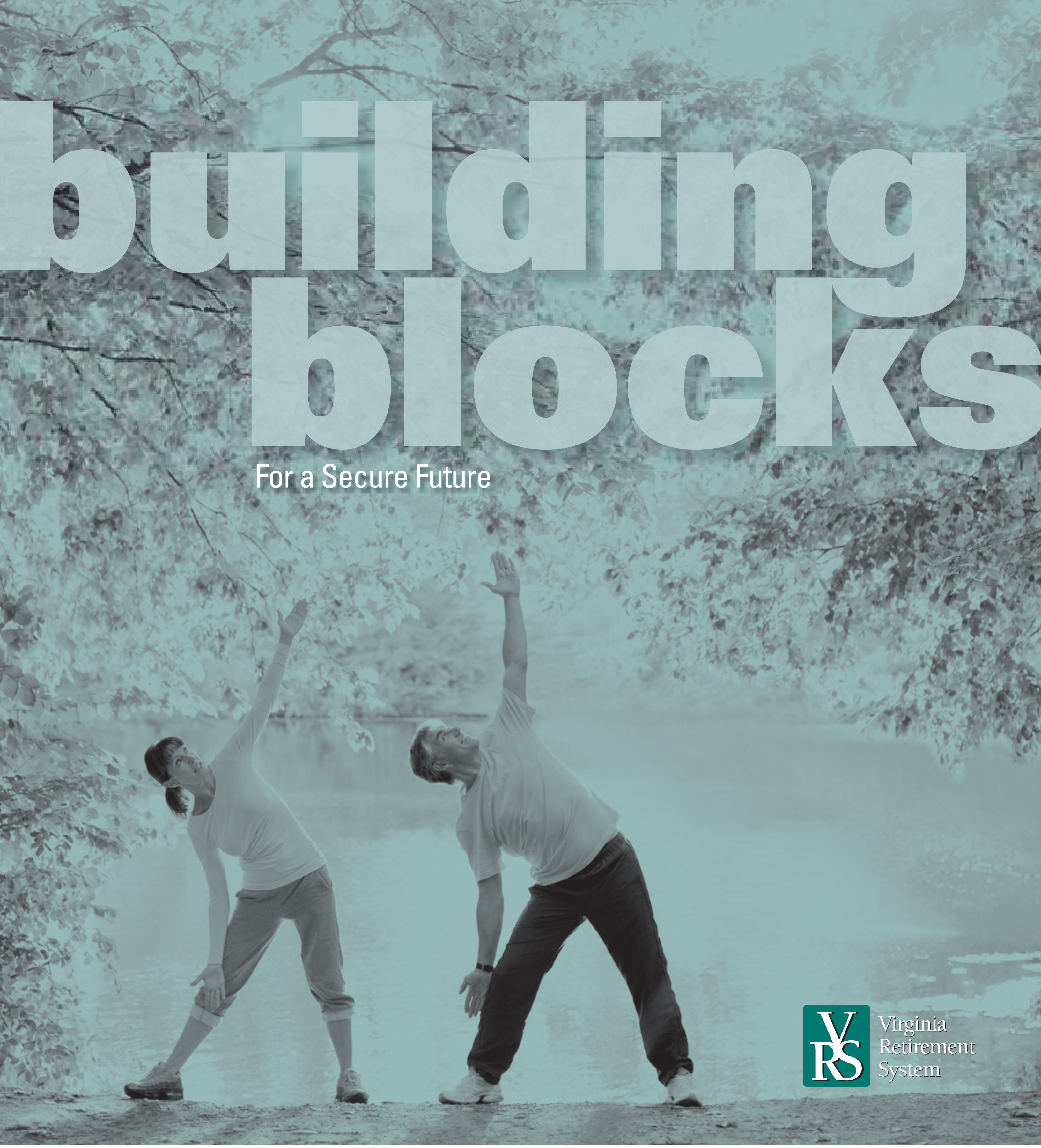


AN INDEPENDENT AGENCY OF THE COMMONWEALTH OF VIRGINIA

Virginia Retirement System
Comprehensive Annual Financial Report

For the Year Ended June 30, 2011

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

(DOLLARS IN THOUSANDS)

	2011	2010	% Change
Activity for the Year:			
Contributions	$ 1,548,026	$ 1,861,184	-16.8%
Investment Income (Net of Investment Expenses)	$ 8,711,612	$ 6,233,128	39.8%
Retirement Benefits	$ 3,263,895	$ 3,035,274	7.5%
Refunds	$ 100,544	$ 93,086	8.0%
Administrative and Other Expenses (Net of Miscellaneous Income)	$ 31,112	$ 27,364	13.7%
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	$ 6,864,087	$ 4,938,588	39.0%
Retirement Benefits as a Percentage of Contributions	210.8%	163.1%	
Retirement Benefits as a Percentage of Contributions and Investment Income	31.8%	37.5%	
Net Assets Held in Trust for Benefits at Fiscal Year End:			
Virginia Retirement System (VRS)	$ 51,280,335	$ 44,645,816	14.9%
State Police Officers' Retirement System (SPORS)	$ 598,686	$ 533,962	12.1%
Virginia Law Officers' Retirement System (VaLORS)	$ 910,666	$ 792,429	14.9%
Judicial Retirement System (JRS)	$ 361,401	$ 314,794	14.8%
Investment Performance:			
One-Year Return on Investments	19.1%	14.1%	
Three-Year Return on Investments	2.4%	-4.9%	
Five-Year Return on Investments	4.3%	3.1%	
Participating Employers:			
Counties/Cities/Towns	254	253	
Special Authorities	195	194	
School Boards	144	144	
State Agencies	236	235	
Total Employers	829	826	0.4%
Members/Retirees:			
Active Members	339,740	342,609	-0.8%
Retired Members	156,165	148,496	5.2%

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

Virginia Retirement System

Virginia Retirement System

Comprehensive
Annual
Financial
Report

For the Year Ended
June 30, 2011

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.

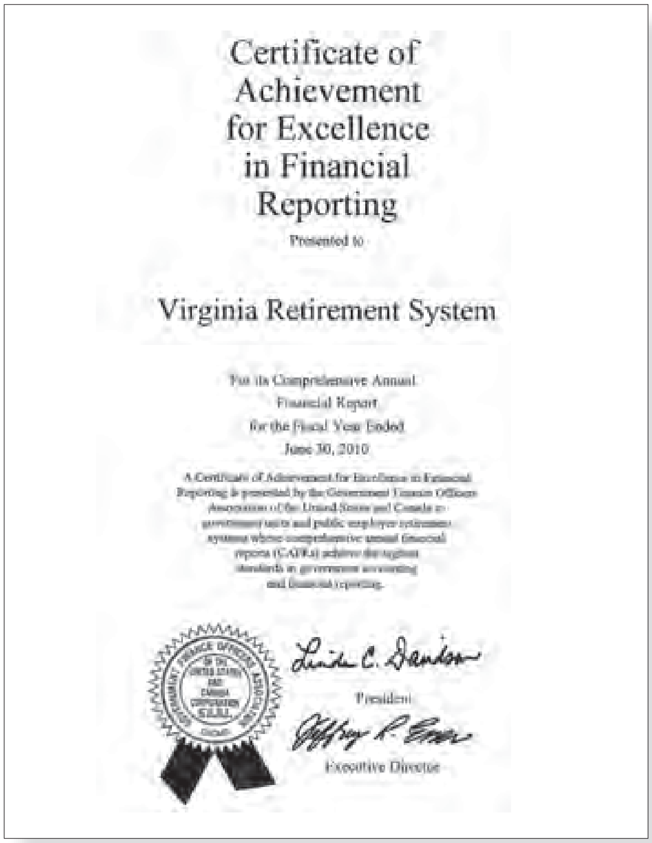
FAIRNESS
We work for all members, beneficiaries and participants, not for any one individual or group of individuals.

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, 2010

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.

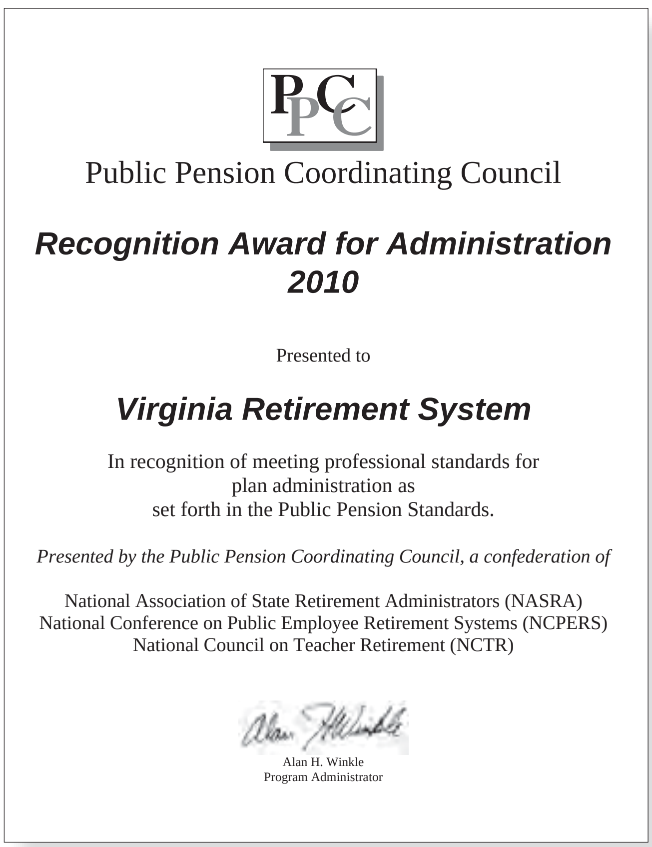
President

Executive Director

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, 2010. This was the 29th 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 2011* 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

Recognition Award for Administration 2010

Presented to

Virginia Retirement System

In recognition of meeting professional standards for plan 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

Public Pension Coordinating Council Recognition Award for Administration

VRS received the 2010 Recognition Award for Administration from the Public Pension Coordinating Council (PPCC) in recognition of the agency's fulfillment of 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 eighth award from PPCC.

The purpose of the PPCC's awards program 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), the National Conference on Public Employee Retirement Systems (NCPERS) and the National Council on Teacher Retirement (NCTR).

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VRS-Participating Employers

Commonwealth of Virginia 457 Deferred Compensation and Cash Match Plans

1 introductory section

building blocks

2011

Among the most important building blocks were plan design changes passed by the General Assembly leading to the establishment of the new VRS Plan 2, which VRS implemented during the fiscal year. These changes are expected to produce savings over time.

for a secure future

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 1, 2011

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

I am pleased to present to you the Virginia Retirement System (VRS) Comprehensive Annual Financial Report for the fiscal year 2011.

The Virginia Retirement System (VRS) experienced a net return of 19.1% on its investment portfolio for fiscal year 2011, ending the year with $54.6 billion in assets. Combined with the 14.1% return of last year, the fund has earned back losses resulting from the market collapse of 2008 and 2009. The current and previous fiscal years were, indeed, a period of recovery for VRS and, with the pension reforms effective July 1, 2010, a period of strengthening the future of the System.

During fiscal year 2011, the fund's public equity program returned 27.2% and the real estate program returned 23.2%. The private equity program returned 17.6% and the credit strategies program returned 14.7%, while fixed income and emerging market debt allocations returned 5.9%. The portfolio included $26.1 billion in public equity, $11.7 billion in fixed income, $7.7 billion in credit strategies, $4.8 billion in private equity and $3.7 billion in real estate, as of June 30, 2011.

The investment staff did a remarkable job by achieving these results after the board reduced the portfolio's risk as a defensive measure to better protect the fund from big market swings. The administrative staff also put forth a tremendous effort to implement all the features of the new Plan 2 defined benefit plan resulting from last year's pension reform legislation, including process and programming modifications and new handbooks for members hired on or after July 1, 2010.

Although not at the $58.3 billion of fiscal year 2007, the VRS fund is well positioned to pay benefits for current members and retirees for many years to come. Nevertheless, the Board of Trustees continues to believe that future growth in the economy and the markets will not return to the levels of the past. Therefore, in June 2010, the Board lowered its long-term investment return assumption from 7.50% to a more realistic 7.00%.

In addition, VRS again experienced higher than normal retirements with 12,123 retirement inceptions over the fiscal year, 4,090 of which were effective July 1, 2011. This trend continues to outpace previous years owing not only to the aging of the membership but also to members leaving in the face of the recession's threat to their job security.

The more sober investment return assumption and the present low level of appropriated contributions mean that we will need to continue to require increased contributions to sustain the System. This is not an unrealistic expectation. VRS's pension costs currently represent 1.65% of the Commonwealth's General Fund Budget, significantly lower than the average of 3.80% nationally.

The VRS Board remains deeply committed to its sole responsibility – to protect the fund on behalf of members, retirees and beneficiaries, both current and future. Therefore, our highest priority will be to continue working with you to fully fund the Board-certified rates for the state and teacher plans.

I would like to conclude my message with a special recognition of Charles W. Grant as he steps down from the position of chief investment officer. Charles joined VRS in 1995 as an investment funds manager. In 1998, he became a VRS managing director, followed by deputy chief investment officer. In March 2005, the Board named Charles as acting chief investment officer and, in August 2005, promoted him to chief investment officer. During Charles' leadership, the fund took a number of important initiatives, including significant additions to internally managed portfolios, the growth of credit strategies as an asset class and strategy, the establishment of a global equity benchmark for public equities and substantial development of internal research and risk management programs. Under Charles' leadership, the fund also achieved the successful recovery of the current and previous fiscal years. We believe the fund is in excellent shape as we welcome Ronald D. Schmitz, recently appointed as the new chief investment officer.

On behalf of the Board of Trustees and the VRS staff, I would like to express our gratitude to you for your continued support and leadership. The Board stands ready to assist you in pursuing continued pension reform efforts for the coming 2012 session.

Sincerely,

Diana F. Cantor
Chairman
Virginia Retirement System

Board of Trustees

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.

	TRUSTEE	BOARD SEAT HELD	APPOINTED BY	TERM EXPIRES	COMMITTEE ASSIGNMENTS
	**Diana F. Cantor** **Chairman** Alternative Investment Management	Investment Professional	Governor	2/28/2015 As Chair: 5/4/2012	Administration & Personnel (Chairman) Audit & Compliance Chief Investment Officer Search Committee 2011 (Chairman)
	**John M. Albertine, Ph.D.** **Vice Chairman** Albertine Enterprises	Investment and Pension Fund Professional	Joint Rules Committee	2/28/2013	Administration & Personnel (Vice Chairman) Chief Investment Officer Search Committee 2011
	**A. Marshall Acuff, Jr.** Cary Street Partners	Investment Professional	Governor	2/28/2016	Administration & Personnel
	**Edwin T. Burton III, Ph.D.** University of Virginia	Investment Professional	Joint Rules Committee	2/28/2014	Administration & Personnel

BOARD OF TRUSTEES, *continued*

	TRUSTEE	BOARD SEAT HELD	APPOINTED BY	TERM EXPIRES	COMMITTEE ASSIGNMENTS
	**Robert L. Greene** Syncom Venture Partners	Employee Benefit Plans Professional	Governor	2/29/2012	Audit & Compliance (Chairman) Chief Investment Officer Search Committee 2011
	**Mitchell L. Nason** Prince William County Department of Fire and Rescue	Local Government Employee	Governor	2/28/2013	Benefits & Actuarial Committee (Vice Chairman) Defined Contribution Plans Advisory Committee (Vice Chairman)
	**Colette Sheehy** University of Virginia	Higher Education Representative	Governor	2/28/2014	Audit & Compliance Committee (Vice Chairman) Defined Contribution Plans Advisory Committee (Chairman) Chief Investment Officer Search Committee 2011
	**Paul W. Timmreck** Virginia Commonwealth University (Retired)	State Employee	Joint Rules Committee	2/28/2011	Benefits & Actuarial Committee (Chairman) Chief Investment Officer Search Committee 2011
	**Raymond B. Wallace, Jr.** Henrico County Public Schools (Retired)	Teacher	Joint Rules Committee	2/29/2012	Administration & Personnel Committee Benefits & Actuarial Committee Chief Investment Officer Search Committee 2011

VRS Organization

BOARD OF TRUSTEES

ADMINISTRATION	INVESTMENTS	INTERNAL AUDIT
		
Robert P. Schultze Director	Charles W. Grant, CFA Chief Investment Officer	Franklin O. Berry Internal Audit Director

Investment Advisory Committee

MEMBER	TERM EXPIRES
Rod Smyth **Chairman** Chief Investment Strategist Riverfront Investment Group	5/17/2013 As Chair: 2/19/2013
Hance West **Vice Chairman** Managing Director Investure	12/31/2011
Gregory B. Fairchild, Ph.D. Associate Professor of Business Administration University of Virginia	12/17/2011
Thomas S. Gayner President and Chief Investment Officer Markel Corporation	2/19/2013
Joe Grills Former Chief Investment Officer IBM Retirement Funds	6/17/2012
Deborah Allen Hewitt, Ph.D. Clinical Professor The College of William and Mary	10/17/2012
Lawrence E. Kochard, Ph.D Chief Executive Officer and Chief Investment Officer University of Virginia Investment Management Company	2/17/2013

SEATED LEFT TO RIGHT: Erwin H. Will, Jr.; Deborah Allen Hewitt, Ph.D.; Donald W. Lindsay. STANDING LEFT TO RIGHT: Hance West; Rod Smyth, Chairman. NOT PICTURED: Gregory B. Fairchild, Ph.D; Thomas S. Gayner; Joe Grills; Lawrence E. Kochard, Ph.D.

MEMBER	TERM EXPIRES
Donald W. Lindsey Chief Investment Officer The George Washington University	3/31/2012
Erwin H. Will, Jr. Chief Investment Officer (Retired) Virginia Retirement System President (Retired) Capitoline Investment Services	5/17/2013

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, CPA
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

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

November 30, 2011

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, 2011. 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 2011 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 890 of the 2011 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 systems:

- 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:

- Plan 1 and Plan 2 defined benefit plans for members of VRS, SPORS, VaLORS and JRS
- Plan 1 and Plan 2 optional retirement defined contribution plans for political appointees, school superintendents and faculty members at Virginia's public colleges and universities, as elected by the participant
- Commonwealth of Virginia 457 Deferred Compensation and Cash Match Plans
- Group Life Insurance Program
- Retiree Health Insurance Credit Program
- Virginia Sickness and Disability Program (VSDP) and VSDP Long-Term Care Plan
- Commonwealth of Virginia (COV) 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 2011 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, 2011 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 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 concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits that are likely to be derived from that control. 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, 2011 adequately safeguard the System's assets and provide reasonable assurance regarding the proper recording of financial transactions.

Funding

PENSION PLANS

The System's most recent actuarial valuation for the pension plans was prepared as of June 30, 2010. As expected, the report indicated a decline in the funded ratios for all of the plans. This decline resulted from the continued impact of the negative investment returns in FY 2009 on the Actuarial Value of Assets and the reduction in the assumption for the investment rate of return from 7.50% to 7.00%. The VRS, SPORS, VaLORS and JRS plans were actuarially funded at 72.4%, 66.8%, 58.6% and 66.5%, respectively, based on the actuarial valuation as of June 30, 2010. For the VRS, SPORS, VaLORS and JRS plans, this was a decrease from their funded ratios of 80.2%, 73.6%, 64.7% and 72.5%, respectively, based on the June 30, 2009 actuarial valuation. There were no changes in the primary actuarial assumptions for salary growth or inflation. Further information on this valuation is included in the Financial Section and the Actuarial Section of the CAFR.

Contributions for FY 2011 were based on the June 30, 2009 actuarial valuation. The rates increased for state employees, teachers, state police officers and judges. For Virginia law officers, the rates declined slightly. The rates certified by the VRS Board of Trustees for all state employee groups and for teachers were not fully funded by the Governor and General Assembly. Retirement contribution rates are discussed in further detail in the Financial Section of the CAFR.

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

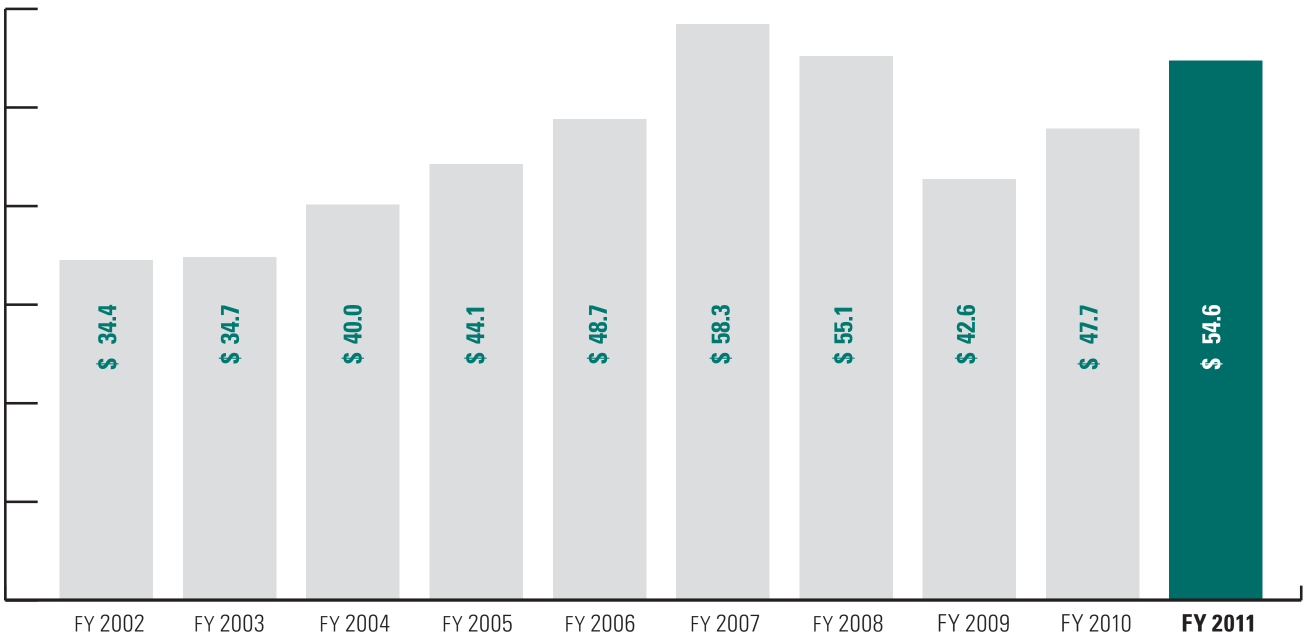
2010 VRS Plan 2 established for members hired or rehired on or after July 1, 2010

OTHER POST-EMPLOYMENT BENEFITS PLANS

The System's most recent actuarial valuation for the Other Post-Employment Benefit (OPEB) plans was prepared as of June 30, 2010. As expected, the funded ratios for these plans generally declined. This decline resulted from the continued impact of the negative investment returns in FY 2009 on the Actuarial Value of Assets and the reduction in the assumption for the investment rate of return from 7.50% to 7.00%. The

PLAN NET ASSETS AVAILABLE FOR BENEFITS

AS OF JUNE 30 (EXPRESSED IN BILLIONS)



Group Life Insurance Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund were actuarially funded at 41.4%, 13.1% and 107.3%, respectively, based on the actuarial valuation as of June 30, 2010. For the Group Life Insurance Fund and the Retiree Health Insurance Credit Fund, this was a decrease from their funded ratios of 48.5% and 14.9%, respectively, based on the June 30, 2009 actuarial valuation. For the Disability Insurance Trust Fund, there was a slight improvement from the funded ratio of 99.7% at June 30, 2009. There were no changes in the primary actuarial assumptions for salary growth or inflation. Further information on this valuation is included in the Financial Section and the Actuarial Section of the CAFR.

Contributions for FY 2011 were based on the June 30, 2009 actuarial valuation. The rates certified by the VRS Board of Trustees for the OPEB plans were not fully funded by the Governor and General Assembly. Contribution rates for each of these OPEB plans are discussed in further detail in the Financial Section of the CAFR.

Investments

At June 30, 2011, the total value of the VRS investment portfolio was $55.6 billion. This is an increase from the investment balance of $47.9 billion at June 30, 2010. The increase in the portfolio resulted from an investment return of 19.1% for FY 2011. However, this was offset by reduced contributions and the increase in benefit payments during the year. The System's net assets available for benefits at June 30, 2011 totaled $54.6 billion, an increase from the net asset balance of $47.7 billion at June 30, 2010.

Legislative Initiatives

During the 2011 session, the Virginia General Assembly enacted several bills that affect public employees and retirees covered under VRS:

COLLECTION OF OVERPAYMENTS. House Bill 1794 provides for the collection of member or beneficiary benefit overpayments from employers under certain conditions. These situations include overpayments resulting from:

- A retiree granted a salary increase by the employer that is not related to a promotion and the primary purpose is to increase the retiree's benefit;
- An employer hiring a retiree in a non-covered position without complying with the provisions that govern the bona fide break in service and other return-to-work requirements; or
- An employer hiring a retiree in a covered position while the employee continues to receive a retirement benefit.

TECHNICAL CORRECTIONS FOR PLAN 2 MEMBERS. Under House Bill 1795, provisions of various Virginia Code sections have been updated to recognize the difference in certain benefits for Plan 2 members:

- Plan 2 state employees, except employees covered under SPORS and VaLORS, must be at least age 60 to qualify for retirement under the Workforce Transition Act (WTA) if not qualified under the rule of 90.
- A state employee who is approved for disability benefits on or after the date that is five years prior to his or her normal retirement date is eligible for five years of VSDP benefits.
- Certain state employees and county, city and town employees covered under VRS who have 20 or more years of service credit may be eligible to retire with an unreduced benefit at age 50 if they are in Plan 1 or age 60 if they are in Plan 2 if they are involuntarily separated from employment.
- Plan 2 death-in-service benefit calculations for non-hazardous duty employees will assume age 60.
- Optional group life insurance coverage for Plan 2 disability and service retirees and their dependents will continue until their normal retirement age under their plan if they do not convert their coverage to an individual policy upon retirement.

House Bill 1795 also allows members covered under the Virginia Sickness and Disability Program (VSDP) to purchase prior service credit for periods on short-term work-related disability when the 5 percent employee contribution is not made because the employee is receiving workers' compensation benefits and not the VSDP benefit. The purchase rate is 5 percent of creditable compensation.

LOSS OF BENEFITS FOR CERTAIN FELONY CONVICTIONS. Under House Bill 2095, members who are convicted of a felony associated with the performance of their job duties on or after July 1, 2011 will forfeit their eligibility for retirement, life insurance, VSDP and VSDP long-term care benefits, upon notification by the employer to VRS. If these members are convicted after they begin receiving benefits, their benefits will stop. These members will be eligible for a full or partial refund of their member contributions and interest based on whether or not they are vested, as provided under legislation effective last July 1. If the member returns to a covered position at a later date, the service lost as a result of the felony action cannot be purchased.

BENEFITS FOR CONSTITUTIONAL OFFICERS. Under House Bill 2096, constitutional officers with at least 20 years of service credit whose positions are abolished may retire with an unreduced benefit at age 50 if the officer has a membership date before July 1, 2010 or age 60 if the officer has a membership date on or after July 1, 2010.

