306,574	31,222	2.0%	1
2004	9,746	298,313	30,609	1.0%	1
2003	9,626	291,801	30,314	-0.6%	1
2002	10,036	306,024	30,493	-0.7%	1
2001	10,434	320,254	30,693	2.7%	1
2000	10,542	315,158	29,895	0.0%	1
Judicial Retirement System (JRS)					
2009	421	$ 62,709	$ 148,952	1.5%	1
2008	412	60,486	146,811	7.9%	1
2007	424	57,687	136,054	4.0%	1
2006	415	54,289	130,818	4.4%	1
2005	414	51,874	125,300	5.1%	1
2004	405	48,271	119,188	2.2%	1
2003	408	47,568	116,588	0.0%	1
2002	408	47,568	116,588	0.0%	1
2001	404	47,125	116,646	2.5%	1
2000	399	45,394	113,769	6.7%	1

SCHEDULE OF RETIREE AND BENEFICIARY VALUATION DATA

Valuation Date (June 30)	Retirees and Beneficiaries: Retirees and Beneficiaries Added/Removed	Total Retirees and Beneficiaries	Annual Allowances (000s)	Annualized % Increase in Annual Allowances	Average Annual Allowance
Virginia Retirement System (VRS)					
2009	9,474/4,202	138,500	$ 2,614,474	9.0%	$ 18,877
2008	9,610/3,869	133,228	2,399,555	9.9%	18,011
2007	9,475/3,774	127,487	2,183,553	10.7%	17,128
2006	8,949/3,834	121,786	1,972,394	8.7%	16,196
2005	9,151/4,250	116,671	1,814,791	8.3%	15,555
2004	7,913/2,561	111,770	1,676,175	9.0%	14,997
2003	7,920/3,554	106,418	1,537,902	11.8%	14,452
2002	7,451/3,496	102,052	1,375,777	6.7%	13,481
2001	7,962/3,337	98,097	1,289,657	12.1%	13,147
2000	7,932/3,685	93,472	1,150,213	8.6%	12,305
State Police Officers' Retirement System (SPORS)					
2009	72/23	1,082	$ 39,861	7.6%	$ 36,840
2008	68/26	1,033	37,034	11.0%	35,851
2007	52/18	991	33,375	6.3%	33,678
2006	57/23	957	31,394	7.6%	32,805
2005	70/9	923	29,186	10.7%	31,620
2004	56/4	862	26,361	11.1%	30,581
2003	63/25	810	23,737	18.2%	29,305
2002	72/12	772	20,077	7.1%	26,006
2001	26/11	712	18,748	8.0%	26,331
2000	38/8	697	17,362	9.9%	24,910
Virginia Law Officers' Retirement System (VaLORS)					
2009	264/17	2,061	$ 45,763	15.8%	$ 22,204
2008	224/28	1,814	39,531	5.2%	21,792
2007	253/16	1,618	37,574	18.0%	23,222
2006	209/34	1,381	31,849	16.7%	23,062
2005	248/12	1,206	27,286	33.6%	22,625
2004	207/2	970	20,423	27.8%	21,055
2003	245/10	765	15,982	72.7%	20,892
2002	251/18	527	9,252	324.2%	17,556
2001	197/13	294	2,181	198.8%	7,418
2000	124/14	110	730	0.0%	6,636
Judicial Retirement System (JRS)					
2009	36/20	439	$ 29,262	5.1%	$ 66,657
2008	36/17	423	27,834	7.0%	65,802
2007	24/19	404	26,013	4.4%	64,390
2006	25/21	399	24,905	4.9%	62,420
2005	25/17	395	23,736	8.9%	60,092
2004	33/21	387	21,789	6.4%	56,302
2003	35/26	375	20,488	8.3%	54,635
2002	14/17	366	18,918	1.2%	51,689
2001	21/16	369	18,699	7.6%	50,675
2000	21/9	364	17,373	4.3%	47,728

FIGURE 4.1 – ANALYSIS OF ACTUARIAL GAINS AND LOSSES

FOR THE YEAR ENDED JUNE 30, 2009

(EXPRESSED IN THOUSANDS)

	VRS	SPORS	VaLORS	JRS	Total
A. Calculation of Expected Unfunded Actuarial Accrued Liability (UAAL)					
1. UAAL as of June 30, 2008	$ 10,006,356	$ 197,918	$ 408,004	$ 120,918	$10,733,196
2. Normal Cost for Previous Year	1,452,366	13,716	50,197	19,486	1,535,765
3. Actual Contributions During the Year	(1,978,988)	(25,280)	(69,071)	(24,064)	(2,097,403)
4. Interest at Previous Year's Rate of 7.50%					
a. On UAAL	750,477	14,844	30,600	9,069	804,990
b. On Normal Cost	108,928	1,029	3,765	1,461	115,183
c. On contributions	(74,213)	(948)	(2,590)	(902)	(78,653)
d. Total	**785,192**	**14,925**	**31,775**	**9,628**	**841,520**
5. Expected UAAL as of June 30, 2009 (A1+A2+A3+A4)	10,264,926	201,279	420,905	125,968	11,013,078
6. Actual UAAL as of June 30, 2009	13,138,233	232,220	498,922	143,251	14,012,626
7. Total Gain/(Loss) (A5-A6)	**(2,873,307)**	**(30,941)**	**(78,017)**	**(17,283)**	**(2,999,548)**
B. Calculation of Asset Gain / (Loss)					
1. Actuarial Value of Assets (AVA) as of June 30, 2008	52,548,375	646,277	873,473	373,850	54,441,975
2. Contributions During the Year	1,978,988	25,280	69,071	24,064	2,097,403
3. Benefit Payments During the Year	(2,704,001)	(41,388)	(50,041)	(29,141)	(2,824,571)
4. Interest at Previous Year's Rate of 7.50%					
a. On AVA at Beginning of Year	3,941,128	48,471	65,510	28,039	4,083,148
b. On Contributions	74,213	948	2,590	902	78,653
c. On Benefit Payments	(101,400)	(1,552)	(1,877)	(1,093)	(105,922)
d. Total	**3,913,941**	**47,867**	**66,223**	**27,848**	**4,055,879**
5. Expected AVA as of June 30, 2009 (B1+B2+B3+B4)	55,737,303	678,036	958,726	396,621	57,770,686
6. Actual AVA as of June 30, 2009	47,867,704	580,942	828,727	340,720	49,618,093
7. Total Gain/(Loss) on Assets (B6-B5)	**(7,869,599)**	**(97,094)**	**(129,999)**	**(55,901)**	**(8,152,593)**
C. Calculation of Liability Gain/(Loss)					
1. Gain/(Loss) Due to Changes in Actuarial Assumptions	23,586	6,600	(33,600)	-	(3,414)
2. Gain/(Loss) Due to Plan Amendments	13,386	-	-	-	13,386
3. Gain/(Loss) Due to Change in Asset Method	5,317,324	66,000	84,200	37,500	5,505,024
4. Liability Experience Gain/(Loss) (A7-B7-C1-C2-C3)	**$ (358,004)**	**$ (6,447)**	**$ 1,382**	**$ 1,118**	**$ (361,951)**

FIGURE 4.2 – ANALYSIS OF CHANGES IN ALLOWANCES FOR RETIREES AND BENEFICIARIES

(EXPRESSED IN THOUSANDS)

Valuation Date (June 30)	Beginning Annual Allowance	Additions**	Reductions	Ending Annual Allowance
		Virginia Retirement System (VRS)		
2009	$ 2,399,555	$ 278,307	$ 63,388	$ 2,614,474
2008	2,183,553	284,577	68,575	2,399,555
2007	1,972,394	277,466	66,307	2,183,553
2006	1,814,791	190,775	33,172	1,972,394
2005	1,676,175	187,247	48,631	1,814,791
2004*	1,537,902	167,577	29,304	1,676,175
		State Police Officers' Retirement System (SPORS)		
2009	$ 37,034	$ 3,604	$ 777	$ 39,861
2008	33,375	4,207	548	37,034
2007	31,394	3,292	1,311	33,375
2006	29,186	2,378	170	31,394
2005	26,361	3,035	210	29,186
2004*	23,737	2,717	93	26,361
		Virginia Law Officers' Retirement System (VaLORS)		
2009	$ 39,531	$ 6,903	$ 671	$ 45,763
2008	37,574	5,774	3,817	39,531
2007	31,849	7,118	1,393	37,574
2006	27,286	4,692	129	31,849
2005	20,423	7,541	678	27,286
2004*	15,982	4,554	113	20,423
		Judicial Retirement System (JRS)		
2009	$ 27,834	$ 2,919	$ 1,491	$ 29,262
2008	26,013	3,567	1,746	27,834
2007	24,905	2,831	1,723	26,013
2006	23,736	1,983	814	24,905
2005	21,789	2,017	70	23,736
2004*	20,488	1,387	86	21,789

**Details of changes in allowances are unavailable prior to FY 2004.*

*** Additions to the Annual Allowance include added retirees and the annual COLA provided to existing retirees and beneficiaries.*

Summary of Actuarial Assumptions and Methods

The VRS Board of Trustees adopted the actuarial assumptions and methods presented in Figure 4.3 on April 16, 2009 on the recommendation of its actuary. These assumptions include the Virginia Retirement System (VRS), State Police Officers' Retirement System (SPORS), Virginia Law Officers' Retirement System (VaLORS) and Judicial Retirement System (JRS). They were based on an analysis of plan experience for the four-year period July 1, 2004 through June 30, 2008 and used for the June 30, 2009 actuarial valuation.

FIGURE 4.3 – ACTUARIAL ASSUMPTIONS AND METHODS – PENSION PLANS

FOR THE JUNE 30, 2009 VALUATION

Investment Return Rate. 7.50% per annum, compounded annually, composed of an assumed 2.50% inflation rate and a 5.00% real rate of return. Benefits are assumed to increase by 2.50% annually due to the cost-of-living adjustment (COLA).

Mortality Rates:

- Pre-Retirement: 1994 Group Annuity Mortality Table for males and females with a one-year set back in age for males and females in all employer groups.
- Post-Retirement: 1994 Group Annuity Mortality Table for males and females with a one-year set back in age for male and female state employees and employees of political subdivisions not receiving enhanced hazardous duty benefits; a three-year set back in age for male and female teachers; and a one-year set back in age for male and female judges. 1994 Group Annuity Mortality Table for males and females with a four-year set back in age for state police officers, political subdivision employees in hazardous duty positions receiving enhanced benefits and other Virginia law enforcement and correctional officers.
- Post-Disablement: 70% of PBGC Disabled Mortality Table 5a for males; 90% of PBGC Disabled Mortality Table 6a for females.

FIGURE 4.4 – RETIREMENT RATES – PENSION PLANS

Sample rates of retirement for members eligible to retire are shown below.

State Employees

RETIREMENT PER 100 MEMBERS

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	3.0%	3.2%	10.0%	10.0%
55	5.0%	5.0%	10.0%	10.0%
59	5.0%	5.5%	10.0%	10.0%
60	5.0%	5.5%	10.0%	15.0%
61	10.0%	10.0%	15.0%	20.0%
62	15.0%	15.0%	25.0%	30.0%
64	15.0%	15.0%	20.0%	20.0%
65	40.0%	40.0%	30.0%	40.0%
67	40.0%	40.0%	25.0%	25.0%
> = 70	100.0%	100.0%	100.0%	100.0%

Teachers

RETIREMENT PER 100 MEMBERS

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	2.0%	2.0%	17.5%	15.0%
55	5.7%	6.1%	22.5%	22.5%
59	7.0%	7.5%	22.5%	22.5%
60	7.5%	8.5%	22.5%	22.5%
61	11.0%	12.0%	30.0%	30.0%
62	17.0%	17.0%	35.0%	40.0%
64	18.0%	16.5%	30.0%	25.0%
65	40.0%	40.0%	40.0%	40.0%
67	40.0%	40.0%	20.0%	30.0%
> = 70	100.0%	100.0%	100.0%	100.0%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

RETIREMENT PER 100 MEMBERS

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	3.5%	3.5%	13.0%	15.6%
55	5.0%	5.0%	11.5%	14.3%
59	4.5%	6.0%	13.5%	13.4%
60	6.0%	7.5%	17.0%	12.8%
61	10.5%	10.0%	19.0%	17.7%
62	17.5%	15.5%	31.0%	28.0%
64	16.5%	17.0%	29.0%	18.3%
65	40.0%	40.0%	41.0%	29.6%
67	40.0%	40.0%	24.0%	33.2%
> = 70	100.0%	100.0%	100.0%	100.0%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – All Other Employers

RETIREMENT PER 100 MEMBERS

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	5.0%	4.0%	9.0%	8.0%
55	5.0%	5.5%	14.0%	11.5%
59	6.0%	5.0%	11.0%	11.5%
60	6.0%	7.5%	11.0%	13.0%
61	10.0%	7.5%	25.0%	17.5%
62	17.0%	17.0%	35.0%	25.0%
64	15.0%	13.0%	27.0%	17.5%
65	40.0%	40.0%	33.0%	40.0%
67	40.0%	40.0%	20.0%	25.0%
> = 70	100.0%	100.0%	100.0%	100.0%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

RETIREMENT PER 100 MEMBERS

Age	Reduced Retirement	Unreduced Retirement
50	9.0%	25.0%
55	8.5%	18.0%
59	13.5%	31.5%
60	20.0%	35.0%
> = 65	100.0%	100.0%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – All Other Employers

RETIREMENT PER 100 MEMBERS

Age	Reduced Retirement	Unreduced Retirement
50	8.5%	25.0%
55	8.5%	17.5%
59	11.5%	28.5%
60	20.0%	35.0%
> = 65	100.0%	100.0%

State Police Officers

RETIREMENT PER 100 MEMBERS

Age	Reduced Retirement	Unreduced Retirement
50	10.0%	15.0%
55	10.0%	15.0%
59	12.0%	20.0%
60	25.0%	40.0%
> = 64	100.0%	100.0%

Virginia Law Officers

RETIREMENT PER 100 MEMBERS

Age	Reduced Retirement	Unreduced Retirement
50	9.2%	25.0%
55	9.5%	20.0%
59	12.0%	25.0%
60	20.0%	40.0%
> = 65	100.0%	100.0%

Judges

Age	Rate
At first age eligible for an unreduced retirement benefit	50.0%
At subsequent ages	15.0%
At age 70	100.0%

FIGURE 4.5 – DISABILITY RATES – PENSION PLANS

As shown below for selected ages.

State Employees

14% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Male	Female
20	0.1000%	0.0100%
30	0.2000%	0.1500%
40	0.2000%	0.2900%
50	0.5000%	0.5500%
60	0.8000%	1.0000%

Teachers

5% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Male	Female
20	0.0000%	0.0000%
30	0.0150%	0.0170%
40	0.0320%	0.0600%
50	0.2040%	0.1500%
60	0.4740%	0.4000%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

14% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Male	Female
20	0.0000%	0.0000%
30	0.1000%	0.1000%
40	0.3000%	0.1000%
50	0.4000%	0.4000%
60	1.2000%	1.0000%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – All Other Employers

14% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Male	Female
20	0.0300%	0.0100%
30	0.1000%	0.0400%
40	0.2400%	0.1300%
50	0.5200%	0.4500%
60	1.3600%	1.1600%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

60% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Rate
20	0.0000%
30	0.0500%
40	0.2400%
50	0.5300%
60	0.8100%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – All Other Employers

60% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Rate
20	0.0000%
30	0.0400%
40	0.1500%
50	0.5100%
60	0.8500%

State Police Officers

60% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Rate
20	0.0000%
30	0.0281%
40	0.2100%
50	0.6750%
60	0.0000%

Virginia Law Officers

60% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Rate
20	0.0000%
30	0.0250%
40	0.1810%
50	0.4740%
60	0.6200%

Judges

5% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Male	Female
20	0.0000%	0.0000%
30	0.0070%	0.0070%
40	0.1420%	0.0900%
50	0.4800%	0.3970%
60	0.0000%	0.0000%

FIGURE 4.6 – TERMINATION RATES – PENSION PLANS

Withdrawal rates are based on age and years of service credit. Sample rates for selected ages and years of service are shown below for causes other than death, disability or retirement.

State Employees

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.2200	0.1300	0.0000	0.2550	0.1600	0.0000
35	0.1700	0.0950	0.0450	0.1900	0.1150	0.0500
45	0.1400	0.0750	0.0230	0.1400	0.0750	0.0250
55	0.1000	0.0550	0.0000	0.1200	0.0600	0.0000

Teachers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.1500	0.1300	0.0080	0.1400	0.1250	0.1500
35	0.1400	0.0700	0.0320	0.1500	0.0970	0.0400
45	0.1500	0.0800	0.0190	0.1150	0.0630	0.0200
55	0.1400	0.7000	0.0000	0.1250	0.0570	0.0000

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.2180	0.1370	0.0000	0.2330	0.1670	0.0000
35	0.1720	0.0970	0.0580	0.1860	0.1060	0.0510
45	0.1430	0.0710	0.0290	0.1480	0.0770	0.0280
55	0.1090	0.0530	0.0070	0.1190	0.0630	0.0000

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – All Other Employers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.2350	0.1400	0.0000	0.2550	0.1650	0.0000
35	0.1850	0.1050	0.0550	0.1900	0.1150	0.0600
45	0.1550	0.0800	0.0300	0.1500	0.0800	0.0350
55	0.1200	0.0650	0.0100	0.1250	0.0650	0.0000

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.0780	0.0680	0.0000	0.0780	0.0680	0.0000
35	0.0800	0.0440	0.0240	0.0800	0.0440	0.0240
45	0.0920	0.0460	0.0150	0.0920	0.0460	0.0150
55	0.0830	0.0630	0.0000	0.0830	0.0630	0.0000

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – All Other Employers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.1070	0.0830	0.0000	0.1070	0.0830	0.0000
35	0.1090	0.0630	0.0330	0.1090	0.0630	0.0330
45	0.0870	0.0520	0.0180	0.0870	0.0520	0.0180
55	0.1090	0.0630	0.0050	0.1090	0.0630	0.0050

State Police Officers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.0750	0.0550	0.0300	0.1410	0.0880	0.0440
35	0.0750	0.0480	0.0240	0.1450	0.0730	0.0610
45	0.1000	0.0450	0.0140	0.1170	0.0790	0.0590
55	0.1000	0.0670	0.0120	0.0610	0.1060	0.0410

Virginia Law Officers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.2000	0.1500	0.0500	0.2000	0.1500	0.0750
35	0.2000	0.1250	0.0500	0.2000	0.1250	0.0750
45	0.1500	0.1050	0.0400	0.1750	0.0800	0.0590
55	0.1200	0.0650	0.0400	0.1000	0.1200	0.0600

Judges

There are no assumed rates of withdrawal prior to service retirement for causes other than death, disability or retirement.

FIGURE 4.7 – SALARY INCREASE RATES – PENSION PLANS

Sample salary increase rates are shown below.

State Employees

Inflation of 2.50% plus productivity component of 1.25% plus step-rate/promotional component as shown. It is assumed state employees covered under the Virginia Sickness and Disability Program (VSDP) receive a 3.75% annual increase in pay while disabled. This adjusted pay is used to determine deferred retirement benefits payable from the System.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.85%	5.60%
3	1.25%	5.00%
6	0.95%	4.70%
9	0.50%	4.25%
11	0.15%	3.90%
15	0.15%	3.90%
19	0.15%	3.90%
20 or more	0.00%	3.75%

Teachers

Inflation rate of 2.50% plus productivity component of 1.25% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	2.45%	6.20%
3	2.35%	6.10%
6	1.95%	5.70%
9	1.85%	5.60%
11	1.35%	5.10%
15	1.15%	4.90%
19	0.95%	4.70%
20 or more	0.00%	3.75%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

Inflation rate of 2.50% plus productivity component of 1.25% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.85%	5.60%
3	1.25%	5.00%
6	0.95%	4.70%
9	0.50%	4.25%
11	0.15%	3.90%
15	0.15%	3.90%
19	0.15%	3.90%
20 or more	0.00%	3.75%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – All Other Employers

Inflation rate of 2.50% plus productivity component of 1.25% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.85%	5.60%
3	1.25%	5.00%
6	0.95%	4.70%
9	0.50%	4.25%
11	0.15%	3.90%
15	0.15%	3.90%
19	0.15%	3.90%
20 or more	0.00%	3.75%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

Inflation rate of 2.50% plus productivity component of 1.00% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.25%	4.75%
3	1.25%	4.75%
6	0.90%	4.40%
9	0.90%	4.40%
11	0.50%	4.00%
15	0.50%	4.00%
19	0.50%	4.00%
20 or more	0.00%	3.50%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – All Other Employers

Inflation rate of 2.50% plus productivity component of 1.00% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.25%	4.75%
3	1.25%	4.75%
6	0.90%	4.40%
9	0.90%	4.40%
11	0.50%	4.00%
15	0.50%	4.00%
19	0.50%	4.00%
20 or more	0.00%	3.50%

State Police Officers

Inflation of 2.50% plus productivity component of 1.00% plus step-rate/promotional component as shown. It is assumed state police who are covered under the Virginia Sickness and Disability Program (VSDP) receive a 3.50% annual increase in pay while disabled. This adjusted pay is used to determine deferred retirement benefits payable from the System.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.25%	4.75%
3	1.25%	4.75%
6	0.90%	4.40%
9	0.90%	4.40%
11	0.50%	4.00%
15	0.50%	4.00%
19	0.50%	4.00%
20 or more	0.00%	3.50%

Virginia Law Officers

Inflation of 2.50% plus productivity component of 1.00% plus step-rate/promotional component as shown. It is assumed Virginia law officers who are covered under the Virginia Sickness and Disability Program (VSDP) receive a 3.50% annual increase in pay while disabled. This adjusted pay is used to determine deferred retirement benefits payable from the System.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.25%	4.75%
3	1.25%	4.75%
6	0.90%	4.40%
9	0.90%	4.40%
11	0.50%	4.00%
15	0.50%	4.00%
19	0.50%	4.00%
20 or more	0.00%	3.50%

Judges

Salary increase rates are 4.50%.

ADDITIONAL INFORMATION ABOUT ACTUARIAL ASSUMPTIONS AND METHODS – PENSION PLANS

Percent Electing a Refund or Deferred Annuity (Excluding JRS Members). Terminating members are assumed to elect a refund of their member contributions and interest or a deferred annuity based on the option any given member would consider most valuable at the time of termination. The deferred annuity, if elected, is assumed to commence at the age at which the member first becomes eligible for an unreduced benefit.

Provision for Expense. The assumed investment return represents the anticipated net rate of return after payment of all administrative expenses.

Asset Valuation Method. The actuarial value of assets is equal to the market value of assets, less a five-year phase-in of the excess or shortfall between expected investment returns and actual income, both based on market value, with the resulting value not being less than 80% or more than 120% of the market value of assets. For the June 30, 2009 actuarial valuation, the Board elected to suspend the 80% to 120% market value-of-assets corridor on the actuarial value of assets.

Actuarial Cost Method. The funding period required to amortize the unfunded actuarial accrued liability (UAAL) is determined using the entry age normal actuarial cost method. This method assigns the plan's total actuarial present value of future benefits to various periods. The actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost rate is determined on an individual basis. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The UAAL is the excess of the actuarial accrued liability over the actuarial value of assets.

Payroll Growth Rates. For state employees, teachers and members of SPORS, VaLORS and JRS, the payroll growth rate is assumed to be 3.00% based on a zero population growth assumption. For political subdivision employees, the payroll growth rate also is assumed to be 3.00% based on a zero population growth assumption.

Funding Period. For all members, the funding period is 20 years open amortization, computed as a level percent of covered payroll.

Cost-of-Living Adjustment (COLA). The COLA is assumed to be 2.50% per year compounded annually for the Basic Benefit option. The hazardous duty supplement for SPORS members, VaLORS members and political subdivision employees receiving enhanced hazardous duty benefits is assumed to increase at an inflation rate of 2.50% per year compounded annually.

Summary of Pension Plan Provisions

PLAN YEAR JULY 1-JUNE 30

Retirement Plans

ADMINISTRATION

The pension plans are administered by the Board of Trustees of the Virginia Retirement System (the System).

TYPE OF PLANS

1. Virginia Retirement System (VRS), effective March 1, 1952. VRS is a qualified governmental defined benefit plan considered by the Governmental Accounting Standards Board (GASB) as an agent multiple-employer public employee retirement system for employees of Virginia cities, towns, counties and other political subdivisions that have elected to participate in VRS. VRS has separate cost-sharing pools for state employees and teachers.

2. State Police Officers' Retirement System (SPORS), effective July 1, 1950. SPORS is a qualified governmental defined benefit plan considered by GASB as a single-employer public employee retirement system.

3. Virginia Law Officers' Retirement System (VaLORS), effective October 1, 1999. VaLORS is a qualified governmental defined benefit plan considered by GASB as a single-employer public employee retirement system.

4. Judicial Retirement System (JRS), effective July 1, 1970. JRS is a qualified governmental defined benefit plan considered by GASB as a single-employer public employee retirement system.

ELIGIBILITY

The following Virginia public employees are covered automatically under the retirement plans upon employment:

- Full-time permanent, salaried employees of the Commonwealth of Virginia, including state agency and public higher education employees. Some part-time permanent, salaried state employees also are covered under VRS.
- Full-time permanent, salaried teachers and other professional employees of local public school divisions.
- Full-time permanent, salaried sheriffs, deputy sheriffs and other eligible non-hazardous duty and hazardous duty employees of political subdivisions that have elected to participate in VRS.
- Full-time permanent, salaried state police officers through SPORS.
- Full-time permanent, salaried Virginia law officers other than state police through VaLORS.
- Full-time permanent, salaried judges through JRS.

MEMBER CONTRIBUTIONS

Members or their employers contribute 5.00% of the members' compensation to their member contribution accounts each month as their retirement contributions. Currently, most employers pay the member contribution on behalf of their covered employees as provided in Section 414(h) of the Internal Revenue Code. Members' contribution accounts accrue 4.00% interest each year, calculated on the balance of the previous June 30.

COMPENSATION AND AVERAGE FINAL COMPENSATION

Compensation is the member's salary reported to VRS by the employer. It does not include payments for overtime, temporary employment, extra duties or other additional payments. Average final compensation is the average of the member's 36 consecutive months of highest compensation as a covered employee.

VESTING

Members become vested after accumulating five years of service credit.

SERVICE CREDIT

1. Active Service Credit. VRS, SPORS and VaLORS members receive one month of service credit for each month they are employed and the employer is contributing to the System. JRS members receive one month of service credit multiplied by a weighting factor of 2.5 for each month they are employed and the employer is contributing to the System. The weighting factor for judges hired before January 1, 1995 is 3.5.

2. Prior Service Credit. Members may purchase eligible prior service as VRS credit toward vesting and eligibility for the retiree health insurance credit. The member must be active at the time of purchase. If the member purchases prior service within three years of becoming eligible, the cost is based on 5.00% of the member's compensation or average final compensation at the time of purchase, whichever is higher, multiplied by the number of months to purchase. If the member chooses to purchase service with a payroll contract, the cost is 5.00% of the member's compensation even if average final compensation is higher. After the three-year eligibility period, the member's cost is based on an actuarial equivalent rate. Other special rules and limits govern the purchase of prior service.

Eligible prior service includes the following:

- Active duty military service
- Full-time salaried federal service
- Full-time salaried public service with an employer or school system of another state or United States territory or with a Virginia public employer that does not participate in VRS
- Non-covered service with a VRS-participating employer
- Approved leave from a VRS-participating employer for the birth or adoption of a child
- Approved educational leave from a VRS-participating employer
- Non-ported service
- Unused sick leave at retirement, if the member is eligible
- VRS-refunded service

NORMAL (UNREDUCED) AND REDUCED RETIREMENT ELIGIBILITY

1. VRS Non-Hazardous Duty Members. The normal retirement age under VRS is age 65. These members are eligible to retire with an unreduced benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.

2. SPORS Members, VaLORS Members and Political Subdivision Employees Eligible for Enhanced Hazardous Duty Benefits. The normal retirement age for SPORS, VaLORS and VRS members eligible for enhanced hazardous duty coverage is age 60. These members are eligible to retire with an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. They may retire with a reduced benefit as early as age 50 with at least five years of service credit.

3. JRS Members. The normal retirement age under JRS is age 65. These members are eligible to retire with an unreduced benefit beginning at age 65 with weighted service equal to at least five years of service credit or age 60 with weighted service equal to at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with weighted service equal to at least five years of service credit.

BENEFIT PAYOUT OPTIONS

Members eligible for retirement must select one of the following benefit payout options when they apply for retirement. This election is irrevocable except for the Survivor Option under certain circumstances. These options are available on an actuarially equivalent basis:

1. Basic Benefit. Members may choose the Basic Benefit, which is the unreduced benefit amount. An early retirement reduction factor is applied for the reduced benefit. The Basic Benefit does not provide a continuation of a benefit to a survivor.

2. Survivor Option. Members may choose a whole percentage of their benefit, between 10% and 100%, to continue as a lifetime benefit to a survivor upon their death. The member's benefit is actuarially reduced accordingly.

3. Partial Lump-Sum Option Payment (PLOP). Members who are in active service for one or more years beyond the date they become eligible for an unreduced retirement benefit may elect a partial lump-sum payment of their member contributions and interest equal to one, two or three times their annual retirement benefit, depending on how long they work beyond their unreduced retirement eligibility date. The monthly benefit is actuarially reduced accordingly. This option is available with the Basic Benefit or Survivor Option.

4. Advance Pension Option. With this option, members elect to receive a temporary higher benefit until at least age 62 up to their normal retirement age under Social Security, as elected by the member. At that point, the monthly benefit is permanently reduced on an actuarially equivalent basis.

UNREDUCED BENEFIT CALCULATION

1. VRS Non-Hazardous Duty Members. The unreduced retirement benefit amount for non-hazardous duty employees covered under VRS is equal to 1.70% of average final compensation for each year of service credit.

2. VRS Hazardous Duty Members. The unreduced retirement benefit amount for VRS-covered sheriffs and superintendents of regional jails is equal to 1.85% of average final compensation for each year of service credit. The retirement multiplier for deputy sheriffs and other eligible hazardous duty political subdivision employees is 1.70%. Political subdivisions may elect the 1.85% multiplier for these employees.

3. SPORS Members. The unreduced retirement benefit amount for SPORS members is equal to 1.85% of average final compensation for each year of service credit.

4. VaLORS Members. The unreduced retirement benefit amount for VaLORS members hired on or after July 1, 2001 is equal to 2.00% of average final compensation for each year of service credit. VaLORS members hired before July 1, 2001 had the option to retain the 1.70% multiplier with eligibility for a hazardous duty supplement or elect the 2.00% multiplier with no supplement.

5. JRS Members. The unreduced retirement benefit for JRS members is equal to 1.70% of average final compensation for each year of weighted service credit, not to exceed 78% of their average final compensation.

REDUCED BENEFIT CALCULATION

The reduced benefit amount is equal to the unreduced Basic Benefit multiplied by an early retirement reduction factor. For members who are at least age 55 (age 50 for SPORS, VaLORS and VRS members eligible for enhanced hazardous duty benefits), the reduction is 0.5% per month for the first 60 months of retirement and 0.4% per month for the next 60 months of retirement. This reduction is applied for each month until the member reaches age 65 or, if more favorable to the member, for each month the member's service credit is less than 30 years (age 60 with less than 25 years of service credit for hazardous duty members).

PAYMENT FORM

The retirement benefit is paid as a lifetime monthly annuity. Upon the member's death in retirement, the member's beneficiary receives a lump sum of any remaining member contributions and interest. If the member has elected the Survivor Option, a lifetime monthly benefit is paid to his or her survivor instead of a lump-sum payment.

HAZARDOUS DUTY SUPPLEMENT

SPORS members and political subdivision employees eligible for enhanced hazardous duty benefits who retire with at least 20 years of hazardous duty service credit are eligible for an annual supplement payable monthly from their retirement date until their normal retirement age under Social Security. The supplement is a dollar amount added to the member's monthly retirement benefit payment. VaLORS members who elected the 1.70% multiplier and retire with at least 20 years of hazardous duty service credit are eligible for an annual supplement payable from their retirement date until age 65. Vested members in hazardous duty positions hired before July 1, 1974 are not required to have 20 years of hazardous duty service credit to qualify for the supplement if receiving an immediate annuity. The supplement is adjusted biennially. The VRS actuary determines the amount of the supplement based on increases in Social Security benefits during interim periods.

COST-OF-LIVING ADJUSTMENT (COLA)

Retirees qualify for a cost-of-living adjustment (COLA) on July 1 of the second calendar year after they retire. The COLA is effective each July 1 thereafter. COLAs are based on the first 3.00% of the Consumer Price Index-Urban, plus half of each percentage increase between 3.00% and 7.00%. Under current law, COLAs cannot exceed 5.00%.

Refunds and Deferred Retirement Benefits

Members who leave covered employment are eligible to take a refund of their accumulated member contributions and interest. Taking a refund terminates membership and eligibility for any future benefits under the retirement plans.

Members may choose to leave their contributions and interest with the System when they leave covered employment. These members are considered deferred members. If they are vested, they may be eligible for a retirement benefit when they meet the age and service requirements for their plan. The benefit calculation and payment of the benefit are based on the member's average final compensation and total service credit at the time he or she leaves covered employment. Upon the member's death, the member's beneficiary receives a lump-sum payment of any remaining member contributions and interest. If the member has elected the Survivor Option, a lifetime monthly benefit is paid to his or her survivor instead of a lump-sum payment.

Death-in-Service Benefit

If a member dies while in active service, his or her named beneficiary or spouse, minor child or parent may be eligible for a death-in-service benefit in addition to VRS life insurance benefits, if applicable.

NON-WORK RELATED DEATH

If the named beneficiary is the member's spouse, minor child or parent, the beneficiary is eligible to choose a lump-sum payment of the member's contributions and interest or a lifetime monthly annuity based on the 100% Survivor Option. If the member dies before age 55 (age 50 for SPORS, VaLORS and VRS members eligible for enhanced hazardous duty benefits), the member is assumed to be age 55 (age 50 for eligible hazardous duty members) at the time of death for benefit calculation purposes.

WORK-RELATED DEATH

If the named beneficiary is the member's spouse, minor child or parent, the beneficiary is eligible for a lump-sum payment of the member's contributions and interest and a lifetime monthly annuity. If the beneficiary does not qualify for Social Security survivor benefits, the annuity is based on 50% of the member's average final compensation. If the beneficiary qualifies for Social Security survivor benefits, the annuity is based on 33⅓% of the member's average final compensation. The benefit is reduced by any Workers' Compensation benefits.

Disability Benefits

DISABILITY RETIREMENT

Members who are not covered under the Virginia Sickness and Disability Program (VSDP) are eligible to apply for disability retirement from the first day of covered employment if they have a physical or mental disability that is likely to be permanent. Members retiring on disability before age 60 are credited with the lesser of (1) twice their total service credit at disability retirement or (2) their total service credit plus the number of years remaining between their age at disability retirement and age 60.

The disability benefit for non-vested members is the minimum guaranteed benefit, which is (1) 50% of the member's average final compensation (66⅔% if the disability is work-related) if the member does not qualify for primary Social Security benefits or (2) 33⅓% of average final compensation (50% if the disability is work-related) if the member qualifies for primary Social Security benefits. Vested members receive the greater of the minimum guaranteed benefit or 1.70% of average final compensation for each year of service credit at the time of disability retirement. The benefit for members retiring on work-related disability is reduced by any Workers' Compensation benefits.

Members retiring on disability may elect the Basic Benefit or Survivor Option. Upon the member's death in retirement, the member's beneficiary receives a lump-sum payment of any remaining member contributions and interest. If the member has elected the Survivor Option, a lifetime monthly benefit is paid to his or her survivor instead of a lump-sum payment.

VIRGINIA SICKNESS AND DISABILITY PROGRAM

The Virginia Sickness and Disability Program (VSDP) was established on January 1, 1999 to provide state employees covered under VRS, SPORS and VaLORS income protection in the event of a non-work related or work-related disability. Enrollment in VSDP is automatic upon employment. Employees enrolled in VSDP are not eligible to retire on disability. Eligible state employees hired before January 1, 1999 had the option to elect VSDP or retain their eligibility to be considered for disability retirement.

Additional information about VSDP, including the long-term disability benefit, is provided in the discussion on Other Post-Employment Benefit (OPEB) Plans following the Summary of Pension Plan Changes. Additional information also is provided in the Financial Section.

Summary of Pension Plan Changes

The following actuarially material changes have occurred to the pension plan provisions in recent years.

2000 VALUATION

1. ValORS goes into effect on October 1, 1999.

2. On November 15, 2000, the VRS Board of Trustees adopts the recommended economic and demographic assumptions proposed by the actuary as a result of the June 2000 actuarial experience study. The Board also adopts the use of a "pooled" contribution rate for state employees and teachers.

2001 VALUATION

1. The hazardous duty supplement for SPORS members is extended from age 65 to their normal retirement age under Social Security.

2. The retirement multiplier for VaLORS members is changed from 1.70% to 2.00% of average final compensation with no eligibility for the hazardous duty supplement for all new members hired on or after July 1, 2001. Current members have the option to elect the 2.00% multiplier or retain the 1.70% multiplier and eligibility for the hazardous duty supplement.

3. The Partial Lump-Sum Option Payment (PLOP) is added as a benefit payout option. This option provides retiring members with a lump-sum payment equal to one, two or three times their annual retirement benefit provided they are in active service for one, two or three years beyond their eligibility for an unreduced retirement benefit. The monthly benefit is actuarially reduced to reflect the lump-sum payment.

2002 VALUATION – No actuarially material changes are made to the plan provisions.

2003 VALUATION – No actuarially material changes are made to the plan provisions. There are two changes of note:

1. School superintendents with five years of service credit become eligible to purchase an additional 10 years of out-of-state school service, provided the service does not qualify the superintendent for a benefit under the out-of-state school's retirement plan.

2. The Advance Pension Option is added as a benefit payout option. Members may elect to receive a temporary higher benefit until at least age 62 up to their normal retirement age under Social Security, as elected by the member. At that point, the benefit is permanently reduced. The benefit can never be reduced below 50% of the member's Basic Benefit. COLAs are calculated on the Basic Benefit amount.

2004 VALUATION – No actuarially material changes are made to the plan provisions.

2005 VALUATION – No actuarially material changes are made to the plan provisions. On May 19, 2005, the Board adopts the recommended economic and demographic assumptions proposed by the actuary as a result of the June 2004 actuarial experience study.

2006 VALUATION – No actuarially material changes are made to the plan provisions.

2007 VALUATION – The retirement multiplier for VRS-covered sheriffs and SPORS members changes from 1.70% to 1.85% of average final compensation, effective July 1, 2008.

2008 VALUATION – No actuarially material changes are made to the plan provisions.

2009 VALUATION - No actuarially material changes are made to the plan provisions. There are three changes of note:

1. On April 16, 2009, the Board adopts the recommended economic and demographic assumptions proposed by the actuary as a result of the June 2008 experience study.