VRS STATE BUDGET PROVISIONS:

- Effective July 1, 2011, state employees in the VRS Plan 1 defined benefit program received a 5 percent raise and began paying the 5 percent member contribution on a pre-tax salary reduction basis. This provision excludes state elected officials, judges, optional retirement plan participants and Plan 2 state employees, who already pay the 5 percent contribution. It also excludes local government positions reimbursed by the Compensation Board. Local governments and school boards that currently pay the member contribution for VRS Plan 1 members will continue to do so. However, they can require Plan 2 members to pay the 5 percent member contribution.
- State agencies will submit payments to VRS on a monthly instead of quarterly basis in order for VRS to invest the funds sooner and potentially yield higher investment gains on state agency contributions.
- The deadline for localities to elect to participate in the Line of Duty Act (LODA) Fund or self-fund their employees' LODA benefits was extended to July 1, 2012. In addition, the state comptroller may advance Line of Duty death benefits to pay funeral expenses when a death is likely to be covered under the program. In the event that a subsequent investigation determines that the death was not covered, VRS can deduct the previously paid funeral expenses from any other benefits owed to a member's beneficiaries.
- Effective with the July 1, 2011 pay date, the cash match for salaried state employees who participate in the Commonwealth's 457 Plan or a 403(b) plan returned to 50 percent of their contributions, not to exceed $20 per pay period. The cash match was reduced to $10 per pay period for FY 2011.

JLARC STUDY ON EMPLOYEE RETIREMENT PROGRAMS. The Joint Legislative Audit and Review Commission (JLARC) was asked to undertake a review of Virginia's employee retirement programs. The results of the study are to be presented to JLARC in December 2011 and be available for consideration by the 2012 General Assembly.

Year in Review

MEMBER AND RETIREE HIGHLIGHTS. The total VRS membership increased from 596,879 members, retirees and beneficiaries in fiscal year 2010 to 600,972 in fiscal year 2011, representing an increase of 0.7%. The following are highlights from the fiscal year:

- The number of active VRS members decreased 0.8%, from 342,609 to 339,740.
- The number of retirees and beneficiaries increased 5.2%, from 148,496 to 156,165.
- VRS paid $3,263.9 million in retirement benefits in FY 2011, compared to $3,035.3 million during FY 2010.
- The number of inactive and deferred members decreased 0.7%, from 105,774 to 105,067.
- More than 67,200 members held accounts through the Commonwealth of Virginia 457 Deferred Compensation Plan at the end of the fiscal year. Of these participants, more than 62,700 received a cash match through the Virginia Cash Match Plan.

EXEEDING BENCHMARKS. VRS personnel continued to satisfy or exceed benchmarks for operating standards, as the following highlights show:

OPERATING STANDARD	BENCHMARK	FY 2011 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 5.2%.
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 37 days with a 100.0% accuracy rate.
Disability Retirements	98.0% of disability retirement applications are processed within 40 days of approval by the VRS Medical Board.	99.2% of disability retirement applications were processed within 20 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 98.4% accuracy rate.
Refunds	95.0% of requests for refunds of member contributions are processed within 60 days.	98.8% of refunds were processed within eight days.
Benefit Estimates	90.0% of requests for benefit estimates are completed within 30 days.	99.6% of estimates were completed within 11 days.

OPERATING STANDARD, cont.	BENCHMARK	FY 2011 RESULT
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.	100.0% 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 100.0% 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 2,500 members in one-on-one counseling sessions and responded to more than 6,900 emails. Staff also conducted 143 retirement education and group counseling sessions, special presentations, videoconferences, webinars and benefit fairs, reaching approximately 6,600 members around the state.
- VRS' Employer Representatives made more than 28 site visits and held 67 workshops in locations around the state, attended by more than 800 employer contacts. In addition, the Employer Representatives assisted two new employers joining VRS; three employers adding enhanced coverage for hazardous duty employees; one employer adding an enhanced retirement multiplier for hazardous duty employees; two employers electing the health insurance credit; and six employers adopting defined contribution plans.
- The Employer Training Team provided 12 sessions for more than 250 human resource and payroll officers during FY 2011.
- During the fiscal year, the number of visits to the VRS Web site at *www.varetire.org* exceeded 1.65 million, reflecting an increase of nearly 11% over the previous June 30. Among the top publications accessed online was the fall 2010 edition of *Member News,* which described the new Plan 2 benefit provisions for members hired or rehired on or after July 1, 2010, among other plan changes passed during the 2011 session of the General Assembly.
- The number of subscribers to the online *Employer Update* topped 2,000 in FY 2011, with an average "click" rate of 72%. The Richmond Chapter of the Public Relations Society of America awarded *Employer Update* a 2011 Capital Award of Excellence in the newsletter category. The awards program recognizes the most creative and effective communications strategies and tactics happening across Virginia. The Award of Excellence is the highest honor in each category.

Innovations

MODERNIZATION HEADS FOR LAUNCH OF EMPLOYER PHASE. During fiscal year 2011, the VRS Modernization Program focused on preparing for the launch of *my*VRS Navigator for employers next year. With *my*VRS Navigator, participating employers will be able to submit enrollments and employee updates online and send contribution payments electronically. The capabilities of *my*VRS Navigator represent a significant change from current practice, where employers report new and unchanged data for all members each month and have limited online access to data about their employees.

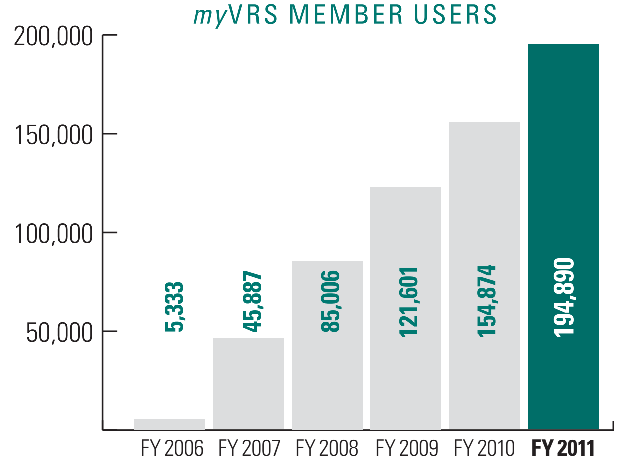
Key activities in FY 2011 included completion of design and construction of *my*VRS Navigator, setting the stage for testing. Among other technology upgrades were a new documentation and content management system, which will not only automate but also customize correspondence to employers, members and retirees, and a replacement Internet-based telephone system that will allow for more efficient customer call handling and call quality calibration.

Another goal this year was to begin preparing staff and employers for implementation of Modernization through "sneak peeks" at the components and new processes involved in *my*VRS Navigator. These sneak peeks enable staff and employers to become familiar with the system before they undergo training and begin using it. Focus groups and surveys of staff and employers helped to shape the technology and business procedures to match their needs and how they work.

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

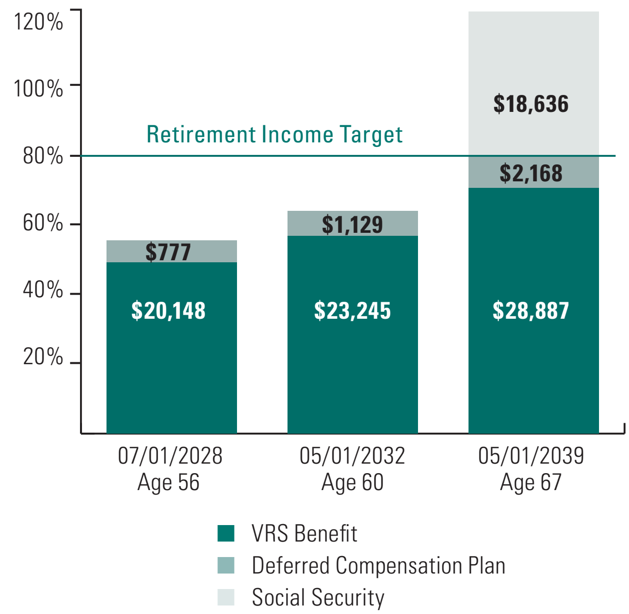
- During FY 2011, approximately 40,000 members registered for *my*VRS, bringing the total of registered members to 194,890 as of June 30, 2011, an increase from the 154,874 registered members at June 30, 2010.
- Members put *my*VRS planning tools to good use during the fiscal year, creating 244,640 estimates through the *my*VRS Benefit Estimator and 33,854 Quick and Detailed Plans through the *my*VRS Retirement Planner.
- Since 2008, when *my*VRS was opened to retirees, 27,704 retirees have created online accounts. Retirees completed 3,118 income tax transactions through the *my*VRS retiree tax tool during FY 2011.
- By the end of the fiscal year, 1,547 employer contacts authorized to access member information were registered for *my*VRS for Employers. During the fiscal year, employers created 72,922 benefit estimates to help counsel employees getting ready to retire.

***my*VRS MEMBER USERS**



NAGDCA RECOGNIZES VRS FOR RETIREMENT PLANNING TOOL. The National Association of Government Defined Contribution Administrators (NAGDCA) recognized VRS with a Special Award of Distinction for its Member Benefit Profile-Retirement Income Gap Analysis. The entry was one of three awards of distinction given in the Effective Communication category of NAGDCA's Leadership Recognition Awards Program.

SAMPLE MEMBER BENEFIT PROFILE



The MBP is the annual online benefits statement for members, reflecting their account and benefits as of June 30. In fiscal year 2010, VRS introduced the "gap analysis" feature in the MBP for members eligible to participate in the Commonwealth's 457 Deferred Compensation Plan. This feature provides members with a customized analysis of their projected retirement income compared to 80 percent of their current salary. The retirement income projection combines their estimated VRS benefit, a Social Security benefit estimate and an estimated annuity from their deferred compensation plan. Many financial planners use 80 percent of pre-retirement income as a benchmark for maintaining a reasonable living standard in retirement. With the Retirement Income Gap Analysis MBP, members get a graphic representation of what this means in terms of their own future income needs. The MBP also provides tips on how to close the gap between their estimated retirement income and their 80 percent target.

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

building blocks

2011

During the last several years, VRS has been modernizing how it will conduct business and serve customers in the future. Over the next few years, this effort will streamline business processes for employers and provide members and retirees new and innovative online services.

for a secure future

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 30, 2011

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, 2011, 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 2010 financial statements, and in our report dated December 1, 2010, 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 Virginia Retirement System are intended to present the 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 Virginia Retirement System. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2011, 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, 2011, 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 78 through 81 are not a required part of the basic financial statements, but are supplementary information required by the 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 November 30, 3011 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

The Virginia Retirement 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 regarding historical information and 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, 2011. The information provided in the Introductory, Investment, Actuarial and Statistical sections complements this discussion.

The System administers two defined benefit retirement plans, Plan 1 and Plan 2, through the following systems. These 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, Disability Insurance Trust Fund and the funding of the Line of Duty Act 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 were $54.6 billion at June 30, 2011, representing an increase of $6,911.1 million, or 14.6%, from the net assets held in trust as of 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, 2011 was 19.1% compared to a return of 14.1% for the fiscal year ended June 30, 2010. 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 72.4%, 66.8%, 58.6% and 66.5%, respectively, based on the actuarial valuation as of June 30, 2010. For the VRS, SPORS, VaLORS and JRS plans, this was a decrease from their funded ratios of 80.2%, 73.6%, 64.7% and 72.5%, respectively, based on the June 30, 2009 actuarial valuation. There were no changes in the primary actuarial

assumptions for salary growth or inflation; however, the assumption for the investment rate of return was reduced from 7.50% to 7.00%. 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 due to the positive impact of the net investment gains recorded in FY 2007, FY 2010 and FY 2011 because of the "five-year smoothing" asset valuation method used by the VRS actuary.

- The Group Life Insurance Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund were actuarially funded at 41.4%, 13.1% and 107.3%, respectively, based on the actuarial valuation as of June 30, 2010. For the Disability Insurance Trust Fund, this was an increase from its funded ratio of 99.7% based on the June 30, 2009 actuarial valuation. For the Group Life Insurance Fund and the Retiree Health Insurance Credit Fund, there was a decrease from the June 30, 2009 funded ratios of 48.5% and 14.9%, respectively. There were no changes in the primary actuarial assumptions for salary growth or inflation; however, the assumption for the investment rate of return was reduced from 7.50% to 7.00%. 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 due to the positive impact of the net investment gains recorded in FY 2007, FY 2010 and FY 2011 because of the "five-year smoothing" asset valuation method used by the VRS actuary.
- The Line of Duty Act Trust Fund was created effective July 1, 2010 as a new trust fund but had an actuarial valuation prepared as of June 30, 2010 to determine the initial actuarial accrued liability. Since the fund had no assets at the time, the funded ratio was zero (0.00%).

Overview of the Financial Statements and Accompanying Information

BASIC FINANCIAL STATEMENTS. The System presents the Basic Financial Statements for the year ended June 30, 2011 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)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Assets:					
Cash, Receivables and Capital Assets	$ 2,000.4	$ (765.1)	$ 2,765.5	$ (322.4)	$ 3,087.9
Investments	55,633.2	7,709.4	47,923.8	4,760.7	43,163.1
Security Lending Collateral	3,662.2	(421.9)	4,084.1	2,200.6	1,883.5
Total Assets	**$ 61,295.8**	**$6,522.4**	**$54,773.4**	**$6,638.9**	**$48,134.5**
Liabilities:					
Accounts Payable	$ 553.7	$ (532.9)	$ 1,086.6	$ (131.4)	$ 1,218.0
Investment Purchases Payable	2,512.0	568.5	1,943.5	(496.3)	2,439.8
Obligations Under Securities Lending	3,667.8	(424.3)	4,092.1	2,200.1	1,892.0
Total Liabilities	**$ 6,733.5**	**$ (388.7)**	**$ 7,122.2**	**$ 1,572.4**	**$ 5,549.8**
Total Net Assets	**$ 54,562.3**	**$ 6,911.1**	**$ 47,651.2**	**$ 5,066.5**	**$ 42,584.7**

FIGURE 2.2 – SUMMARY OF CHANGES IN PLAN NET ASSETS

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Additions:					
Member Contributions	$ 27.6	$ (61.4)	$ 89.0	$ (12.2)	$ 101.2
Member Contributions Paid by Employer	736.4	(25.3)	761.7	(8.0)	769.7
Employer Contributions	889.5	(347.5)	1,237.0	(342.2)	1,579.2
Net Investment Income	8,965.9	2,542.7	6,423.2	18,245.3	(11,822.1)
Miscellaneous Revenue and Transfers	1.8	0.6	1.2	(8.3)	9.5
Total Additions	**$ 10,621.2**	**$ 2,109.1**	**$ 8,512.1**	**$ 17,874.6**	**$ (9,362.5)**
Deductions:					
Retirement Benefits	$ 3,263.9	$ 228.6	$ 3,035.3	$ 302.1	$ 2,733.2
Refunds of Member Contributions	100.5	7.4	93.1	1.8	91.3
Insurance Premiums and Claims	145.0	7.2	137.8	(13.9)	151.7
Retiree Health Insurance Credit Reimbursements	126.5	6.2	120.3	5.0	115.3
Disability Insurance Benefits	28.2	0.6	27.6	(0.4)	28.0
Line of Duty Act Reimbursements	10.0	10.0	-	-	-
Administrative and Other Expenses	36.0	4.5	31.5	(3.7)	35.2
Total Deductions	**$ 3,710.1**	**$ 264.5**	**$ 3,445.6**	**$ 290.9**	**$ 3,154.7**
Net Increase (Decrease) in Net Assets	**$ 6,911.1**	**$ 1,844.6**	**$ 5,066.5**	**$ 17,583.7**	**$ (12,517.2)**

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, BENEFICIARIES AND EMPLOYERS

Approximately 339,740 active members were employed with 829 VRS-participating employers as of June 30, 2011. The number of retirees and other annuitants totaled approximately 156,165 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

	2011		2010		2009	
	Number	Percent of Total	Number	Percent of Total	Number	Percent of Total
State Employees (VRS)	78,392	23.1%	78,613	22.9%	80,808	23.3%
Teachers (VRS)	145,707	42.9%	147,817	43.2%	148,461	42.8%
Political Subdivision Employees (VRS)	103,902	30.6%	104,385	30.5%	105,404	30.4%
State Police Officers (SPORS)	1,741	0.5%	1,766	0.5%	1,826	0.5%
Virginia Law Officers (VaLORS)	9,604	2.8%	9,620	2.8%	10,014	2.9%
Judges (JRS)	394	0.1%	408	0.1%	416	0.1%
Total Members	**339,740**	**100.0%**	**342,609**	**100.0%**	**346,929**	**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

	2011		2010		2009	
	Number	Percent of Total	Number	Percent of Total	Number	Percent of Total
State Employees (VRS)	47,286	30.3%	45,837	30.9%	43,682	30.8%
Teachers (VRS)	67,408	43.2%	63,566	42.8%	61,057	43.1%
Political Subdivision Employees (VRS)	37,325	23.9%	35,249	23.7%	33,462	23.6%
State Police Officers (SPORS)	1,137	0.7%	1,100	0.7%	1,065	0.8%
Virginia Law Officers (VaLORS)	2,571	1.6%	2,303	1.6%	2,049	1.4%
Judges (JRS)	438	0.3%	441	0.3%	431	0.3%
Total Retirees and Beneficiaries	**156,165**	**100.0%**	**148,496**	**100.0%**	**141,746**	**100.0%**

Additional information about retirees is presented in the Statistical Section.

FIGURE 2.5 – DISTRIBUTION OF EMPLOYERS

AT JUNE 30

	2011	2010	2009
Cities and Towns	161	160	157
Counties	93	93	93
School Boards*	144	144	144
Special Authorities	195	194	192
State Agencies	236	235	235
Total Employers	**829**	**826**	**821**

**Of the 144 school boards, 134 also provide coverage for non-professional employees and are treated as political subdivisions. A list of VRS-participating employers and additional employer information is 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, 2011 amounted to $10,261.1 million. This was an increase of $2,165.6 million when compared with the activity for FY 2010, representing an improvement from the earnings of $8,095.5 million recorded in FY 2010.

Total member contributions decreased by $24.1 million. The portion members paid, however, increased by $1.2 million due primarily to an increase in the member-paid contributions for Plan 2, offset by a reduction in the purchase of refunded and other qualified prior service.

For FY 2011, employer contributions decreased by $289.0 million for a total decrease in all contributions of $313.1 million from the previous fiscal year. The decrease in employer contributions was due primarily to a reduction in employer contributions for state employees and teachers. This decrease was offset slightly by some payroll growth 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 2010, the System experienced a reduction in total member contributions of $2.0 million and a decrease in employer contributions of $234.2 million. The decline in employer contributions was related 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 some payroll growth, the addition of some new local government employers and the election of enhanced hazardous duty or other coverage by some local governments.

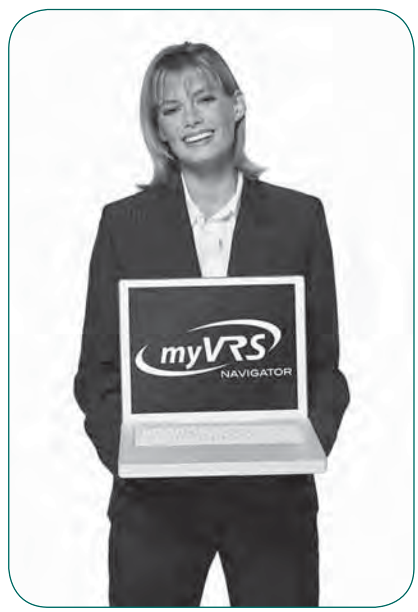


FIGURE 2.6 – SUMMARY OF PENSION CONTRIBUTIONS, INVESTMENT EARNINGS AND MISCELLANEOUS REVENUES

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN MILLIONS)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Member Contributions	$ 27.7	$ 1.2	$ 26.5	$ 6.0	$ 20.5
Member Contributions Paid by Employers	736.4	(25.3)	761.7	(8.0)	769.7
Employer Contributions	784.0	(289.0)	1,073.0	(234.2)	1,307.2
Net Investment Income	8,711.6	2,478.5	6,233.1	17,734.1	(11,501.0)
Miscellaneous Revenue and Transfers	1.4	0.2	1.2	(8.1)	9.3
Total Contributions, Investment Earnings and Miscellaneous Revenues	**$ 10,261.1**	**$ 2,165.6**	**$ 8,095.5**	**$ 17,489.8**	**$ (9,394.3)**

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 2011 of $8,711.6 million, which represented an increase of $2,478.5 million from FY 2010. This compares with the net investment income increase of $17,734.1 million in FY 2010; however, this was an increase from a net investment loss of $11,501.0 million in FY 2009. Total pension trust fund investments increased to $54,161.4 million at fair value at June 30, 2011. This was an increase of $7,656.9 million from the fair value of $46,504.5 million at June 30, 2010.

The total pension trust fund investments increased in FY 2010 by $4,630.4 million from their fair value of $41,874.1 million at June 30, 2009. The total return on pension trust fund investments for the year ended June 30, 2011 was 19.1%. The annualized return was 2.4% over the past three years and 4.3% 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 2011 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 2011 totaled $3,397.0 million, an increase of $240.1 million, or 7.6%, over the 2010 period.

Benefit payments were $3,263.9 million in FY 2011. This is an increase of $228.6 million compared to an increase of $302.1 million for FY 2010. The increase in FY 2011 was due to continued growth in the number of retirees and beneficiaries receiving benefits; however, this growth was not as significant as the growth in FY 2010. The FY 2011 benefit payments do not reflect a new cost-of-living adjustment (COLA) effective July 1, 2010, because the basis for the COLA (the change in the Consumer Price Index for all Urban Consumers for 2009) was negative.

FIGURE 2.7 – SUMMARY OF PENSION PLAN PRIMARY EXPENSES

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN MILLIONS)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Benefits	$ 3,263.9	$ 228.6	$ 3,035.3	$ 302.1	$ 2,733.2
Refunds	100.5	7.4	93.1	1.8	91.3
Administrative and Other Expenses	32.6	4.1	28.5	(3.9)	32.4
Total Primary Expenses	**$ 3,397.0**	**$ 240.1**	**$ 3,156.9**	**$ 300.0**	**$ 2,856.9**

Refunds of contributions to members who terminated employment during FY 2011 amounted to $100.5 million (13,221 refunds), compared with $93.1 million refunded (13,798 refunds) during FY 2010 and $91.3 million refunded (14,060 refunds) during FY 2009. The change during FY 2011 reflects a slight decrease in the volume of refunds but an increase in the average refund amount compared to FY 2010.

Administrative and other expenses for FY 2011 were $32.6 million, compared with $28.5 million for FY 2010 and $32.4 million for FY 2009. Administrative and other expenses increased by $4.1 million for FY 2011. This compares to a decrease in FY 2010 of $3.9 million. The increase for FY 2011 is related primarily to the System's ongoing costs associated with the Modernization Program. Further details are provided in the Schedule of Administrative Expenses following the Required Supplemental Schedules.

PENSION PLAN ACTIVITY

FISCAL YEAR 2011 (EXPRESSED IN MILLIONS)

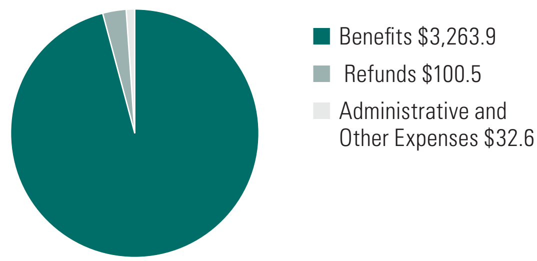


FIGURE 2.8 – SUMMARY OF PENSION PLAN RESERVE BALANCES

AT JUNE 30 (EXPRESSED IN MILLIONS)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Member Reserves	$ 10,871.7	$ 325.8	$ 10,545.9	$ 417.8	$ 10,128.1
Employer Reserves	42,279.4	6,538.3	35,741.1	4,520.8	31,220.3
Total Reserve Balances	**$ 53,151.1**	**$ 6,864.1**	**$ 46,287.0**	**$ 4,938.6**	**$ 41,348.4**

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 2011, the amount of interest credited to member accounts was $397.4 million, and the amount of member balances transferred to the Employer Reserve for retirements was $734.0 million. For FY 2010, the interest and retirement transfers were $385.7 million and $659.4 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 a plan achieves, the larger the accumulation of assets and the greater the investment income potential. As shown in Figure 2.8, revenues exceeded expenses for FY 2011, leading to a net increase of $6,864.1 million in the retirement reserves held by the plans. This increase follows a smaller increase of $4,938.6 million in the retirement reserves in FY 2010. The increase for FY 2011 was related primarily to the investment performance for the year, which improved from FY 2010.

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, 2010, the ratio of assets accumulated by the plans to their total actuarial accrued liabilities for benefits was 72.4% for VRS, 66.8% for SPORS, 58.6% for VaLORS and 66.5% 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 life insurance benefits 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 2011, the System remitted $145.0 million to the insurer for claims and administrative costs. This is an increase from the $137.8 million remitted for FY 2010. Approximately 355,397 active members were covered under the Group Life Insurance Program at June 30, 2011.

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 $833.1 million at June 30, 2011; investment income, including net securities lending income, was $151.5 million during the fiscal year. For FY 2010, this reserve had investment income of $113.7 million and ended the year with a reserve balance of $783.1 million, an increase from the $713.8 million at June 30, 2009.

For FY 2011, the increase in the reserve balance was primarily the result of positive investment income, offset by an increase in claims and other costs and a decrease in administrative expenses. There also was a decline in contributions due to a reduction in the employer contribution rate used for funding all employer groups. Employer contributions for the Group Life Insurance Program are discussed further in Note 12. Approximately 137,784 retirees were covered under the Group Life Insurance Program at June 30, 2011.

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 64,229 active members and 2,099 retirees were enrolled in the Optional Group Life Insurance Program at June 30, 2011.

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 2011, the System collected $50.1 million in retiree health insurance credit contributions from participating employers and provided reimbursements to retirees of $126.5 million. During FY 2010, the System collected $100.6 million in retiree health insurance credit contributions from participating employers and provided reimbursements of $120.3 million.

The decline in contributions reflects a reduction in the contribution rates used for funding the state and teacher employer groups. Employer contributions for the Retiree Health Insurance Credit Program are discussed further in Note 12. 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 $209.0 million at June 30, 2011; investment income, including net securities lending income, was $41.0 million for the fiscal year. The reserve balances at June 30, 2010 and June 30, 2009 were $245.0 million and $232.0 million, respectively.

Approximately 96,671 retirees were receiving the health insurance credit at June 30, 2011. 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 2011, the System did not collect any VSDP contributions from participating employers; however, it did incur long-term disability benefits and administrative costs of $28.2 million. This is a decrease from the $31.0 million in contributions collected in FY 2010 and represents a slight increase from the $27.6 million in benefits and administrative costs paid in FY 2010. Contribution decreases reflect the suspension of the employer contribution rate used for funding. Employer contributions for the Virginia Sickness and Disability Program are discussed further in Note 12.

The benefit costs reflect some stability in the number of members receiving long-term disability benefits, the amount of these benefits, the costs of the long-term care benefits and the operating costs of the program. The Disability Insurance Trust Fund reserve had net assets held in trust for benefits of $369.1 million at June 30, 2011; investment income, including net securities lending income, was $61.9 million during the fiscal year. The reserve balances at June 30, 2010 and June 30, 2009 were $336.2 million and $290.5 million, respectively.