2. The temporary retirement supplement for SPORS members, VaLORS members and political subdivision employees eligible for enhanced hazardous duty coverage changes from $11,508 to $12,456 annually.

3. For the June 30, 2009 valuation, the Board suspends application of the 80% to 120% market value-of-assets corridor on the actuarial value of assets.

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

November 30, 2010

Board of Trustees
Virginia Retirement System
1200 E. Main Street
Richmond, VA 23219

Dear Trustees:

Governmental Accounting Standards Board Statements No. 43 and 45 require actuarial valuations of retiree medical and other post-employment benefit (OPEB) plans. Cavanaugh Macdonald Consulting, LLC (CMC) is submitting the results of the annual actuarial valuation of the Virginia Retirement System (VRS) Group Life Insurance Program (Plan) prepared as of June 30, 2009. While not verifying the data at source, the actuary preformed tests for consistency and reasonability.

This valuation covers only the portion of the Group Life Insurance Program that provides benefits for current retirees and future retirees. This valuation does not value the benefits for members who die while active employees. Active deaths are covered under a group life insurance arrangement. This valuation indicates that the Annual Required Contribution (ARC) under GASB Statements No. 43 and 45 is 1.11% of active payroll. Contribution rates based on the current valuation are for fiscal years ending 2011 and 2012.

The promised medical benefits of VRS are included in the actuarially calculated contribution rates which are developed using the entry age normal actuarial cost method with projected benefits. Five-year smoothed market value of assets is used for actuarial valuation purposes. For the June 30, 2009 actuarial valuation, the Board has elected to suspend the 80% to 120% of market value-of-assets corridor on the actuarial value of assets. GASB requires the discount rate used to value a plan be based on the likely return of the assets held in trust to pay benefits. As of June 30, 2009, the plan has assets in trust solely to provide benefits to retirees. Therefore, the discount rate has been set at 7.50%. The unfunded accrued liability is being amortized by regular annual contributions as a level percentage of payroll within a 27-year period on the assumption that payroll will increase by 3.00% annually. The assumptions recommended by the actuary are in the aggregate reasonably related to the experience under the Plan and to reasonable expectations of anticipated experience under the Plan and meet the parameters for the disclosures under GASB 43 and 45.

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The valuation reflects changes in the actuarial assumptions adopted by the Board of Trustees recommended in the experience study of VRS for the four-year period ending June 30, 2008. All historical information that references a valuation date prior to June 30, 2008 was prepared by a previous actuarial firm.

The following schedules (or updates to them) were prepared by VRS from information prepared by us during the 2009 actuarial valuation or from supplemental information prepared by us for use in the System's Comprehensive Annual Financial Report. We have reviewed them for inclusion in the 2010 Comprehensive Annual Financial Report. All historical information that references a valuation date prior to June 30, 2008 was prepared by a previous actuarial firm.

- Schedule of Funding Progress
- Schedule of Actuarial Methods and Significant Assumptions
- Schedule of Employer Contributions
- Schedules of Selected Experience Rates

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations of public retirement systems; that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board; and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the medical plans and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of VRS.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Jose I. Fernandez, ASA, FCA, EA, MAAA
Principal and Consulting Actuary

Eric H. Gary, FSA, FCA, MAAA
Senior Actuary

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

November 30, 2010

Board of Trustees
Virginia Retirement System
1200 E. Main Street
Richmond, VA 23219

Dear Trustees:

Governmental Accounting Standards Board Statements No. 43 and 45 require actuarial valuations of retiree medical and other post-employment benefit (OPEB) plans. Cavanaugh Macdonald Consulting, LLC (CMC) is submitting the results of the annual actuarial valuation of the Virginia Retirement System (VRS) Health Insurance Credit Program (Plan) prepared as of June 30, 2009. While not verifying the data at source, the actuary preformed tests for consistency and reasonability.

The valuation indicates that the Annual Required Contribution (ARC) under GASB Statements No. 43 and 45 is 1.06% for State Employees (including State, State Police (SPORS), Judicial Employees (JRS), Virginia Law Officers (VaLORS), Optional Retirement Plan (ORP) participants and University of Virginia (UVA) members of active payroll; 1.08% of active Teachers Payroll; and varying percentages of active payroll for Political Subdivisions who have elected to provide this benefit to their employees. The actuarially calculated employer contribution rates based on the current valuation are for fiscal years ending 2011 and 2012.

The promised medical benefits of VRS are included in the actuarially calculated contribution rates which are developed using the entry age normal actuarial cost method with projected benefits. Five-year smoothed market value of assets is used for actuarial valuation purposes. For the June 30, 2009 actuarial valuation the Board has elected to suspend the 80% to 120% of market value-of-assets corridor on the actuarial value of assets. GASB requires the discount rate used to value a plan be based on the likely return of the assets held in trust to pay benefits. As of June 30, 2009, these plans have assets in trust solely to provide benefits to retirees. Therefore, the discount rate has been set at 7.50%. The unfunded accrued liability is being amortized by regular annual contributions as a level percentage of payroll within a 27-year period, on the assumption that payroll will increase by 3.00% annually. The assumptions recommended by the actuary are in the aggregate reasonably related to the experience under the Plan and to reasonable expectations of anticipated experience under the Plan and meet the parameters for the disclosures under GASB 43 and 45.

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The valuation reflects changes in the actuarial assumptions adopted by the Board of Trustees recommended in the experience study of VRS for the four-year period ending June 30, 2008. Additionally, the results reflect a change to the assumed rate of participation and the inclusion of benefits payable to eligible terminating members. All historical information that references a valuation date prior to June 30, 2008 was prepared by a previous actuarial firm.

The following schedules (or updates to them) were prepared by VRS from information prepared by us during the 2009 actuarial valuation or from supplemental information prepared by us for use in the System's Comprehensive Annual Financial Report. We have reviewed them for inclusion in the 2010 Comprehensive Annual Financial Report. All historical information that references a valuation date prior to June 30, 2008 was prepared by a previous actuarial firm.

- Schedule of Funding Progress
- Schedule of Actuarial Methods and Significant Assumptions
- Schedule of Employer Contributions
- Schedules of Selected Experience Rates

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations of public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the medical plans and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of VRS.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Jose I. Fernandez, ASA, FCA, EA, MAAA
Principal and Consulting Actuary

Eric H. Gary, FSA, FCA, MAAA
Senior Actuary

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

November 30, 2010

Board of Trustees
Virginia Retirement System
1200 E. Main Street
Richmond, VA 23219

Dear Trustees:

Governmental Accounting Standards Board Statements No. 43 and 45 require actuarial valuations of retiree medical and other post-employment benefit (OPEB) plans. Cavanaugh Macdonald Consulting, LLC (CMC) is submitting the results of the annual actuarial valuation of the Virginia Sickness and Disability Program (VSDP) prepared as of June 30, 2009. While not verifying the data at source, the actuary preformed tests for consistency and reasonability.

The valuation indicates that the Annual Required Contribution (ARC) under GASB Statements No. 43 and 45 is 0.65% of active payroll. Contribution rates for Virginia Retirement System (VRS) employers are established every two years. The actuarially calculated employer contribution rates based on the current valuation are for fiscal years ending 2011 and 2012.

The promised disability benefits of VRS are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. GASB requires the discount rate used to value a plan be based on the likely return of the assets held in trust to pay benefits. As of June 30, 2009, the plan had $266,635,302 in assets in trust solely to provide benefits to retirees and their beneficiaries. This asset total includes $7,028,880 in assets to be transferred from the Long-Term Care Plan (LTC). Therefore, the discount rate has been set at 7.50%. The unfunded accrued liability is being amortized by regular annual contributions as a level percentage of payroll within a 27-year period, on the assumption that payroll will increase by 3.00% annually. The assumptions recommended by the actuary are in the aggregate reasonably related to the experience under the Plan and to reasonable expectations of anticipated experience under the Plan and meet the parameters for the disclosures under GASB 43 and 45.

The valuation reflects changes in the actuarial assumptions adopted by the Board of Trustees recommended in the experience study of VRS for the four-year period ending June 30, 2008. All historical information that references a valuation date prior to June 30, 2008 were prepared by a previous actuarial firm.

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The following schedules (or updates to them) were prepared by VRS from information prepared by us during the 2009 actuarial valuation or from supplemental information prepared by us for use in the System's Comprehensive Annual Financial Report. We have reviewed them for inclusion in the 2010 Comprehensive Annual Financial Report. All historical information that references a valuation date prior to June 30, 2008 was prepared by a previous actuarial firm.

- Schedule of Funding Progress
- Schedule of Actuarial Methods and Significant Assumptions
- Schedule of Employer Contributions
- Schedules of Selected Experience Rates

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations of public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the medical plans and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of VRS.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Jose I. Fernandez, ASA, FCA, EA, MAAA
Principal and Consulting Actuary

Eric H. Gary, FSA, FCA, MAAA
Senior Actuary

The Actuarial Section for VRS-administered Other Post-Employment Benefit (OPEB) Plans presents information about the assumptions adopted by the Board of Trustees and used by the VRS actuary to evaluate the funded status of these plans. This information includes assumptions about retirements, disabilities, terminations and salary increase rates. The section also provides a summary of the provisions of and changes to these plans.

Summary of Actuarial Assumptions and Methods

The VRS Board of Trustees adopted the actuarial assumptions and methods presented below on April 16, 2009 on the recommendation of its actuary. These assumptions include the Group Life Insurance Program, the Retiree Health Insurance Credit Program and the Virginia Sickness and Disability Program. They were based on an analysis of VRS pension plan experience for the four-year period July 1, 2004 through June 30, 2008.

ACTUARIAL ASSUMPTIONS AND METHODS - OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS

FOR THE JUNE 30, 2009 ACTUARIAL VALUATION

Actuarial Assumptions and Methods	Group Life Insurance Program	Retiree Health Insurance Credit Program	Virginia Sickness and Disability Program
Valuation Interest Rate	7.5%	7.5%	7.5%
Salary Scale Inflation Factor	2.5%	2.5%	2.5%
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit
Funding Period	27 Years	27 Years	27 Years
Payroll Growth Rate	3.0%	3.0%	3.0%
Assets Valuation Method	5-Year Smoothed Market	5-Year Smoothed Market	Market Value

FIGURE 4.8 - RETIREMENT RATES - OPEB PLANS

Sample rates of retirement for members eligible to retire are shown below.

State Employees

RETIREMENT PER 100 MEMBERS

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	3.0%	3.2%	10.0%	10.0%
55	5.0%	5.0%	10.0%	10.0%
59	5.0%	5.5%	10.0%	10.0%
60	5.0%	5.5%	10.0%	15.0%
61	10.0%	10.0%	15.0%	20.0%
62	15.0%	15.0%	25.0%	30.0%
64	15.0%	15.0%	20.0%	20.0%
65	40.0%	40.0%	30.0%	40.0%
67	40.0%	40.0%	25.0%	25.0%
> = 70	100.0%	100.0%	100.0%	100.0%

Teachers

RETIREMENT PER 100 MEMBERS

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	2.0%	2.0%	17.5%	15.0%
55	5.7%	6.1%	22.5%	22.5%
59	7.0%	7.5%	22.5%	22.5%
60	7.5%	8.5%	22.5%	22.5%
61	11.0%	12.0%	30.0%	30.0%
62	17.0%	17.0%	35.0%	40.0%
64	18.0%	16.5%	30.0%	25.0%
65	40.0%	40.0%	40.0%	40.0%
67	40.0%	40.0%	20.0%	30.0%
> = 70	100.0%	100.0%	100.0%	100.0%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

RETIREMENT PER 100 MEMBERS

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	3.5%	3.5%	13.0%	15.6%
55	5.0%	5.0%	11.5%	14.3%
59	4.5%	6.0%	13.5%	13.4%
60	6.0%	7.5%	17.0%	12.8%
61	10.5%	10.0%	19.0%	17.7%
62	17.5%	15.5%	31.0%	28.0%
64	16.5%	17.0%	29.0%	18.3%
65	40.0%	40.0%	41.0%	29.6%
67	40.0%	40.0%	24.0%	33.2%
> = 70	100.0%	100.0%	100.0%	100.0%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – All Other Employers

RETIREMENT PER 100 MEMBERS

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	5.0%	4.0%	9.0%	8.0%
55	5.0%	5.5%	14.0%	11.5%
59	6.0%	5.0%	11.0%	11.5%
60	6.0%	7.5%	11.0%	13.0%
61	10.0%	7.5%	25.0%	17.5%
62	17.0%	17.0%	35.0%	25.0%
64	15.0%	13.0%	27.0%	17.5%
65	40.0%	40.0%	33.0%	40.0%
67	40.0%	40.0%	20.0%	25.0%
> = 70	100.0%	100.0%	100.0%	100.0%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

RETIREMENT PER 100 MEMBERS

Age	Reduced Retirement	Unreduced Retirement
50	9.0%	25.0%
55	8.5%	18.0%
59	13.5%	31.5%
60	20.0%	35.0%
> = 65	100.0%	100.0%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – All Other Employers

RETIREMENT PER 100 MEMBERS

Age	Reduced Retirement	Unreduced Retirement
50	8.5%	25.0%
55	8.5%	17.5%
59	11.5%	28.5%
60	20.0%	35.0%
> = 65	100.0%	100.0%

State Police Officers

RETIREMENT PER 100 MEMBERS

Age	Reduced Retirement	Unreduced Retirement
50	10.0%	15.0%
55	10.0%	15.0%
59	12.0%	20.0%
60	25.0%	40.0%
> = 64	100.0%	100.0%

Virginia Law Officers

RETIREMENT PER 100 MEMBERS

Age	Reduced Retirement	Unreduced Retirement
50	9.2%	25.0%
55	9.5%	20.0%
59	12.0%	25.0%
60	20.0%	40.0%
> = 65	100.0%	100.0%

Judges

Age	Rate
At first age eligible for an unreduced retirement benefit	50.0%
At subsequent ages	15.0%
At age 70	100.0%

FIGURE 4.9 DISABILITY RATES - OPEB PLANS

As shown below for selected ages.

State Employees

14% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Male	Female
20	0.1000%	0.0100%
30	0.2000%	0.1500%
40	0.2000%	0.2900%
50	0.5000%	0.5500%
60	0.8000%	1.0000%

Teachers

5% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Male	Female
20	0.0000%	0.0000%
30	0.0150%	0.0170%
40	0.0320%	0.0600%
50	0.2040%	0.1500%
60	0.4740%	0.4000%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

14% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Male	Female
20	0.0000%	0.0000%
30	0.1000%	0.1000%
40	0.3000%	0.1000%
50	0.4000%	0.4000%
60	1.2000%	1.0000%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – All Other Employers

14% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Male	Female
20	0.0300%	0.0100%
30	0.1000%	0.0400%
40	0.2400%	0.1300%
50	0.5200%	0.4500%
60	1.3600%	1.1600%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

60% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Rate
20	0.0000%
30	0.0500%
40	0.2400%
50	0.5300%
60	0.8100%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – All Other Employers

60% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Rate
20	0.0000%
30	0.0400%
40	0.1500%
50	0.5100%
60	0.8500%

State Police Officers

60% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Rate
20	0.0000%
30	0.0281%
40	0.2100%
50	0.6750%
60	0.0000%

Virginia Law Officers

60% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Rate
20	0.0000%
30	0.0250%
40	0.1810%
50	0.4740%
60	0.6200%

Judges

5% of disability cases are assumed to be service-related.

DISABILITIES PER 100 MEMBERS

Age	Male	Female
20	0.0000%	0.0000%
30	0.0070%	0.0070%
40	0.1420%	0.0900%
50	0.4800%	0.3970%
60	0.0000%	0.0000%

FIGURE 4.10 TERMINATION RATES – OPEB PLANS

Withdrawal rates are based on age and years of service credit. Sample rates for selected ages and years of service are shown below for causes other than death, disability or retirement.

State Employees

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.2200	0.1300	0.0000	0.2550	0.1600	0.0000
35	0.1700	0.0950	0.0450	0.1900	0.1150	0.0500
45	0.1400	0.0750	0.0230	0.1400	0.0750	0.0250
55	0.1000	0.0550	0.0000	0.1200	0.0600	0.0000

Teachers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.1500	0.1300	0.0080	0.1400	0.1250	0.1500
35	0.1400	0.0700	0.0320	0.1500	0.0970	0.0400
45	0.1500	0.0800	0.0190	0.1150	0.0630	0.0200
55	0.1400	0.7000	0.0000	0.1250	0.0570	0.0000

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.2180	0.1370	0.0000	0.2330	0.1670	0.0000
35	0.1720	0.0970	0.0580	0.1860	0.1060	0.0510
45	0.1430	0.0710	0.0290	0.1480	0.0770	0.0280
55	0.1090	0.0530	0.0070	0.1190	0.0630	0.0000

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – All Other Employers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.2350	0.1400	0.0000	0.2550	0.1650	0.0000
35	0.1850	0.1050	0.0550	0.1900	0.1150	0.0600
45	0.1550	0.0800	0.0300	0.1500	0.0800	0.0350
55	0.1200	0.0650	0.0100	0.1250	0.0650	0.0000

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.0780	0.0680	0.0000	0.0780	0.0680	0.0000
35	0.0800	0.0440	0.0240	0.0800	0.0440	0.0240
45	0.0920	0.0460	0.0150	0.0920	0.0460	0.0150
55	0.0830	0.0630	0.0000	0.0830	0.0630	0.0000

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – All Other Employers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.1070	0.0830	0.0000	0.1070	0.0830	0.0000
35	0.1090	0.0630	0.0330	0.1090	0.0630	0.0330
45	0.0870	0.0520	0.0180	0.0870	0.0520	0.0180
55	0.1090	0.0630	0.0050	0.1090	0.0630	0.0050

State Police Officers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.0750	0.0550	0.0300	0.1410	0.0880	0.0440
35	0.0750	0.0480	0.0240	0.1450	0.0730	0.0610
45	0.1000	0.0450	0.0140	0.1170	0.0790	0.0590
55	0.1000	0.0670	0.0120	0.0610	0.1060	0.0410

Virginia Law Officers

SEPARATIONS FROM ACTIVE SERVICE DUE TO TERMINATION

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	0.2000	0.1500	0.0500	0.2000	0.1500	0.0750
35	0.2000	0.1250	0.0500	0.2000	0.1250	0.0750
45	0.1500	0.1050	0.0400	0.1750	0.0800	0.0590
55	0.1200	0.0650	0.0400	0.1000	0.1200	0.0600

Judges

There are no assumed rates of withdrawal prior to service retirement for causes other than death, disability or retirement.

FIGURE 4.11 SALARY INCREASE RATES – OPEB PLANS

Sample salary increase rates are shown below.