Approximately 74,972 active members and 2,698 former members were receiving benefits at June 30, 2011. Additional information is provided in Note 3.

LINE OF DUTY ACT PROGRAM

The Line of Duty Act Program was a new program for the System in FY 2011. The System is responsible for identifying eligible individuals; having the VRS actuary prepare an actuarial valuation; collecting contributions; reimbursing the Commonwealth of Virginia's Department of Accounts (DOA) for claims and administrative costs; and managing the assets of the program. DOA is responsible for the administration of the benefits under the program and the payment of claims for death benefits and health insurance reimbursements for eligible state employees and local government employees, including volunteers, who die or become disabled as the result of the performance of their duties as a public safety officer.

The program did not receive any contributions in FY 2011 but funded the benefits and expenses with a loan from the Group Life Insurance Fund. During FY 2011, the cost for the benefits provided by this program was $10.0 million. 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.

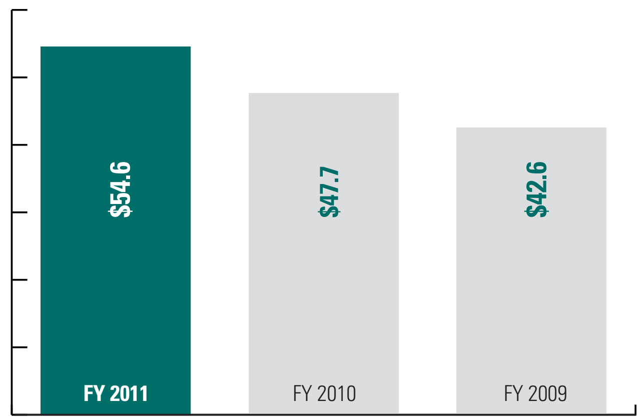
According to the latest valuations of these plans performed by Cavanaugh Macdonald Consulting, LLC as of June 30, 2010, the ratio of assets accumulated by the plans to their total actuarial accrued liabilities for benefits was 41.4% for the Group Life Insurance Fund, 13.1% for the Retiree Health Insurance Credit Fund, 107.3% for the Disability Insurance Trust Fund and zero (0.00%) for the Line of Duty Act Trust Fund. Funding progress for these plans is presented in the Required Supplemental Schedule of Funding Progress–Other Post-Employment Benefit Plans.

Market Volatility

The System's investment performance for the fiscal year ended June 30, 2011 was 19.1% and the net assets available for benefits had almost returned to their June 30, 2008 values. As noted in this section, in the Introductory Section and in the Chief Investment Officer's letter in the Investment Section, the investment markets continue to be extremely volatile. The System's management estimates that the market value of the trust funds has declined from $54.6 billion as of June 30, 2011 to approximately $51.4 billion as of November 10, 2011. This has been primarily due to a decline in the market value of investments in the VRS portfolio. The amount of assets and reserves required to meet future obligations is based, in part, on estimated or expected long-term investment returns. While management does not expect that this decline is permanent, it does reflect on the volatility in the market.

SYSTEM NET ASSETS

AT JUNE 30 (EXPRESSED IN BILLIONS)



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.

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

AS OF JUNE 30, 2011 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2010

	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)	$ 29,053	$ 568	$ 860	$ 340	$ 30,821
Receivables:					
Contributions	156,360	3,099	8,588	4,979	- 173,026
Interest and Dividends	191,177	2,231	3,377	1,336	198,121
Receivable for Security Transactions	1,338,723	15,623	23,650	9,356	1,387,352
Other Investment Receivables	100,719	1,175	1,779	704	104,377
Other Receivables	1,160	-	-	-	1,160
Total Receivables	**1,788,139**	**22,128**	**37,394**	**16,375**	**1,864,036**
Investments (Note 5):					
Bonds and Mortgage Securities	16,811,634	196,193	297,000	117,491	17,422,318
Stocks	19,951,441	232,836	352,468	139,435	20,676,180
Fixed Income Commingled Funds	1,778,092	20,750	31,412	12,427	1,842,681
Index and Pooled Funds	5,762,736	67,251	101,806	40,274	5,972,067
Real Estate	2,922,932	34,111	51,637	20,428	3,029,108
Private Equity	4,879,975	56,950	86,211	34,105	5,057,241
Short-Term Investments	156,142	1,822	2,758	1,091	161,813
Total Investments	**52,262,952**	**609,913**	**923,292**	**365,251**	**54,161,408**
Collateral on Loaned Securities	3,440,342	40,149	60,778	24,044	3,565,313
Property, Plant, Furniture, Equipment and Intangible Assets (Note 6)	23,164	-	-	-	23,164
Total Assets	**57,543,650**	**672,758**	**1,022,324**	**406,010**	**59,644,742**
Liabilities:					
Retirement Benefits Payable	239,961	3,881	5,240	2,578	251,660
Refunds Payable	3,781	3	167	-	3,951
Accounts Payable and Accrued Expenses	26,477	282	426	168	27,353
Compensated Absences Payable	1,961	-	-	-	1,961
Insurance Premiums and Claims Payable	-	-	-	-	-
Payable for Security Transactions	2,359,865	27,540	41,690	16,492	2,445,587
Other Investment Payables	184,732	2,156	3,264	1,291	191,443
Other Payables	949	-	-	-	949
Obligations Under Security Lending Program	3,445,589	40,210	60,871	24,080	3,570,750
Total Liabilities	**6,263,315**	**74,072**	**111,658**	**44,609**	**6,493,654**
Net Assets Held in Trust for Benefits (Note 4)	**$ 51,280,335**	**$ 598,686**	**$ 910,666**	**$ 361,401**	**$ 53,151,088**

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	Line of Duty Act Trust Fund	Total Other Employee Benefit Plans	2011	2010
$ 822	$ 204	$ 344	$ -	$ 1,370	$ 32,191	$ 12,107
3,422	3,634	36	10,678	17,770	190,796	147,683
3,228	803	1,352	-	5,383	203,504	191,856
22,604	5,626	9,469	-	37,699	1,425,051	1,813,792
1,701	423	712	-	2,836	107,213	578,714
10,731	11	6,569	53	17,364	18,524	7,533
41,686	**10,497**	**18,138**	**10,731**	**81,052**	**1,945,088**	**2,739,578**
283,861	70,650	118,910	-	473,421	17,895,739	17,143,906
336,876	83,845	141,119	-	561,840	21,238,020	16,307,335
30,023	7,472	12,577	-	50,072	1,892,753	1,732,430
97,303	24,218	40,760	-	162,281	6,134,348	5,423,698
49,353	12,283	20,674	-	82,310	3,111,418	2,654,164
82,398	20,508	34,516	-	137,422	5,194,663	4,590,737
2,636	657	1,104	-	4,397	166,210	71,528
882,450	**219,633**	**369,660**	**-**	**1,471,743**	**55,633,151**	**47,923,798**
58,090	14,458	24,334	-	96,882	3,662,195	4,084,119
-	-	-	-	-	23,164	13,855
983,048	**244,792**	**412,476**	**10,731**	**1,651,047**	**61,295,789**	**54,773,457**
-	-	-	-	-	251,660	242,724
140	123	197	-	460	4,411	6,087
407	10,463	839	-	11,709	39,062	39,394
-	-	-	-	-	1,961	1,961
48,293	-	-	-	48,293	48,293	47,254
39,846	9,917	16,691	-	66,454	2,512,041	1,943,475
3,119	776	1,307	-	5,202	196,645	748,188
-	-	-	10,731	10,731	11,680	1,000
58,178	14,480	24,371	-	97,029	3,667,779	4,092,144
149,983	**35,759**	**43,405**	**10,731**	**239,878**	**6,733,532**	**7,122,227**
$ 833,065	**$ 209,033**	**$ 369,071**	**$ -**	**$ 1,411,169**	**$ 54,562,257**	**$ 47,651,230**

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, 2011 WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2010

	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	$ 26,529	$ 121	$ 941	$ 32	$ 27,623
Member Contributions Paid by Employers	712,560	4,742	16,102	3,003	736,407
Employers	741,833	7,480	17,380	17,303	783,996
Total Contributions	**1,480,922**	**12,343**	**34,423**	**20,338**	**1,548,026**
Investment Income:					
Net Appreciation/(Depreciation) in Fair Value of Investments	7,411,353	87,471	130,474	51,656	7,680,954
Interest, Dividends and Other Investment Income	1,279,584	15,102	22,527	8,918	1,326,131
Total Investment Income Before Investment Expenses	8,690,937	102,573	153,001	60,574	9,007,085
Investment Expenses	(300,036)	(3,541)	(5,282)	(2,091)	(310,950)
Net Investment Income	**8,390,901**	**99,032**	**147,719**	**58,483**	**8,696,135**
Security Lending Income:					
Gross Income	16,244	192	286	113	16,835
Less Borrower Rebates and Agent Fees	(1,311)	(15)	(23)	(9)	(1,358)
Net Security Lending Income	**14,933**	**177**	**263**	**104**	**15,477**
Miscellaneous Revenue	1,290	-	-	-	1,290
Transfers In	-	-	130	-	130
Total Additions	**9,888,046**	**111,552**	**182,535**	**78,925**	**10,261,058**
Deductions:					
Retirement Benefits	3,125,772	46,259	59,749	32,115	3,263,895
Refunds of Member Contributions	96,209	279	4,051	5	100,544
Insurance Premiums and Claims	-	-	-	-	-
Retiree Health Insurance Credit Reimbursements	-	-	-	-	-
Disability Insurance Premiums and Benefits	-	-	-	-	-
Line of Duty Act Reimbursements	-	-	-	-	-
Administrative Expenses	25,082	222	395	158	25,857
Other Expenses	6,334	68	103	40	6,545
Transfers Out	130	-	-	-	130
Total Deductions	**3,253,527**	**46,828**	**64,298**	**32,318**	**3,396,971**
Net Increase (Decrease)	6,634,519	64,724	118,237	46,607	6,864,087
Net Assets Held in Trust for Benefits - Beginning of Year	44,645,816	533,962	792,429	314,794	46,287,001
Net Assets Held in Trust for Benefits - End of Year	**$ 51,280,335**	**$ 598,686**	**$ 910,666**	**$ 361,401**	**$ 53,151,088**

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	Line of Duty Act Trust Fund	Total Other Employee Benefit Plans	2011	2010
$ 32	$ -	$ -	$ -	$ 32	$ 27,591	$ 88,983
-	-	-	-	-	736,407	761,674
44,727	50,052	6	10,678	105,463	889,459	1,237,021
44,695	**50,052**	**6**	**10,678**	**105,431**	**1,653,457**	**2,087,678**
133,585	36,137	54,536	-	224,258	7,905,212	5,625,288
23,064	6,239	9,416	-	38,719	1,364,850	1,083,792
156,649	42,376	63,952	-	262,977	9,270,062	6,709,080
(5,409)	(1,463)	(2,208)	-	(9,080)	(320,030)	(299,385)
151,240	**40,913**	**61,744**	**-**	**253,897**	**8,950,032**	**6,409,695**
293	79	119	-	491	17,326	15,010
(24)	(6)	(10)	-	(40)	(1,398)	(1,498
269	**73**	**109**	**-**	**451**	**15,928**	**13,512**
353	-	-	-	353	1,643	1,083
-	-	-	-	-	130	104
196,557	**91,038**	**61,859**	**10,678**	**360,132**	**10,621,190**	**8,512,072**
-	-	-	-	-	3,263,895	3,035,274
-	-	-	-	-	100,544	93,086
145,027	-	-	-	145,027	145,027	137,833
-	126,499	-	-	126,499	126,499	120,269
-	-	28,187	-	28,187	28,187	27,574
-	-	-	10,006	10,006	10,006	-
484	436	650	319	1,889	27,746	26,560
1,039	28	164	353	1,584	8,129	4,842
-	-	-	-	-	130	104
146,550	**126,963**	**29,001**	**10,678**	**313,192**	**3,710,163**	**3,445,542**
50,007	(35,925)	32,858	-	46,940	6,911,027	5,066,530
783,058	244,958	336,213	-	1,364,229	47,651,230	42,584,700
$ 833,065	**$ 209,033**	**$ 369,071**	**$ -**	**$ 1,411,169**	**$ 54,562,257**	**$ 47,651,230**

Notes to Financial Statements

JUNE 30, 2011 AND 2010

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 two defined benefit pension plans, Plan 1 and Plan 2, 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, retirees 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 BNY Mellon 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 Line of Duty Act Trust Fund was created by and is administered in accordance with the provisions of the 2010 Appropriation Act (Item 258, Chapter 874, 2010 Acts of Assembly) and confirmed in the 2011 Appropriation Act (Item 258, Chapter 890, 2011 Acts of Assembly).

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 insurer. 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 and the Virginia Cash Match Plan for state employees and employees of participating political subdivisions. Additional information about the 457 and Cash Match Plans is provided in the Statistical Section.
- Commonwealth of Virginia (COV) Voluntary Group Long Term Care Insurance Program, an employee-paid program for eligible employees.
- Defined contribution plans, referred to as the Optional Retirement Plans 1 and 2, 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, BNY Mellon, 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 years 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 may 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, 2011 and 2010 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 monthly 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, 2011. 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, 2010, 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 system, which administers two defined benefit plans, the VRS Plan 1 and the VRS Plan 2. The System also administers Plan 1 and Plan 2 benefit provisions through the following single-employer retirement systems:

- 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, retirees 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, as well as permanent, salaried employees of the state's two public teaching hospitals, are not covered under the VRS defined benefit plans.

2. Pension Plan Provisions and Requirements. Under Plan 1 and Plan 2, 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 plan. 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 for all Urban Consumers, is granted on July 1 of the second calendar year after retirement and is effective each July 1 thereafter, when provided.

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

	2011				2011	2010
	VRS	SPORS	VaLORS	JRS	Total	Total
Retirees and Beneficiaries Receiving Benefits	152,019	1,137	2,571	438	156,165	148,496
Terminated Employees Entitled to Benefits but not Receiving Them	34,919	72	396	6	35,393	34,169
Total	**186,938**	**1,209**	**2,967**	**444**	**191,558**	**182,665**
Active Members:						
Vested	233,671	1,491	6,086	350	241,598	235,828
Non-Vested	94,330	250	3,518	44	98,142	106,781
Total	**328,001**	**1,741**	**9,604**	**394**	**339,740**	**342,609**

FIGURE 2.10 – DEFINED BENEFIT PLAN PROVISIONS

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

Members qualify for retirement when they become vested (have at least five years of service credit) and meet the age and service requirements for their plan, as shown in the following table. The benefit is calculated using a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit at retirement.

PROVISIONS	PLAN 1 *Hired Before July 1, 2010*	PLAN 2 *Hired On or After July 1, 2010*
Average Final Compensation	Average of the member's 36 consecutive months of highest compensation as a covered employee.	Average of the member's 60 consecutive months of highest compensation as a covered employee.
Member Contributions	Members or employers (on members' behalf) contribute 5% of members' compensation each month to their member contribution accounts.	State employees contribute 5% of their compensation each month to their member contribution accounts. Employees of school divisions and political subdivisions may contribute all or a portion of the 5% member contribution as elected by the employer.
Vesting and Refunds	Vested members who leave covered employment are eligible for a full refund of their member contribution account balance. Non-vested members are eligible for a refund, excluding any contributions made by the employer after July 1, 2010 and the interest on these contributions. *Exception:* Members who are involuntarily separated from employment for causes other than job performance or misconduct are eligible for a full refund, including any employer contributions and interest.	Same as Plan 1
Normal Retirement Age	VRS: Age 65	Normal Social Security retirement age.
	SPORS, VaLORS and political subdivision hazardous duty employees: Age 60.	Same as Plan 1.
	JRS: Age 65.	Same as Plan 1.

FIGURE 2.10 - DEFINED BENEFIT PLAN PROVISIONS, continued

PROVISIONS	PLAN 1 *Hired Before July 1, 2010*	PLAN 2 *Hired On or After July 1, 2010*
Earliest Unreduced Retirement Eligibility	VRS: Age 65 with at least five years of service credit or age 50 with at least 30 years of service credit.	Normal Social Security retirement age with at least five years of service credit or when age and service credit equal 90. *Example:* Age 60 with 30 years of service credit.
	SPORS, VaLORS and 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 at least five years of service credit or age 60 with at least 30 years of service credit. Service earned under JRS is weighted. The weighting factors under Plan 1 are: • 3.5 for JRS members appointed or elected before January 1, 1995 • 2.5 for JRS members appointed or elected on or after January 1, 1995	Same as Plan 1. Service earned under JRS is weighted. The weighting factors under Plan 2 are: • 1.5 for JRS members appointed or elected before age 45 • 2.0 for JRS members appointed or elected between ages 45 and 54 • 2.5 for JRS members appointed or elected at age 55 or older
Earliest Reduced Retirement Eligibility	VRS: Age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.	Age 60 with at least five years of service credit.
	SPORS, VaLORS and political subdivision employees: Age 50 with at least five years of service credit.	Same as Plan 1.
	JRS: Age 55 with at least five years of service credit.	Same as Plan 1.
Retirement Multipliers	VRS and JRS: 1.7%.	Same as Plan 1.
	SPORS, sheriffs and regional jail superintendents: 1.85%.	Same as Plan 1.
	VaLORS: 1.7% or 2.0%.	2.0%.
	Political subdivision hazardous duty employees: 1.7% or 1.85% as elected by the employer.	Same as Plan 1.
Cost-of-Living Adjustment (COLA) *During years of deflation or no inflation, the COLA is 0%.*	Matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half the remaining increase, up to a maximum COLA of 5%.	Matches the first 2% increase in the CPI-U and half the remaining increase, up to a maximum COLA of 6%.

FIGURE 2.11 – MEMBER AND EMPLOYER CONTRIBUTIONS

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN THOUSANDS)

	2011				2011	2010
	VRS	SPORS	VaLORS	JRS	Total	Total
Employer Contributions	$ 741,833	$ 7,480	$ 17,380	$ 17,303	$ 783,996	$ 1,073,012
Member Contributions Paid by Employers	712,560	4,742	16,102	3,003	736,407	761,674
Member Contributions	26,529	121	941	32	27,623	26,498
Total Contributions	**$ 1,480,922**	**$ 12,343**	**$ 34,423**	**$ 20,338**	**$ 1,548,026**	**$ 1,861,184**

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. The member contribution is 5.00% of compensation, contributed by members or employers each month to members' contribution accounts. Members leaving covered employment are eligible to request a refund of their member contribution account balance. Vested members and those involuntarily separated from employment for causes other than job performance or misconduct are eligible for a full refund; non-vested members are eligible for the balance, excluding any member contributions made by employers to their accounts after July 1, 2010 and the interest on these contributions.

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 actuary, Cavanaugh Macdonald Consulting, LLC, 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 2011 were based on the actuary's valuation as of June 30, 2009. The System's former actuary, Wachovia Retirement Services, computed the amount of contributions to be provided in FY 2010; these contribution rates were based on the actuarial valuation as of June 30, 2007. In addition, the actuaries 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, 2011 and 2010 totaled $1,548,026,000 and $1,861,184,000, respectively, in accordance with statutory requirements. For FY 2011, these contributions covered the employers' normal costs. For FY 2010, the contributions covered the employers' normal costs and amortization of a portion of the unfunded actuarial accrued liabilities as determined by the June 30, 2007 valuation. 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.

Employer contributions to the VRS cost-sharing pool for teachers represented 3.93% of covered payrolls. Employer contributions for state employees represented 2.13% of covered payrolls. Each political subdivision's contributions ranged from zero (0.00%) to 26.01% of covered payrolls. State employer contributions to SPORS, VaLORS and JRS represented 7.76%, 5.12% and 28.81%, respectively. With the exception of the political subdivision rates, these rates reflected the normal cost of each of the plans from the June 30, 2009 actuarial valuation using modified actuarial assumptions, reduced by a factor representing the savings associated with the introduction of the Plan 2 provisions for newly hired employees. This is discussed further in Note 12. 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, 2010. 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, 2010

(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	$52,729	$72,801	$20,072	72.4%	$14,758	136.0%
State Police Officers' Retirement System	634	949	315	66.8%	98	323.2%
Virginia Law Officers' Retirement System	925	1,579	654	58.6%	346	189.0%
Judicial Retirement System	372	560	188	66.5%	61	307.8%

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, 2010	June 30, 2010	June 30, 2010	June 30, 2010
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*	7.00%	7.00%	7.00%	7.00%
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 Benefits 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). The System also manages the assets of the Line of Duty Act Fund; the Department of Accounts (DOA) administers the benefits and payment of claims under the program.

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 a spouse or 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 355,397 active members and 137,784 retirees were covered under the Basic Group Life Insurance Program at June 30, 2011.

For members who elect optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct the premiums from members' paychecks and pay the premiums to the insurer. Premiums are based on members' ages and approved by the Board of Trustees. Any differences and adjustments are settled between the employer and the insurer. Approximately 64,229 active members and 2,099 retirees were covered under the Optional Group Life Insurance Program at June 30, 2011.

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 employer contribution rates determined by the System's actuary.

Approximately 96,671 retirees were covered under the health insurance credit program at June 30, 2011.

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 74,972 members were covered under VSDP at June 30, 2011, and approximately 2,698 former members were receiving benefits from the program during the fiscal year.

4. Line of Duty Act Program. A new program in FY 2011, the Line of Duty Act Program is a cost-sharing, multiple-employer plan. It provides death and health insurance reimbursement benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer.

As required by the 2010 Appropriation Act (Item 258, Chapter 874, 2010 Acts of Assembly) and confirmed in the 2011 Appropriation Act (Item 258, Chapter 890, 2011 Acts of the Assembly), the System is responsible for managing the assets of the program. Participating employers will be required by this Act to contribute to the program beginning in FY 2012. The amount will be based on the employer contribution rate determined by the System's actuary and the number of covered individuals associated with the employer.

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

	Eligible Employees	Coverage
VRS Group Life Insurance Program: Basic Coverage	The VRS Group Life Insurance Program was established on July 1, 1960 for state employees, teachers and employees of political subdivisions that elect the program, including the following employers 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. Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and interest.	• Natural death benefit equal to the employee's compensation rounded to the next highest thousand and then doubled. • Accidental death benefit, which is double the natural death benefit. • Accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit and accelerated death benefit option. • Continuation of death benefit and accelerated death benefit option for employees who retire or who have met the age and service requirements for retirement upon termination. Coverage begins to reduce by 25% on the January 1 following one calendar year of retirement or termination and reduces by 25% each January 1 until it reaches 25% of its original value.
Optional Group Life Insurance Program	Employees covered under the VRS Group Life Insurance Program are eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. Employees pay the premiums through payroll deduction. Spousal coverage ends if the employee's coverage ends or the couple divorce. Coverage for dependent children ends if the employee's coverage ends or when 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.	The program provides natural death and accidental death or dismemberment coverage: • Employees select one, two, three or four times their compensation, not to exceed $700,000. • Spouses may be covered for up to half the maximum amount of the employees' coverage, not to exceed $350,000. • Dependent children who are at least 15 days old may be covered for $10,000, $20,000 or $30,000, depending on the option employees select for themselves. • Option to continue or convert coverage within 31 days of retirement or termination; coverage reduces and ends at age 80.
Retiree Health Insurance Credit Program	The Retiree Health Insurance Credit Program was established on January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit. The program was opened to teachers and eligible employees of participating political subdivisions on July 1, 1993. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering a spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.	

Health Insurance Credit Dollar Amounts at Retirement

	Amount per Year of Service	Maximum Credit per Month*
State employees	$4.00	No Cap
Teachers and other professional school employees	$4.00	No Cap
General registrars and their employees, constitutional officers and their employees and local social service employees	$1.50	$45.00
General registrars and their employees, constitutional officers and their employees and local social service employees, if the political subdivision elects the $1.00 enhancement	$2.50	$75.00
Other political subdivision employees as elected by the employer	$1.50	$45.00

Health Insurance Credit Dollar Amounts at Disability Retirement and for VSDP Long-Term Disability

Employees who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP) are eligible for the health insurance credit.**

Eligible Employees	Coverage
State employees other than state police officers	$120 per month or $4 per year of service credit per month, whichever is higher.
State police officers	Non-work related disability: $120 per month or $4 per year of service credit per month, whichever is higher. Work-related disability: No health insurance credit for premiums qualified under the Virginia Line of Duty Act; may receive credit for premiums paid for other qualified health plans.
Teachers and other professional school employees	Either (a) $4 multiplied by twice the amount of service credit per month or (b) $4 multiplied by the amount of service earned had the employee been active until age 60 per month, whichever is higher.
Political subdivision employees as elected by the employer	$45 per month.

**Not to exceed the individual premium amount.*
***Not to exceed the individual premium amount. State employees who retire from being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retire.*

	Eligible Employees	Coverage
Virginia Sickness and Disability Program (VSDP)	VSDP, also known as the Disability Insurance Trust Fund, was established on January 1, 1999 to provide short-term and long-term disability benefits for non-work related and work-related disabilities. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent, salaried state employees covered under VRS, SPORS and VaLORS (members new to VaLORS following its creation on October 1, 1999 have been enrolled since the inception of VSDP). • State employees hired before January 1, 1999 who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement. • Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.	• Sick, family and personal leave. • Short-term disability benefit beginning after a seven-calendar day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60%. • Long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. • Income replacement adjustment to 80% for catastrophic conditions. • VSDP Long-Term Care Plan, a self-funded program that assists with the cost of covered long-term care services.
	Employees hired or rehired on or after July 1, 2009 must satisfy eligibility periods before becoming eligible for non-work related short-term disability coverage and certain income replacement levels.	
Commonwealth of Virginia (COV) Voluntary Group Long Term Care Insurance Program	The following members between the ages of 18 and 79 are eligible to apply: • State employees and public college and university faculty members • Employees of school divisions and political subdivisions whose employers have elected to participate in the program • Vested deferred members and retirees (their employers are not required to have elected the program) • Select family members of eligible members	The program provides assistance with covered long-term care expenses at group rates. Active members pay the premiums for themselves and any covered family members through payroll deduction or directly to Genworth Life Insurance Company, the insurer, provided the employer has arranged for payroll deductions with Genworth Life. All other participants pay the premiums directly to Genworth.
Line of Duty Act Program	Paid employees and volunteers in hazardous duty positions in Virginia localities, including VRS-covered hazardous duty employees, are covered under the Line of Duty Act.	Coverage provides death and health insurance benefits, which are administered by the Virginia Department of Accounts. The System is responsible for managing the assets of the Line of Duty Act Fund.

B. FUNDED STATUS AND FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFIT PLANS

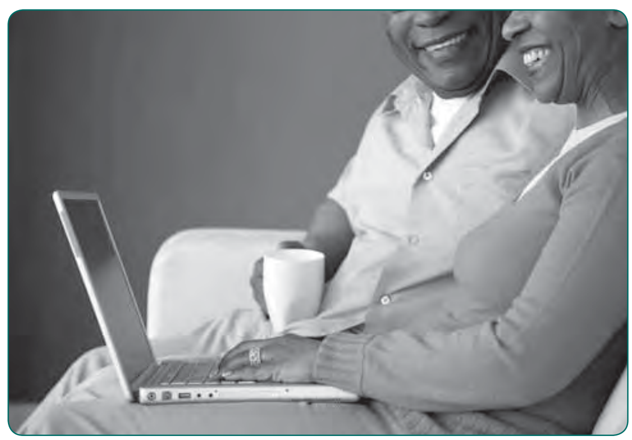
The most recent actuarial valuation prepared for other post-employment benefit plans administered by the System is as of June 30, 2010. The following schedule presents selected information from that valuation report. Additional information is presented in the Required Supplemental Schedule of Funding 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, 2010 (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	$ 929	$ 2,245	$ 1,316	41.4%	$ 16,526	8.0%
Retiree Health Insurance Credit Fund	278	2,127	1,849	13.1%	13,474	13.7%
Disability Insurance Trust Fund	303	282	(21)	107.3%	3,168	(0.7%)
Line of Duty Act Trust Fund*	-	576	576	0.0%	N/A	N/A

**The Line of Duty Act Program was established and set up as a trust fund effective July 1, 2010. Contributions to the trust fund will be based on the number of participants in the program using a per capita-based contribution versus a payroll-based contribution.*



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	Line of Duty Act Trust Fund
Valuation Date	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
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%	3.00%	N/A	N/A
Political Subdivision Employees	3.00%	3.00%	N/A	3.00%
State Police and Virginia Law Officers	3.00%	3.00%	3.00%	3.00%
Judges	3.00%	3.00%	N/A	N/A
Remaining Amortization Period	26 Years	26 Years	26 Years	30 Years
Asset Valuation Method:				
State Employees and Teachers	5-Year, Smoothed Market	5-Year, Smoothed Market	Market Value	Market Value
Political Subdivision Employees	5-Year, Smoothed Market	Market Value	N/A	Market Value
Actuarial Assumptions:				
Investment Rate of Return*	7.00%	7.00%	7.00%	4.75%
Projected Salary Increases:**				
State Employees	3.75% to 5.60%	3.75% to 5.60%	3.75% to 5.60%	N/A
Teachers	3.75% to 6.20%	3.75% to 6.20%	N/A	N/A
Political Subdivision– Non-Hazardous Duty Employees	3.75% to 5.60%	3.75% to 5.60%	N/A	N/A
Political Subdivision– Hazardous Duty Employees	3.50% to 4.75%	3.50% to 4.75%	N/A	N/A
State Police and Virginia Law Officers	3.50% to 4.75%	3.50% to 4.75%	3.50% to 4.75%	N/A
Judges	4.50%	4.50%	N/A	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. Projected salary increase factors are not applicable to the Line of Duty Act Program since neither the benefit nor the cost is salary based.*

4. Reserve Accounts

The reserve account balances available for benefits at June 30, 2011 and 2010 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 expenses incurred in operating the Virginia Sickness and Disability Program (VSDP).
- Employer contributions and investment income fund the Line of Duty Act Trust Fund. It is charged for Line of Duty Act death and health insurance benefits and expenses incurred in operating the Line of Duty Act Program. The program was new in FY 2011 and has no assets.

FIGURE 2.13 – RESERVE BALANCES AVAILABLE FOR BENEFITS

AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2011	2010
Virginia Retirement System		
Member Reserve	$ 10,543,421	$ 10,227,892
Employer Reserve	40,736,914	34,417,924
Total VRS	**51,280,335**	**44,645,816**
State Police Officers' Retirement System		
Member Reserve	79,982	78,302
Employer Reserve	518,704	455,660
Total SPORS	**598,686**	**533,962**
Virginia Law Officers' Retirement System		
Member Reserve	209,607	203,101
Employer Reserve	701,059	589,328
Total VaLORS	**910,666**	**792,429**
Judicial Retirement System		
Member Reserve	38,654	36,591
Employer Reserve	322,747	278,203
Total JRS	**361,401**	**314,794**
Group Life Insurance Advance Premium Deposit Reserve	**833,065**	**783,058**
Retiree Health Insurance Credit Reserve	**209,033**	**244,958**
Disability Insurance Trust Fund (VSDP)	**369,071**	**336,213**
Line of Duty Act Trust Fund	**-**	**N/A**
Total Pension and Other Employee Benefit Reserves	**$ 54,562,257**	**$ 47,651,230**

5. Deposits and Investments

A. DEPOSITS

Deposits of the System maintained by the Treasurer of Virginia at June 30, 2011 and 2010, 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, BNY Mellon, were entirely insured by federal depository insurance coverage.

FIGURE 2.14 – DEPOSITS

AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2011 Carrying Amount	2010 Carrying Amount
Treasurer of Virginia	$ 31,678	$ 10,784
Master Custodian	513	1,323
Total Deposits	**$ 32,191**	**$ 12,107**

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 2011 and 2010 is presented in Figure 2.15.

FIGURE 2.15 – EQUITY INTERESTS

AT JUNE 30

Fund	2011	2010
Virginia Retirement System	93.93%	93.60%
State Police Officers' Retirement System	1.10%	1.12%
Virginia Law Officers' Retirement System	1.66%	1.66%
Judicial Retirement System	0.66%	0.66%
Group Life Insurance Fund	1.59%	1.74%
Retiree Health Insurance Credit Fund	0.40%	0.53%
Disability Insurance Trust Fund (VSDP)	0.66%	0.69%
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, 2011 (DOLLARS IN THOUSANDS)

Investment Type	Market Value	Weighted Avg. Effective Duration (Years)
U.S. Government	$ 2,551,355	5.22
Agencies	2,788,503	3.85
Municipal Securities	86,933	7.95
Asset-Backed Securities	229,292	0.71
Collateralized Mortgage Obligations	226,673	0.81
Commercial Mortgages	386,867	2.49
Corporate and Other Bonds	11,502,144	3.53
Fixed-Income Commingled Funds	1,884,575	2.80
Cash and Cash Equivalents	68,807	0.08
Total Debt Securities	**$ 19,725,149**	**3.73**

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, 2011, the System's fixed income assets that are not government guaranteed represented 87% 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, 2011 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 provided in Note 5.B.7. Policies related to credit risk pertaining to the System's securities lending program are provided in Note 5.B.5.

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

AS OF JUNE 30, 2011

(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	$ 61,401	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FHLMC	613,749	-	-	18,753	-	-	-	-
FNMA	1,315,717	-	-	26,627	-	-	-	-
Other	53,002	-	-	-	-	2,000	-	-
AAAm	-	-	-	-	-	2,308,541	-	-
P-1	-	-	-	-	-	779	78,838	-
Not Rated	670,588	626	16,211	48,111	123,727	3,709,269	1,270,917	68,807
Long-Term Debt:								
Aaa	55,502	62,026	55,040	32,019	228,144	424,714	-	-
Aa1	-	-	3,313	2,288	-	84,583	-	-
Aa2	10,393	835	8,384	1,850	15,685	196,520	-	-
Aa3	-	2,362	9,903	-	14,401	213,054	-	-
A1	-	8,824	5,169	1,713	2,713	247,159	-	-
A2	8,151	3,671	3,483	507	-	479,028	263,709	-
A3	-	8,276	-	653	-	412,270	-	-
Baa1	-	-	6,717	1,154	-	597,581	103,478	-
Baa2	-	313	5,806	390	-	565,589	-	-
Baa3	-	-	425	-	-	384,613	-	-
Ba1	-	-	3,746	105	-	219,618	-	-
Ba2	-	-	3,067	1,704	-	164,805	-	-
Ba3	-	-	2,196	3,180	-	240,076	-	-
B1	-	-	11,525	7,449	-	407,267	-	-
B2	-	-	2,986	4,748	-	263,623	-	-
B3	-	-	11,905	4,573	-	299,716	-	-
Caa1	-	-	5,699	7,903	-	164,968	167,633	-
Caa2	-	-	9,637	21,068	555	49,422	-	-
Caa3	-	-	15,237	19,026	1,642	38,519	-	-
Ca	-	-	43,603	18,427	-	19,530	-	-
C	-	-	5,240	4,425	-	1,516	-	-
(P) Ba3	-	-	-	-	-	1,544	-	-
(P) Caa1	-	-	-	-	-	1,256	-	-
(P) B1	-	-	-	-	-	1,409	-	-
(P) B2	-	-	-	-	-	3,175	-	-
Total	**$ 2,788,503**	**$ 86,933**	**$ 229,292**	**$ 226,673**	**$ 386,867**	**$11,502,144**	**$ 1,884,575**	**$ 68,807**

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, 2011 and 2010 are presented in Figure 2.18.

FIGURE 2.18 – CUSTODIAL CREDIT RISK

AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2011	2010
U.S. Government and Agency Mortgage Securities	$ 42,647	$ 137,797
Corporate and Other Bonds Held by Broker-Dealer Under Securities Lending Program:		
U.S. Government and Agency Mortgage Securities	44,018	2,803
Common and Preferred Stocks	855,172	563,408
Total	**$941,837**	**$ 704,008**

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, 2011 is highlighted in Figure 2.19.

FIGURE 2.19 – CURRENCY EXPOSURES BY ASSET CLASS

AS OF JUNE 30, 2011

(EXPRESSED IN THOUSANDS)

Currency	Cash and Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	International Funds	Total
U.S. Dollar	$ -	$ -	$ -	$ -	$ -	$ 1,085,777	$ 1,085,777
British Pound Sterling	4,855	804,618	168,095	2,318	9,738	-	989,624
Euro Currency Unit	32,295	988,366	(125,555)	10,192	-	-	905,298
Hong Kong Dollar	4,694	680,743	-	-	-	-	685,437
Japanese Yen	13,699	651,313	(54,916)	-	2,955	-	613,051
South Korean Won	5,457	580,800	1,520	-	-	-	587,777
Canadian Dollar	2,168	343,188	4,926	-	-	-	350,282
Brazil Real	8,005	279,069	36,959	-	-	-	324,033
Swedish Krona	1,074	167,644	154,270	907	-	-	323,895
New Taiwan Dollar	7,864	318,978	(4,189)	-	-	-	322,653
Indian Rupee	3,198	294,523	1,010	-	-	-	298,731
South African Comm Rand	2,514	151,314	22,933	-	-	-	176,761
Norwegian Krone	781	96,639	69,859	-	-	-	167,279
Mexican New Peso	2,838	65,834	35,626	-	-	-	104,298
New Turkish Lira	1,099	91,621	10,890	-	-	-	103,610
Australian Dollar	2,352	278,608	(179,936)	-	-	-	101,024
Thailand Baht	252	73,023	16,726	-	-	-	90,001
Singapore Dollar	1,255	74,885	7,583	-	-	-	83,723
Malaysian Ringgit	1,369	48,379	30,590	-	-	-	80,338
Indonesian Rupian	848	46,595	25,763	-	-	-	73,206
New Zealand Dollar	405	77,930	(9,345)	-	-	-	68,990
Polish Zloty	374	46,580	19,922	-	-	-	66,876
Russian Ruble (New)	1	15,092	25,314	-	-	-	40,407
Philippines Peso	1,276	14,108	10,112	-	-	-	25,496
Danish Krone	1,619	17,009	-	-	-	-	18,628
Israeli Shekel	389	16,601	-	-	-	-	16,990
Egyptian Pound	264	10,318	-	-	-	-	10,582
Columbian Peso	-	-	9,876	-	-	-	9,876
Uruguayan Peso	-	-	8,274	-	-	-	8,274
Kazakhstan Tenge	-	-	7,950	-	-	-	7,950
Turkish Lira	7,189	-	-	-	-	-	7,189
UAE Dirham	-	5,137	-	-	-	-	5,137
Hungarian Forint	81	207	3,954	-	-	-	4,242
Chinese Yuan Renminbi	-	620	2,498	-	-	-	3,118
Czech Koruna	110	6,293	(4,271)	-	-	-	2,132
Omani Rial	-	2,069	-	-	-	-	2,069
Peruvian Nuevo Sol	-	-	1,503	-	-	-	1,503
Moroccan Dirham	43	1,362	-	-	-	-	1,405
Argentina Peso	537	-	-	-	-	-	537
Chilean Peso	21	461	(3,863)	-	-	-	(3,381)
Swiss Franc	9,547	299,409	(367,298)	-	-	-	(58,342)
Total	**$ 118,473**	**$ 6,549,336**	**$ (73,220)**	**$ 13,417**	**$ 12,693**	**$ 1,085,777**	**$ 7,706,476**

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 33 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 the System. All securities are marked to market daily and carried at market value.

The market value of securities on loan at June 30, 2011 and 2010 was $4,543,731,000 and $4,603,717,000, respectively. The June 30, 2011 and 2010 balances were composed of U.S. government and agency securities of $1,667,331,000 and $1,792,822,000, respectively; corporate and other bonds of $316,725,000 and $380,507,000, respectively; and common and preferred stocks of $2,559,675,000 and $2,430,388,000, respectively. The value of collateral (cash and non-cash) at June 30, 2011 and 2010 was $4,717,646,000 and $4,813,736,000, respectively. Securities on loan are included with investments on the statement of plan net assets. The invested cash collateral is included in the statement of plan net assets as an asset and corresponding liability.

At June 30, 2011, the invested cash collateral had a market value of $3,662,195,000 and was composed of commercial paper of $1,069,811,000, time deposits of $519,135,000, certificates of deposit of $595,687,000, floating rate notes of $1,103,811,000, asset-backed securities of $7,319,000 and repurchase agreements of $366,432,000. As of June 30, 2011, the System's cash collateral reinvestment pool had an unrealized loss of $22.0 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, 2011 and 2010 included (1) receivables for deposits with brokers for securities sold short of $430,885,000 and $701,190,000, respectively; and (2) payables for securities sold short and not covered with market values of $399,813,000 and $610,164,000, 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, 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, 2011, 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, 2011 and 2010 is shown in Figure 2.20.

FIGURE 2.20 – FUTURES

AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2011	2010
	Notional Value	
Cash and Cash Equivalent Derivatives Futures:		
Long	$ -	$ -
Short	(52,582)	(82,430)
Equity Derivatives Futures:		
Long	1,226,545	3,301,983
Short	(69,000)	(134,667)
Fixed Income Derivatives Futures:		
Long	632,094	758,934
Short	(416,406)	(655,468)
Total Futures	**$1,320,651**	**$3,188,352**

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, 2011 and 2010 is shown in Figure 2.21.

FIGURE 2.21 – CURRENCY FORWARDS

AT JUNE 30

(EXPRESSED IN THOUSANDS)

Currency	Cost	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Market Value 2011	Market Value 2010
Australian Dollar	$(433,226)	$ 197,103	$ (633,923)	$(436,820)	$ (243,677)
Brazil Real	(11,666)	937	(12,926)	(11,989)	(4,244)
British Pound Sterling	(740,062)	636,784	(1,373,698)	(736,914)	(392,551)
Canadian Dollar	(349,136)	194,824	(544,564)	(349,740)	(184,777)
Chilean Peso	(3,856)	250	(4,113)	(3,863)	-
Chinese Yuan Renminbi	2,500	2,498	-	2,498	-
Columbian Peso	1,000	1,006	-	1,006	-
Czech Koruna	(4,031)	4,258	(8,529)	(4,271)	-
Danish Krone	(53,697)	15,691	(69,670)	(53,979)	(36,667)
Egyptian Pound	-	-	-	-	-
Euro Currency Unit	(2,461,194)	722,560	(3,196,676)	(2,474,116)	(2,233,734)
Hong Kong Dollar	(119,368)	37,317	(156,652)	(119,335)	(52,492)
Hungarian Forint	918	3,293	(2,343)	950	-
Indian Rupee	1,000	1,010	-	1,010	-
Indonesian Rupian	333	533	(200)	333	-
Israeli Shekel	(19,593)	9,598	(29,226)	(19,628)	(18,856)
Japanese Yen	(940,379)	320,879	(1,261,983)	(941,104)	(548,766)
Kazakhstan Tenge	8,033	7,950	-	7,950	-
Malaysian Ringgit	26,399	26,587	-	26,587	-
Mexican New Peso	(801)	-	(801)	(801)	(2,097)
New Taiwan Dollar	(4,181)	-	(4,189)	(4,189)	-
New Turkish Lira	4,091	4,019	-	4,019	-
New Zealand Dollar	58,658	201,809	(141,794)	60,015	85,378
Norwegian Krone	86,337	253,502	(165,471)	88,031	(4,502)
Peruvian Nuevo Sol	(560)	-	(563)	(563)	-
Philippines Peso	9,653	9,644	-	9,644	-
Polish Zloty	14,245	14,337	-	14,337	-
Russian Ruble (New)	15,039	15,083	-	15,083	-
Singapore Dollar	(35,080)	56,389	(91,373)	(34,984)	(45,949)
South African Comm Rand	(5,921)	2,625	(8,537)	(5,912)	(2,123)
South Korean Won	1,500	1,520	-	1,520	-
Swedish Krona	135,750	337,653	(203,284)	134,369	81,375
Swiss Franc	(527,822)	263,731	(792,882)	(529,151)	(107,504)
Thailand Baht	11,945	11,911	-	11,911	-
U.S. Dollar	533,172	8,572,477	(3,239,305)	5,333,172	3,705,400
Total Forwards Subject to Foreign Currency Risk				**$ (14,924)**	**$ (5,786)**

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. 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, 2011 and 2010 is shown in Figure 2.22.

FIGURE 2.22 – OPTIONS

AT JUNE 30 (EXPRESSED IN THOUSANDS)

	2011	2010
	Notional Value	
Cash and Cash Equivalent Options:		
Call	$ -	$ -
Put	40	(12)
Equity Options:		
Call	(182)	(350)
Put	(95)	(29)
Fixed Income Options:		
Call	87	(89)
Put	144	-
Swaptions:		
Call	(5,557)	(6,783)
Put	601	(1,499)
Total Options	**$ (4,962)**	**$ (8,738)**

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 indexes. 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 2011, the System entered into credit defaults, inflation, interest rate and total return swaps. Information on the System's swap balances at June 30, 2011 and 2010 is shown in Figure 2.23.

FIGURE 2.23 – SWAPS

AS OF JUNE 30

Counterparty	Notional Amount	VRS Rate	Counterparty Rate
Credit Default Swaps:			
Credit Suisse AG	$ 2,500		
Credit Suisse AG	7,000		
Credit Suisse AG	15,948		
Credit Suisse AG	35,000		
Credit Suisse AG	25,000		
Deutsche Bank AG/London	6,800		
Deutsche Bank AG/London	7,750		
Deutsche Bank AG/London	200		
Deutsche Bank AG/London	500		
Deutsche Bank AG/London	2,000		
Deutsche Bank AG/London	2,100		
Deutsche Bank AG/London	2,300		
Deutsche Bank AG/London	3,600		
Deutsche Bank AG/London	5,000		
Deutsche Bank AG/London	2,180		
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		
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 Bank USA/New York NY	544		
Goldman Sachs Bank USA/New York NY	1,200		
Goldman Sachs Bank USA/New York NY	3,600		
Goldman Sachs Bank USA/New York NY	3,827		
Goldman Sachs Bank USA/New York NY	5,401		
Goldman Sachs Bank USA/New York NY	15,560		
Goldman Sachs International	500		
Goldman Sachs International	1,100		
UBS AG/London	11,850		
UBS AG/Stamford CT	1,850		
UBS AG/Stamford CT	4,475		
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		
Total Credit Default Swaps	**$ 385,522**		

(DOLLARS EXPRESSED IN THOUSANDS)

Maturity Date	Buying/Selling Protection	Pay/Receive Rate	Market Value 2011	Market Value 2010
6/20/2016	Buying	5.0000%	$ (223)	$ -
6/20/2016	Buying	5.0000%	(917)	-
6/20/2016	Buying	1.0000%	1,211	-
6/20/2016	Selling	1.0000%	131	-
6/20/2015	Selling	5.0000%	-	(1,370)
6/20/2021	Selling	1.0000%	(295)	-
6/20/2016	Selling	5.0000%	1,015	-
9/20/2015	Selling	1.0000%	3	-
6/20/2021	Selling	1.0000%	(19)	-
3/20/2015	Selling	1.0000%	(13)	-
9/20/2014	Selling	5.0000%	269	-
6/20/2015	Selling	1.0000%	(35)	-
12/20/2015	Selling	1.0000%	80	-
6/20/2015	Selling	1.0000%	(21)	-
6/20/2018	Selling	1.0000%	(93)	-
9/20/2010	Selling	5.0000%	-	1
9/20/2014	Selling	5.0000%	-	568
9/20/2014	Selling	5.0000%	-	1,136
3/20/2015	Selling	1.0000%	-	(528)
6/20/2015	Selling	5.0000%	-	(5,480)
6/20/2015	Selling	1.0000%	-	(340)
6/20/2015	Selling	1.0000%	-	(483)
6/20/2015	Selling	1.0000%	-	(229)
6/20/2015	Selling	1.0000%	-	(251)
6/20/2015	Buying	1.0000%	-	292
12/20/2010	Selling	1.0000%	-	(1)
6/20/2011	Selling	1.0000%	-	(4)
6/20/2012	Selling	5.0000%	-	34
6/20/2012	Buying	Variable Rate	-	23
12/20/2012	Selling	1.4000%	-	(268)
9/20/2013	Buying	2.6700%	-	(164)
12/20/2013	Buying	5.0000%	-	(4)
3/20/2015	Selling	1.0000%	-	(400)
3/20/2015	Selling	1.0000%	-	(427)
6/20/2015	Selling	1.0000%	-	(836)
6/20/2016	Selling	1.0000%	(2)	-
6/20/2012	Buying	Variable Rate	(1)	-
6/20/2016	Selling	1.0000%	(60)	-
6/20/2016	Selling	1.0000%	(10)	-
6/20/2016	Selling	1.0000%	(14)	-
6/20/2016	Buying	1.0000%	(58)	-
3/20/2016	Selling	1.0000%	(16)	-
6/20/2016	Selling	1.0000%	10	-
6/20/2021	Selling	1.0000%	(775)	-
9/20/2016	Selling	1.0000%	(182)	-
12/20/2013	Buying	1.8000%	(115)	-
9/20/2012	Selling	5.0000%	-	127
12/20/2013	Buying	1.6000%	-	(59)
12/20/2013	Buying	1.8000%	-	(104)
3/20/2014	Selling	3.1500%	-	246
6/20/2015	Selling	5.0000%	-	(712)
			$ (130)	**$ (9,233)**

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%
Merrill Lynch Capital Services	10,000	US CPI Urban Consumer NSA	3.2700%
Total Inflation Swaps	**$ 44,800**		
Interest Rate Swaps:			
Credit Suisse AG	$ 40,000	3-month LIBOR	1.2438%
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 Bank USA/New York NY	500	4.09%	3-month LIBOR
Goldman Sachs Bank USA/New York NY	1,700	2.0975%	3-month LIBOR
Goldman Sachs Bank USA/New York NY	2,900	3-month LIBOR	3.41%
Goldman Sachs Bank USA/New York NY	3,300	2.40%	3-month USD LIBOR
Goldman Sachs Bank USA/New York NY	4,500	3.37%	3-month USD LIBOR
Goldman Sachs Bank USA/New York NY	6,000	4.2825%	3-month USD LIBOR
Goldman Sachs Bank USA/New York NY	6,800	2.18%	3-month USD LIBOR
Goldman Sachs Bank USA/New York NY	7,200	3-month USD LIBOR	3.30%
Goldman Sachs Bank USA/New York NY	10,000	3-month USD LIBOR	3.32%
Goldman Sachs Bank USA/New York NY	11,000	0.66%	3-month USD LIBOR
Goldman Sachs Bank USA/New York NY	18,500	0.66%	3-month USD LIBOR
Goldman Sachs Bank USA/New York NY	22,000	0.85%	3-month USD LIBOR
Goldman Sachs Bank USA/New York NY	30,100	0.89%	3-month USD LIBOR
UBS AG/Stamford CT	12,378	JIBA3M INDEX	8.4500%
UBS AG/Stamford CT	47,212	6.75%	JIBA3M INDEX
UBS AG/Stamford CT	38,970	0%	3-month USD LIBOR
UBS Financial Services Inc	40,000	3-month LIBOR	1.6675%
UBS Financial Services Inc	38,970	0%	3-month LIBOR
Total Interest Rate Swaps	**$ 418,084**		
Total Return Swaps:			
Blackrock Advisors UK Ltd	$ 61,900	1-Month LIBOR +22 bps	BRCLYS Fixed Rate MBS
Credit Suisse AG	97,748	1-Month LIBOR -16 bps	MSCI Daily EAFE Canada
Deutsche Bank AG/London	7,003	1-month LIBOR	IOS FN30 450.10
Goldman Sachs & Co	220,730	3 Month LIBOR	MSCI AC WORLD INDEX IMI
Goldman Sachs Bank USA/New York NY	145	1-month LIBOR	FL US Tbill
Goldman Sachs Bank USA/New York NY	726	1-month LIBOR	IOS FN30 450.09
Goldman Sachs Bank USA/New York NY	2,813	1-month LIBOR	IOS FN30 600.08
Goldman Sachs International	237,298	3-Month LIBOR +55 bps	MSCI AC WORLD INDEX IMI
UBS AG/Stamford CT	43,600	1-Month LIBOR +15 bps	BRCLYS Fixed Rate MBS
UBS AG/Stamford CT	61,800	3-Month LIBOR +26 bps	BRCLYS Fixed Rate MBS
UBS AG/Stamford CT	277,212	1-Month LIBOR -14 bps	MSCI Daily EAFE Canada USD
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
Total Total Return Swaps	**$ 1,149,375**		
Total Swaps	**$ 1,997,781**		

(DOLLARS EXPRESSED IN THOUSANDS)

Maturity Date	Buying/Selling Protection	Pay/Receive Rate	Market Value 2011	Market Value 2009
1/13/2020			$ -	$ 1,236
6/8/2020			-	70
6/10/2020			-	41
7/5/2021			(19)	-
			$ (19)	**$ 1,347**
6/7/2012			$ -	$ 221
5/13/2012			-	104
4/9/2014			-	(260)
7/9/2017			-	(3,515)
11/15/2021			-	(393)
5/4/2040			-	2,051
5/24/2041			(2)	-
5/23/2016			(11)	-
3/18/2021			50	-
3/8/2016			(78)	-
10/5/2040			541	-
4/19/2041			(231)	-
1/13/2016			(110)	-
5/6/2021			43	-
5/23/2021			76	-
6/29/2013			3	-
6/29/2013			6	-
1/25/2013			(114)	-
3/3/2013			(169)	-
3/31/2021			235	-
3/31/2013			(290)	-
2/15/2025			(3,013)	-
6/7/2013			-	434
2/15/2025			-	(3,159)
			$ (3,064)	**$ (4,517)**
9/30/2011			$ -	$ -
8/31/2011			(1,286)	-
1/12/2041			47	-
3/31/2011			-	(1,268)
1/12/2040			1	-
1/12/2040			-	-
1/12/2039			-	-
3/31/2012			(26)	-
7/31/2011			31	-
12/31/2011			-	-
11/30/2011			(4,018)	-
9/30/2010			-	1,309
10/31/2010			-	239
			$ (5,251)	**$ 280**
			$ (8,464)	**$ (12,123)**

6. Capital Assets

The System's non-depreciable and depreciable capital assets for the year ended June 30, 2011 are presented in Figure 2.24.