State Employees

Inflation of 2.50% plus productivity component of 1.25% plus step-rate/promotional component as shown. It is assumed state employees covered under the Virginia Sickness and Disability Program (VSDP) receive a 3.75% annual increase in pay while disabled. This adjusted pay is used to determine deferred retirement benefits payable from the System.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.85%	5.60%
3	1.25%	5.00%
6	0.95%	4.70%
9	0.50%	4.25%
11	0.15%	3.90%
15	0.15%	3.90%
19	0.15%	3.90%
20 or more	0.00%	3.75%

Teachers

Inflation rate of 2.50% plus productivity component of 1.25% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	2.45%	6.20%
3	2.35%	6.10%
6	1.95%	5.70%
9	1.85%	5.60%
11	1.35%	5.10%
15	1.15%	4.90%
19	0.95%	4.70%
20 or more	0.00%	3.75%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

Inflation rate of 2.50% plus productivity component of 1.25% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.85%	5.60%
3	1.25%	5.00%
6	0.95%	4.70%
9	0.50%	4.25%
11	0.15%	3.90%
15	0.15%	3.90%
19	0.15%	3.90%
20 or more	0.00%	3.75%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – All Other Employers

Inflation rate of 2.50% plus productivity component of 1.25% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.85%	5.60%
3	1.25%	5.00%
6	0.95%	4.70%
9	0.50%	4.25%
11	0.15%	3.90%
15	0.15%	3.90%
19	0.15%	3.90%
20 or more	0.00%	3.75%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – Ten Largest Employers

Inflation rate of 2.50% plus productivity component of 1.00% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.25%	4.75%
3	1.25%	4.75%
6	0.90%	4.40%
9	0.90%	4.40%
11	0.50%	4.00%
15	0.50%	4.00%
19	0.50%	4.00%
20 or more	0.00%	3.50%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – All Other Employers

Inflation rate of 2.50% plus productivity component of 1.00% plus step-rate/promotional component as shown.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.25%	4.75%
3	1.25%	4.75%
6	0.90%	4.40%
9	0.90%	4.40%
11	0.50%	4.00%
15	0.50%	4.00%
19	0.50%	4.00%
20 or more	0.00%	3.50%

State Police Officers

Inflation of 2.50% plus productivity component of 1.00% plus step-rate/promotional component as shown. It is assumed state police who are covered under the Virginia Sickness and Disability Program (VSDP) receive a 3.50% annual increase in pay while disabled. This adjusted pay is used to determine deferred retirement benefits payable from the System.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.25%	4.75%
3	1.25%	4.75%
6	0.90%	4.40%
9	0.90%	4.40%
11	0.50%	4.00%
15	0.50%	4.00%
19	0.50%	4.00%
20 or more	0.00%	3.50%

Virginia Law Officers

Inflation of 2.50% plus productivity component of 1.00% plus step-rate/promotional component as shown. It is assumed Virginia law officers who are covered under the Virginia Sickness and Disability Program (VSDP) receive a 3.50% annual increase in pay while disabled. This adjusted pay is used to determine deferred retirement benefits payable from the System.

Years of Service Credit	Annual Step-Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.25%	4.75%
3	1.25%	4.75%
6	0.90%	4.40%
9	0.90%	4.40%
11	0.50%	4.00%
15	0.50%	4.00%
19	0.50%	4.00%
20 or more	0.00%	3.50%

Judges

Salary increase rates are 4.50%.

ADDITIONAL INFORMATION ABOUT ACTUARIAL ASSUMPTIONS AND METHODS – OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS

Mortality Rates:

- Pre-Retirement: 1994 Group Annuity Mortality Table for males and females with a one-year set back in age for males and females in all employer groups.
- Post-Retirement: 1994 Group Annuity Mortality Table for males and females with a one-year set back in age for male and female state employees and employees of political subdivisions not receiving enhanced hazardous duty benefits; a three-year set back in age for male and female teachers; and a one-year set back in age for male and female judges. 1994 Group Annuity Mortality Table for males and females with a four-year set back in age for state police officers, political subdivision employees in hazardous duty positions receiving enhanced benefits and other Virginia law enforcement and correctional officers.
- Post-Disablement: 70% of PBGC Disabled Mortality Table 5a for males; 90% of PBGC Disabled Mortality Table 6a for females.

Provision for Expense. The assumed investment return represents the anticipated net rate of return after payment of all administrative expenses.

Asset Valuation Method. For the Group Life Insurance and Health Insurance Credit Programs, the actuarial value of assets is equal to the market value of assets, less a five-year phase-in of the excess or shortfall between expected investment returns and actual income, both based on market value, with the resulting value not being less than 80% or more than 120% of the market value of assets. For the June 30, 2009 actuarial valuation, the Board elected to suspend the 80% to 120% of market value-of-assets corridor on the actuarial value of assets. For the Virginia Sickness and Disability Program (VSDP), the actual value of assets is equal to the market value of assets.

Actuarial Cost Method. For the Group Life Insurance and Health Insurance Credit Programs, the normal contribution is determined using the entry age normal method. Under this method, a calculation is made for the cost of benefits to determine the uniform and constant percentage rate of the employer contribution which, if applied to the compensation of the average new member during the entire period of his or her anticipated covered service, would meet the cost of all benefits payable on his or her behalf. The unfunded accrued liability is determined by subtracting the current assets and the present value of prospective employer normal contributions from the present value of the expected benefits to be paid. The accrued liability contribution amortizes the balance of the unfunded accrued actuarial liability (UAAL) over a period of years from the valuation date.

For the VSDP, the normal contribution is determined using the projected unit credit method. Under this method, the liability for active employees is the portion of the employee's present value of expected benefits attributed to service completed as compared to total service at decrement. The unfunded accrued liability is determined by subtracting the current assets from the liability of active employees and current beneficiaries. The accrued liability contribution amortizes the balance of the unfunded accrued actuarial liability (UAAL) over a period of years from the valuation date.

Payroll Growth Rates. The payroll growth rate is assumed to be 3.00% based on a zero population growth assumption.

Funding Period. For all members, the funding period is 27 years closed amortization, computed as a level percent of covered payroll.

Summary of Other Post-Employment Benefit (OPEB) Plan Provisions

PLAN YEAR JULY 1-JUNE 30

Group Life Insurance Program

ADMINISTRATION

The plan is administered by the Board of Trustees of the Virginia Retirement System (the System). Contributions received are held in trust. Payments are made to Minnesota Life Insurance Company as reimbursement for the payment of life insurance proceeds to the beneficiaries. The retiree death benefit is paid for by an addition to the contribution requirement to provide the active member benefit. While the active portion of the contribution is used to purchase group term life insurance from an insurance company, the retired member portion of the contribution is held in a trust until required to pay benefits. When a covered retiree dies, the Minnesota Life Insurance Company pays the insurance claim and then collects a premium equal to the cost of the claim. The retired member contribution is determined actuarially. The Board sets administrative policy and determines the allocation of the assets held for investment.

ELIGIBILITY

Although certain members who were employed at the time of initial coverage under the Group Life Insurance Program may decline coverage, substantially all full-time, permanent employees participate. The following Virginia public employees are covered automatically under the plan upon employment:

- Full-time permanent, salaried employees of the Commonwealth of Virginia, including state employees, state police (SPORS), Virginia law officers (VaLORS) and judicial employees (JRS).
- Full-time permanent, salaried teachers and other professional employees of local public school divisions.
- Full-time permanent, salaried sheriffs, deputy sheriffs and other eligible non-hazardous duty and hazardous duty employees of political subdivisions that have elected to participate in the Group Life Insurance Program. This includes five localities that do not participate in VRS for retirement: City of Richmond, City of Portsmouth, City of Roanoke, City of Norfolk and Roanoke City School Board.

ACTIVE EMPLOYEE BENEFIT

Each active member is entitled to a death benefit from this program equal to two times the member's annual rate of compensation, rounded to the next higher multiple of $1,000. This benefit is provided for by the purchase of a group life insurance contract from an insurance company. Active members also may be covered by accidental death and dismemberment insurance, and they may elect additional amounts of insurance through the Optional Group Life Insurance Program. Optional group life benefits are excluded from this valuation.

RETIRED EMPLOYEE BENEFIT

Each retired member, other than a member who is retired on disability, will be entitled to a death benefit from this program equal to the amount in effect immediately before his or her termination or retirement, reduced by 25% on January 1 of the first full year following the date the member is separated from service and each year thereafter. In no event will the death benefit be less than 25% of the amount in effect at the date of termination or retirement.

Each member retired on disability will be entitled to a death benefit from this program similar to the retired member benefit, except that the 25% per year reduction does not begin until the member reaches age 65, or the retirement date if later.

Health Insurance Credit Program

ADMINISTRATION

The plan is administered by the System's Board of Trustees. Contributions received are held in trust. The Board sets administrative policy and determines the allocation of the assets held for investment.

ELIGIBILITY

The following Virginia public employees are covered automatically under the plan upon employment:

- Full-time permanent, salaried employees of the Commonwealth of Virginia, including state employees, state police (SPORS), Virginia law officers (VaLORS) and judicial employees (JRS).
- Full-time permanent, salaried teachers and other professional employees of local public school divisions.
- Full-time permanent, salaried sheriffs, deputy sheriffs and other eligible non-hazardous duty and hazardous duty employees of political subdivisions that have elected to participate in the health insurance credit program.

STATE EMPLOYEE BENEFIT

State employees retiring from the System who have rendered at least 15 years of total creditable service under the System, or who rendered service as a temporary employee of the General Assembly in 1972 and became a member of the System from 1972 to 1985 immediately following such temporary service, are eligible for a monthly health insurance credit of $4 per year of creditable service, which is applied to the retiree's monthly health insurance premium. The amount of the credit cannot exceed the retiree's actual health insurance premium for retiree-only coverage.

State members who retire on disability or who are on long-term disability are eligible for the maximum health insurance credit, which is the greater of (1) $120; (2) $4 per year for each year of creditable service at the time of disability retirement; or (3) $4 per year for each year of creditable service at the time of eligibility for long-term disability. For eligible employees who worked for more than one employer in System, for the purpose of this valuation, the most current (or last) employer assumes the full liability for that employee.

TEACHER EMPLOYEE BENEFIT

Teachers retiring under the System who have rendered at least 15 years of total creditable service under the System are eligible for a monthly health insurance credit of $4 per year of creditable service, which is applied to the retiree's monthly health insurance premium. The amount of the credit cannot exceed the retiree's actual health insurance premium for retiree-only coverage.

Teachers who retire on disability are eligible for a monthly health insurance credit of $4 multiplied by the smaller of (1) twice the amount of their creditable service or (2) the amount of creditable service they would have completed at age 60, if they had remained in service to that age. Eligibility for the credit is determined by the System. For eligible employees who worked for more than one employer in System, for the purpose of the valuation, the most current (or last) employer assumes the full liability for that employee.

POLITICAL SUBDIVISION EMPLOYEE BENEFIT

Constitutional officers and their employees, registrars and their employees, local social service employees and other participating political subdivision employees whose employers have elected to participate in the program retiring under the System who have rendered at least 15 years of total creditable service under the System are eligible for a monthly health insurance credit of $1.50 per year of creditable service, which is applied to the retiree's monthly health insurance premium. The amount of the credit cannot exceed the retiree's actual health insurance premium for retiree-only coverage. Employers may elect to provide a supplemental benefit of an additional $1.00 per year of creditable service.

Covered political subdivision employees who retire on disability are eligible for the maximum health insurance credit, which is the greater of (1) $45 or (2) $1.50 per year of creditable service at the time of disability retirement.

If an eligible employee has worked for more than one employer in the Virginia Retirement System, for the purpose of this valuation, the most current (or last) employer assumes the full liability for that employee.

Virginia Sickness and Disability Program

ADMINISTRATION

The plan is administered by the System's Board of Trustees. Contributions received are held in trust. The Board sets administrative policy and determines the allocation of the assets held for investment.

ELIGIBILITY

The following Virginia public employees are covered automatically under the Virginia Sickness and Disability Program (VSDP) upon employment:

- Full-time permanent, salaried employees of the Commonwealth of Virginia, including state agency and public higher education employees. Some part-time permanent, salaried state employees also are covered under VSDP. Newly hired or appointed faculty of public colleges and universities who do not elect coverage under a disability plan offered by the institution also are covered, provided they elect to participate in VRS rather than an optional retirement plan.
- Full-time permanent, salaried state police officers through SPORS.
- Full-time permanent, salaried Virginia law officers other than state police through VaLORS.

LONG-TERM DISABILITY BENEFIT

Long-term disability benefits provide income replacement for members who become disabled and are unable to work for an extended period of time. Long-term disability benefits begin at the expiration of the maximum period of short-term disability. While on long-term disability, members continue to accrue service as a covered member of their retirement plan. Long-term disability participants are not considered employees of the Commonwealth of Virginia while they are on long-term disability.

Members are eligible to receive long-term disability benefits while working. Long-term disability status is in effect if members are able to work 20 or more hours a week, but are restricted from performing the full duties of their job or working a regular schedule. Long-term disability status also applies to eligible part-time employees. To receive long-term disability benefits while working, members must have been working during short-term disability.

Long-term disability benefits provide members an income replacement of 60% of the member's pre-disability income, or 80% for a catastrophic condition. A disability is determined to be catastrophic if a member is unable to perform at least two of a specified list of activities of daily living without assistance. The benefits are adjusted by any payments the member receives for the same disability, from wages and salary from employment or from other disability-related benefit payments.

Long-term disability benefits end if the member is able to perform the full duties of the pre-disability job without any restrictions during the first 24 months of disability; the member is able to perform the regular duties of any job for which the member is reasonably qualified after 24 months of disability and earning 80% or more of his or her pre-disability income; the member takes a refund of his or her member contributions and interest; the member does not cooperate or comply with the requirements of VSDP; the member begins receiving a VRS service retirement benefit; or in the event of the member's death.

SUMMARY OF OPEB PLAN CHANGES

The following changes have occurred to the OPEB plan provisions.

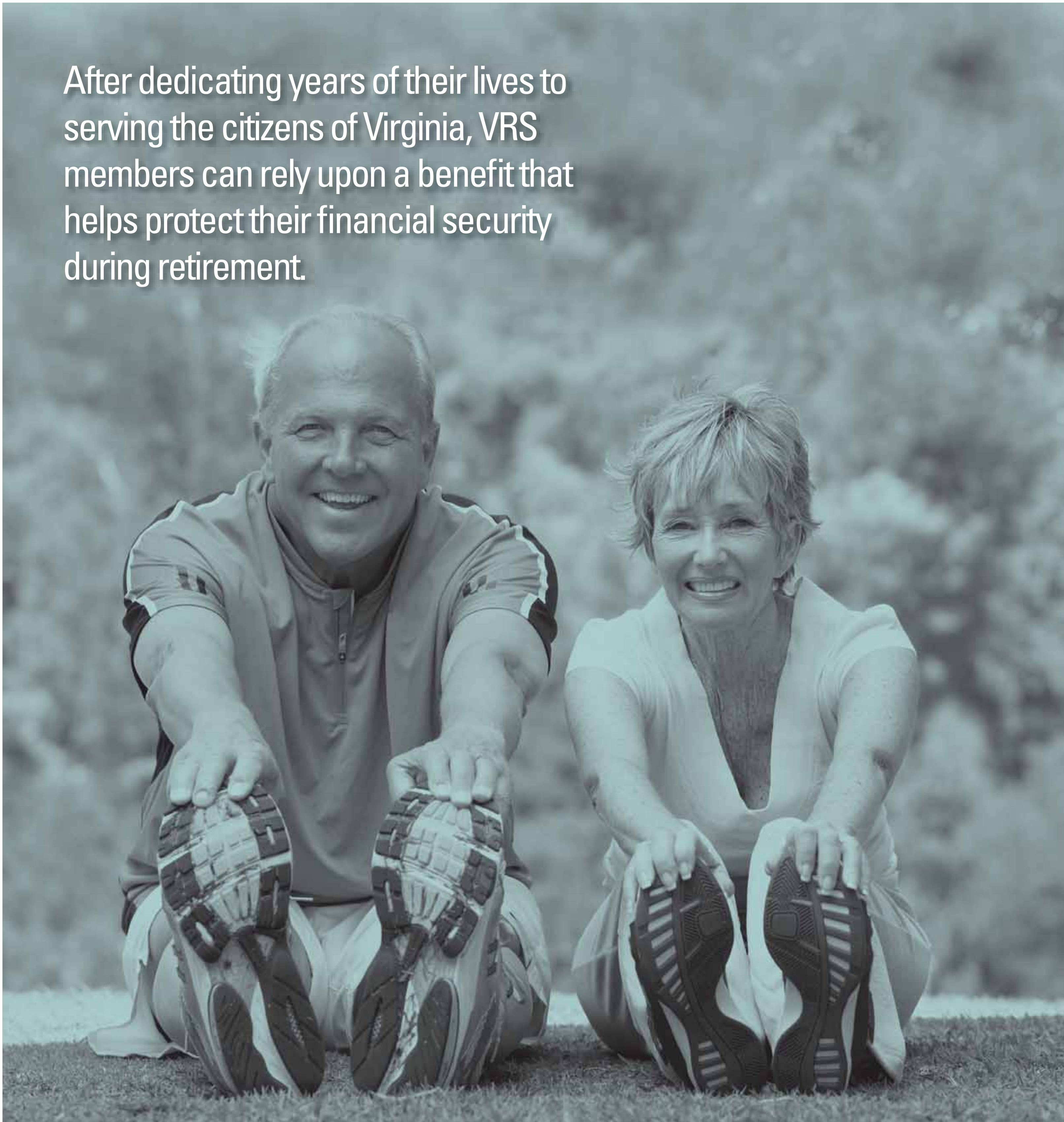
2009 VALUATION – No actuarially material changes are made to the plan provisions. There are two changes of note:

1. On April 16, 2009, the Board adopts the recommended economic and demographic assumptions proposed by the actuary as a result of the June 2008 actuarial experience study.

2. For the June 30, 2009 valuation, the Board suspends application of the 80% to 120% market value-of-assets corridor on the actuarial value of assets for the Group Life Insurance Program and the Health Insurance Credit Program.

5 statistical section

2010 Plan for tomorrow



Helping members plan for tomorrow, today.

The Statistical Section presents detailed historical information regarding the pension and other employee benefit plans administered by the System. This information includes a 10-year analysis of changes in plan net assets, plan enrollment, contributions, plan additions and deductions, benefits and refunds. Included in this analysis is statistical information regarding retirees and an analysis of funding, enrollment and investment activity related to the Commonwealth of Virginia 457 Deferred Compensation Plan. The Statistical Section also lists the employers participating in VRS as of the end of the fiscal year.