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

FOR THE YEAR ENDED JUNE 30, 2011 (EXPRESSED IN THOUSANDS)

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Non-Depreciable Capital Assets:				
Land	$ 1,368	$ -	$ -	$ 1,368
Construction in Progress	7,194	9,528	-	16,722
Total Non-Depreciable Capital Assets	**8,562**	**9,528**	**-**	**18,090**
Depreciable Capital Assets:				
Building	4,632	-	-	4,632
Furniture and Equipment	5,185	827	1,142	4,870
Total Depreciable Capital Assets	**9,817**	**827**	**1,142**	**9,502**
Less Accumulated Depreciation:				
Building	1,390	115	-	1,505
Furniture and Equipment	3,134	538	749	2,923
Total Accumulated Depreciation	**4,524**	**653**	**749**	**4,428**
Total Depreciable Capital Assets - Net	**5,293**	**174**	**393**	**5,074**
Total Net Capital Assets	**$ 13,855**	**$ 9,702**	**$ 393**	**$ 23,164**

Depreciation expense amounted to $652,000 and $510,000 in 2011 and 2010, 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, 2011 was $2,446,000. The System's total future minimum rental payments as of June 30, 2011 are presented in Figure 2.25.

FIGURE 2.25 – OPERATING LEASES-FUTURE PAYMENTS

AT JUNE 30, 2011 (EXPRESSED IN THOUSANDS)

Year	Amount
2012	758
2013	755
2014	774
2015	793
2016	813
2017	555
Total Future Minimum Rental Payments	**$ 4,448**

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. The state's contribution requirement for general employee retirement for the years ended June 30, 2011 and 2010 was 2.13% and 6.26% of covered payroll, respectively. There were approximately 47,286 state retirees, including System retirees, at June 30, 2011. Note 2.B provides information on the state's contribution toward funding the defined benefit plan for state employees for FY 2011 and FY 2010. As set forth in the 2010 Appropriation Act (Item 469, Chapter 874, 2010 Acts of Assembly) and confirmed in the 2011 Appropriation Act (Item 469, Chapter 890, 2011 Acts of the Assembly), all state employers were charged 6.58% of covered payroll for retirement for their general employees. The difference between the 6.58% and the 2.13%, with a few exceptions, was retained in the General Fund of the Commonwealth. In addition, these contributions were suspended for most of the last quarter of FY 2010. This is discussed further in Note 12. The System's contribution requirement for its employees for FY 2011 and FY 2010 was $1,287,000 and $1,611,000, 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, 2011 and 2010 was 0.28% and 0.79% of covered payroll, respectively. There were approximately 88,603 active state employees and 40,506 state retirees, including System employees and retirees, eligible for group life insurance coverage at June 30, 2011. As set forth in the 2010 Appropriation Act (Item 469, Chapter 874, 2010 Acts of Assembly) and confirmed in the 2011 Appropriation Act (Item 469, Chapter 890, 2011 Acts of the Assembly), all state employers were charged 1.02% of covered payroll for group life insurance. The difference between the 1.02% and the 0.28%, with a few exceptions, was retained in the General Fund of the Commonwealth. In addition, these contributions were suspended for most of the last quarter of FY 2010. This is discussed further in Note 12. The System's contribution requirement for its employees and retirees for FY 2011 and FY 2010 was $203,000 and $109,000, respectively.
- The state's contribution requirement for the Retiree Health Insurance Credit Program for the years ended June 30, 2011 and 2010 was 0.10% and 1.00%, respectively. There were approximately 38,046 state retirees, including System retirees, receiving the health insurance credit at June 30, 2011. As set forth in the 2010 Appropriation Act (Item 469, Chapter 874, 2010 Acts of Assembly) and confirmed in the 2011 Appropriation Act (Item 469, Chapter 890, 2011 Acts of the Assembly), all state employers were charged 0.99% of covered payroll for the health insurance credit. The difference between the 0.99% and the 0.10%, with a few exceptions, was retained in the General Fund of the Commonwealth. In addition, these contributions were suspended for most of the last quarter of FY 2010. This is discussed further in Note 12. The System's contribution requirement for its employees for FY 2011 and FY 2010 was $194,000 and $148,000, respectively.

- The state's contribution requirement for the Virginia Sickness and Disability Program (VSDP) for the years ended June 30, 2011 and 2010 was zero (0.00%) and 1.00% of covered payroll, respectively. There were approximately 74,972 state employees, including System employees, enrolled in VSDP at June 30, 2011. As set forth in the 2010 Appropriation Act (Item 469, Chapter 874, 2010 Acts of Assembly) and confirmed in the 2011 Appropriation Act (Item 469, Chapter 890, 2011 Acts of the Assembly), all state employers were charged 0.66% of covered payroll for VSDP. The difference between the 0.66% and zero (0.00%), with a few exceptions, was retained in the General Fund of the Commonwealth. In addition, these contributions were suspended for most of the last quarter of FY 2010. This is discussed further in Note 12. The System's contribution requirement for its employees for FY 2011 and FY 2010 was $129,000 and $147,000, 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-employment benefit plans is provided 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, are in progress or have been settled since June 30, 2011. 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 affect 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 2011 and the three preceding fiscal years.

11. Commitments

The System extends investment commitments in the normal course of business. At June 30, 2011 and 2010, these commitments amounted to $3,480,067,000 and $3,742,311,000, respectively.

12. Statutory Contribution Adjustment

For FY 2010, 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 2010 employer rate for teachers was reduced from 11.84% to 8.81% and for state employees from 8.02% to 6.23%. For FY 2010, the employer rate for state employees was increased from 6.23% to 6.26% to fund early retirements. Additionally, the employer 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. There was no adjustment to the employer contribution rate for political subdivision employers or to the member contribution rate of 5.00%.

For FY 2010, other post-employment benefit 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 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 employer rate for the Group Life Insurance Program was reduced from 0.89% to 0.79% and for VSDP from 1.96% to 1.00%. Additionally, for the Retiree Health Insurance Credit Program, the state employer rate was reduced from 1.22% to 1.00% and the teacher employer rate from 1.12% to 1.04%. For the last quarter of FY 2010, employer 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, employer contributions were suspended for state employees for the Retiree Health Insurance Credit Program and VSDP. There was no adjustment to the Retiree Health Insurance Credit Program employer contribution rate for political subdivision employers.

For FY 2011, pension contributions due or required were based on the June 30, 2009 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%. In addition, only the employer normal cost of the rate was funded, and this was reduced by a factor representing the savings associated with the adoption of the revised benefit provisions of Plan 2. As a result, the FY 2011 employer rate for teachers was reduced from 12.91% to 3.93% and for state employees from 8.46% to 2.13%. Additionally, the employer rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 25.56%, 15.93% and 46.79% to 7.76%, 5.12% and 28.81%, respectively. There was no adjustment to the employer contribution rate for political subdivision employers or to the member contribution rate of 5.00%.

For FY 2011, other post-employment benefit plan contributions due or required also were based on the June 30, 2009 actuarial valuation, which used a 27-year funding period for the UAAL. The General Assembly again funded less than the rates determined by the actuary by extending the funding period for each of the plans from 27 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%. In addition, the actual funding was based on only a portion of that rate. As a result, the FY 2011 employer rate for the Group Life Insurance Program was reduced from 1.11% to 0.28% and for VSDP from 0.75% to zero (0.00%). Additionally, for the Retiree Health Insurance Credit Program, the state employer rate was reduced from 1.06% to 0.10% and the teacher employer rate from 1.08% to 0.60%. There was no adjustment to the Retiree Health Insurance Credit Program employer contribution rate for political subdivision employers.

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)			
2010	$ 52,729	$ 72,801	$ 20,072	72.4%	$ 14,758	136.0%
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%)
			State Police Officers' Retirement System (SPORS)			
2010	$ 634	$ 949	$ 315	66.8%	$ 98	323.2%
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%
			Virginia Law Officers' Retirement System (VaLORS)			
2010	$ 925	$ 1,579	$ 654	58.6%	$ 346	189.0%
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%
			Judicial Retirement System (JRS)			
2010	$ 372	$ 560	$ 188	66.5%	$ 61	307.8%
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%

**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)		
2011	$ 1,577,131	46.73%	$ 736,950	100.00%
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%
		State Police Officers' Retirement System (SPORS)		
2011	$ 24,570	30.36%	$ 7,460	100.00%
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%
		Virginia Law Officers' Retirement System (VaLORS)		
2011	$ 53,686	32.14%	$ 17,255	100.00%
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%
		Judicial Retirement System (JRS)		
2011	$ 28,101	61.57%	$ 17,303	100.00%
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%

**Contributions made by employers during the fiscal years ended June 30, 2002 through June 30, 2011 were not 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						
2010	$ 929	$ 2,245	$ 1,316	41.4%	$ 16,526	8.0%
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						
2010	$ 278	$ 2,127	$ 1,849	13.1%	$ 13,474	13.7%
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						
2010	$ 303	$ 282	$ (21)	107.3%	$ 3,168	(0.7%)
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%
Line of Duty Act Trust Fund						
2010**	$ -	$ 576	$ 576	0.0%	N/A	N/A

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

*** 2010 was the first actuarial valuation prepared for the Line of Duty Act Trust Fund. Contributions to the trust fund will be based on the number of participants in the program using a per capita-based contribution versus a payroll-based contribution.*

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		
2011	$ 177,378	25.23%	$ 44,744	100.00%
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		
2011	$ 133,655	36.46%	$ 48,736	100.00%
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		
2011	$ 28,646	0.00%	$ -	100.00%
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%
		Line of Duty Act Trust Fund		
2011**	N/A	N/A	N/A	N/A

**Contributions made by employers during the fiscal years ended June 30, 2008 through June 30, 2011 were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.*

*** 2011 was the first year for the Line of Duty Act Trust Fund. It was funded by a loan from the Group Life Insurance Trust Fund. As a result, there were no contributions required or paid during the fiscal year. Contributions of $10,678,000 were recorded for FY 2011; however, VRS will not receive contributions under this program until fiscal year 2012.*

SCHEDULE OF ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN THOUSANDS)

	2011	2010
Personal Services:		
Salaries and Wages	$ 23,641	$ 19,843
Per Diem Services	291	287
Retirement Contributions	1,340	1,698
Social Security	1,491	1,380
Group Life and Medical Insurance	2,726	2,572
Compensated Absences	211	258
Total Personal Services	**29,700**	**26,038**
Professional Services:		
Data Processing	11,506	10,304
Actuarial and Consulting Services	2,122	1,854
Legal Services	653	674
Medical Review Services	764	803
Management Services	376	571
Personnel Development Services	290	60
Total Professional Services	**15,711**	**14,266**
Communication Services:		
Media Services	21	15
Printing	758	830
Postage and Delivery Services	573	512
Telecommunications	644	529
Total Communication Services	**1,996**	**1,886**
Rentals:		
Business Equipment	311	476
Office Space	2,135	1,694
Total Rentals	**2,446**	**2,170**
Other Services and Charges:		
Skilled and Clerical Services	140	119
Depreciation	652	510
Dues and Membership	93	96
Building Expense	(4)	181
Equipment	3,177	2,555
Insurance	41	39
Repairs and Maintenance	13	12
Supplies and Materials	104	83
Travel and Transportation	394	345
Miscellaneous	120	125
Total Other Services and Charges	**4,730**	**4,065**
Total Administrative Expenses	**54,583**	**48,425**
Adjustment for Capitalization of Expenses	(9,527)	(7,940)
Total Administrative Expenses (GAAP Basis)	**45,056**	**40,485**
Adjustments Necessary to Convert Administrative Expenses on the GAAP Basis to the Budgetary Basis at Year End (Net)	9,597	7,084
Administrative Expenses (Budgetary Basis)	**$ 54,653**	**$ 47,569**
Administrative Expenses Appropriated	**$ 79,313**	**$ 73,449**
Distribution of Administrative Expenses:		
Total Administrative Expenses (GAAP Basis)	$ 45,056	$ 40,485
Less In-House Investment Management	(17,310)	(13,925)
Net Administrative Expenses	**$ 27,746**	**$ 26,560**

SCHEDULE OF PROFESSIONAL AND CONSULTING SERVICES

FOR THE YEAR ENDED JUNE 30, 2011

(EXPRESSED IN THOUSANDS)

Actuarial, Legal and Oversight Services:			
Joint Legislative Audit and Review Commission	Oversight Responsibilities	$ 112.3	
Cavanaugh Macdonald Consulting, LLC	Actuarial Services & Benefits Consulting	1,221.1	
Troutman Sanders, LLP	Legal Services	133.0	
Total Actuarial, Legal and Oversight Services			**$ 1,466.4**
Consulting Services:			
Advantage 2000	Social Security Advocacy & Disability Tracking	$ 87.5	
Advent Software	Software Maintenance	144.9	
Albourne America, LLC	Investment Consulting Services	220.0	
Bertini, O'Donnell & Hammer, PC	Fact Finding Hearing Officer for Disability Cases	46.0	
Randall Scott Billingsley	Investment Consulting Services	23.7	
Bryan, Pendleton, Swats & McAllister	Line of Duty Act Study	14.5	
CACI Federal, Inc.	Test Planning & Execution IV&V Review Report	122.2	
CEM Benchmarking, Inc.	Benchmarking Analysis	55.0	
Ennis Krupp & Associates, Inc.	Investment Compensation Study	20.0	
Experience Dynamics	Screen Design Services	7.8	
FX Transparency, LLC	Investment Advisory Services	63.8	
Harrison & Turk, PC	Fact Finding Hearing Officer for Disability Cases	119.2	
Hewitt Associates	Retirement Benefits Planning Tool	20.0	
Katzen & Frye, PC	Fact Finding Hearing Officer for Disability Cases	174.5	
Korn Ferry International	CIO Search Consulting	150.0	
Kroll	Investment Advisory Services	131.1	
McGinley, Elsberg & Hutcheson, PLC	Fact Finding Hearing Officer for Disability Cases	68.6	
McLagan Partners, Inc.	Investment Compensation Study	9.8	
Mercer Investment Consulting	Investment Consulting Services	37.5	
Milliman, Inc.	Long-Term Care Plan Consulting	79.8	
Property & Portfolio Research, Inc.	Investment Consulting Services	187.5	
Pure Culture Consulting, Inc.	Management Consulting Services	17.5	
Sagitec Solutions, LLC	VRS Modernization Project Solution Vendor	6,376.8	
Security Capital Research & Management, Inc.	Investment Consulting Services	173.0	
Small World Solution, LLC	Location Services	14.7	
Strategic Economic Decisions, Inc.	Economic Advisory Services	10.0	
Townsend Group	Investment Consulting Services	212.5	
United Review Services, Inc.	Medical Board Review and Examinations	764.3	
Vu Le	Investment Consulting Services	6.7	
Wells Fargo Bank, NA	Recordkeeping Services	24.4	
Yost Associates	Court Reporter for Disability Hearings	9.5	
Total Consulting Services			**$ 9,392.8**
Total Professional and Consulting Services			**$ 10,859.2**

SCHEDULE OF INVESTMENT EXPENSES

FOR THE YEARS ENDED JUNE 30 (EXPRESSED IN THOUSANDS)

	2011	2010
Management Fees:		
Domestic Managers	$ 11,740	$ 11,389
Non-U.S. Equity Managers	30,260	24,442
Global Equity Managers	15,594	13,798
Fixed Income Managers	17,081	15,722
Credit Strategies Managers	40,029	36,597
Real Estate Managers	29,299	28,647
Alternative Investment Managers	68,743	78,326
Hedge Fund Managers	58,446	52,352
Total Management Fees	**271,192**	**261,273**
Performance Fees	**26,269**	**18,344**
Miscellaneous Fees and Expenses:		
Custodial Fees	4,425	4,673
Legal Fees	385	407
Other Fees and Expenses	449	763
Total Miscellaneous Fees and Expenses	**5,259**	**5,843**
In-House Investment Management	**17,310**	**13,925**
Total Investment Expenses	**$ 320,030**	**$ 299,385**

3 investment section

building blocks

2011

Effective July 1, 2010, the Board of Trustees reduced the investment rate-of-return assumption from 7.5% to 7.0%. This move establishes a more realistic footing for future funding needs, with the expectation that market and economic growth in the future will not match that of the past.

for a secure future

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 1, 2011

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

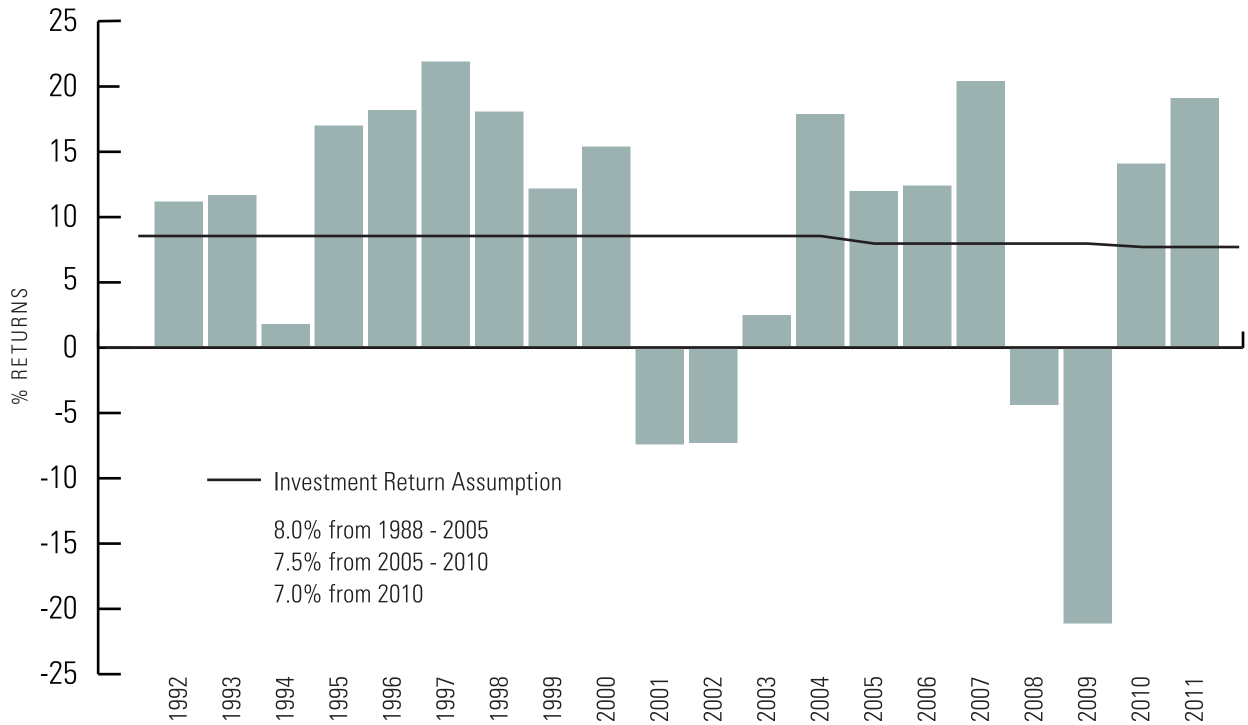
I am pleased to report that economic and financial market conditions were favorable for most of last year, and the VRS investment fund generated a 19.1% total return in fiscal 2011. This was the second consecutive above average annual return, following a 14.1% return in fiscal 2010. These strong results are gratifying, especially in light of our tilt to more conservative policies and strategies in recent years.

The portfolio's market value as of June 30, 2011 was $54.6 billion. After adjusting for net external cash flows, the strong cumulative return of the last two years has enabled the fund to effectively recover the market value decline suffered during the Financial Crisis and the Great Recession. The fund's record high quarterly valuation occurred in September 2007 at $59.4 billion. Since that date, the fund has paid out $4.5 billion more in benefits than contributions paid into the fund. In the absence of those net distributions from the fund, we estimate that the fund's market value on June 30, 2011 would have been $59.3 billion.

The graph on the next page shows the fund's annual returns for the last 20 years, along with the investment return assumption used for actuarial valuation purposes. As with any pension fund with significant equity exposure, the annual returns of the fund have been quite volatile, and they deviate significantly from the long-term return assumption. This short-term volatility is the price we must pay in order to gain exposure to investments that will provide long-term growth and positive real returns.

On an annualized basis, the fund has generated an 8.6% return over the last 20 years. It is important to note that this period was characterized by a number of factors that were favorable for financial market returns, including declining inflation, declining interest rates, rising leverage and generally higher than average economic growth. Looking forward, these conditions are not expected to return for the foreseeable future. In fact, the global economy continues to carry a high debt load, and we are expecting a sustained period of deleveraging and slower than normal growth, along with a continuation of the periodic bouts of high market volatility. In light of these conditions, and in recognition that cash flow and liquidity requirements are expected to increase in the years ahead coincident with an increase in retirees, we have tried to be realistic in setting our return expectation, which is currently 7%.

VRS FISCAL YEAR RETURNS



Investor sentiment was extremely volatile last year. The equity market moved sharply higher during the first 10 months of the fiscal year, fueled in part by a massive liquidity injection that resulted from the Federal Reserve's program to purchase Treasury bonds. At the same time, corporate earnings continued to rebound from the sharp declines experienced in the recession, further stoking the rally. As we approached year end, it became clear that the Federal Reserve would not immediately continue the bond purchase program, and sovereign balance sheet problems and resulting fiscal pressures came back into focus, both in Europe and in the United States. The growth and earnings outlook deteriorated significantly in the last quarter of the year, as investors recognized that policy options at this stage were more limited.

Public equity was our top performing asset class in fiscal 2011 with a return of 27.2%. While this return lagged our benchmark by a small margin, we are more than satisfied with the degree to which we kept pace with the strong market, given that we have shifted a significant portion of the equity portfolio into more protected strategies in recent years. We have increasingly found value in strategies that favor higher quality companies, lower volatility portfolio structures and partially hedged equity mandates. This positioning has resulted in lower volatility than the broad market and a better risk adjusted return, yet we still expect to capture the full market return over the complete market cycle. In addition, last year we continued to shift assets into various equity strategies managed by our internal equity team, which celebrated its 10-year anniversary of delivering outstanding results across a range of equity mandates.

The commercial real estate portfolio was our second strongest performer last year with a 23.2% total return, exceeding the policy benchmark by 400 basis points. Public real estate securities rallied strongly with a return of 33.1%, while private real estate also rebounded with a 20.9% return for the year. The value increase in fiscal 2011 was driven primarily by improvements in capital market pricing rather than improving real estate fundamentals. Private real estate is a lagging sector, so while other sectors have seen an earnings recovery, real estate earnings are just now beginning to increase off the trough. Due in part to this lag, real estate returns have been weak over the last few years, but over the last 10 years, commercial real estate has been a strong performer for VRS. Over that period, the program has delivered an annualized return of 9.0%, and it has provided good cash flow and diversification benefits.

Private equity investments delivered a return of 17.6% in fiscal 2011, and cash flow distributions from the program exceeded $1 billion. Not unexpectedly for a period of unusually high public equity returns, the program's market value return lagged its public market benchmark by a significant margin. Private equity valuations are generally much more sticky than public equity prices, and over the last year, general partners were somewhat slow to mark up their portfolios given the high degree of economic uncertainty. Over the long-term, private equity returns will be driven by the operating metrics of the underlying companies and ultimate exit prices and distributions. We believe the private equity portfolio is well positioned and will continue to generate a meaningful realized return premium over the public markets.

Our credit strategies program continued to perform well with a 14.7% return last year. After seven years of a dedicated effort in credit-related strategies, the program has proven to be very successful for VRS. As an asset class, we believe credit has very interesting characteristics. When compared to higher quality bonds, the return premium is significant while the increase in risk is only moderate, especially if risk is viewed as defaults net of recoveries, rather than market volatility. On the other hand, when comparing credit-related opportunities to stocks, credit offers significantly lower market risk, while providing a reasonable chance to earn equity-like returns over the long term. On balance, this asset class looks very attractive on a risk-adjusted basis, and we have used credit strategies as substitutes for both equity and higher quality bonds at various points in the market cycle. Since inception of this program, credit has outperformed both stocks and bonds.

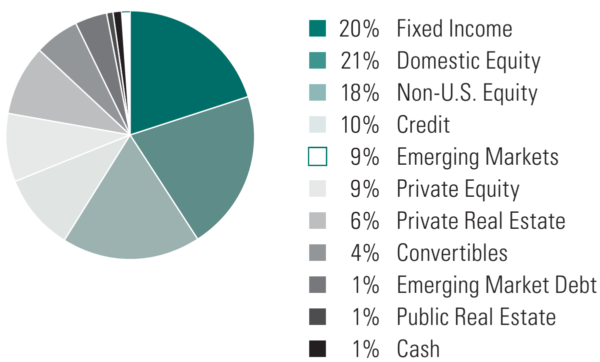
Our high grade fixed income portfolio also continued to perform well last year, returning 5.8% and beating its benchmark by over 200 basis points. During the year, we built upon a strategy of harvesting gains in the externally managed core plus portfolios and moving more assets into the lower risk internally managed bond portfolio. The internal fixed income team has generated an impressive record of delivering attractive returns over the last 15 years, and they have done so at very low cost to VRS. Partially offsetting this shift to lower risk strategies, we have continued to look for more concentrated and opportunistic strategies to employ with external specialty managers. As an example, last year we initiated a significant investment program in emerging market debt, an asset class that we believe offers attractive yields, an improving credit story, and an opportunity for exposure to currencies which are expected to strengthen over the next five to 10 years.

Looking ahead we remain concerned about persistent fiscal imbalances in the developed world and the lack of any credible long-term plan to achieve a healthy equilibrium. Policy-makers face significant challenges with limited options for a quick fix. If there is any good news in the heightened market volatility and the renewed economic and financial market weakness, it is that policy-makers will become more focused on developing good policies. I believe this discussion has begun in earnest, and while it may take time, this is a good thing for the long-run health of the economy and the financial markets.

These are challenging times in which to manage a large public pension plan. It is tempting to stretch for higher returns in order to help offset current funding gaps and future contribution rates, but economic and financial market imbalances have led to increased uncertainty and a higher probability of short-term market value losses. In managing the fund, we have to strike a balance between pursuing investments that are expected to have higher long-term returns with our ability to absorb short-term market value declines and the resulting impact on the fund's funded status and contribution rates. In order to determine the best policies and strategies to use going forward, VRS employs a deliberative process to regularly re-examine our asset-liability and cash flow position, our risk tolerance, and forward looking opportunities and risks in the capital markets. The following pie chart shows our asset allocation mix as of June 30, 2011.

ASSET ALLOCATION MIX

AS OF JUNE 30, 2011



More broadly, institutional investment management is undergoing profound change. The traditional approach of setting a static long-term investment policy and striving to beat capitalization weighted market benchmarks is being questioned by many thoughtful professionals. Much has been written in the press about the "New Normal" environment for the economy and the financial markets. I believe that institutional investors are also facing a new operating environment full of questions about how best to invest in such volatile times when plan sponsors are under such stress. Alternative philosophies and approaches, such as absolute return investing, liability driven investing and other forms of risk-adjusted investment objectives, are starting to take hold among institutional investors. I am not certain how this will shake out in the years ahead, but I suspect that large pension plans will begin to think about their own individual circumstances and adopt and manage toward customized mandates that fit their own unique objectives and risk tolerance. I do believe that investors will increasingly need to ignore, as much as possible, the short-term noise and volatility of the markets, and try to focus on the fundamental characteristics of their assets and the dividend and interest paying ability of their stocks and bonds. All of this will require much good judgment from trustees, staff and investment advisers, and I am confident that VRS is well positioned to navigate these changes in the years ahead.