Pension Trust Funds

FIGURE 5.1 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS – ALL PENSION TRUST FUNDS

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN MILLIONS)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Assets Available– Beginning of Year	**$ 39,786**	**$ 36,693**	**$ 33,456**	**$ 33,781**	**$ 39,039**	**$ 43,060**	**$ 47,627**	**$ 56,890**	**$ 53,600**	**$ 41,348**
Funding										
Member and Employer Contributions and Other Additions	1,270	1,044	1,042	1,185	1,468	1,567	1,944	2,148	2,097	1,862
Benefits and Administrative Expenses and Transfers	(1,394)	(1,529)	(1,687)	(1,865)	(2,049)	(2,214)	(2,434)	(2,665)	(2,857)	(3,157)
Net Funding	(124)	(485)	(645)	(680)	(581)	(647)	(490)	(517)	(760)	(1,295)
Investment Income										
Interest, Dividends and Other Investment Income	785	624	569	461	667	823	1,157	983	762	775
Net Appreciation (Depreciation) in Fair Value	(3,754)	(3,376)	401	5,477	3,935	4,391	8,596	(3,756)	(12,254)	5,459
Net Investment Income	(2,969)	(2,752)	970	5,938	4,602	5,214	9,753	(2,773)	(11,492)	6,234
Net Increase (Decrease)	**(3,093)**	**(3,237)**	**325**	**5,258**	**4,021**	**4,567**	**9,263**	**(3,290)**	**(12,252)**	**4,939**
Net Assets Available– End of Year	**$ 36,693**	**$ 33,456**	**$ 33,781**	**$ 39,039**	**$ 43,060**	**$ 47,627**	**$ 56,890**	**$ 53,600**	**$ 41,348**	**$ 46,287**

FIGURE 5.2 – NUMBER OF ACTIVE MEMBERS

AT JUNE 30 (EXPRESSED IN THOUSANDS)

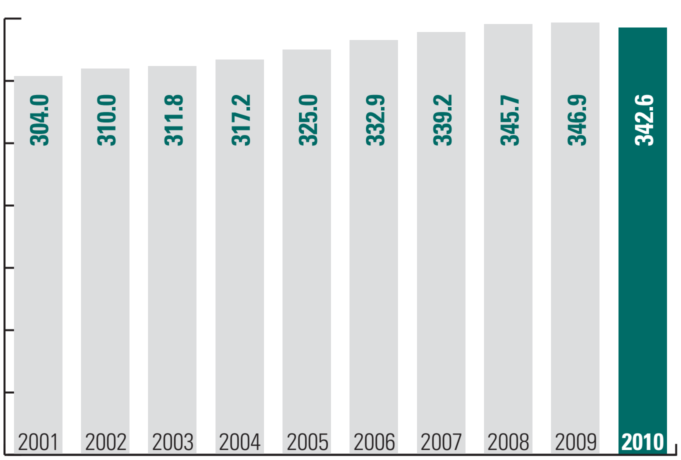


FIGURE 5.3 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS BY PENSION TRUST FUND

FOR THE YEARS ENDED JUNE 30

VIRGINIA RETIREMENT SYSTEM PENSION TRUST FUND

(EXPRESSED IN MILLIONS)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Assets Available– Beginning of Year	**$ 38,991**	**$ 35,620**	**$ 32,448**	**$ 32,727**	**$ 37,784**	**$ 41,640**	**$ 46,021**	**$ 54,948**	**$ 51,743**	**$ 39,890**
Funding										
Member and Employer Contributions and Other Additions	1,155	974	965	1,097	1,366	1,459	1,834	2,022	1,979	1,765
Benefits and Administrative Expenses and Transfers	(1,618)	(1,478)	(1,621)	(1,791)	(1,963)	(2,121)	(2,333)	(2,550)	(2,735)	(3,024)
Net Funding	(463)	(504)	(656)	(694)	(597)	(662)	(499)	(528)	(756)	(1,259)
Investment Income										
Interest, Dividends and Other Investment Income	768	604	547	446	645	796	1,118	948	736	748
Net Appreciation (Depreciation) in Fair Value	(3,676)	(3,272)	388	5,305	3,808	4,247	8,308	(3,625)	(11,833)	5,267
Net Investment Income	(2,908)	(2,668)	935	5,751	4,453	5,043	9,426	(2,677)	(11,097)	6,015
Net Increase (Decrease)	**(3,371)**	**(3,172)**	**279**	**5,057**	**3,856**	**4,381**	**8,927**	**(3,205)**	**(11,853)**	**4,756**
Net Assets Available– End of Year	**$ 35,620**	**$ 32,448**	**$ 32,727**	**$ 37,784**	**$ 41,640**	**$ 46,021**	**$ 54,948**	**$ 51,743**	**$ 39,890**	**$ 44,646**

STATE POLICE OFFICERS' RETIREMENT SYSTEM PENSION TRUST FUND

(EXPRESSED IN MILLIONS)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Assets Available– Beginning of Year	**$ 495**	**$ 464**	**$ 423**	**$ 424**	**$ 486**	**$ 530**	**$ 581**	**$ 684**	**$ 636**	**$ 484**
Funding										
Member and Employer Contributions and Other Additions	24	15	13	15	19	20	21	26	25	21
Benefits and Administrative Expenses and Transfers	(18)	(21)	(24)	(27)	(32)	(33)	(35)	(41)	(41)	(43)
Net Funding	6	(6)	(11)	(12)	(13)	(13)	(14)	(15)	(16)	(22)
Investment Income										
Interest, Dividends and Other Investment Income	10	8	7	6	9	10	14	12	9	9
Net Appreciation (Depreciation) in Fair Value	(47)	(43)	5	68	48	54	103	(45)	(145)	63
Net Investment Income	(37)	(35)	12	74	57	64	117	(33)	(136)	72
Net Increase (Decrease)	**(31)**	**(41)**	**1**	**62**	**44**	**51**	**103**	**(48)**	**(152)**	**50**
Net Assets Available– End of Year	**$ 464**	**$ 423**	**$ 424**	**$ 486**	**$ 530**	**$ 581**	**$ 684**	**$ 636**	**$ 484**	**$ 534**

VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM PENSION TRUST FUND

(EXPRESSED IN MILLIONS)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Assets Available– Beginning of Year	**$ 25**	**$ 350**	**$ 350**	**$ 395**	**$ 498**	**$ 593**	**$ 700**	**$ 868**	**$ 853**	**$ 691**
Funding										
Member and Employer Contributions and Other Additions	331	43	51	56	66	69	64	74	69	56
Benefits and Administrative Expenses and Transfers	(2)	(12)	(19)	(24)	(30)	(34)	(40)	(45)	(50)	(58)
Net Funding	329	31	32	32	36	35	24	29	19	(2)
Investment Income										
Interest, Dividends and Other Investment Income	1	7	8	6	8	11	17	16	12	12
Net Appreciation (Depreciation) in Fair Value	(5)	(38)	5	65	51	61	127	(60)	(193)	91
Net Investment Income	(4)	(31)	13	71	59	72	144	(44)	(181)	103
Net Increase (Decrease)	**325**	**-**	**45**	**103**	**95**	**107**	**168**	**(15)**	**(162)**	**101**
Net Assets Available– End of Year	**$ 350**	**$ 350**	**$ 395**	**$ 498**	**$ 593**	**$ 700**	**$ 868**	**$ 853**	**$ 691**	**$ 792**

JUDICIAL RETIREMENT SYSTEM PENSION TRUST FUND

(EXPRESSED IN MILLIONS)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Assets Available– Beginning of Year	**$ 275**	**$ 259**	**$ 234**	**$ 235**	**$ 271**	**$ 296**	**$ 326**	**$ 390**	**$ 367**	**$ 284**
Funding										
Member and Employer Contributions and Other Additions	23	13	16	18	18	19	23	25	24	20
Benefits and Administrative Expenses and Transfers	(18)	(19)	(22)	(23)	(24)	(24)	(25)	(29)	(29)	(31)
Net Funding	5	(6)	(6)	(5)	(6)	(5)	(2)	(4)	(5)	(11)
Investment Income										
Interest, Dividends and Other Investment Income	5	4	4	3	4	5	8	7	5	5
Net Appreciation (Depreciation) in Fair Value	(26)	(23)	3	38	27	30	58	(26)	(83)	37
Net Investment Income	(21)	(19)	7	41	31	35	66	(19)	(78)	42
Net Increase (Decrease)	**(16)**	**(25)**	**1**	**36**	**25**	**30**	**64**	**(23)**	**(83)**	**31**
Net Assets Available– End of Year	**$ 259**	**$ 234**	**$ 235**	**$ 271**	**$ 296**	**$ 326**	**$ 390**	**$ 367**	**$ 284**	**$ 315**

SCHEDULE OF RETIREMENT CONTRIBUTIONS BY SYSTEM

FISCAL YEARS 2001-2010

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Virginia Retirement System: State	Virginia Retirement System: Teachers	Virginia Retirement System: Political Subdivisions	Virginia Retirement System: Sub-Total	State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	Total
2010*	$ 359,827	$ 820,193	$ 583,864	$ 1,763,884	$ 20,747	$ 56,347	$ 20,206	$ 1,861,184
2009	416,921	986,116	575,951	1,978,988	25,280	69,071	24,064	2,097,403
2008	409,685	1,055,498	557,230	2,022,413	26,218	74,039	25,498	2,148,168
2007	377,117	945,243	511,687	1,834,047	21,466	64,820	23,437	1,943,770
2006	303,183	731,929	423,724	1,458,836	20,188	68,688	18,967	1,566,679
2005	295,736	671,152	398,004	1,364,892	19,363	66,079	17,927	1,468,261
2004	292,895	515,750	287,228	1,095,873	15,232	56,292	17,758	1,185,155
2003**	199,217	492,562	270,280	962,059	13,305	50,433	16,038	1,041,835
2002**	234,992	455,488	283,756	974,236	14,974	42,148	13,100	1,044,458
2001	299,079	591,620	264,229	1,154,928	24,632	67,040	23,149	1,269,749

**The General Assembly suspended employer contributions for all state employee members of VRS, SPORS, VaLORS and JRS for April, May and the first half of June 2010 and for teachers for the entire last quarter of FY 2010.*

***The General Assembly suspended employer contributions for all state employees effective January 2002. Employer contributions for SPORS, VaLORS and JRS were resumed in July 2002 and for state employees in July 2003.*

FIGURE 5.4 – NUMBER OF RETIREES AND BENEFICIARIES

AT JUNE 30

(EXPRESSED IN THOUSANDS)

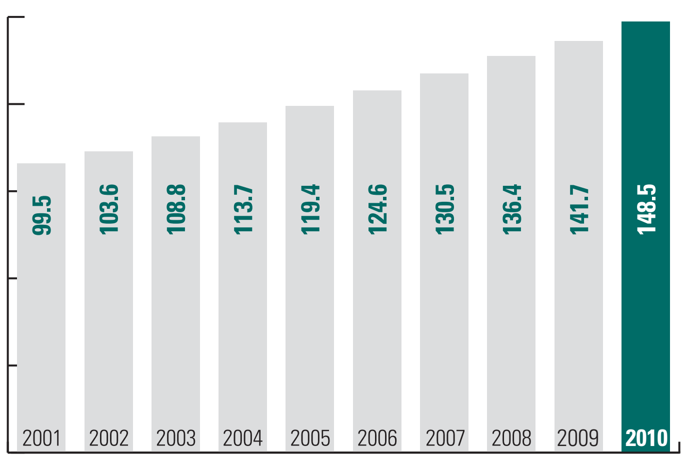
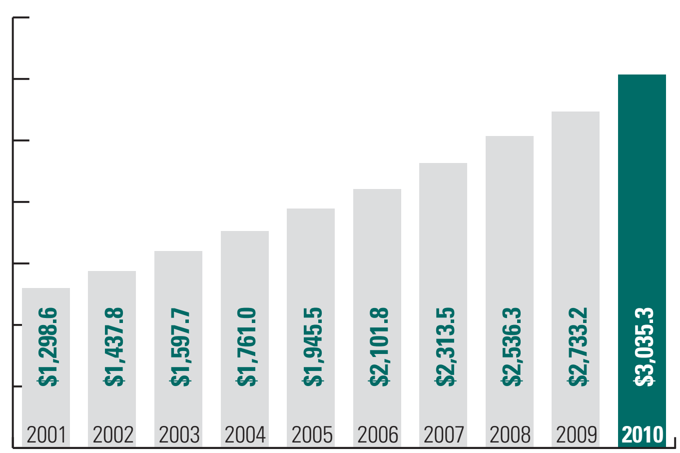


FIGURE 5.5 – RETIREMENT BENEFITS PAID

FISCAL YEARS 2001-2010

(EXPRESSED IN MILLIONS)



SCHEDULE OF PENSION TRUST FUND ADDITIONS BY SOURCE

FISCAL YEARS 2001-2010

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Member Contributions	Employer Contributions: For Members	Employer Contributions: Employer Share	Investment Income (Loss)	Other	Total
			Virginia Retirement System (VRS)			
2010	$ 26,225	$ 736,413	$ 1,001,246	$ 6,014,601	$ 1,083	$ 7,779,568
2009	20,254	743,762	1,214,972	(11,106,018)	8,668	(9,118,362)
2008	24,843	716,797	1,280,773	(2,677,358)	290	(654,655)
2007	29,489	680,023	1,124,535	9,426,035	338	11,260,420
2006	38,825	638,242	781,769	5,042,575	185	6,501,596
2005	63,503	599,769	701,620	4,453,335	743	5,818,970
2004	85,769	564,020	446,084	5,751,277	908	6,848,058
2003	127,578	499,077	335,404	935,415	2,682	1,900,156
2002	115,979	482,516	375,741	(2,667,982)	286	(1,693,460)
2001	65,810	453,133	635,985	(2,907,769)	381	(1,752,460)
			State Police Officers' Retirement System (SPORS)			
2010	$ 47	$ 4,945	$ 15,755	$ 72,609	$ -	$ 93,356
2009	57	5,034	20,189	(135,929)	87	(110,562)
2008	149	5,061	21,008	(33,367)	20	(7,129)
2007	213	4,895	16,358	117,501	-	138,967
2006	304	4,627	15,257	63,475	-	83,663
2005	494	4,392	14,477	56,481	-	75,844
2004	790	4,037	10,405	73,977	-	89,209
2003	556	3,972	8,777	11,929	-	25,234
2002	755	4,039	10,180	(34,596)	-	(19,622)
2001	125	4,087	20,420	(37,192)	-	(12,560)
			Virginia Law Officers' Retirement System (VaLORS)			
2010	$ 196	$ 17,208	$ 38,943	$ 103,488	$ 104	$ 159,939
2009	212	17,871	50,988	(181,112)	519	(111,522)
2008	291	17,723	56,025	(44,270)	274	30,043
2007	371	16,127	48,322	143,664	171	208,655
2006	534	15,492	52,662	71,905	255	140,848
2005	700	14,869	50,510	59,525	230	125,834
2004	880	14,703	40,709	70,668	-	126,960
2003	927	14,559	34,947	13,069	-	63,502
2002	1,007	15,630	25,511	(31,330)	-	10,818
2001	77	15,858	51,105	(4,057)	-	62,983
			Judicial Retirement System (JRS)			
2010	$ 30	$ 3,108	$ 17,068	$ 42,430	$ -	$ 62,636
2009	20	3,043	21,001	(77,947)	50	(53,833)
2008	21	2,945	22,532	(19,305)	-	6,193
2007	92	2,815	20,530	65,964	-	89,401
2006	108	2,653	16,206	35,368	-	54,335
2005	159	2,499	15,269	31,379	-	49,306
2004	197	2,371	15,190	40,947	-	58,705
2003	88	2,346	13,604	6,543	-	22,581
2002	73	2,365	10,662	(19,248)	-	(6,148)
2001	4	2,315	20,830	(20,637)	-	2,512

SCHEDULE OF PENSION TRUST FUND DEDUCTIONS BY TYPE

FISCAL YEARS 2001-2010

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Retirement Benefits	Refunds	Administrative Expenses	Other	Total
		Virginia Retirement System (VRS)			
2010	$ 2,907,204	$ 88,671	$ 23,720	$ 3,911	$ 3,023,506
2009	2,617,313	86,688	30,692	668	2,735,361
2008	2,427,543	97,574	24,677	298	2,550,092
2007	2,219,350	89,716	23,686	178	2,332,930
2006	2,015,557	85,804	19,724	258	2,121,343
2005	1,865,776	78,709	18,182	230	1,962,897
2004	1,692,166	80,237	18,119	-	1,790,522
2003	1,537,762	67,473	16,201	-	1,621,436
2002	1,389,815	69,235	15,039	2,449	1,476,538
2001	1,261,348	79,439	14,100	-	1,354,887
		State Police Officers' Retirement System (SPORS)			
2010	$ 42,714	$ 496	$ 257	$ 46	$ 43,513
2009	40,919	469	340	-	41,728
2008	39,382	730	299	-	40,411
2007	33,867	1,221	301	-	35,389
2006	32,309	596	231	-	33,136
2005	30,487	1,053	203	-	31,743
2004	26,336	731	213	-	27,280
2003	23,594	863	205	-	24,662
2002	20,607	559	185	-	21,351
2001	17,980	289	170	-	18,439
		Virginia Law Officers' Retirement System (VaLORS)			
2010	$ 53,758	$ 3,919	$ 373	$ 66	$ 58,116
2009	45,890	4,151	471	-	50,512
2008	40,805	4,586	378	-	45,769
2007	35,019	4,828	365	-	40,212
2006	29,202	4,830	263	-	34,295
2005	25,100	4,927	208	-	30,235
2004	19,784	3,998	196	-	23,978
2003	15,020	3,763	151	-	18,934
2002	8,485	3,657	57	-	12,199
2001	1,511	862	17	-	2,390
		Judicial Retirement System (JRS)			
2010	$ 31,598	$ -	$ 151	$ 27	$ 31,776
2009	29,101	40	198	-	29,339
2008	28,538	45	168	-	28,751
2007	25,253	-	169	-	25,422
2006	24,717	-	130	-	24,847
2005	24,108	42	113	-	24,263
2004	22,706	-	117	-	22,823
2003	21,359	51	113	-	21,523
2002	18,884	-	104	-	18,988
2001	17,788	32	94	-	17,914

SCHEDULE OF RETIREMENT BENEFITS BY SYSTEM

FISCAL YEARS 2001-2010

(EXPRESSED IN THOUSANDS)

	Virginia Retirement System				State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	
Year Ended June 30	State	Teachers	Political Subdivisions	Sub-Total				Total
2010	$ 898,226	$ 1,462,638	$ 546,340	$ 2,907,204	$ 42,714	$ 53,758	$ 31,598	$ 3,035,274
2009	790,472	1,338,776	488,065	2,617,313	40,919	45,890	29,101	2,733,223
2008	736,053	1,245,201	446,289	2,427,543	39,382	40,805	28,538	2,536,268
2007	686,258	1,138,980	394,112	2,219,350	33,867	35,019	25,253	2,313,489
2006	623,571	1,037,509	354,477	2,015,557	32,309	29,202	24,717	2,101,785
2005	589,113	959,268	317,395	1,865,776	30,487	25,100	24,108	1,945,471
2004	552,282	855,113	284,771	1,692,166	26,336	19,784	22,706	1,760,992
2003	503,249	782,652	251,861	1,537,762	23,594	15,020	21,359	1,597,735
2002	454,123	710,538	225,154	1,389,815	20,607	8,485	18,884	1,437,791
2001	421,033	639,760	200,555	1,261,348	17,980	1,511	17,788	1,298,627

SCHEDULE OF RETIREMENT BENEFITS BY TYPE

FISCAL YEARS 2001-2010

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Service Benefits	Disability Benefits	Survivor Benefits	Total
2010	$ 2,724,900	$ 285,802	$ 24,572	$ 3,035,274
2009	2,434,353	276,382	22,488	2,733,223
2008	2,252,981	263,427	19,860	2,536,268
2007	2,045,400	250,212	17,877	2,313,489
2006	1,849,239	236,266	16,280	2,101,785
2005	1,708,147	222,632	14,692	1,945,471
2004	1,537,173	210,385	13,434	1,760,992
2003	1,386,236	199,391	12,108	1,597,735
2002	1,242,235	184,582	10,974	1,437,791
2001	1,121,588	167,931	9,108	1,298,627

SCHEDULE OF REFUNDS BY TYPE

FISCAL YEARS 2001-2010

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Separations	Death	Total
2010	$ 79,600	$ 13,486	$ 93,086
2009	77,498	13,850	91,348
2008	88,732	14,203	102,935
2007	88,661	7,104	95,765
2006	79,744	11,486	91,230
2005	76,296	8,435	84,731
2004	73,715	11,251	84,966
2003	64,203	7,947	72,150
2002	65,893	7,558	73,451
2001	73,659	6,963	80,622

SCHEDULE OF RETIREES AND BENEFICIARIES BY TYPE OF RETIREMENT

AS OF JUNE 30, 2010

Min. Guaranteed Benefit Amount	Number of Retirees	Type of Retirement								
		Service Retirement	Early Retirement Window	50/30 Service Retirement	1991 Early Faculty Ret. Window	Regular Disability	Survivor Death-in-Service	Line-of-Duty (LOD) Disability	Survivor LOD Death-in-Service	50/10 Service Retirement
$ 1-200	14,900	12,829	3	-	1	739	591	62	4	671
201-400	19,309	15,281	167	2	-	2,193	456	123	11	1076
401-600	16,139	12,031	388	17	1	2,515	287	240	25	635
601-800	13,436	9,688	487	37	2	2,185	188	403	22	424
801-1,000	11,508	8,165	638	127	4	1,658	128	416	17	355
1,001-1,200	9,978	6,995	612	323	6	1,317	115	326	14	270
1,201-1,400	8,378	5,903	559	378	16	986	67	243	8	218
1,401-1,600	7,725	5,445	497	534	22	744	55	213	6	209
1,601-1,800	7,315	5,169	360	813	32	564	41	160	3	173
1,801-2,000	7,737	5,408	277	1,215	34	482	47	160	-	114
Over 2,000	32,071	24,582	544	4,681	136	1,200	174	475	4	275
Totals	**148,496**	**111,496**	**4,532**	**8,127**	**254**	**14,583**	**2,149**	**2,821**	**114**	**4,420**

SCHEDULE OF RETIREES AND BENEFICIARIES BY PAYOUT OPTION SELECTED

AS OF JUNE 30, 2010

Min. Guaranteed Benefit Amount	Payout Option Selected															
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
$ 1-200	12,165	45	524	148	864	4	70	4	-	1	697	6	255	55	56	6
201-400	15,279	22	548	271	840	5	843	28	2	29	679	3	560	84	100	16
401-600	11,995	24	459	337	816	11	1,179	54	-	63	506	1	458	87	134	15
601-800	9,621	17	375	363	804	11	984	48	-	81	408	3	480	72	151	18
801-1,000	7,963	4	335	401	822	17	649	32	1	38	379	1	502	65	260	39
1,001-1,200	6,701	1	330	389	690	12	448	22	1	33	246	2	572	71	392	68
1,201-1,400	5,629	2	263	352	455	21	272	12	1	13	183	1	545	67	470	92
1,401-1,600	5,114	1	254	328	324	31	172	4	-	19	147	1	529	93	571	137
1,601-1,800	4,838	-	209	308	184	31	100	4	-	7	107	1	500	112	733	181
1,801-2,000	5,066	-	162	314	129	28	82	3	-	1	97	1	498	115	1029	212
Over 2,000	18,135	1	569	910	207	179	96	8	-	6	323	10	3,326	983	6,068	1250
Totals	**102,506**	**117**	**4,028**	**4,121**	**6,135**	**350**	**4,895**	**219**	**5**	**291**	**3,772**	**30**	**8,225**	**1,804**	**9,964**	**2,034**

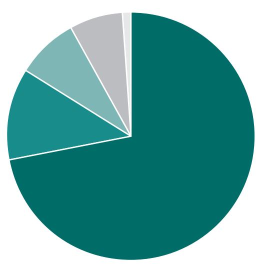
A- Basic Benefit
B- Increased Basic Benefit
C- 100% Survivor Option
D- Variable Survivor Option
E- Social Security Leveling Benefit
F- Special Survivor Option
G- Minimum Guaranteed Disability Basic Benefit
H- Minimum Guaranteed Disability Variable Survivor Option
I- Disability 100% Survivor Option
J- Special Disability Survivor Option
K- Leveling Benefit
L- Leveling Benefit/Rollover
M- Survivor Option
N- Advance Pension Option
O- Partial Lump-Sum Option Payment (PLOP) with Basic Benefit
P- PLOP with Survivor Option

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

FOR RETIREMENTS EFFECTIVE JULY 1, 2006 TO JUNE 30, 2010

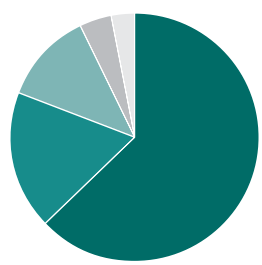
		Years of Service Credit					
		1-10	11 - 15	16 - 20	21 - 25	26 - 30	Over 30
FY 2010	Average Monthly Benefit	$ 319.83	$ 585.59	$ 895.47	$ 1,309.38	$ 1,977.48	$ 2,750.03
	Number of Active Retirees	1,106	954	980	1,251	1,543	4,303
FY 2009	Average Monthly Benefit	$ 344.16	$ 578.17	$ 880.56	$ 1,269.17	$ 2,024.64	$ 2,669.86
	Number of Active Retirees	986	859	916	1,090	1,377	3,063
FY 2008	Average Monthly Benefit	$ 327.19	$ 575.47	$ 861.72	$ 1,234.89	$ 2,024.96	$ 2,610.24
	Number of Active Retirees	994	857	995	1,091	1,615	3,271
FY 2007	Average Monthly Benefit	$ 314.54	$ 509.88	$ 811.90	$ 1,159.16	$ 1,917.95	$ 2,474.52
	Number of Active Retirees	979	880	951	1,043	1,504	3,207
FY 2006	Average Monthly Benefit	$ 306.43	$ 496.82	$ 775.31	$ 1,131.49	$ 1,811.18	$ 2,438.66
	Number of Active Retirees	890	809	960	937	1,569	2,886

FIGURE 5.6 – DISTRIBUTION OF RETIREES BY PAYOUT OPTION SELECTED



ALL RETIREES AT JUNE 30, 2010

- 72% Basic Benefit
- 12% Survivor Option
- 8% Advance Pension Option
- 7% PLOP with Basic Benefit
- 1% PLOP with Survivor Option



FY 2010 RETIREES

- 63% Basic Benefit
- 18% PLOP with Basic Benefit
- 12% Survivor Option
- 4% PLOP with Survivor Option
- 3% Advance Pension Option

Retirement Benefit Payout Options

Basic Benefit. The Basic Benefit is based on the unreduced (normal) retirement benefit calculation. It does not provide for a continuation of a benefit to a survivor. Upon the member's death, any remaining member contributions and interest are paid in a lump sum to the member's beneficiary.

Partial Lump-Sum Option Payment (PLOP). Members who are in active service for one or more years beyond their eligibility for an unreduced retirement benefit are eligible to elect a partial lump-sum payment of their member contributions and interest equal to one, two or three times their annual retirement benefit, depending on how long they work beyond their unreduced retirement eligibility. The monthly benefit is actuarially reduced accordingly. This option is available with the Basic Benefit or Survivor Option.

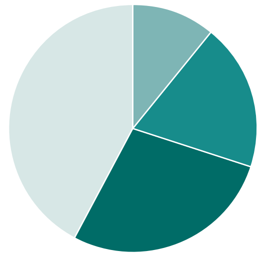
Survivor Option. Members may choose a whole percentage of their benefit, between 10% and 100%, to continue as a lifetime benefit to a survivor upon their death. The member's benefit is actuarially reduced accordingly.

Advance Pension Option. With this option, members elect to receive a temporary higher benefit until at least age 62 up to their normal retirement age under Social Security, as elected by the member. At that point, the monthly benefit is permanently reduced on an actuarially equivalent basis.

FIGURE 5.7 – DISTRIBUTION OF RETIREES BY YEARS OF SERVICE CREDIT

ALL RETIREES AT JUNE 30, 2010

- 11% 1-10 Years
- 24% 11-20 Years
- 30% 21-30 Years
- 35% Over 30 Years



FY 2010 RETIREES

- 11% 1-10 Years
- 19% 11-20 Years
- 28% 21-30 Years
- 42% Over 30 Years

FIGURE 5.8 – DISTRIBUTION OF RETIREES BY AGE AT RETIREMENT

ALL RETIREES AT JUNE 30, 2010

- 18% Under 55
- 27% 55 - 59
- 45% 60 - 65
- 10% Over 65

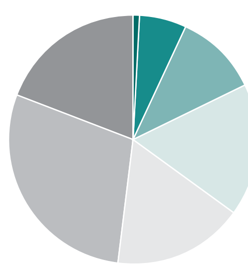
FY 2010 RETIREES

- 15% Under 55
- 26% 55 - 59
- 43% 60 - 65
- 16% Over 65

FIGURE 5.9 – DISTRIBUTION OF RETIREES BY AVERAGE FINAL COMPENSATION

ALL RETIREES AT JUNE 30, 2010

- 8% Up to $10,000
- 21% $10,001 - 20,000
- 19% $20,001 - 30,000
- 17% $30,001 - 40,000
- 14% $40,001 - 50,000
- 14% $50,001 - 70,000
- 7% Over $70,000



FY 2010 RETIREES

- 1% Up to $10,000
- 6% $10,001 - 20,000
- 11% $20,001 - 30,000
- 17% $30,001 - 40,000
- 17% $40,001 - 50,000
- 29% $50,001 - 70,000
- 19% Over $70,000

SCHEDULE OF FUNDING PROGRESS – VRS PENSION PLAN

(DOLLARS IN THOUSANDS)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
			VRS - State			
2009*	$ 15,049,901	$ 17,925,879	$ 2,875,978	84.0%	$ 3,619,478	79.5%
2008	15,046,348	17,096,942	2,050,594	88.0%	3,640,692	56.3%
2007	13,857,342	16,279,781	2,422,439	85.1%	3,467,388	69.9%
2006	12,542,390	15,064,062	2,521,672	83.3%	3,301,286	76.4%
2005*	12,018,175	14,007,274	1,989,099	85.8%	3,100,479	64.2%
2004	11,981,566	12,669,013	687,447	94.6%	2,946,067	23.3%
2003	11,908,368	11,860,803	(47,565)	100.4%	2,852,370	(1.7%)
2002	11,967,337	11,490,889	(476,448)	104.1%	2,940,501	(16.2%)
2001	11,747,242	10,998,307	(748,935)	106.8%	2,922,448	(25.6%)
2000*	10,698,209	10,143,799	(554,410)	105.5%	2,811,520	(19.7%)
			VRS - Teachers			
2009*	$ 25,764,665	$ 33,860,514	$ 8,095,849	76.1%	$ 7,160,842	113.1%
2008	25,502,482	31,958,321	6,455,839	79.8%	6,896,432	93.6%
2007	23,204,871	29,669,838	6,464,967	78.2%	6,604,643	97.9%
2006	20,731,192	27,274,064	6,542,872	76.0%	6,195,421	105.6%
2005*	19,639,994	25,205,725	5,565,731	77.9%	5,844,860	95.2%
2004	19,343,319	22,173,218	2,829,899	87.2%	5,491,142	51.5%
2003	19,182,560	20,480,092	1,297,532	93.7%	5,109,840	25.4%
2002	19,028,338	19,148,318	119,980	99.4%	4,950,363	2.4%
2001	18,614,489	17,530,470	(1,084,019)	106.2%	4,648,059	(23.3%)
2000*	16,881,374	16,380,784	(500,590)	103.1%	4,341,411	(11.5%)
			VRS - Political Subdivisions			
2009*	$ 12,370,467	$ 14,536,618	$ 2,166,151	85.1%	$ 4,167,324	52.0%
2008	11,999,545	13,499,216	1,499,671	88.9%	4,021,468	37.3%
2007	10,753,237	12,166,854	1,413,617	88.4%	3,761,991	37.6%
2006	9,395,170	10,483,777	1,088,607	89.6%	3,504,844	31.1%
2005*	8,714,479	10,415,489	1,701,010	83.7%	3,266,806	52.1%
2004	8,366,677	9,116,119	749,442	91.8%	3,072,693	24.4%
2003	8,151,696	8,356,676	204,980	97.5%	2,922,419	7.0%
2002	7,961,580	7,625,953	(335,627)	104.4%	2,778,116	(12.1%)
2001	7,606,088	6,856,389	(749,699)	110.9%	2,574,705	(29.1%)
2000*	6,812,719	6,117,772	(694,947)	111.4%	2,375,735	(29.3%)
			VRS - Total			
2009*	$ 53,185,033	$ 66,323,011	$ 13,137,978	80.2%	$ 14,947,644	87.9%
2008	52,548,375	62,554,479	10,006,104	84.0%	14,558,592	68.7%
2007	47,815,450	58,116,473	10,301,023	82.3%	13,834,022	74.5%
2006	42,668,752	52,821,903	10,153,151	80.8%	13,001,551	78.1%
2005*	40,372,648	49,628,488	9,255,840	81.3%	12,212,145	75.8%
2004	39,691,562	43,958,350	4,266,788	90.3%	11,509,902	37.1%
2003	39,242,624	40,697,571	1,454,947	96.4%	10,884,629	13.4%
2002	38,957,255	38,265,160	(692,095)	101.8%	10,668,980	(6.5%)
2001	37,967,819	35,385,166	(2,582,653)	107.3%	10,145,212	(25.5%)
2000*	34,392,302	32,642,355	(1,749,947)	105.4%	9,528,666	(18.4%)

**Revised economic and demographic assumptions due to experience study.*

Other Employee Benefit Trust Funds

FIGURE 5.10 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS – GROUP LIFE INSURANCE FUND

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN THOUSANDS)

	2001	2002*	2003*	2004*	2005*	2006*	2007	2008	2009	2010*
Net Assets Available– Beginning of Year	**$1,015,682**	**$ 938,119**	**$ 838,601**	**$ 751,747**	**$ 778,464**	**$ 771,817**	**$ 751,361**	**$ 962,328**	**$ 937,146**	**$ 713,812**
Funding:										
Member and Employer Contributions and Other Additions	88,624	68,800	44	20	(31)	52	169,824	158,823	135,063	94,860
Claims and Administrative Expenses	(88,824)	(96,297)	(105,195)	(107,018)	(98,163)	(112,695)	(119,738)	(133,407)	(153,083)	(139,344)
Net Funding	(200)	(27,497)	(105,151)	(106,998)	(98,194)	(112,643)	50,086	25,416	(18,020)	(44,484)
Investment Income:										
Interest, Dividends and Other Investment Income	20,442	16,317	10,706	10,366	13,256	14,546	19,078	17,908	13,582	14,128
Net Appreciation (Depreciation) in Fair Value	(97,805)	(88,338)	7,591	123,349	78,291	77,641	141,803	(68,506)	(218,896)	99,602
Net Investment Income	(77,363)	(72,021)	18,297	133,715	91,547	92,187	160,881	(50,598)	(205,314)	113,730
Net Increase (Decrease)	**(77,563)**	**(99,518)**	**(86,854)**	**26,717**	**(6,647)**	**(20,456)**	**210,967**	**(25,182)**	**(223,334)**	**69,246**
Net Assets Available– End of Year	**$ 938,119**	**$ 838,601**	**$ 751,747**	**$ 778,464**	**$ 771,817**	**$ 751,361**	**$ 962,328**	**$ 937,146**	**$ 713,812**	**$ 783,058**

**The group life insurance contribution rates for the last quarter of fiscal years 2010 and 2002 and for all of fiscal years 2006, 2005, 2004 and 2003 were zero as a result of a statutory premium holiday. Amounts shown in premium holiday years are adjustments and contributions for new employers.*

SCHEDULE OF GROUP LIFE INSURANCE ADDITIONS BY SOURCE

FISCAL YEARS 2001-2010

(EXPRESSED IN THOUSANDS)

	Contributions						
Year Ended June 30	State	Teachers	Political Subdivisions	Sub-Total	Investment Income (Loss)	Other	Total
2010*	$ 28,685	$ 40,502	$ 25,673	$ 94,860	$ 113,730	$ -	$ 208,590
2009	40,369	58,855	35,839	135,063	(205,314)	-	(70,251)
2008	52,503	60,405	45,915	158,823	(50,598)	-	108,225
2007	51,116	74,442	44,266	169,824	160,881	-	330,705
2006*	(2)	-	54	52	92,187	-	92,239
2005*	1	(33)	1	(31)	91,547	-	91,516
2004*	1	-	19	20	133,715	-	133,735
2003*	5	22	17	44	18,297	-	18,341
2002*	22,919	28,267	17,614	68,800	(72,021)	-	(3,221)
2001	29,703	37,027	21,894	88,624	(77,363)	-	11,261

The group life insurance contribution rates for the last quarter of fiscal years 2010 and 2002 and for all of fiscal years 2006, 2005, 2004 and 2003 were zero as a result of a statutory premium holiday. Amounts shown in premium holiday years are adjustments and contributions for new employers.

SCHEDULE OF GROUP LIFE INSURANCE DEDUCTIONS BY TYPE

FISCAL YEARS 2001-2010

(EXPRESSED IN THOUSANDS)

	Group Life Claims					
Year Ended June 30	Active	Retired	Sub-Total	Administrative Expenses	Other	Total
2010	$ 46,263	$ 91,570	$ 137,833	$ 663	$ 848	$ 139,344
2009	64,119	87,550	151,669	700	714	153,083
2008	55,814	76,279	132,093	686	628	133,407
2007	46,322	72,305	118,627	568	543	119,738
2006	43,140	68,350	111,490	716	489	112,695
2005	37,139	59,902	97,041	678	444	98,163
2004	42,290	63,741	106,031	615	372	107,018
2003	44,614	59,661	104,275	644	276	105,195
2002	39,617	56,008	95,625	474	198	96,297
2001	36,899	51,280	88,179	475	170	88,824

FIGURE 5.11 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS – RETIREE HEALTH INSURANCE CREDIT FUND

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN THOUSANDS)

	2001	2002	2003	2004	2005	2006	2007	2008*	2009	2010**
Net Assets Available– Beginning of Year	**$ 38,143**	**$ 53,980**	**$ 76,184**	**$ 92,222**	**$ 120,895**	**$146,956**	**$178,068**	**$224,606**	**$251,634**	**$231,994**
Funding:										
Employer Contributions and Other Additions	73,901	85,209	74,123	78,383	81,995	86,913	92,919	148,908	146,333	100,613
Reimbursements and Administrative Expenses	(54,975)	(57,925)	(61,350)	(65,292)	(69,474)	(72,819)	(80,803)	(109,426)	(115,878)	(120,872)
Net Funding	18,926	27,284	12,773	13,091	12,521	14,094	12,116	39,482	30,455	(20,259)
Investment Income:										
Interest, Dividends and Other Investment Income	816	1,150	1,910	1,207	1,960	2,685	4,082	4,407	3,314	4,127
Net Appreciation (Depreciation) in Fair Value	(3,905)	(6,230)	1,355	14,375	11,580	14,333	30,340	(16,861)	(53,409)	29,096
Net Investment Income	(3,089)	(5,080)	3,265	15,582	13,540	17,018	34,422	(12,454)	(50,095)	33,223
Net Increase (Decrease)	**15,837**	**22,204**	**16,038**	**28,673**	**26,061**	**31,112**	**46,538**	**27,028**	**(19,640)**	**12,964**
Net Assets Available– End of Year	**$ 53,980**	**$ 76,184**	**$ 92,222**	**$ 120,895**	**$ 146,956**	**$178,068**	**$224,606**	**$251,634**	**$231,994**	**$244,958**

**The health insurance credit for teachers was raised to $4.00 per month for each year of service credit with no cap on the benefit. The balance in the Enhanced Retiree Health Insurance Credit Program for teachers was refunded to employers.*

***The health insurance credit contribution rate for the last quarter of fiscal year 2010 was zero as a result of a statutory contribution holiday.*

FIGURE 5.12 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS – DISABILITY INSURANCE TRUST FUND