This will be my last annual letter as Chief Investment Officer of VRS. It has been a great honor and privilege to serve as CIO. I have been fortunate to have the support of a talented investment team, which I believe is VRS's greatest asset. I am grateful for the advice and counsel of the Investment Advisory Committee, a group that includes some of Virginia's best investors. I am deeply appreciative of the partnership that I have had with VRS Director Bob Schultze and his entire team, who have been so helpful to the Investments Department. Finally, I sincerely appreciate the support and confidence placed in me by the Board of Trustees over many years.

Sincerely,

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, 2011 is shown in Figure 3.1:

FIGURE 3.1 – ASSET ALLOCATION MIX
AS OF JUNE 30, 2011

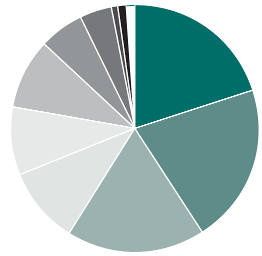


FIGURE 3.2 – INVESTMENT PERFORMANCE SUMMARY
ANNUALIZED DATA FOR THE PERIOD ENDING JUNE 30, 2011

	1 Year	3 Years	5 Years
1. Total Fund			
VRS	19.1%	2.4%	4.3%
Total Fund Intermediate Benchmark	19.4%	3.2%	4.3%
2. Total Public Equity			
VRS	27.2%	1.7%	3.2%
Custom Benchmark	27.8%	2.5%	3.4%
3. Total Fixed Income*			
VRS	5.9%	8.1%	7.3%
Custom Benchmark	3.8%	6.6%	6.7%
4. Total Credit Strategies			
VRS	14.7%	8.9%	7.0%
Custom Benchmark	16.1%	8.1%	6.7%
5. Total Real Estate			
VRS	23.2%	-3.6%	2.9%
Custom Benchmark	19.2%	-2.0%	3.6%
6. Total Private Equity			
VRS	17.6%	2.6%	10.5%
Custom Benchmark	19.9%	6.1%	5.6%

Investment return calculations were prepared using a time-weighted return methodology.
**Includes emerging market debt allocations initiated in April 2011.*

Portfolio Highlights

PUBLIC EQUITY

The market value of the Total Public Equity Program as of June 30, 2011 was $26.1 billion, representing approximately 48% of the total fund. Forty-four percent was invested in Domestic Equity and 56% in International Equity. Fourteen percent was invested in passive strategies, and 35% was managed internally. The objective of the portfolio is to exceed the risk-adjusted return of the Custom Benchmark over longer-term periods, net of all costs. At fiscal year end, the Custom Benchmark was comprised of 43.6% of the MSCI U.S. Investible Market Index (IMI), 43.1% of the MSCI World excluding U.S. IMI (50% hedged) and 13.3% in the MSCI Emerging IMI.

The Total Public Equity Program underperformed the Custom Benchmark during the fiscal year by 0.6%. During the year, the U.S. benchmark was up 32.7%, the Non-U.S. Developed (50% hedged) benchmark was up 23.2% and the Emerging Markets benchmark was up 27.5%. Public markets were up around the world as the economic recovery progressed.

The Total Public Equity Program is dominated by traditional, long-only strategies (86.0% of program, or $22.5 billion). The program also employs traditional long-short strategies (1.5% of program, or $0.3 billion) and equity-oriented hedge fund strategies (12.5% of program, or $3.3 billion).

FIGURE 3.3 – TOTAL PUBLIC EQUITY PROGRAM BENCHMARKS

Benchmark Category	VRS Return	Benchmark Return	VRS Weight	Benchmark Weight
U.S. Active Standard	32.50%	31.40%	22.61%	22.09%
U.S. Active Small Cap	41.05%	39.98%	3.50%	4.03%
U.S. Passive	30.77%	30.92%	1.57%	1.57%
Non-U.S. Developed Small Cap	30.52%	28.94%	4.37%	3.46%
Non-U.S. Developed Standard	23.62%	22.43%	17.96%	23.93%
Emerging	29.11%	27.51%	15.41%	10.34%
Global	24.62%	26.78%	22.10%	22.10%
Hedge Funds	21.50%	27.78%	12.48%	12.48%
Total Program	**27.20%**	**27.80%**	**100.00%**	**100.00%**

One-year weights and returns ending June 30, 2011.

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	11.91%	10.83%
Consumer Staples	9.65%	8.78%
Energy	10.83%	11.13%
Financials	16.83%	20.10%
Health Care	10.65%	8.53%
Industrials	9.81%	11.88%
Information Technology	13.81%	11.64%
Materials	8.17%	9.31%
Telecommunication Services	5.03%	4.10%
Utilities	3.31%	3.70%
	100.00%	**100.00%**

Regions	VRS	Strategic Benchmark
North America	50.44%	48.35%
Europe/Middle East/Africa	25.07%	27.70%
Asia Pacific	20.34%	21.14%
Latin and South America	4.15%	2.81%
	100.00%	**100.00%**

Based on Barra's classification of sectors and regions.

The top 10 holdings in the Total Public Equity Program comprised 6.8% of the program at fiscal year end. In comparison to last year, three companies fell from the list. Samsung, Shell and Vodafone were replaced with Johnson & Johnson, Gazprom and Chevron.

FIGURE 3.5 – PUBLIC EQUITY: TOP 10 EXPOSURES

AS OF JUNE 30, 2011

Company	Market Value	Shares
Exxon Mobil Corporation	$ 246,206,694	3,025,396
Apple Inc.	236,922,805	705,821
Microsoft Corporation	174,997,792	6,730,684
Johnson & Johnson	173,725,514	2,611,628
Petrobras	165,699,949	5,251,293
Gazprom	160,108,589	10,997,491
J.P. Morgan Chase & Co.	159,556,936	3,897,336
Pfizer Incorporated	158,274,531	7,683,230
Chevron	147,202,536	1,431,374
Google, Inc.	141,752,271	279,933

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 $11.7 billion was invested in fixed income assets, representing 21% of the VRS portfolio. Of this amount, approximately 93% was invested in investment grade fixed income strategies, and 7% was invested in emerging market fixed income assets.

The objective of the investment grade portion of the 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 objective of the emerging market portion of the program is to maximize the return (net of all costs) relative to the emerging market fixed income benchmark, while staying in compliance with risk limits. The investment grade portion of the fixed income program return was 5.8%, and the benchmark return was 3.7% for the fiscal year. The emerging market portion of the fixed income program was a new program that was started late in the fiscal year. To date, we have been pleased with the performance of the emerging market debt portfolio.

In the U.S., the yield curve steepened over the course of the last fiscal year as policy makers took steps to stimulate growth in the economy. The Federal Reserve Bank undertook measures, such as QE2 and continuing to keep the Fed Funds Rate in a zero to 0.25% range, to keep interest rates at levels intended to stimulate borrowing and increase home ownership. During the fiscal year, two-year interest rates decreased by 14 basis points to 0.46%, and ten-year interest rates increased by 23 basis points to 3.16%. Very liquid spread sectors (MBS and Agencies) were mixed for the fiscal year, while credit-sensitive and less liquid sectors (Corporate Bonds and CMBS) all strengthened as investors shifted into higher yielding securities.

FIGURE 3.6 – FIXED INCOME PORTFOLIO BY SECTOR ALLOCATION

AS OF JUNE 30, 2011

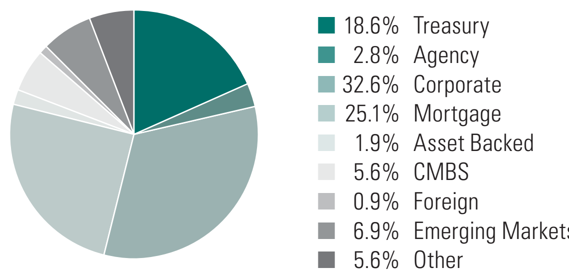


FIGURE 3.7 – FIXED INCOME PORTFOLIO BY CREDIT QUALITY BREAKDOWN

AS OF JUNE 30, 2011

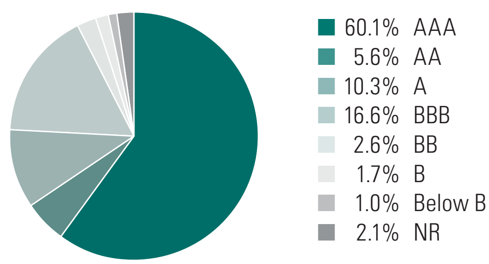


FIGURE 3.8 – FIXED INCOME: TOP 10 HOLDINGS BY MARKET VALUE

AS OF JUNE 30, 2011

Par	Security Description	Market Value
$ 226,300,000	FHLMC Gold 4.000% due 07/01/41	$ 226,087,278
181,410,000	US Treasury Notes 1.250% due 04/15/14	183,976,952
165,000,000	US Treasury Notes 2.000% due 01/31/16	168,230,700
150,000,000	US Treasury Notes 2.625% due 12/31/14	158,125,500
140,000,000	US Treasury Notes 2.375% due 03/31/16	144,842,600
130,000,000	US Treasury Notes 2.375% due 09/30/14	136,060,600
125,000,000	US Treasury Notes 2.125% due 12/31/15	128,341,250
115,000,000	US Treasury Notes 3.125% due 05/15/19	118,732,900
100,000,000	US Treasury Notes 1.125% due 12/15/12	101,126,000
100,000,000	US Treasury Notes 3.875% due 08/15/40	91,588,000

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.

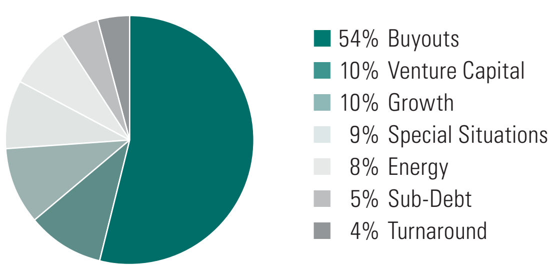
PRIVATE EQUITY

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 2011 was 17.6%. On a dollar-weighted or IRR basis, the private equity one-year return was 17.2% as of March 31, 2011.

As of June 30, 2011, the carrying value of the program was approximately $4.8 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 3.9 – PRIVATE EQUITY PROGRAM

AS OF JUNE 30, 2011



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 generates operating cashflows and has a low historical correlation with the public markets. After producing a -28.3% return for fiscal year 2009, the portfolio stabilized in fiscal year 2010 (total return of 1.5%) and rebounded with a 23.2% return, outperforming the benchmark by 4.0% for fiscal year 2011. Our REITs produced a total return of 33.1% while the private asset portion of the portfolio delivered a 20.9% return for the fiscal year.

The percentage of the total fund represented by the real estate portfolio increased slightly over the course of the year from 6.5% to 6.8% due to rebounding values and new fundings. At fiscal year end, the portfolio was composed of approximately 19% REITs and 81% private accounts. Portfolio leverage as a percentage of total real estate assets was 43% as of March 31, 2011.

FIGURE 3.10 – REAL ESTATE BY PROPERTY TYPE

AS OF MARCH 31, 2011

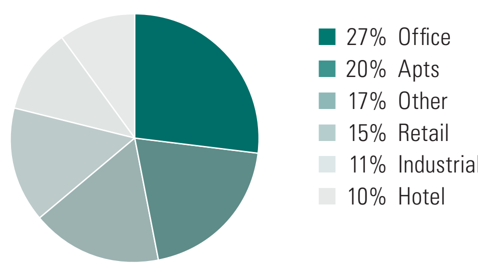
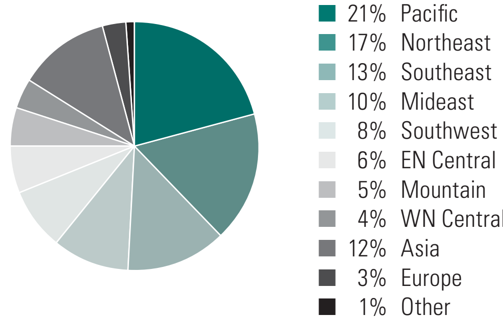
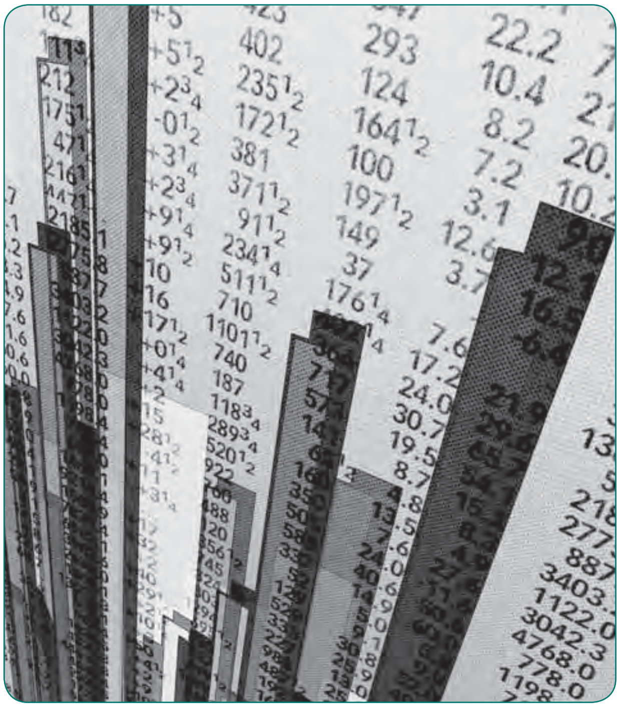


FIGURE 3.11 – REAL ESTATE BY GEOGRAPHIC REGION

AS OF MARCH 31, 2011



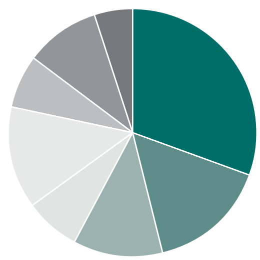


CREDIT STRATEGIES

VRS allocates a portion of the portfolio to credit-related investments. The Credit Strategies program is utilized opportunistically to provide an alternative arena for generating attractive risk adjusted returns. The objectives of the program are to provide returns that are competitive with the forward looking expectations of the areas from where funding has been drawn, to provide higher levels of income, and to provide diversification benefits to the plan. For the fiscal year, the program returned 14.7%, while the program's custom benchmark returned 16.1%.

FIGURE 3.12 – CREDIT STRATEGIES

AS OF JUNE 30, 2011



- 30.6% Convertibles
- 15.7% Leveraged Loans
- 11.7% High Yield
- 7.2% Other
- 13.4% Credit Hedge Funds
- 6.7% Mezzanine Credit
- 9.7% Opportunistic
- 5.0% Distressed

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, 2011 is reflected in the following tables, which list VRS managers by investment program and style.

PUBLIC EQUITY

External Managers – Top 10 Managers	Style Description
T. Rowe Price	Global, Emerging Markets
GMO	U.S. Large, Emerging Markets
Acadian Asset Management	Non-U.S. Small, Emerging Markets
Arrowstreet Capital	Global
BlackRock	Global
Nordea	Global
AllianceBernstein	Global
The Boston Company	Emerging Markets
LSV Asset Management	Non-U.S. Small
Relational	U.S. Large

Internal Portfolios	Style Description
Dogwood	Non-U.S. Large
Mobjack	U.S. Large
Potomac	U.S. Large
Matoaka	Non-U.S. Large
Madison	U.S. Large
Afton	U.S. Small

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

FIXED INCOME

External Managers – Top 10 Managers	Style Description
State Street Global Advisors	IG Credit/External Passive
PIMCO (Credit/EMD/Bank Loans)	Opportunistic/External Active
Western Asset Management	Core/External Active
Wellington	Core/External Active
BlackRock	Core/External Active
Prudential	Opportunistic/External Active

FIXED INCOME, continued

External Managers	Style Description
Bridgewater	Opportunistic/External Active
Payden & Rygel	EMD/External Active
Smith Breeden	Core/External Active
Agincourt	Core/External Active

Internal Portfolio	Style Description
VRS Core	Core/Internal Active

PRIVATE EQUITY – TOP 10 MANAGERS	Style Description
Credit Suisse	Customized Separate Account
Hellman and Friedman	Buyout
Summit Partners	Growth & Sub-Debt
TPG	Buyout
Welsh, Carson, Anderson and Stowe	Buyout & Sub-Debt
Nordic Capital	Buyout
First Reserve	Energy
Apax Partners	Buyout
Charterhouse	Buyout
TA Associates	Growth & Sub-Debt

CREDIT STRATEGY – TOP 10 MANAGERS	Style Description
Anchorage Advisors, LLC	Credit Hedge Fund
Beach Point Capital Management	Leveraged Loans, Opportunistic, Distressed
King Street Capital Management, LLC	Credit Hedge Fund
Oaktree Capital Management	Mezzanine, Convertibles, High Yield, Distressed
Prudential	High Yield and Mezzanine
Stone Harbor Investment Partners	High Yield
Solus Alternative Asset Management LP	Credit Hedge Fund and Opportunistic
Western Asset Management	Leveraged Loans
York Capital Management	Credit Hedge Fund
Zazove Associates	Convertibles and Other

REAL ESTATE – TOP 10 MANAGERS	Style Description
Prudential Real Estate Investors	Core Enhanced
Morgan Stanley	Core & Opportunistic, Global REITs
Blackstone Real Estate Partners	Opportunistic
JP Morgan Investment Management, Inc.	Core
ProLogis	Enhanced Core & Opportunistic
Urdang Securities Management, Inc.	Global REITs
TA Associates Realty	Core
Security Capital Research & Management, Inc.	Core
AMLI Residential Properties	Core
Angelo Gordon & Co.	Core

Public Equity Commissions

AS OF JUNE 30, 2011

Broker	Commission
Investment Technology Group, New York	$ 2,506,383
Goldman Sachs & Co., New York	2,049,089
Credit Suisse, New York	1,156,352
Morgan Stanley & Co., Inc., New York	813,303
Deutsche Bank Securities, Inc. New York	734,142
Goldman Sachs Execution & Clearing, New York	491,839
Citigroup Global Markets, Inc., New York	399,698
Instinet Europe Limited, London	393,370
UBS Securities LLC, Stamford	346,596
Bernstein Sanford C & Co., New York	320,104
Merrill Lynch Pierce Fenner Smith, Inc., New York	311,941
Calyon Securities, New York	301,454
Instinet Corp., New York	291,335
Merrill Lynch Pierce Fenner, Wilmington	284,108
Credit Suisse (Europe), London	275,731
Nomura Securities Intl., Inc., New York	227,181
Citigroup Global Markets/Salomon, New York	223,500
J.P. Morgan Clearing Corp., New York	219,715
Citigroup Global Markets Ltd., London	210,498
J.P. Morgan Securities Ltd., London	204,156
J.P. Morgan Securities, Inc., Brooklyn	195,760
UBS Equities, London	190,446
Weeden & Co., New York	189,721
MacQuarie Securities (India) Pvt. Ltd., Mumbai	187,546
ITG, Inc., New York	186,878
Credit Lyonnaise Securities, Seoul	176,565
Barclays Capital LE, Jersey City	167,675
Merrill Lynch International London Equities	166,050
Pershing LLC, Jersey City	161,967
MacQuarie Securities Limited, Hong Kong	144,995
Morgan Stanley & Co., London	117,424
Citation Group/BCC Clearing, New York	115,863
J.P. Morgan Securities Asia Pacific, Hong Kong	112,757
SG Securities (London) Ltd., London	112,470
Jefferies & Co., Inc., New York	111,693
Liquidnet, Inc., Brooklyn	110,253
Deutsche Bank International EQ, London	104,489
Other Brokers	4,842,957
Total	**$ 19,156,003**

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2011 (EXPRESSED IN THOUSANDS)

	Assets Under Management*	Management Fees and Expenses
External Management:		
Domestic Managers	$ 2,309,187	$ 11,740
Non-U.S. Equity Managers	5,211,523	30,260
Global Equity Managers	5,459,926	15,594
Fixed Income Managers	14,736,583	17,081
Credit Strategies Managers	5,735,782	49,096
Real Estate Managers	3,721,914	29,871
Private Equity Managers	4,859,467	68,743
Hedge Fund Managers	4,467,890	75,076
Internal Management	9,062,072	17,310
Miscellaneous Fees and Expenses:		
Custodian Fees	-	4,425
Legal Fees	-	385
Other Fees and Expenses	-	449
Total	**$ 55,564,344**	**$ 320,030**

**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, 2011 and 2010:

(EXPRESSED IN THOUSANDS)

	2011 Fair Value	Percent of Total Value	2010 Fair Value	Percent of Total Value
Bonds and Mortgage Securities:				
U.S. Government and Agencies	$ 2,716,450	4.88%	$ 2,587,011	5.40%
Mortgage Securities	3,316,456	5.96%	2,485,042	5.18%
Corporate and Other Bonds	11,862,833	21.32%	12,071,853	25.19%
Total Bonds and Mortgage Securities	**17,895,739**	**32.16%**	**17,143,906**	**35.77%**
Common and Preferred Stocks	**21,238,020**	**38.18%**	**16,307,335**	**34.02%**
Index and Pooled Funds:				
Equity Index and Pooled Funds	6,134,348	11.03%	5,423,698	11.32%
Fixed Income Commingled Funds	1,892,753	3.40%	1,732,430	3.61%
Total Index and Pooled Funds	**8,027,101**	**14.43%**	**7,156,128**	**14.93%**
Real Estate	**3,111,418**	**5.59%**	**2,654,164**	**5.54%**
Private Equity	**5,194,663**	**9.34%**	**4,590,737**	**9.58%**
Short-Term Investments:				
Treasurer of Virginia – LGIP Investment Pool	24,679	0.04%	2,725	0.01%
TBC Pooled Employee Trust fund	44,128	0.08%	7,203	0.02%
Foreign Currencies	97,403	0.18%	61,600	0.13%
Total Short-Term Investments	**166,210**	**0.30%**	**71,528**	**0.16%**
Total Investments	**$ 55,633,151**	**100.00%**	**$ 47,923,798**	**100.00%**

4 actuarial section

building blocks

2011

The foundation for the cost of benefits provided to members, retirees and beneficiaries are contributions. It is the VRS actuary's responsibility to advise the Board of Trustees on the funded status of the plans and recommend contribution rates that will enable the Board and Virginia's government leaders to anticipate the plans' future funding needs.

for a secure future

Actuary's Certification Letter – Pension Plans

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

October 30, 2011

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, 2010:

- 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, 2010, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board (GASB) Statements No. 25 and 27. While not verifying the data at source, the actuary performed tests for consistency and reasonability.

The valuation results indicate that the employer contribution rates shown in the table below are sufficient to fund the normal cost for all members and finance the unfunded accrued liability of the plans. For comparison, in the table below we present the recommended employer contribution rates based on the June 30, 2009 actuarial valuation and the employer contribution rates adopted for the fiscal years ending June 30, 2011 and 2012.

	Employer Contribution Rates		
Division	6/30/2010 Valuation	6/30/2009 Valuation	Adopted FY 2011 & FY 2012
State Employees	13.29%	8.46%	2.13% & 2.08%
Teachers	17.41%	12.91%	3.93% & 5.16%
State Police	33.31%	25.56%	7.76% & 7.73%
Virginia Law Officers	20.31%	15.93%	5.12% & 5.07%
Judicial	55.13%	46.79%	28.81% & 28.65%

3550 Busbee Pkwy, Suite 250, Kennesaw, GA 30144
Phone (678) 388-1700 • Fax (678) 388-1730
www.CavMacConsulting.com

Contribution rates for participating employers are established every two years. The actuarially calculated employer contribution rates based on the June 30, 2010 results presented in this report are for informational purposes only.

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. 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 3.00% annually. The assumptions 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 disclosures under GASB 25 and 27. The valuation reflects a change in the assumed annual rate of return from 7.50% to 7.00% adopted by the Board of Trustees of VRS.

The following schedules (or updates to them) were prepared by VRS from information prepared by us during the 2010 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 2011 Comprehensive Annual Financial Report:

- 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

All historical information that references a valuation date prior to June 30, 2008 was prepared by a previous actuarial firm.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for 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.

Respectfully submitted,

Thomas J. Cavanaugh, FSA, FCA, EA, MAAA	Jose I. Fernandez, ASA, FCA, EA, MAAA
Chief Executive Officer	Principal and 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

	2001	2002-2004	2005-2009	2010
Investment Return Rate	8.0%	8.0%	7.5%	7.0%
Inflation Assumption	3.0%	3.0%	2.5%	2.5%
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Change in Decremental Assumptions	Yes	No	Yes	No
Value of Ancillary Benefits Included	Yes	Yes	Yes	Yes
Value of Post-Retirement Adjustments to Date Included	Yes	Yes	Yes	Yes
Assets Valued At	Modified Market	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)				
2010	$ 9,246,421	$ 35,117,915	$ 28,436,065	$ 52,728,575	100.00%	100.00%	29.41%
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%
			State Police Officers' Retirement System (SPORS)				
2010	$ 77,759	$ 510,491	$ 360,642	$ 633,415	100.00%	100.00%	12.52%
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%
			Virginia Law Officers' Retirement System (VaLORS)				
2010	$ 186,792	$ 682,378	$ 710,151	$ 925,443	100.00%	100.00%	7.92%
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%
			Judicial Retirement System (JRS)				
2010	$ 43,217	$ 310,305	$ 206,398	$ 372,096	100.00%	100.00%	9.00%
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%

**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)					
2010	329,374	$ 14,757,790	$ 44,806	-0.2%	592
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
State Police Officers' Retirement System (SPORS)					
2010	1,767	$ 97,601	$ 55,235	0.0%	1
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
Virginia Law Officers' Retirement System (VaLORS)					
2010	9,734	$ 346,040	$ 35,550	-0.1%	1
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
Judicial Retirement System (JRS)					
2010	408	$ 61,021	$ 149,561	0.4%	1
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

SCHEDULE OF RETIREE AND BENEFICIARY VALUATION DATA

Valuation Date (June 30)	Retirees and Beneficiaries: Added to Rolls Number	Added to Rolls Allowances**	Removed from Rolls Number	Removed from Rolls Allowances	Rolls at End of Year Number	Rolls at End of Year Allowances	Annualized % Increase in Annual Allowances	Average Annual Allowance
Virginia Retirement System (VRS)								
2010	10,780	$ 234,416,000	4,011	$ 65,755,000	145,269	$2,783,135,000	6.5%	$19,158
2009	9,474	278,307,000	4,202	63,388,000	138,500	2,614,474,000	9.0%	18,877
2008	9,610	284,577,000	3,869	68,575,000	133,228	2,399,555,000	9.9%	18,011
2007	9,475	277,466,000	3,774	66,307,000	127,487	2,183,553,000	10.7%	17,128
2006	8,949	190,775,000	3,834	33,172,000	121,786	1,972,394,000	8.7%	16,196
2005	9,151	187,247,000	4,250	48,631,000	116,671	1,814,791,000	8.3%	15,555
2004	7,913	167,577,000	2,561	29,304,000	111,770	1,676,175,000	9.0%	14,997
2003*	7,920	-	3,554	-	106,418	1,537,902,000	11.8%	14,452
2002*	7,451	-	3,496	-	102,052	1,375,777,000	6.7%	13,481
2001*	7,962	-	3,337	-	98,097	1,289,657,000	12.1%	13,147
State Police Officers' Retirement System (SPORS)								
2010	62	$ 2,450,000	22	$ 1,085,000	1,122	$ 41,226,000	3.4%	$36,743
2009	72	3,604,000	23	777,000	1,082	39,861,000	7.6%	36,840
2008	68	4,207,000	26	548,000	1,033	37,034,000	11.0%	35,851
2007	52	3,292,000	18	1,311,000	991	33,375,000	6.3%	33,678
2006	57	2,378,000	23	170,000	957	31,394,000	7.6%	32,805
2005	70	3,035,000	9	210,000	923	29,186,000	10.7%	31,620
2004	56	2,717,000	4	93,000	862	26,361,000	11.1%	30,581
2003*	63	-	25	-	810	23,737,000	18.2%	29,305
2002*	72	-	12	-	772	20,077,000	7.1%	26,006
2001*	26	-	11	-	712	18,748,000	8.0%	26,331
Virginia Law Officers' Retirement System (VaLORS)								
2010	281	$ 6,667,000	24	$ 932,000	2,318	$ 51,498,000	12.5%	$22,216
2009	264	6,903,000	17	671,000	2,061	45,763,000	15.8%	22,204
2008	224	5,774,000	28	3,817,000	1,814	39,531,000	5.2%	21,792
2007	253	7,118,000	16	1,393,000	1,618	37,574,000	18.0%	23,222
2006	209	4,692,000	34	129,000	1,381	31,849,000	16.7%	23,062
2005	248	7,541,000	12	678,000	1,206	27,286,000	33.6%	22,625
2004	207	4,554,000	2	113,000	970	20,423,000	27.8%	21,055
2003*	248	-	10	-	765	15,982,000	72.7%	20,892
2002*	251	-	18	-	527	9,252,000	324.2%	17,556
2001*	197	-	13	-	294	2,181,000	198.8%	7,418
Judicial Retirement System (JRS)								
2010	29	$ 2,116,000	17	$ 1,022,000	451	$ 30,356,000	3.7%	$67,308
2009	36	2,919,000	20	1,491,000	439	29,262,000	5.1%	66,657
2008	36	3,567,000	17	1,746,000	423	27,834,000	7.0%	65,802
2007	24	2,831,000	19	1,723,000	404	26,013,000	4.4%	64,390
2006	25	1,983,000	21	814,000	399	24,905,000	4.9%	62,420
2005	25	2,017,000	17	70,000	395	23,736,000	8.9%	60,092
2004	33	1,387,000	21	86,000	387	21,789,000	6.4%	56,302
2003*	35	-	26	-	375	20,488,000	8.3%	54,635
2002*	14	-	17	-	366	18,918,000	1.2%	51,689
2001*	21	-	16	-	369	18,699,000	7.6%	50,675

** Details of the changes in allowances are unavailable prior to fiscal year 2004.*

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

FIGURE 4.1 – ANALYSIS OF ACTUARIAL GAINS AND LOSSES

FOR THE YEAR ENDED JUNE 30, 2010

(EXPRESSED IN THOUSANDS)

	VRS	SPORS	VaLORS	JRS	Total
A. Calculation of Expected Unfunded Actuarial Accrued Liability (UAAL)					
1. UAAL as of June 30, 2009	$ 13,138,233	$ 232,220	$ 498,922	$ 143,251	$14,012,626
2. Normal Cost for Previous Year	1,424,235	13,949	38,805	22,040	1,499,029
3. Actual Contributions During the Year	(1,763,883)	(20,747)	(56,347)	(20,206)	(1,861,183)
4. Interest at Previous Year's Rate of 7.50%					
a. On UAAL	985,367	17,417	37,419	10,744	1,050,947
b. On Normal Cost	106,818	1,046	2,910	1,653	112,427
c. On contributions	(66,146)	(778)	(2,113)	(758)	(69,795)
d. Total	**1,026,039**	**17,685**	**38,216**	**11,639**	**1,093,579**
5. Expected UAAL as of June 30, 2010 (A1+A2+A3+A4)	13,824,624	243,107	519,596	156,724	14,744,051
6. Actual UAAL as of June 30, 2010	20,071,826	315,477	653,878	187,824	21,229,005
7. Total Gain/(Loss) (A5-A6)	**(6,247,202)**	**(72,370)**	**(134,282)**	**(31,100)**	**(6,484,954)**
B. Calculation of Asset Gain / (Loss)					
1. Actuarial Value of Assets (AVA) as of June 30, 2009	53,185,033	646,960	912,922	378,212	55,123,127
2. Contributions During the Year	1,763,883	20,747	56,347	20,206	1,861,183
3. Benefit Payments During the Year	(2,995,876)	(43,210)	(57,677)	(31,598)	(3,128,361)
4. Interest at Previous Year's Rate of 7.50%					
a. On AVA at Beginning of Year	3,988,878	48,522	68,469	28,366	4,134,235
b. On Contributions	66,146	778	2,113	758	69,795
c. On Benefit Payments	(112,346)	(1,620)	(2,163)	(1,185)	(117,314)
d. Total	**3,942,678**	**47,680**	**68,419**	**27,939**	**4,086,716**
5. Expected AVA as of June 30, 2010 (B1+B2+B3+B4)	55,895,718	672,177	980,011	394,759	57,942,665
6. Actual AVA as of June 30, 2010	52,728,575	633,415	925,443	372,096	54,659,529
7. Total Gain/(Loss) on Assets (B6-B5)	**(3,167,143)**	**(38,762)**	**(54,568)**	**(22,663)**	**(3,283,136)**
C. Calculation of Liability Gain/(Loss)					
1. Gain/(Loss) Due to Changes in Actuarial Assumptions	(4,358,340)	(53,864)	(102,086)	(23,894)	(4,538,184)
2. Gain/(Loss) Due to Plan Amendments	(1,957)	-	-	-	(1,957)
3. Gain/(Loss) Due to Change in Asset Method	-	-	-	-	-
4. Liability Experience Gain/(Loss) (A7-B7-C1-C2-C3)	**$ 1,280,238**	**$ 20,256**	**$ 22,372**	**$ 15,457**	**$ 1,338,323**

Summary of Actuarial Assumptions and Methods

The VRS Board of Trustees adopted most of the actuarial assumptions and methods presented in Figure 4.2 on April 16, 2009 on the recommendation of its actuary. At its meeting on June 17, 2010, the Board reduced the assumption for the investment rate of return from 7.50% to 7.00%. These assumptions include 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). They were based on an analysis of plan experience for the four-year period July 1, 2004 through June 30, 2008 and, along with the subsequent change in the assumption for the investment rate of return, were used for the June 30, 2010 actuarial valuation.

FIGURE 4.2 – ACTUARIAL ASSUMPTIONS AND METHODS-PENSION PLANS
FOR THE JUNE 30, 2010 VALUATION

Investment Return Rate. 7.00% per annum, compounded annually, composed of an assumed 2.50% inflation rate and a 4.50% 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 4.3 – RETIREMENT RATES-PENSION PLANS
Sample rates of retirement for members eligible to retire are shown below.

State Employees

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	3.00%	3.22%	10.00%	10.00%
55	5.00%	5.00%	10.00%	10.00%
59	5.00%	5.50%	10.00%	10.00%
60	5.00%	5.50%	10.00%	15.00%
61	10.00%	10.00%	15.00%	20.00%
62	15.00%	15.00%	25.00%	30.00%
64	15.00%	15.00%	20.00%	20.00%
65	40.00%	40.00%	30.00%	40.00%
67	40.00%	40.00%	25.00%	25.00%
> = 70	100.00%	100.00%	100.00%	100.00%

FIGURE 4.3 – RETIREMENT RATES-PENSION PLANS, continued

Teachers

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	2.00%	2.00%	17.50%	15.00%
55	5.70%	6.10%	22.50%	22.50%
59	7.00%	7.50%	22.50%	22.50%
60	7.50%	8.50%	22.50%	22.50%
61	11.00%	12.00%	30.00%	30.00%
62	17.00%	17.00%	35.00%	40.00%
64	18.00%	16.50%	30.00%	25.00%
65	40.00%	40.00%	40.00%	40.00%
67	40.00%	40.00%	20.00%	30.00%
> = 70	100.00%	100.00%	100.00%	100.00%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

	Reduced Retirement		Unreduced Retirement	
Age	Male	Female	Male	Female
50	3.50%	3.50%	13.00%	15.60%
55	5.00%	5.00%	11.50%	14.30%
59	4.50%	6.00%	13.50%	13.40%
60	6.00%	7.50%	17.00%	12.80%
61	10.50%	10.00%	19.00%	17.70%
62	17.50%	15.50%	31.00%	28.00%
64	16.50%	17.00%	29.00%	18.30%
65	40.00%	40.00%	41.00%	29.60%
67	40.00%	40.00%	24.00%	33.20%
> = 70	100.00%	100.00%	100.00%	100.00%

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

	Reduced Retirement		Unreduced Retirement	
Age	Male	Female	Male	Female
50	5.00%	4.00%	9.00%	8.00%
55	5.00%	5.50%	14.00%	11.50%
59	6.00%	5.00%	11.00%	11.50%
60	6.00%	7.50%	11.00%	13.00%
61	10.00%	7.50%	25.00%	17.50%
62	17.00%	17.00%	35.00%	25.00%
64	15.00%	13.00%	27.00%	17.50%
65	40.00%	40.00%	33.00%	40.00%
67	40.00%	40.00%	20.00%	25.00%
> = 70	100.00%	100.00%	100.00%	100.00%

FIGURE 4.3 – RETIREMENT RATES-PENSION PLANS, continued

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

Age	Reduced Retirement	Unreduced Retirement
50	9.00%	25.00%
55	8.50%	18.00%
59	13.50%	31.50%
60	20.00%	35.00%
> = 65	100.00%	100.00%

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

Age	Reduced Retirement	Unreduced Retirement
50	8.50%	25.00%
55	8.50%	17.50%
59	11.50%	28.50%
60	20.00%	35.00%
> = 65	100.00%	100.00%

State Police Officers

Age	Reduced Retirement	Unreduced Retirement
50	10.00%	15.00%
55	10.00%	15.00%
59	12.00%	20.00%
60	25.00%	40.00%
> = 64	100.00%	100.00%

Virginia Law Officers

Age	Reduced Retirement	Unreduced Retirement
50	9.20%	25.00%
55	9.50%	20.00%
59	12.00%	25.00%
60	20.00%	40.00%
> = 65	100.00%	100.00%

Judges

	Service Multiplier = 2.5 Years of Service			Service Multiplier = 3.5 Years of Service		
Age	2-11	12	> =13	1-8	9	> =10
60	0.00%	50.00%	50.00%	0.00%	50.00%	50.00%
65	50.00%	15.00%	15.00%	50.00%	50.00%	15.00%
69	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
> = 70	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

FIGURE 4.4 – DISABILITY RATES-PENSION PLANS

As shown below for selected ages.

State Employees

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

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.

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 – 10 Largest Employers

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

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.

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%

FIGURE 4.4 – DISABILITY RATES-PENSION PLANS, *continued*

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

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

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.

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.

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.

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

FIGURE 4.4 – DISABILITY RATES-PENSION PLANS, continued

Judges

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

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 4.5 – 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

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	22.00%	13.00%	0.00%	25.50%	16.00%	0.00%
35	17.00%	9.50%	4.50%	19.00%	11.50%	5.00%
45	14.00%	7.50%	2.30%	14.00%	7.50%	2.50%
55	10.00%	5.50%	0.00%	12.00%	6.00%	0.00%
65	12.00%	13.00%	0.00%	13.00%	17.00%	0.00%

Teachers

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	15.00%	13.00%	0.80%	14.00%	12.50%	15.00%
35	14.00%	7.00%	3.20%	15.00%	9.70%	4.00%
45	15.00%	8.00%	1.90%	11.50%	6.30%	2.00%
55	14.00%	7.00%	0.00%	12.50%	5.70%	0.00%
65	17.00%	8.30%	0.00%	13.00%	8.00%	0.00%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	21.80%	13.70%	0.00%	23.30%	16.70%	0.00%
35	17.20%	9.70%	5.80%	18.60%	10.60%	5.10%
45	14.30%	7.10%	2.90%	14.80%	7.70%	2.80%
55	10.90%	5.30%	0.70%	11.90%	6.30%	0.00%
65	13.60%	8.20%	0.00%	12.60%	8.20%	0.00%

FIGURE 4.5 – TERMINATION RATES-PENSION PLANS, continued

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

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	23.50%	14.00%	0.00%	25.50%	16.50%	0.00%
35	18.50%	10.50%	5.50%	19.00%	11.50%	6.00%
45	15.50%	8.00%	3.00%	15.00%	8.00%	3.50%
55	12.00%	6.50%	1.00%	12.50%	6.50%	0.00%
65	12.00%	8.00%	0.00%	13.00%	9.00%	0.00%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	7.80%	6.80%	0.00%	7.80%	6.80%	0.00%
35	8.00%	4.40%	2.40%	8.00%	4.40%	2.40%
45	9.20%	4.60%	1.50%	9.20%	4.60%	1.50%
55	8.30%	6.30%	0.00%	8.30%	6.30%	0.00%
65	8.70%	6.50%	0.00%	8.70%	6.50%	0.00%

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

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	10.70%	8.30%	0.00%	10.70%	8.30%	0.00%
35	10.90%	6.30%	3.30%	10.90%	6.30%	3.30%
45	8.70%	5.20%	1.80%	8.70%	5.20%	1.80%
55	10.90%	6.30%	0.50%	10.90%	6.30%	0.50%
60	8.20%	7.70%	0.50%	8.20%	7.70%	0.50%

State Police Officers

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	7.50%	5.50%	3.00%	14.10%	8.80%	4.40%
35	7.50%	4.80%	2.40%	14.50%	7.30%	6.10%
45	10.00%	4.50%	1.40%	11.70%	7.90%	5.90%
55	10.00%	6.70%	1.20%	6.10%	10.60%	4.10%
65	10.00%	7.50%	1.20%	0.50%	15.40%	0.60%

FIGURE 4.5 – TERMINATION RATES-PENSION PLANS, continued

Virginia Law Officers

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	20.00%	15.00%	5.00%	20.00%	15.00%	7.50%
35	20.00%	12.50%	5.00%	20.00%	12.50%	7.50%
45	15.00%	10.50%	4.00%	17.50%	8.00%	5.90%
55	12.00%	6.50%	4.00%	10.00%	12.00%	6.00%
65	15.00%	7.00%	4.00%	10.00%	10.00%	6.00%

Judges

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

FIGURE 4.6 – 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%

FIGURE 4.6 – SALARY INCREASE RATES-PENSION PLANS, continued

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – 10 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 – 10 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%

FIGURE 4.6 – SALARY INCREASE RATES-PENSION PLANS, continued

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.

Actuarial Cost Method. The valuation was prepared using the entry age normal actuarial cost method. Under this method, a calculation is made for pension benefits to determine the uniform and constant percentage rate of employer contributions that, if applied to the compensation of the average new member during the entire period of his or her anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.

The unfunded actuarial accrued liability is determined by subtracting the current assets and the present value of prospective employer normal contributions and member contributions from the present value of expected benefits to be paid from VRS. The accrued liability contribution amortizes the balance of the unfunded accrued liability over a period of years from the valuation date.

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

Retirement Plans

ADMINISTRATION

The Virginia Retirement System (the System) pension Plan 1 and Plan 2 are administered by the Board of Trustees of the System. Plan 2 was established during the 2010 session of the General Assembly, and its provisions are effective for new members hired or rehired on or after July 1, 2010.

TYPE OF PLANS

1. Virginia Retirement System (VRS), effective March 1, 1952. VRS is a qualified governmental pension system that administers two defined benefit plans, the VRS Plan 1 and the VRS Plan 2. The Governmental Accounting Standards Board (GASB) defines VRS as an agent multiple-employer public employee retirement system. Covered employees include full-time permanent, salaried state employees; faculty members of the state's public colleges and universities who do not elect to participate in an optional retirement plan; teachers and administrative employees of the state's local public school divisions; and employees of Virginia cities, towns, counties and other political subdivisions that have elected to participate in VRS. Some part-time permanent, salaried state employees also are covered under VRS. VRS has separate cost-sharing pools for state and school employers.

Members are covered under Plan 1 or Plan 2 according to their membership date:

- Members hired before July 1, 2010 are covered under Plan 1. These members include deferred members who have returned to covered employment with service credit in VRS or an account balance in an optional retirement plan (ORP) authorized or administered by VRS as of June 30, 2010 and members retired under Plan 1 who have returned to covered employment and resumed active membership.
- Members hired or rehired on or after July 1, 2010 are covered under Plan 2. These members include those employed in a covered position before July 1, 2010 who left covered employment, took a refund and returned to covered employment on or after July 1, 2010 with no service credit in VRS or no ORP account balance.

2. Single-Employer Public Employee Retirement Systems as Defined by GASB. The provisions for membership in Plan 1 and Plan 2 for the following systems are the same as those for VRS:

- State Police Officers' Retirement System (SPORS) established July 1, 1950 for full-time permanent, salaried state police officers
- Virginia Law Officers' Retirement System (VaLORS) established October 1, 1999 for full-time permanent, salaried Virginia law officers other than state police
- Judicial Retirement System (JRS) established July 1, 1970 for full-time permanent, salaried state judges and other qualifying employees

MEMBER CONTRIBUTIONS

The member contribution is 5.00% of the member's compensation. Contributions paid by employers on behalf of employees are governed by Section 414(h) of the Internal Revenue Code. Members' contribution accounts accrue 4.00% interest each year, calculated on the balance as of the previous June 30.

PLAN 1	PLAN 2
Members, or their employers on their behalf, contribute 5.00% of their compensation each month to their member contribution accounts.	State employees contribute 5.00% of their compensation each month to their member contribution accounts. Employees of school divisions and political subdivisions may contribute some or all of the 5.00% member contribution, as elected by the employer.

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.

PLAN 1	PLAN 2
Average of the member's 36 consecutive months of highest compensation as a covered employee.	Average of the member's 60 consecutive months of highest compensation as a covered employee.

VESTING

Plan 1 and Plan 2 members become vested after accumulating five years of service credit.

SERVICE CREDIT

1. VRS, SPORS and VaLORS Members in Plan 1 and Plan 2. These members receive one month of service credit for each month they are employed in a covered position and the employer is contributing to the System.

2. JRS Members in Plan 1. Judges appointed or elected before January 1, 1995 receive one month of service credit multiplied by a weighting factor of 3.5 for each month they are employed in a JRS-covered position and the employer is contributing to the System. The weighting factor for judges appointed or elected on or after January 1, 1995 is 2.5.

3. JRS Members in Plan 2. Judges appointed or elected on or after July 1, 2010 receive one month of service credit multiplied by the following weighting factors for each month they are employed in a JRS-covered position and the employer is contributing to the System: 1.5 for those appointed or elected before age 45; 2.0 for those appointed or elected between the ages 45 and 54; and 2.5 for those appointed or elected at age 55 or older.

PRIOR SERVICE CREDIT

Members may purchase prior service as credit in their plan. Eligible prior service includes 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-covered position for the birth or adoption of a child; approved educational leave; unused sick leave at retirement, if the member is eligible; and VRS-refunded service. Members also can apply for no-cost military leave, provided they are not dishonorably discharged, return to covered employment within one year of discharge and do not take a refund of their member contributions and interest.

Prior service credit counts toward vesting, eligibility for retirement and eligibility for the health insurance credit. Prior service credit for refunded VRS hazardous duty service or for an eligible period of leave while covered under VRS in a hazardous duty position also counts toward the hazardous duty supplement for eligible members, provided they purchase or, in the case of no-cost military leave, are granted this service. Other types of prior service credit, such as active duty military service or hazardous duty service with a non-VRS participating employer, do not count toward the supplement.

Members may arrange to purchase prior service through a lump-sum payment using a personal check, a trustee-to-trustee transfer of funds or a pre-tax rollover of funds; an after-tax payroll deduction contract or a pre-tax salary reduction contract (if the employer offers the pre-tax salary reduction option); or a combination of these methods. Members must be within their eligibility period to use a contract. Other special rules and limits govern the purchase of prior service.

The cost basis and eligibility periods for Plan 1 and Plan 2 members are as follows:

PLAN 1	PLAN 2
Within three years of becoming eligible: 5.00% of compensation or average final compensation at the time of purchase, whichever is higher, multiplied by the number of months to purchase. If the member uses a contract to purchase service, the cost is based on compensation, even if average final compensation is higher. After the three-year eligibility period: Actuarial equivalent rate.	Within one year of becoming eligible: Approximate normal cost rate as a percentage of compensation or average final compensation at the time of purchase, whichever is higher, multiplied by the number of months to purchase. If the member uses a contract to purchase service, the cost is based on compensation, even if average final compensation is higher. Normal cost rates vary depending on whether the member is covered under VRS; under SPORS, VaLORS or in a hazardous duty position eligible for enhanced coverage; or under JRS. After the one-year eligibility period: Actuarial equivalent rate.
VRS refunded service: 5.00% of compensation or average final compensation at the time of purchase, whichever is higher, multiplied by the number of months to purchase. If the member uses a contract to purchase VRS refunded service, the cost is based on compensation, even if average final compensation is higher. If the member has not purchased VRS refunded service within three years, the cost basis will remain 5.00%, but the member will be required to use a lump-sum payment.	Same as Plan 1.

NORMAL (UNREDUCED) AND REDUCED RETIREMENT ELIGIBILITY AND BENEFIT CALCULATIONS

	PLAN 1	PLAN 2	BENEFIT CALCULATIONS
Earliest Unreduced Retirement Eligibility	VRS: Age 65 with at least five years of service credit or age 50 with at least 30 years of service credit.	Normal Social Security retirement age with at least five years of service credit or when age and service equal 90. *Example:* Age 60 with 30 years of service credit.	1.70% of average final compensation for each year of service credit.
	SPORS, VaLORS and 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.	SPORS, sheriffs and regional jail superintendents: 1.85% of average final compensation for each year of service credit. VaLORS: 1.70% or 2.00% of average final compensation for each year of service credit. *Note:* VaLORS members retiring under the 2.00% multiplier are not eligible for the hazardous duty supplement. Political subdivision hazardous duty employees: 1.70% or 1.85% of average final compensation for each year of service credit, as elected by the employer.
	JRS: Age 65 with at least five years of service credit or age 60 with at least 30 years of service credit.	Same as Plan 1.	1.70% of average final compensation for each year of service credit.
Earliest Reduced Retirement Eligibility	VRS: Age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.	Age 60 with at least five years of service credit.	All members: 0.5% per month for the first 60 months of retirement and 0.4% per month for the next 60 months of retirement. The 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 (less than 25 years for hazardous duty members).
	SPORS, VaLORS and political subdivision hazardous duty employees: Age 50 with at least five years of service credit.	Same as Plan 1.	
	JRS: Age 55 with at least five years of service credit.	Same as Plan 1.	

BENEFIT PAYOUT OPTIONS

Under Plan 1 and Plan 2, members eligible for retirement must elect 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 lifetime monthly 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 and the 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. The benefit can never be reduced by more than 50%.

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 payment of any remaining member contributions and interest in the member's account. 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

An annual supplement is payable to members of SPORS and VRS political subdivision members eligible for enhanced hazardous duty coverage who retire with at least 20 years of eligible hazardous duty service credit. The supplement begins when they retire and continues until they reach their normal retirement age under Social Security. VaLORS members retiring under the 1.70% multiplier who have at least 20 years of eligible hazardous duty service credit receive the supplement beginning when they retire until age 65; VaLORS members retiring under the 2.00% multiplier are not eligible for the supplement. Vested members hired in eligible hazardous duty positions before July 1, 1974 are not required to have 20 years of hazardous duty service credit to qualify for the supplement, provided they take an immediate annuity.

The supplement is a dollar amount added to the member's monthly retirement benefit payment. It is adjusted biennially based on increases in Social Security benefits during interim periods, as determined by the VRS actuary.

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, when provided. During periods of no inflation or deflation, the COLA is zero (0.00%). The COLA is calculated based on changes in the Consumer Price Index for all Urban Consumers (CPI-U) as follows:

1. The CPI-U for the most recent calendar year used to determine the VRS COLA is subtracted from the most recent average annual CPI-U to arrive at the index point change.
2. The index point change is divided by the CPI-U for the most recent calendar year in which a COLA was paid.
3. The result is multiplied by 100 to convert it to a percentage.

Under Plan 1, the COLA matches the first 3.00% increase in the CPI-U and half the remaining increase, not to exceed a maximum COLA of 5.00%. Under Plan 2, the COLA matches the first 2.00% increase in the CPI-U and half the remaining increase, not to exceed a maximum COLA of 6.00%.

Refunds and Deferred Membership

1. Refunds. Vested members under Plan 1 and Plan 2 who leave or are involuntarily separated from employment for causes other than job performance or misconduct are eligible for a full refund of their member contribution account balance. Non-vested members are eligible for a refund of the balance, excluding any employer-paid member contributions made to their accounts after July 1, 2010 and the interest on these contributions. Taking a refund cancels membership and eligibility for any future benefits under the retirement plans. Plan 1 members who take a refund and return to covered employment on or after July 1, 2010 are rehired under Plan 2. They are eligible to purchase their VRS refunded service as credit in Plan 2.

2. Deferred membership. Members separating from employment have the option to leave their funds with VRS and become deferred members. If they are vested or involuntarily separated from employment, they may be eligible for a future retirement benefit if they meet the age and service requirements for their plan. The benefit is calculated based on the member's service credit and average final compensation at the time of separation. Upon the member's death, the member's beneficiary receives a lump-sum payment of any remaining member contributions and interest. If the member retires and elects the Survivor Option, a lifetime monthly benefit is paid to the survivor upon the member's death.

Deferred members remain eligible to receive a full or partial refund of their member contributions and interest, depending on whether or not they are vested. If a deferred member returns to covered employment, member contributions and the service credit the member earns upon reemployment are added to the member's record.

Death-in-Service Benefit

If a member dies while in active service, his or her named beneficiary or spouse, natural or legally adopted 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 CAUSE OF DEATH

If the member dies from a non-work related cause, the member's named beneficiary will be eligible for a refund of any funds remaining in the member's contribution account. If the member is vested at the time of death and his or her spouse, natural or legally adopted minor child or parent is one of the member's named beneficiaries or is the beneficiary based on order of precedence, he or she will be eligible for a refund or a monthly benefit to the exclusion of all other primary beneficiaries. Any benefits minor children receive will end when they reach age 18. If the member is not vested at the time of death, his or her spouse, natural or legally adopted minor child or parent will be eligible for a refund only, which will be shared with any other primary beneficiaries the member has designated, if applicable.