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN THOUSANDS)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Net Assets Available Beginning of Year	**$ 30,887**	**$ 46,137**	**$ 57,906**	**$ 78,383**	**$ 103,322**	**$144,234**	**$191,872**	**$263,586**	**$313,521**	**$290,481**
Funding:										
Employer Contributions and Other Additions	27,233	27,850	34,813	35,247	54,505	57,991	65,726	99,430	71,337	31,021
Disability Insurance Benefits and Administrative Expenses	(9,065)	(12,069)	(17,571)	(24,506)	(26,316)	(27,915)	(34,048)	(32,697)	(28,800)	(28,415)
Net Funding	18,168	15,781	17,242	10,741	28,189	30,076	31,678	66,733	42,537	2,606
Investment Income:										
Interest, Dividends and Other Investment Income	770	908	1,893	1,101	1,843	2,771	4,749	5,946	4,339	5,358
Net Appreciation (Depreciation) in Fair Value	(3,688)	(4,920)	1,342	13,097	10,880	14,791	35,287	(22,744)	(69,916)	37,768
Net Investment Income	(2,918)	(4,012)	3,235	14,198	12,723	17,562	40,036	(16,798)	(65,577)	43,126
Net Increase (Decrease)	**15,250**	**11,769**	**20,477**	**24,939**	**40,912**	**47,638**	**71,714**	**49,935**	**(23,040)**	**45,732**
Net Assets Available– End of Year	**$ 46,137**	**$ 57,906**	**$ 78,383**	**$ 103,322**	**$ 144,234**	**$191,872**	**$263,586**	**$313,521**	**$290,481**	**$336,213**

**The disability insurance contribution rate for the last quarter of fiscal year 2010 was zero as a result of a statutory contribution holiday.*

VRS-Participating Employers

More than 800 employers participate in the Virginia Retirement System (VRS) on behalf of their employees. Employers include state agencies, public colleges and universities, school divisions and political subdivisions. The following employers were participating in VRS as of June 30, 2010:

PARTICIPATING POLITICAL SUBDIVISIONS: 447

COUNTIES: 93

Accomack County
Albemarle County
Alleghany County
Amelia County
Amherst County
Appomattox County
Augusta County
Bath County
Bedford County
Bland County
Botetourt County
Brunswick County
Buchanan County
Buckingham County
Campbell County
Caroline County
Carroll County
Charles City County
Charlotte County
Chesterfield County
Clarke County
Craig County
Culpeper County
Cumberland County
Dickenson County
Dinwiddie County
Essex County
Fauquier County
Floyd County
Fluvanna County
Franklin County
Frederick County
Giles County
Gloucester County
Goochland County
Grayson County
Greene County
Greensville County
Halifax County
Hanover County
Henrico County
Henry County
Highland County
Isle of Wight County
James City County
King & Queen County
King George County
King William County
Lancaster County
Lee County
Loudoun County
Louisa County
Lunenburg County
Madison County
Mathews County
Mecklenburg County
Middlesex County
Montgomery County
Nelson County
New Kent County
Northampton County
Northumberland County
Nottoway County
Orange County
Page County
Patrick County
Pittsylvania County
Powhatan County
Prince Edward County
Prince George County
Prince William County
Pulaski County
Rappahannock County
Richmond County
Roanoke County
Rockbridge County
Rockingham County
Russell County
Scott County
Shenandoah County
Smyth County
Southampton County
Spotsylvania County
Stafford County
Surry County
Sussex County
Tazewell County
Warren County
Washington County
Westmoreland County
Wise County
Wythe County
York County

CITIES AND TOWNS: 160

City of Alexandria
City of Bedford
City of Bristol
City of Buena Vista
City of Chesapeake
City of Colonial Heights
City of Covington
City of Danville
City of Emporia
City of Fairfax
City of Falls Church
City of Franklin
City of Fredericksburg
City of Galax
City of Hampton
City of Harrisonburg
City of Hopewell
City of Lexington
City of Lynchburg
City of Manassas
City of Manassas Park
City of Martinsville
City of Newport News
City of Norfolk
City of Norton
City of Petersburg
City of Poquoson
City of Portsmouth
City of Radford
City of Richmond
City of Roanoke
City of Salem
City of Staunton
City of Suffolk
City of Virginia Beach
City of Waynesboro
City of Williamsburg
City of Winchester
Town of Abingdon
Town of Alberta
Town of Altavista
Town of Amherst
Town of Appomattox
Town of Ashland
Town of Berryville
Town of Big Stone Gap
Town of Blacksburg
Town of Blackstone
Town of Bluefield
Town of Bowling Green
Town of Boyce
Town of Boydton
Town of Boykins
Town of Bridgewater
Town of Broadway
Town of Brodnax

Continued

CITIES AND TOWNS, CONTINUED

Town of Brookneal
Town of Burkeville
Town of Cape Charles
Town of Chase City
Town of Chatham
Town of Chilhowie
Town of Chincoteague
Town of Christiansburg
Town of Clarksville
Town of Clifton Forge
Town of Coeburn
Town of Colonial Beach
Town of Courtland
Town of Craigsville
Town of Crewe
Town of Culpeper
Town of Dayton
Town of Dillwyn
Town of Dublin
Town of Dumfries
Town of Edinburg
Town of Elkton
Town of Exmore
Town of Floyd
Town of Front Royal
Town of Gate City
Town of Glasgow
Town of Gordonsville
Town of Gretna
Town of Grottoes
Town of Grundy
Town of Halifax
Town of Hamilton
Town of Haysi
Town of Herndon
Town of Hillsville
Town of Hurt
Town of Independence
Town of Iron Gate
Town of Jarratt
Town of Jonesville
Town of Kenbridge
Town of Kilmarnock
Town of La Crosse
Town of Lawrenceville
Town of Lebanon
Town of Leesburg
Town of Louisa
Town of Luray
Town of Madison
Town of Marion
Town of McKenney
Town of Middleburg
Town of Middletown
Town of Mineral
Town of Montross
Town of Mt. Jackson
Town of Narrows
Town of New Market
Town of Onancock
Town of Onley
Town of Orange
Town of Parksley
Town of Pearisburg
Town of Pembroke
Town of Pennington Gap
Town of Pound
Town of Pulaski
Town of Purcellville
Town of Quantico
Town of Remington
Town of Rich Creek
Town of Richlands
Town of Rocky Mount
Town of Round Hill
Town of Rural Retreat
Town of Saltville
Town of Scottsville
Town of Shenandoah
Town of Smithfield
Town of South Boston
Town of South Hill
Town of St. Paul
Town of Stanley
Town of Stephens City
Town of Strasburg
Town of Stuart
Town of Tappahannock
Town of Tazewell
Town of Timberville
Town of Urbanna
Town of Victoria
Town of Vienna
Town of Vinton
Town of Wakefield
Town of Warrenton
Town of Warsaw
Town of Waverly
Town of Weber City
Town of West Point
Town of Windsor
Town of Wise
Town of Woodstock
Town of Wytheville

AUTHORITIES, COMMISSIONS, DISTRICTS, REGIONAL INSTITUTIONS AND COMMUNITY SERVICES BOARDS: 194

Accomack-Northampton Planning District Commission
Albemarle County Service Authority
Albemarle-Charlottesville Regional Jail
Alexandria Redevelopment & Housing Authority
Alexandria Sanitation Authority
Alleghany Highlands Community Services Board
Amherst County Service Authority
Anchor Commission
Appalachian Juvenile Commission
Appomattox Regional Library
Appomattox River Water Authority
Augusta County Service Authority
Bedford County Public Service Authority
Bedford Public Library
Big Sandy Soil & Water Conservation District
Big Stone Gap Redevelopment & Housing Authority
Big Walker Soil & Water Conservation District
Blacksburg-Christiansburg-VPI Water Authority
Blacksburg-VPI Sanitation Authority
Blue Ridge Behavioral Healthcare
Blue Ridge Juvenile Detention Center
Blue Ridge Regional Jail Authority
Bristol Redevelopment & Housing Authority
Brunswick Industrial Development Authority
Campbell County Utilities & Service Authority
Capital Region Airport Commission
Central Rappahannock Regional Library
Central Virginia Community Services Board
Central Virginia Regional Jail
Central Virginia Waste Management Authority
Charles Pickney Jones Memorial Library
Charlottesville-Albemarle Airport Authority
Charlottesville Redevelopment & Housing Authority
Chesapeake Bay Bridge & Tunnel District
Chesapeake Redevelopment & Housing Authority
Chesterfield County Health Center Commission
Clinch Valley Soil & Water Conservation District
Coeburn-Norton-Wise Regional Water Treatment Authority
Colonial Services Board
Colonial Soil & Water Conservation District
Commonwealth Regional Council
Crater Juvenile Detention Home Commission
Culpeper Soil & Water Conservation District
Cumberland Mountain Community Services Board
Cumberland Plateau Regional Housing Authority

Continued

Daniel Boone Soil & Water Conservation District
Danville-Pittsylvania Community Services Board
Danville Redevelopment & Housing Authority
Dinwiddie County Water Authority
District 19 Community Services Board
Eastern Shore Community Services Board
Eastern Shore Public Library
Eastern Shore Soil & Water Conservation District
Economic Development Authority of Henrico County
Evergreen Soil & Water Conservation District
Fauquier County Water & Sanitation Authority
Ferrum Water & Sewage Authority
Franklin Redevelopment & Housing Authority
Frederick County Sanitation Authority
Fredericksburg-Stafford Park Authority
Giles County Public Service Authority
Goochland-Powhatan Community Services Board
Greensville County Water & Sewer Authority
Greensville-Emporia Department of Social Services
Halifax Service Authority
Hampton-Newport News Community Services Board
Hampton Redevelopment & Housing Authority
Hampton Roads Planning District Commission
Hampton Roads Regional Jail Authority
Hampton Roads Sanitation District
Hampton Roads Transit
Handley Regional Library
Harrisonburg-Rockingham Community Services Board
Harrisonburg-Rockingham Regional Sewer Authority
Henricopolis Soil & Water Conservation District
Henry County Public Service Authority
Holston River Soil & Water Conservation District
Hopewell Redevelopment & Housing Authority
Institute for Advanced Learning and Research
James City Service Authority
John Marshall Soil & Water Conservation District
Lee County Redevelopment & Housing Authority
Lee County Public Service Authority
Lenwisco Planning District Commission
Lonesome Pine Regional Library
Lonesome Pine Soil & Water Conservation District
Loudoun County Sanitation Authority
Massanuttan Regional Library
Meherrin Regional Library
Middle Peninsula-Northern Neck Community Services Board
Middle Peninsula Planning District Commission
Middle Peninsula Regional Security Center
Middle River Regional Jail Authority
Monacan Soil & Water Conservation District
Montgomery Regional Solid Waste Authority
Mount Rogers Community Services Board
Nelson County Service Authority
New River Resource Authority
New River Soil & Water Conservation District
New River Valley Community Services Board
New River Valley Juvenile Detention Home Commission
New River Valley Planning District Commission
New River Valley Regional Jail
Norfolk Airport Authority
Norfolk Redevelopment & Housing Authority
Northern Neck-Essex County Group Home Commission
Northern Neck Planning District Commission
Northern Neck Regional Jail
Northern Shenandoah Valley Regional Commission
Northern Virginia Health Care Center Commission
Northern Virginia Juvenile Detention Home
Northwestern Community Services Board
Opportunity Inc. of Hampton Roads
Pamunkey Regional Jail
Peaks of Otter Soil & Water Conservation District
Peninsula Airport Commission
Pepper's Ferry Regional Wastewater Authority
Peter Francisco Soil & Water Conservation District
Petersburg Redevelopment & Housing Authority
Peumansend Creek Regional Jail
Piedmont Community Services Board
Piedmont Regional Jail
Piedmont Regional Juvenile Detention Center
Pittsylvania County Service Authority
Planning District One Behavioral Health Services Board
Potomac and Rappahannock Transportation Commission
Potomac River Fisheries Commission
Prince William County Service Authority
Prince William Soil & Water Conservation District
Rappahannock Area Community Services Board
Rappahannock Juvenile Center
Rappahannock-Rapidan Community Services Board
Rappahannock-Rapidan Regional Planning District Commission
Rappahannock Regional Jail
Region Ten Community Services Board
Richmond Metropolitan Authority
Richmond Redevelopment & Housing Authority
Richmond Regional Planning District Commission
Rivanna Solid Waste Authority
Rivanna Water & Sewer Authority
Riverside Regional Jail
Roanoke Higher Education Authority
Roanoke River Service Authority
Robert E. Lee Soil & Water Conservation District
Rockbridge Area Community Services Board
Rockbridge Area Social Services Department
Rockbridge County Public Service Authority
Rockbridge Regional Library
Russell County Public Service Authority
Russell County Water & Sewage Authority
Scott County Public Service Authority
Scott County Redevelopment & Housing Authority
Scott County Soil & Water Conservation District
Shenandoah Valley Juvenile Detention Home Commission
Shenandoah Valley Regional Airport Commission
Skyline Soil & Water Conservation District

Continued

AUTHORITIES, COMMISSIONS, DISTRICTS, REGIONAL INSTITUTIONS AND COMMUNITY SERVICES BOARDS, CONTINUED

South Central Wastewater Authority
Southeastern Virginia Public Service Authority
Southside Community Services Board
Southside Planning District Commission
Southside Regional Jail
Southside Regional Juvenile Group Home Commission
Southside Regional Library Board
Southwest Virginia Regional Jail
Spotsylvania-Stafford-Fredericksburg Group Home Commission
Staunton Redevelopment & Housing Authority
Suffolk Redevelopment & Housing Authority
Sussex Service Authority
Tazewell Soil & Water Conservation District
Thomas Jefferson Planning District Commission
Thomas Jefferson Soil & Water Conservation District
Tidewater Regional Group Home Commission
Tidewater Soil & Water Conservation District
Tri-County/City Soil & Water Conservation District
Upper Occoquan Sewage Authority
Valley Community Services Board
Virginia Biotechnology Research Park Authority
Virginia Coalfield Economic Development Authority
Virginia Highlands Airport Commission
Virginia Peninsula Regional Jail
Virginia Peninsulas Public Service Authority
Virginia Resources Authority
Virginia's Region 2000 Local Government Council
Washington County Service Authority
Washington Metropolitan Area Transportation Commission
Waynesboro Redevelopment & Housing Authority
Western Tidewater Community Services Board
Western Tidewater Regional Jail
Western Virginia Regional Jail Authority
Western Virginia Water Authority
Wise County Public Service Authority
Wise County Redevelopment & Housing Authority
Wythe-Grayson Regional Library
Wytheville Redevelopment & Housing Authority

SCHOOLS: 144

COUNTY SCHOOLS: 94

Accomack County Schools*
Albemarle County Schools*
Alleghany County Schools*
Amelia County Schools*
Amherst County Schools*
Appomattox County Schools*
Arlington County Schools*
Augusta County Schools*
Bath County Schools*
Bedford County Schools*
Bland County Schools*
Botetourt County Schools*
Brunswick County Schools*
Buchanan County Schools*
Buckingham County Schools*
Campbell County Schools*
Caroline County Schools*
Carroll County Schools*
Charles City County Schools*
Charlotte County Schools*
Chesterfield County Schools*
Clarke County Schools*
Craig County Schools*
Culpeper County Schools*
Cumberland County Schools*
Dickenson County Schools*
Dinwiddie County Schools*
Essex County Schools*
Fairfax County Schools
Fauquier County Schools*
Floyd County Schools*
Fluvanna County Schools*
Franklin County Schools*
Frederick County Schools*
Giles County Schools*
Gloucester County Schools*
Goochland County Schools*
Grayson County Schools*
Greene County Schools*
Greensville County Schools*
Halifax County Schools*
Hanover County Schools*
Henrico County Schools*
Henry County Schools*
Highland County Schools*
Isle of Wight County Schools*
King & Queen County Schools*
King George County Schools*
King William County Schools*
Lancaster County Schools*
Lee County Schools*
Loudoun County Schools*
Louisa County Schools*
Lunenburg County Schools*
Madison County Schools*
Mathews County Schools*
Mecklenburg County Schools*
Middlesex County Schools*
Montgomery County Schools*
Nelson County Schools*
New Kent County Schools*
Northampton County Schools*
Northumberland County Schools*
Nottoway County Schools*
Orange County Schools*
Page County Schools*
Patrick County Schools*
Pittsylvania County Schools*
Powhatan County Schools*
Prince Edward County Schools*
Prince George County Schools*
Prince William County Schools*
Pulaski County Schools*
Rappahannock County Schools*
Richmond County Schools*
Roanoke County Schools*
Rockbridge County Schools*
Rockingham County Schools*
Russell County Schools*
Scott County Schools*
Shenandoah County Schools*
Smyth County Schools*
Southampton County Schools*
Spotsylvania County Schools*
Stafford County Schools*
Surry County Schools*
Sussex County Schools*
Tazewell County Schools*
Warren County Schools*
Washington County Schools*
Westmoreland County Schools*
Wise County Schools*
Wythe County Schools*
York County Schools*

**Non-professional employees also are covered (134 school boards).*

Continued

CITY AND TOWN SCHOOLS: 39

Alexandria City Schools*
Bristol City Schools*
Buena Vista City Schools*
Charlottesville Public Schools*
Chesapeake Public Schools*
Colonial Beach Schools
Colonial Heights City Schools*
Covington City Schools*
Danville City Schools*
Fairfax City Schools
Falls Church Public Schools
Franklin City Schools*
Fredericksburg City Schools*
Galax City Schools*
Hampton City Schools*
Harrisonburg City Schools*
Hopewell City Schools*
Lexington City Schools*
Lynchburg Public Schools*
Manassas City Schools*
Manassas Park City Schools*
Martinsville City Schools*
Newport News Public Schools*
Norfolk Public Schools*
Norton City Schools*
Petersburg City Schools*
Poquoson City Schools*
Portsmouth City Schools*
Radford City Schools*
Richmond Public Schools*
Roanoke City Schools*
Salem City Schools*
Staunton City Schools*
Suffolk City Schools*
Virginia Beach City Schools*
Waynesboro City Schools*
West Point Schools
Williamsburg-James City County Schools*
Winchester Public Schools*

OTHER SCHOOLS: 11

Amelia-Nottoway Vocational Center
Appomattox Regional Governor's School*
Charlottesville-Albemarle Vocational Technical Center
Jackson River Vocational Technical Center*
Maggie Walker Governor's School for Government and International Studies
New Horizons Technical Center*
Northern Neck Regional Special Education Program
Northern Neck Regional Vocational Center*
Rowanty Vocational Technical Center
The Pruden Center for Industry and Technology*
Valley Vocational Technical Center*

**Non-professional employees also are covered (134 school boards).*

AGENCIES OF THE COMMONWEALTH OF VIRGINIA, INCLUDING PUBLIC COLLEGES AND UNIVERSITIES: 235

TOTAL VRS-PARTICIPATING EMPLOYERS: 826

FIGURE 5.13 – VRS EMPLOYER RANKING

AS OF JUNE 30, 2010

	Employer	Active Employees	Percentage of Total
1	Fairfax County Schools - Professional Employees	19,640	5.73%
2	Virginia Beach City Schools - Professional Employees	8,335	2.43%
3	Prince William County Schools - Professional Employees	7,571	2.21%
4	Loudoun County Schools - Professional Employees	7,047	2.06%
5	Chesterfield County Schools - Professional Employees	6,195	1.81%
6	City of Virginia Beach - General Government	5,917	1.73%
7	University of Virginia - Academic Division	5,386	1.57%
8	Norfolk City Schools - Professional Employees	5,223	1.52%
9	Henrico County Schools - Professional Employees	5,057	1.48%
10	Henrico County - General Government	5,003	1.46%
	All other	267,235	78.00%
	Total	**342,609**	**100.00%**

Commonwealth of Virginia 457 Deferred Compensation Plan
Program with Oversight by VRS

457 PLAN OVERVIEW

The Commonwealth of Virginia 457 Deferred Compensation Plan is qualified under section 457(b) of the Internal Revenue Code and regulated by Title 51.1, Chapter 6, of the *Code of Virginia*. The 457 Plan provides eligible members a way to save for retirement through deferrals of compensation each pay period.

The Virginia Retirement System (the System) has oversight but no investment responsibility for the 457 Plan. The plan's assets, therefore, are not included in the System's Basic Financial Statements.

FIGURE 5.14 – STATEMENT OF CHANGES IN 457 PLAN ACCUMULATION ASSETS

FOR THE YEARS ENDED JUNE 30

	2010	2009
Plan Assets on July 1	$ 994,261,567	$ 1,059,350,294
Contributions	125,231,318	123,977,871
Distributions	(51,876,239)	(38,048,870)
Plan Transfers*	164,180	549,743
Third-Party Administrative Fees**	(1,895,731)	(1,995,288)
Period Earnings	104,994,753	(149,572,183)
Plan Assets on June 30	**$ 1,170,879,848**	**$ 994,261,567**

* *Represents plan transfers from other eligible Section 457(b) plans into the Commonwealth's plan.*

** *The third-party administrator, ING Institutional Plan Services, is compensated based on an annual recordkeeping and communication fee of 19 basis points (0.19%) capped at combined account balances of $130,000. In addition, VRS incurred administrative costs in FY 2010 and FY 2009 of $486,504 and $769,410, respectively. The decline in costs is due primarily to the completion of the transition of the recordkeeping to ING. These costs are funded by the employers participating in the plan.*

ELIGIBILITY

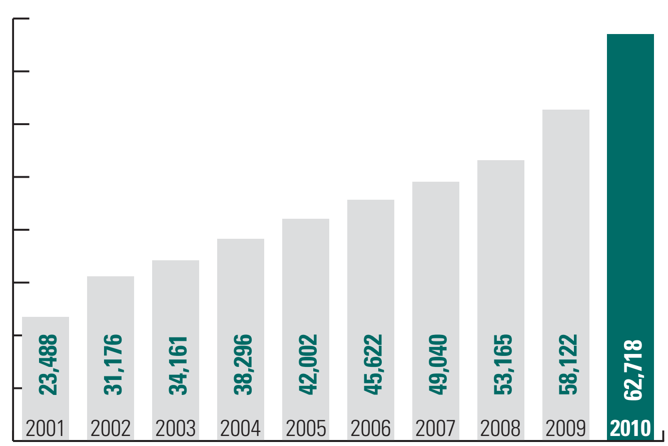
New and re-hired salaried state employees are automatically enrolled in the 457 Plan upon employment with two opportunities to opt out of the plan. The 457 Plan is voluntary to salaried state employees hired before January 1, 2008 and eligible political subdivision employees whose employers have elected to participate in the plan.

Approximately 7,864 employees enrolled in the 457 Plan during the fiscal year ended June 30, 2010. As shown in Figure 5.15, there were approximately 62,718 employees in the plan at June 30, 2010. Contributions during FY 2010 and FY 2009 were $125,231,318 and $123,977,871, respectively. Figure 5.14 presents details of 457 Plan activity for the years ended June 30, 2010 and 2009.

Current state legislation establishing the 457 Plan allows participants to use plan funds to purchase eligible prior service credit in their defined benefit plan. Approximately 131 plan participants used the trustee-to-trustee transfer provision to buy VRS service credit.

FIGURE 5.15 – ACTIVE AND INACTIVE 457 PLAN PARTICIPANTS

AT JUNE 30



Description of 457 Plan Funds

AS OF JUNE 30, 2010

The 457 Plan offers the following core investment options to plan participants. Total participant accounts in each option as of June 30, 2010 (Figure 5.16), accumulated 457 Plan assets for the years ended June 30, 2010 and 2009 (Figure 5.17), and an investment option performance summary for the year ended June 30, 2010 follow the fund descriptions.

TIER I: PASSIVELY MANAGED ASSET ALLOCATION FUNDS

Income & Growth Fund: Seeks to provide income and a modest level of capital growth by investing in a combination of bonds and stocks, which is anticipated to provide long-term total returns that are slightly higher than inflation with the possibility of occasional short-term losses.

U.S. Bonds - 75.0%   U.S. Stocks - 22.0%   Foreign Stocks - 3.0%

Balanced Growth Fund: Seeks to provide income and a modest level of capital growth by investing in a combination of bonds and stocks, which is anticipated to provide long-term total returns that are higher than inflation with the possibility of short-term losses.

U.S. Bonds - 50.0%   U.S. Stocks - 43.0%   Foreign Stocks - 7.0%

Long-Term Growth Fund: Seeks to provide capital growth by investing in a combination of bonds and stocks, which is anticipated to provide long-term total returns that are higher than inflation with the possibility of significant short-term losses.

U.S. Stocks - 64.0%   U.S. Bonds - 25.0%   Foreign Stocks - 11.0%

VRS Investment Portfolio – Interim Account: Seeks to provide a daily valued investment account, using the Long-Term Growth Fund as described above, where contributions and investment transfers are held until invested in the Virginia Retirement System Investment Portfolio (VRSIP).

U.S. Stocks - 64.0%   U.S. Bonds - 25.0%   Foreign Stocks - 11.0%

TIER II: PASSIVELY MANAGED FUNDS

Bond Index Fund: Seeks to track the total return performance of the Barclays Capital Aggregate Bond Index. This index is an unmanaged index considered indicative of the broad domestic bond market in general and is comprised of government, corporate, mortgage-backed and asset-backed securities.

Mortgage-Backed Securities - 34.1%   Treasury - 31.8%   Industrial - 10.2%   Agency - 6.9%
Finance - 6.4%   Non-Corporates - 4.5%   CMBS - 3.3%   Utility - 2.2%
Asset-Backed Securities - 0.3%   Cash - 0.3%

S&P 500 Index Fund: Seeks to track the performance of the Standard & Poor's 500 Index. This index is an unmanaged index considered indicative of the large capitalization domestic stock market in general and is comprised of 500 widely held U.S. stocks chosen by Standard & Poor's.

Information Technology - 18.6% Financials - 16.2% Health Care - 12.1% Consumer Staples - 11.6% Energy - 10.7%
Industrials - 10.4% Consumer Discretionary - 10.1% Utilities - 3.8% Materials - 3.5% Telecommunications Services - 3.0%

Russell 1000 Value Index Fund: Seeks to track the performance of the Russell 1000 Value Index. This index is an unmanaged index considered indicative of the growth-oriented domestic stock market in general and is comprised of stocks in the Russell 1000 that have higher price-to-book ratios and higher forecasted growth values.

Financials - 28.5% Health Care - 13.4% Energy - 10.6% Consumer Staples - 10.6%
Industrials - 8.7% Consumer Discretionary - 7.4% Utilities - 7.4% Information Technology - 5.5%
Telecommunication Services - 5.0% Materials - 2.9%

Russell 1000 Growth Index Fund: Seeks to track the performance of the Russell 1000 Growth Index. This index is comprised of stocks in the Russell 1000 that have higher price-to-book ratios and higher forecasted growth values.

Information Technology - 31.4% Consumer Discretionary - 14.1% Industrials - 13.0%
Health Care - 10.9% Energy - 10.1% Consumer Staples - 10.1% Materials - 4.7%
Financials - 4.6% Telecommunication Services - 0.9% Utilities - 0.2%

Russell 3000 Index Fund: Seeks to track the performance of the Russell 3000 Index. This index is an unmanaged index considered indicative of the broad domestic stock market in general and is comprised of the 3,000 largest stocks in the U.S. market and accounts for approximately 97% of the U.S stock market capitalization.

Information Technology - 18.2% Financials - 17.0% Health Care - 12.3% Industrials - 11.3%
Consumer Discretionary - 11.0% Energy - 9.9% Consumer Staples - 9.8% Materials - 3.9%
Utilities - 3.8% Telecommunication Services - 2.8%

Small/Mid Capitalization Equity Index Fund: Seeks to track the performance of the Russell Small Capitalization Completeness Index. This index is an unmanaged index considered indicative of the small to mid-capitalization sector of the U.S. Stock Market in general.

Financials - 20.9% Information Technology - 16.1% Industrials - 15.2% Consumer Discretionary - 14.1%
Health Care - 12.7% Energy - 6.6% Materials - 5.6% Utilities - 3.9%
Consumer Staples - 3.2% Telecommunication Services - 1.7%

International Equity Index Fund: Seeks to track the performance of the Morgan Stanley Capital International Europe, Australasia, Far East Index (MSCI EAFE). This index is an unmanaged index considered indicative of the broad foreign stock market in general and is comprised of stocks in 21 countries in Europe and the Pacific Basin.

Financials - 24.4% Industrials - 12.4% Consumer Staples - 10.5% Consumer Discretionary - 10.2%
Materials - 10.1% Health Care - 9.0% Energy - 7.1% Telecommunication Services - 5.6%
Utilities - 5.5% Information Technology - 5.2%

Real Estate Investment Trust Index Fund: Seeks to track the performance of the Dow Jones U.S. Select REIT Index. This index is a market capitalization weighted index of publicly traded Real Estate Investment Trusts (REITs).

Apartments - 16.8% Retail Malls - 14.5% Office - 13.2% Health Care - 13.1%
Retail Strip Centers - 8.5% Industrial - 7.4% Hotels - 7.1% Diversified - 7.0% Storage - 6.5%
Industrial Mixed - 4.6% Cash & Other - 1.3%

TIER III: ACTIVELY MANAGED FUNDS

Money Market Fund: Seeks to provide safety of principal, daily liquidity and a competitive yield by investing in high-quality money market instruments.

CDs, ECDs, TDs, BAs - 60.0% Repurchase Agreements - 22.5% Commercial Paper - 10.3%
Bank Notes/Corporates/MTNs - 7.2%

Active Inflation-Protected Bond Fund: Seeks to provide inflation protection and income consistent with investment in inflation-indexed securities.

U.S Treasury/Agency - 99.0% Other - 1.0%

Active Bond Fund: Seeks to provide maximum total return, consistent with preservation of capital and prudent investment management by investing in a diversified portfolio of primarily high-quality bonds, which is actively managed to maximize return in a risk controlled framework.

Government/Agency - 63.0% Mortgage - 16.0% Investment Grade Credit - 16.0% Emerging Markets - 10.0%
High Yield Credit - 3.0% Municipal - 3.0% Non-U.S. Developed - 3.0% Other - 1.0% Net Cash Equivalents - (15.0%)

Active High-Yield Bond Fund: Seeks to provide a high level of current income and long-term returns, which exceed the performance of the custom benchmark consisting of 95% Barclays Capital High-Yield ex-CCC Index and 5% Barclays Capital 1-3 Year Treasury Index.

Communication - 17.7%   Consumer Cyclical - 14.0%   Consumer Non-Cyclical - 13.4%   Finance - 12.2%
Utilities - 9.7%   Basic Industry - 9.6%   Technology - 7.8%   Energy - 6.4%   Capital Goods - 5.2%
Treasury/Agency - 2.6%   Transportation - 1.4%

Active Global Equity Fund: Seeks to provide long-term growth of capital with current income, which exceeds the performance of the MSCI World Index. This index is a measure of the global developed market.

Geographic Breakdown: Europe - 42.2%   United States - 28.7%   Asia & Pacific Basin - 17.4%
Canada and Latin America - 5.9%   Cash & Equivalents - 5.0%   Other - 0.8%

Stable Value Fund: Seeks to provide safety of principal while earning a reasonable level of interest income consistent with an underlying portfolio of short to intermediate duration high-yield fixed-income (bond) securities and liquidity to accommodate participant transactions.

Security-Backed Contracts (Wrap Providers): State Street Bank and Trust - 21.2%   JP Morgan Chase Bank - 21.1%
Royal Bank of Canada - 17.9%   ING Life Insurance and Annuity Co. - 17.9%
Stable Value Funds: Wells Fargo Stable Return Fund - 21.9%

VRS Investment Portfolio: Seeks to maximize return while managing risk within an acceptable range. Due to the long-term nature of the defined benefit plan's liabilities, the horizon for investment decisions is generally defined as 10 years or longer.

Fixed Income - 22.1%   Domestic Equity - 20.9%   Non-U.S. Equity (Dev) - 17.8%   Credit Strategies - 13.1%
Private Equity - 9.0%   Emerging Markets - 6.6%   Private Real Estate - 5.3%   Convertibles - 3.3%
Public Real Estate - 1.2%   Cash - 0.7%

TIER IV: SELF-DIRECTED BROKERAGE OPTION

The Self-Directed Brokerage Account (SDBA) allows investors to select from thousands of mutual funds in addition to the core investment options in Tier I, Tier II and Tier III. The SDBA option is offered through Ameritrade Corporate Services, a division of Ameritrade, Inc. The SDBA option is for knowledgeable investors who acknowledge and understand the risks and costs associated with the mutual fund investments contained in this option. Participants cannot invest in individual securities such as stocks, bonds or options. In addition to the annual recordkeeping and communication services fee, there is a plan fee of $12.50 per quarter, as well as transaction fees charged by Ameritrade and investment management fees and expenses charged by the mutual fund investment managers.

FIGURE 5.16 – TOTAL PARTICIPANT ACCOUNTS IN EACH FUND OPTION

AT JUNE 30, 2010

Fund Name	Total Participant Accounts*	Fund Name	Total Participant Accounts*
Income & Growth Fund	7,245	Real Estate Investment Trust Index Fund	7,907
Balanced Growth Fund	20,770	Money Market Fund	4,853
Long-Term Growth Fund	9,712	Active Inflation-Protected Bond Fund	3,889
Bond Index Fund	6,886	Active Bond Fund	5,938
S&P 500 Index Fund	22,116	Active High-Yield Bond Fund	3,084
Russell 1000 Value Index Fund	7,430	Active Global Equity Fund	5,456
Russell 1000 Growth Index Fund	5,143	Stable Value Fund	22,869
Russell 3000 Index Fund	2,582	VRS Investment Portfolio	666
Small/Mid Cap Equity Index Fund	12,764	Self-Directed Brokerage	166
International Equity Index Fund	10,117		

**The number of participant accounts exceeds the number of participants as a participant may invest in more than one fund.*

FIGURE 5.17 – 457 PLAN ACCUMULATION ASSETS BY FUND

FOR THE YEARS ENDED JUNE 30

Allocation by Fund Manager	FY 2010	FY 2009
Income & Growth Fund	$ 30,771,790	$ 23,366,806
Balanced Growth Fund	114,463,914	95,241,620
Long-Term Growth Fund	43,727,480	33,647,485
VRS Investment Portfolio - Interim Account	435,950	478,890
Bond Index Fund	54,643,191	46,347,451
S&P 500 Index Fund	212,317,227	180,988,456
Russell 1000 Value Index Fund	41,998,030	32,817,862
Russell 1000 Growth Index Fund	22,570,820	17,586,065
Russell 3000 Index Fund	9,639,496	6,481,921
Small/Mid Cap Equity Index Fund	85,602,944	63,939,232
International Equity Index Fund	49,358,794	43,060,520
Real Estate Investment Trust Index Fund	34,048,706	17,480,851
Money Market Fund	30,886,705	33,516,550
Active Inflation-Protected Bond Fund	25,331,968	20,650,296
Active Bond Fund	34,319,023	25,329,734
Active High-Yield Bond Fund	9,582,014	5,562,628
Active Global Equity Fund	23,270,973	19,236,139
Stable Value Fund (Galliard)	333,319,963	319,401,818
VRS Investment Portfolio	5,001,149	2,107,494
Self-Directed Brokerage	9,589,711	7,019,749
Total Accumulation Plan Assets	**$1,170,879,848**	**$ 994,261,567**

457 Plan Investment Option Performance Summary

FOR THE PERIOD ENDING JUNE 30, 2010 (RETURNS GREATER THAN ONE YEAR ARE ANNUALIZED)

TIER I: PASSIVELY MANAGED ASSET ALLOCATION FUNDS

Investment Options	1 Year	3 Years	5 Years	Expense Ratio
Income & Growth Fund	**11.17%**	**3.64%**	**4.53%**	**0.07%**
Benchmark (75% Barclays Capital Aggregate Bond, 22% Russell 3000, 3% MSCI EAFE Indices)	11.06%	3.34%	4.36%	
Balanced Growth Fund	**12.40%**	**-0.76%**	**3.17%**	**0.08%**
Benchmark (50% Barclays Capital Aggregate Bond, 43% Russell 3000, 7% MSCI EAFE Indices)	12.33%	-1.02%	3.01%	
Long-Term Growth Fund	**13.46%**	**-5.18%**	**1.68%**	**0.09%**
VRS Investment Portfolio-Interim Account	13.46%	-5.18%	1.68%	0.09%
Benchmark (25% Barclays Capital Aggregate Bond, 64% Russell 3000, 11% MSCI EAFE Indices)	13.40%	-5.47%	1.48%	

TIER II: PASSIVELY MANAGED FUNDS

Investment Options	1 Year	3 Years	5 Years	Expense Ratio
Bond Index Fund	**9.58%**	**7.72%**	**5.64%**	**0.06%**
Barclays Capital Aggregate Bond Index	9.50%	7.55%	5.54%	
S&P 500 Index Fund	**14.48%**	**-9.73%**	**-0.74%**	**0.03%**
S&P 500 Index	14.43%	-9.81%	-0.79%	
Russell 1000 Value Index Fund	**16.94%**	**-12.26%**	**-1.60%**	**0.10%**
Russell 1000 Value Index	16.92%	-12.32%	-1.64%	
Russell 1000 Growth Index Fund	**13.53%**	**-6.92%**	**0.35%**	**0.11%**
Russell 1000 Growth Index	13.62%	-6.91%	0.38%	
Russell 3000 Index Fund	**15.75%**	**-9.28%**	**-0.35%**	**0.11%**
Russell 3000 Index	15.72%	-9.47%	-0.48%	
Small/Mid Cap Equity Index Fund	**23.30%**	**-7.50%**	**1.42%**	**0.18%**
Russell Small Cap Completeness Index	23.28%	-7.68%	1.28%	
International Equity Index Fund	**6.00%**	**-13.21%**	**0.99%**	**0.15%**
MSCI EAFE Index	5.92%	-13.38%	0.88%	
Real Estate Investment Trust Index Fund	**54.89%**	**-10.51%**	**-0.56%**	**0.33%**
Dow Jones U.S. Select REIT Index	55.68%	-10.33%	-0.36%	

TIER III: ACTIVELY MANAGED FUNDS

Investment Options	1 Year	3 Years	5 Years	Expense Ratio
Money Market Fund	**0.24%**	**1.91%**	**3.05%**	**0.10%**
91-Day Treasury Bill Average	0.18%	1.67%	2.84%	
Active Inflation-Protected Bond Fund	**9.67%**	**7.37%**	**4.86%**	**0.09%**
Barclays Capital US Treasury Inflation Notes Index	9.52%	7.62%	4.98%	
Active Bond Fund	**13.31%**	**11.12%**	**7.44%**	**0.64%**
Barclays Capital Aggregate Bond Index	9.50%	7.55%	5.54%	
Active High-Yield Bond Fund	**20.45%**	**4.50%**	**5.14%**	**0.15%**
Custom Composite Index	20.11%	5.61%	6.19%	
Active Global Equity Fund	**8.65%**	**-8.77%**	**3.48%**	**0.53%**
MCSI World Index	10.20%	-11.46%	0.06%	
Stable Value Fund	**2.94%**	**4.13%**	**4.66%**	**0.22%**
The Stable Value Fund current yield as of June 30, 2010 was 2.99%				
VRS Investment Portfolio (VRSIP)*	**14.34%**	**-4.63%**	**3.56%**	**0.55%**
Intermediate-Term Benchmark	17.31%	-4.47%	3.29%	
Long-Term Benchmark	18.74%	-3.37%	2.56%	

**VRSIP and benchmark performance returns are reported with a one-month lag. Information is as of May 31, 2010.*

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