The monthly non-work related benefit is a lifetime monthly annuity based on the 100% Survivor Option. Members covered under Plan 1 who die before age 55 are assumed to be age 55 at the time of death for the purpose of calculating the benefit. The calculation for members covered under Plan 2 uses age 60. The calculation for Plan 1 and Plan 2 members of SPORS and VaLORS and members of VRS who are eligible for enhanced hazardous duty coverage uses age 50.

WORK-RELATED CAUSE OF DEATH

If the member dies from a work-related cause, the member's named beneficiary will be eligible for a lump-sum payment of any funds remaining in the member's contribution account. In addition, the member's spouse, natural or legally adopted minor child or parent will be eligible for a monthly benefit, whether or not this individual is a named beneficiary.

The monthly work-related benefit is a lifetime monthly annuity based on 33⅓% of the member's average final compensation if the spouse, minor child or parent qualifies for Social Security survivor benefits, or 50% of the member's average final compensation if the spouse, minor child or parent does not qualify for Social Security survivor benefits. The benefit is then adjusted by any workers' compensation survivor 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 cognitive disability that prevents them from performing their job and is likely to be permanent. Members covered under Plan 1 and Plan 2 who retire 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 either (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. The payout options available to members retiring on disability are the Basic Benefit and Survivor Option.

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 if they suffer a non-work related or work-related illness or injury. Enrollment in VSDP is automatic upon employment. State employees hired before January 1, 1999 had the option to elect VSDP or retain their eligibility to be considered for disability retirement. Employees enrolled in VSDP are not eligible to retire on disability. Additional information about VSDP is provided in the "Summary of Other Post-Employment Benefit (OPEB) Plan Provisions" in the next discussion on OPEBs. 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.

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.

2010 VALUATION – No actuarially material changes are made to the plan provisions. There are two changes of note:

1. For the June 30, 2010 valuation, the application of the 80% to 120% market value-of-assets corridor on the actuarial value of assets is reinstated.

2. The Board reduces the investment rate-of-return assumption from 7.50% to 7.00%.

Actuary's Certification Letter – OPEB Plans

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

October 31, 2011

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

Dear Trustees:

Governmental Accounting Standards Board (GASB) Statements No. 43 and 45 require actuarial valuations of retiree medical and other post-employment benefit (OPEB) plans. We are pleased to submit the results of the annual actuarial valuation of the Virginia Retirement System (VRS) Group Life Insurance Program, the Retiree Health Insurance Program and the Virginia Sickness and Disability Program (VSDP) prepared as of June 30, 2010. While not verifying the data at source, the actuary performed tests for consistency and reasonability.

Group Life Insurance Program. This valuation covers only the portion of the Group Life Insurance Program that provides benefits for current and future retirees. This valuation does not value the Plan's benefits for members who die while an active employee. Active death benefits are covered under a group life insurance arrangement. The valuation indicates that the Annual Required Contribution (ARC) under GASB Statements No. 43 and 45 is 0.94% of active payroll. Adjusted to include the costs for deaths in active service, the total for the Plan is 1.27% of active payroll. Contribution rates for VRS employers are established every two years. Contribution rates for FY 2011 and FY 2012 are based on the prior valuation as of June 30, 2009. The actuarially calculated employer contribution rates based on the current valuation are for information purposes only.

Retiree Health Insurance Credit Program. The valuation indicates that the Annual Required Contribution (ARC) under GASB Statements No. 43 and 45 is 1.14% of active payroll for State Employees, including State Police (SPORS), Judicial Employees (JRS), Virginia Law Officers (VaLORS), Optional Retirement Plan (ORP) participants and the University of Virginia; 1.18% of active teachers' payroll; and varying percentages of active payroll for employees of political subdivisions that have elected to provide this benefit. Contribution rates for VRS employers are established every two years. Contribution rates for FY 2011 and FY 2012 are based on the prior valuation as of June 30, 2009. The actuarially calculated employer contribution rates based on the current valuation are for information purposes only.

Virginia Sickness and Disability Program. The valuation indicates that the Annual Required Contribution (ARC) under GASB Statements No. 43 and 45 is 0.72% of active payroll for members covered by VSDP. Contribution rates for VRS employers are established every two years. Contribution rates for FY 2011 and FY 2012 are based on the prior valuation as of June 30, 2009. The actuarially calculated employer contribution rates based on the current valuation are for information purposes only.

The promised post-employment death benefit under the Group Life Insurance Program and the health care benefits under the Retiree Health Insurance Credit Program of VRS are included in the actuarially calculated contribution rates, which are developed using the entry age normal actuarial cost method with projected benefits. The promised long-term disability benefits of VSDP are included in the actuarially calculated contribution rates, which are developed using the projected unit credit actuarial cost method with projected benefits. Five-year smoothed market value of assets is used for actuarial valuation purposes for the Group Life Insurance Program and the Retiree Health Insurance Credit Program. The actual market value of assets is used to actuarial valuation purposes for VSDP. GASB requires that 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, 2010, each of the plans had assets in trust solely to provide benefits to retirees and beneficiaries. Therefore, the discount rate has been set at 7.00%. The unfunded accrued liability is being amortized by regular annual contributions as a level percentage of payroll within a 26-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 each of the Plans and to reasonable expectations of anticipated experience under each of the Plans and meet the parameters for the disclosures under GASB 43 and 45.

The valuations reflect a change in the assumed annual rate of return from 7.50% to 7.00% adopted by the Board of Trustees of VRS. Additionally, the valuations take into account a change requiring one year of service to be eligible for non-service related disability benefits for those State, SPORS and VaLORS employees participating in the Virginia Sickness and Disability Program (VSDP) and hired or rehired on or after July 1, 2009. For the June 30, 2010 VSDP valuation, annual salaries consist of only those State, SPORS and VaLORS employees participating in VSDP. The annual salaries disclosed under prior VSDP valuations consist of all State, SPORS and VaLORS employees within VRS, including those employees hired before January 1, 1999, who did not elect VSDP during one of two open enrollment periods offered in 1999 and 2002.

The liability associated with long-term care (LTC) benefits was calculated by Milliman. 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 2010 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 2011 Comprehensive Annual Financial Report:

- 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 for public retirement systems; that the valuations were 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 individual plans and on actuarial assumptions that are internally consistent and reasonably based on the actuarial experience of the System and the individual Plans.

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.

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

October 31, 2011

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

Dear Trustees:

As requested, Cavanaugh Macdonald Consulting, LLC (CMC) has reviewed the Commonwealth of Virginia's Line of Duty Act Program (LODA Program), defined by §9.1-400 of the Code of Virginia (the Code), in order to provide cost estimates for those LODA Program benefits to be funded by the Line of Duty Act Fund (LODA Fund) established in accordance with the 2010 Appropriations Act (the Act). The cost estimates presented in this report are for illustration purposes only based on available information. Along with preliminary estimates for eligible employees, commentary is provided regarding the various aspects of developing the cost structure for LODA Program benefits to be financed though the LODA Fund (the Plan). Key elements needed in order to develop a complete rate structure include:

- Complete identification of all participating employers and their employees covered by the Plan.
- Experience data for retirement, terminations, disabilities and pre-/post-decrement mortality for all participants covered by the Plan.

CMC has relied on the plan provisions and eligibility provisions provided by the Code and the Act. Additionally, CMC has received active participant data from the Virginia Retirement System (VRS) and inactive data provided by the Commonwealth of Virginia's Department of Accounts (DOA). CMC has reviewed the data for reasonableness only, and has not performed a formal audit of the data used for this valuation. Because the census data was collected from a wide range of sources with varying and, at times, limited content, the data is incomplete. Adjustments have been made to account for this incompleteness and the results provided on an average, per Full-Time Employee (FTE) basis.

The results are provided for two individual segments of the total covered population: State Employees and Political Subdivision Employees. State Employees include State employees, Virginia Law Officers (VaLORS), State Police (SPORS), Department of Motor Vehicles (DMV) employees and National Guard. Political Subdivision Employees include Emergency Medical Technicians (EMT), Fire-EMT personnel and employees performing hazardous duties in political subdivisions within VRS, as well as the City of Richmond, Arlington County, the City of Charlottesville, the City of Danville, the City of Norfolk, the Town of Farmville and Fairfax County. The results of each segment are based upon unique demographic characteristics and cost basis of each individual segment. Valuation results also are shown as an Aggregated Total, which provides results assuming a blended, single group cost basis. In using a single group cost basis, the results provided for the Aggregated Total will not equal the sum of the two individual segments.

The valuation estimates the annual FTE contribution for the fiscal year 2012 to be $246.26 for State Employees, $232.91 for Political Subdivision Employees and $233.89 for the Aggregated Total. The contribution rates that assume 13,960 full-time State Employees, 61,040 full-time Political Subdivision Employees and an Aggregated Total of 75,000 full-time employees will be covered by the Plan. The contribution rates represent, in total, the estimated cost of providing benefits payable in the fiscal year 2012; administrative expenses; the cost of benefits incurred and reported to the administrator but awaiting processing; and the first of five installments to repay the LODA Program's costs incurred during fiscal year 2011. Political Subdivision employer groups may elect to opt out of the Plan and elect to self-fund benefits paid under the LODA Program. A reduction in the Plan's participation level below 75,000 covered FTEs may result in higher FTE allocations for the Plan's fixed costs (e.g., expenses and payments to current beneficiaries). Conversely, plan participation in excess of 75,000 FTEs may result in lower per FTE allocations for the Plan's fixed costs. Political Subdivision employer groups have the option to make an election to participate in the Plan for the fiscal year 2012, and must make an irrevocable choice by June 20, 2012.

The results provided do not account for the potential, long-term incurred but not reported claims resulting from a lack of employer or beneficiary education about the Plan's benefits. The potential cost and liability for these claims may be considerable. A margin for these costs may need to be considered. Additionally, the State Comptroller may want to consider this potential risk in regard to its authority to waive the five-year statute of limitation on claims.

The promised death benefits and post-employment health care benefits provided through the Plan are included in all of the actuarially estimated contribution rates. If the Plan is established as a cost-sharing, multiple-employer plan, the liability for the Plan is developed and reported, as a whole, under the requirements of GASB Statement No. 43. The measurement of the cost-sharing employers' OPEB expense and liabilities under GASB Statement No. 45 is based upon the employers' contractually required contributions to the Plan. The actuarially estimated contribution rates based upon the requirements of GASB 43 were developed using the projected unit credit cost method with projected benefits. As the Act requires contributions to be determined on a current disbursement basis, the Plan has no assets in trust solely to provide benefits, and GASB 43 requires that the discount rate used to value a plan be based on the likely return of the assets held in trust to pay benefits, the GASB 43 valuation estimates provided in this report reflect a discount rate of 4.75%. The assumed annual rate of return of 4.75% is assumed to be consistent with the long-term rate of return for Virginia's Local Government Investment Pool (LGIP). The unfunded accrued liability is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase by 3.00% annually.

As Government Account Standards Board Statements No. 43 and 45 require the actuarial valuation of retiree medical and other post-employment benefit (OPEB) plans, CMC recommends that, for accounting purposes, a formal actuarial valuation of the Plan be prepared as of June 30, 2011, when detailed data is available.

The following schedules (or updates to them) were prepared by VRS from information prepared by us during the 2010 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 2011 Comprehensive Annual Financial Report:

- 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 for 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 Plan and on actuarial assumptions that are internally consistent and reasonably based on the actuarial experience of the VRS. The aggregate assumptions recommended by the actuary are reasonably related to the experience under the Plan and are reasonable expectations of anticipated experience under the Plan.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: potential variance in the number and/or type of covered lives; the number and type of employer groups electing to participate in the Plan; 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.

Respectfully submitted,

Eric Gary

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 plan provisions and changes.

Summary of Actuarial Assumptions and Methods

At its meeting on June 17, 2010, the Board reduced the assumption for the investment rate of return from 7.50% to 7.00%. These assumptions include the Group Life Insurance Program, the Retiree Health Insurance Credit Program, the Virginia Sickness and Disability Program and the Line of Duty Act Program. They were based on an analysis of VRS pension plan experience for the four-year period July 1, 2004 through June 30, 2008 and, along with the subsequent change in the assumption for the investment rate of return, were used for the June 30, 2010 actuarial valuations.

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

FOR THE JUNE 30, 2010 ACTUARIAL VALUATION

Actuarial Assumptions and Methods	Group Life Insurance Program	Retiree Health Insurance Credit Program	Virginia Sickness and Disability Program	Line of Duty Act Program
Valuation Interest Rate	7.00%	7.00%	7.00%	4.75%
Salary Scale Inflation Factor	2.50%	2.50%	2.50%	2.50%
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Funding Period	26 Years	26 Years	26 Years	30 Years
Payroll Growth Rate	3.00%	3.00%	3.00%	3.00%
Assets Valuation Method – State and Teacher	5-Year Smoothed Market	5-Year Smoothed Market	Market Value	Market Value
Assets Valuation Method – Political Subdivisions	5-Year Smoothed Market	Market Value	N/A	Market Value

FIGURE 4.7 – RETIREMENT RATES-OPEB PLANS

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

State Employees

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	3.00%	3.20%	10.00%	10.00%
55	5.00%	5.00%	10.00%	10.00%
59	5.00%	5.50%	10.00%	10.00%
60	5.00%	5.50%	10.00%	15.00%
61	10.00%	10.00%	15.00%	20.00%
62	15.00%	15.00%	25.00%	30.00%
64	15.00%	15.00%	20.00%	20.00%
65	40.00%	40.00%	30.00%	40.00%
67	40.00%	40.00%	25.00%	25.00%
> = 70	100.00%	100.00%	100.00%	100.00%

FIGURE 4.7 – RETIREMENT RATES-OPEB PLANS, continued

Teachers

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	2.00%	2.00%	17.50%	15.00%
55	5.70%	6.10%	22.50%	22.50%
59	7.00%	7.50%	22.50%	22.50%
60	7.50%	8.50%	22.50%	22.50%
61	11.00%	12.00%	30.00%	30.00%
62	17.00%	17.00%	35.00%	40.00%
64	18.00%	16.50%	30.00%	25.00%
65	40.00%	40.00%	40.00%	40.00%
67	40.00%	40.00%	20.00%	30.00%
> = 70	100.00%	100.00%	100.00%	100.00%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	3.50%	3.50%	13.00%	15.60%
55	5.00%	5.00%	11.50%	14.30%
59	4.50%	6.00%	13.50%	13.40%
60	6.00%	7.50%	17.00%	12.80%
61	10.50%	10.00%	19.00%	17.70%
62	17.50%	15.50%	31.00%	28.00%
64	16.50%	17.00%	29.00%	18.30%
65	40.00%	40.00%	41.00%	29.60%
67	40.00%	40.00%	24.00%	33.20%
> = 70	100.00%	100.00%	100.00%	100.00%

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

	Retirement with Less Than 30 Years of Service Credit		Retirement with 30 or More Years of Service Credit	
Age	Male	Female	Male	Female
50	5.00%	4.00%	9.00%	8.00%
55	5.00%	5.50%	14.00%	11.50%
59	6.00%	5.00%	11.00%	11.50%
60	6.00%	7.50%	11.00%	13.00%
61	10.00%	7.50%	25.00%	17.50%
62	17.00%	17.00%	35.00%	25.00%
64	15.00%	13.00%	27.00%	17.50%
65	40.00%	40.00%	33.00%	40.00%
67	40.00%	40.00%	20.00%	25.00%
> = 70	100.00%	100.00%	100.00%	100.00%

FIGURE 4.7 – RETIREMENT RATES-OPEB PLANS, *continued*

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

Age	Reduced Retirement	Unreduced Retirement
50	9.00%	25.00%
55	8.50%	18.00%
59	13.50%	31.50%
60	20.00%	35.00%
> = 65	100.00%	100.00%

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

Age	Reduced Retirement	Unreduced Retirement
50	8.50%	25.00%
55	8.50%	17.50%
59	11.50%	28.50%
60	20.00%	35.00%
> = 65	100.00%	100.00%

State Police Officers

Age	Reduced Retirement	Unreduced Retirement
50	10.00%	15.00%
55	10.00%	15.00%
59	12.00%	20.00%
60	25.00%	40.00%
> = 64	100.00%	100.00%

Virginia Law Officers

Age	Reduced Retirement	Unreduced Retirement
50	9.20%	25.00%
55	9.50%	20.00%
59	12.00%	25.00%
60	20.00%	40.00%
> = 65	100.00%	100.00%

Judges

	Service Multiplier = 2.5 Years of Service			Service Multiplier = 3.5 Years of Service		
Age	2-11	12	> =13	1-8	9	> =10
60	0.00%	50.00%	50.00%	0.00%	50.00%	50.00%
65	50.00%	15.00%	15.00%	50.00%	50.00%	15.00%
69	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
> = 70	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

FIGURE 4.8 – DISABILITY RATES-OPEB PLANS

As shown below for selected ages.

State Employees

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

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.

Age	Male	Female
20	0.0000%	0.0000%
30	0.0200%	0.0200%
40	0.0300%	0.0600%
50	0.2000%	0.1500%
60	0.4700%	0.4000%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

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

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.

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%

FIGURE 4.8 – DISABILITY RATES-OPEB PLANS, continued

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

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

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.

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.

Age	Rate
20	0.0000%
30	0.0300%
40	0.2100%
50	0.6800%
60	0.0000%

Virginia Law Officers

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

Age	Rate
20	0.0000%
30	0.0300%
40	0.1800%
50	0.4700%
60	0.6200%

FIGURE 4.8 – DISABILITY RATES-OPEB PLANS, continued

Judges

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

Age	Male	Female
20	0.0000%	0.0000%
30	0.0100%	0.0100%
40	0.1400%	0.0900%
50	0.4800%	0.4000%
60	0.0000%	0.0000%

FIGURE 4.9 – 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

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	22.00%	13.00%	0.00%	25.50%	16.00%	0.00%
35	17.00%	9.50%	4.50%	19.00%	11.50%	5.00%
45	14.00%	7.50%	2.30%	14.00%	7.50%	2.50%
55	10.00%	5.50%	0.00%	12.00%	6.00%	0.00%
65	12.00%	13.00%	0.00%	13.00%	17.00%	0.00%

Teachers

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	15.00%	13.00%	0.80%	14.00%	12.50%	15.00%
35	14.00%	7.00%	3.20%	15.00%	9.70%	4.00%
45	15.00%	8.00%	1.90%	11.50%	6.30%	2.00%
55	14.00%	7.00%	0.00%	12.50%	5.70%	0.00%
65	17.00%	8.25%	0.00%	13.00%	8.00%	0.00%

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	21.80%	13.70%	0.00%	23.30%	16.70%	0.00%
35	17.20%	9.70%	5.80%	18.60%	10.60%	5.10%
45	14.30%	7.10%	2.90%	14.80%	7.70%	2.80%
55	10.90%	5.30%	0.70%	11.90%	6.30%	0.00%
65	13.60%	8.20%	0.00%	12.60%	8.20%	0.00%

FIGURE 4.9 – TERMINATION RATES-OPEB PLANS, continued

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

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	23.50%	14.00%	0.00%	25.50%	16.50%	0.00%
35	18.50%	10.50%	5.50%	19.00%	11.50%	6.00%
45	15.50%	8.00%	3.00%	15.00%	8.00%	3.50%
55	12.00%	6.50%	1.00%	12.50%	6.50%	0.00%
65	12.00%	8.00%	0.00%	13.00%	9.00%	0.00%

Political Subdivision Employees Receiving Enhanced Hazardous Duty Benefits – 10 Largest Employers

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	7.80%	6.80%	0.00%	7.80%	6.80%	0.00%
35	8.00%	4.40%	2.40%	8.00%	4.40%	2.40%
45	9.20%	4.60%	1.50%	9.20%	4.60%	1.50%
55	8.30%	6.30%	0.00%	8.30%	6.30%	0.00%
65	8.70%	6.50%	0.00%	8.70%	6.50%	0.00%

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

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	10.70%	8.30%	0.00%	10.70%	8.30%	0.00%
35	10.90%	6.30%	3.30%	10.90%	6.30%	3.30%
45	8.70%	5.20%	1.80%	8.70%	5.20%	1.80%
55	10.90%	6.30%	0.50%	10.90%	6.30%	0.50%
60	8.20%	7.70%	0.50%	8.20%	7.70%	0.50%

State Police Officers

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	7.50%	5.50%	3.00%	14.15%	8.85%	4.38%
35	7.50%	4.80%	2.40%	14.50%	7.29%	6.08%
45	10.00%	4.50%	1.40%	11.73%	7.92%	5.91%
55	10.00%	6.71%	1.20%	6.08%	10.64%	4.11%
65	10.00%	7.47%	1.20%	0.51%	15.42%	0.62%

FIGURE 4.9 – TERMINATION RATES-OPEB PLANS, continued

Virginia Law Officers

	Years of Service Credit – Males			Years of Service Credit – Females		
Age	0-2	3-9	10+	0-2	3-9	10+
25	20.00%	15.00%	5.00%	20.00%	15.00%	7.50%
35	20.00%	12.50%	5.00%	20.00%	12.50%	7.50%
45	15.00%	10.50%	4.00%	17.50%	8.00%	5.90%
55	12.00%	6.50%	4.00%	10.00%	12.00%	6.00%
65	15.00%	7.00%	4.00%	10.00%	10.00%	6.00%

Judges

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

FIGURE 4.10 – SALARY INCREASE RATES-OPEB PLANS

Sample salary increase rates are shown below. These factors are not applicable to the Line of Duty Act Program since neither the benefit nor the cost is salary based.

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%

FIGURE 4.10 - SALARY INCREASE RATES-OPEB PLANS, *continued*

Political Subdivision Employees Not Receiving Enhanced Hazardous Duty Benefits – 10 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 – 10 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%

FIGURE 4.10 - SALARY INCREASE RATES-OPEB PLANS, continued

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 Program and the state and teacher employer groups for the Retiree Health Insurance Credit Program, 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 political subdivision employer groups for the Retiree Health Insurance Credit Program, VSDP and the Line of Duty Act Program, the actuarial value of assets is equal to the market value of assets.

Actuarial Cost Method. For the Group Life Insurance and Retiree 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 VSDP and the Line of Duty Act Program, 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 26 years closed amortization, computed as a level percent of covered payroll.

Summary of Other Post-Employment Benefit Plan Provisions

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 the Minnesota Life Insurance Company as reimbursement for the payment of life insurance proceeds to the beneficiaries.

An addition to the contribution requirement for the active member benefit provides for the retiree death benefit. The active portion of the contribution is used to purchase group term life insurance from an insurance company; the retired member portion is held in a trust until required for benefit payments. 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

The following employees are covered under the Group Life Insurance Program upon employment:

- Full-time permanent, salaried employees of the Commonwealth of Virginia, including state employees, faculty members of the state's public colleges and universities, state police officers (SPORS), Virginia law officers (VaLORS) and judicial employees (JRS);
- Full-time permanent, salaried teachers and other administrative 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; and
- Employees of 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.

Certain members who were employed at the time of initial coverage under the Group Life Insurance Program had the option to decline coverage.

ACTIVE MEMBER BENEFIT

Active members are covered for the following benefits:

- Natural death benefit equal to the member's compensation rounded to the next highest thousand and then doubled
- Accidental death benefit, which is double the natural death benefit
- Accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit and an accelerated death benefit option

Covered employees may elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. Optional group life benefits are not included in the valuations of the OPEB plans.

RETIREE BENEFIT

1. Service Retirement. A death benefit equal to the active member's natural death benefit and the accelerated death benefit option continue for retirees and for deferred members who have met the eligibility requirements for retirement upon leaving employment. Coverage begins to reduce by 25% on the January 1 following one calendar year of retirement and by 25% each January 1 thereafter, until it reaches 25% of its original value.

2. Disability Retirement. The benefits available to disability retirees are the same as those for service retirees, except that the first 25% annual reduction begins on the January 1 following one calendar year from the retiree's 65th birthday or his or her retirement date, whichever is later.

Retiree 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 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 qualified health insurance premiums retirees pay for single coverage. The credit cannot exceed the amount of the premium and ends upon the retiree's death.

If a member has worked for more than one employer under VRS, SPORS, VaLORS or JRS, for the purpose of this valuation, the most current (or last) employer assumes the full liability for that employee.

CREDIT AMOUNTS

The dollar amounts vary depending on the employee type, as shown in the following table:

Health Insurance Credit Dollar Amounts at Retirement

ELIGIBLE EMPLOYEES	Amount per Year of Service	Maximum Credit per Month
State employees	$ 4.00	No Cap
Teachers and other administrative school employees	$ 4.00	No Cap
General registrars and their employees, constitutional officers and their employees and local social service employees	$ 1.50	$45.00
General registrars and their employees, constitutional officers and their employees and local social service employees, if the political subdivision elects the $1.00 enhancement	$ 2.50	$75.00
Other political subdivision employees as elected by the employer	$ 1.50	$45.00

Virginia Sickness and Disability Program (VSDP)

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

- Full-time permanent, salaried employees of the Commonwealth of Virginia (VRS) and part-time permanent, salaried state employees who work at least 20 hours a week;

- Public college and university faculty members who elect to participate in VRS instead of an optional retirement plan. These faculty members can elect VSDP or a disability plan offered by their institution;
- Full-time permanent, salaried state police officers (SPORS); and
- Full-time permanent, salaried Virginia law officers other than state police (VaLORS).

State employees hired before January 1, 1999 had the option to elect VSDP or retain their eligibility to be considered for disability retirement.

SHORT-TERM AND LONG-TERM DISABILITY BENEFITS

VSDP coverage provides short-term and long-term disability benefits for non-work related and work-related illnesses and injuries. Eligible members who become disabled receive short-term disability benefits for up to 125 workdays, following a seven-calendar day waiting period from the first day of disability. Members who are still disabled after 125 workdays are evaluated for long-term disability. Members hired or rehired on or after July 1, 2009 must satisfy eligibility periods for non-work related disability coverage and certain income replacement levels.

The long-term disability benefit provides income replacement equal to 60% of the member's pre-disability income. While members are on long-term disability, they are not considered employees of the Commonwealth of Virginia. Members who can work at least 20 hours a week but cannot perform their full duties may be eligible for long-term disability benefits while working. They must have returned to work with modified duties while on short-term disability.

The long-term disability benefit is adjusted by any salary, wages, workers' compensation benefits or other disability payments the member receives for the same condition. If a member's condition becomes catastrophic, income replacement will increase to 80% of pre-disability income for as long as the condition is considered catastrophic. 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.

Long-term disability benefits end if the member can perform the full duties of his or her pre-disability position without any restrictions during the first 24 months of disability; can 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; takes a refund of his or her member contributions and interest; does not cooperate or comply with the requirements of VSDP; or begins receiving a VRS service retirement benefit. Benefits also end in the event of the member's death.

Line of Duty Act 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

Members of SPORS and VaLORS as well as members of VRS who are eligible for enhanced hazardous duty coverage are covered under the Line of Duty Act. Paid employees and volunteers in hazardous duty positions in all VRS-participating and non-VRS participating localities also are covered under the act.

BENEFITS

Coverage provides death and health insurance benefits, which are administered by the Virginia Department of Accounts (DOA). The System is responsible for managing the assets of the Line of Duty Act Fund.

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 Retiree Health Insurance Credit Program.

2010 VALUATION

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

1. For the June 30, 2010 valuation, the application of the 80% to 120% market value-of-assets corridor on the actuarial value of assets is reinstated.

2. The Board reduces the investment rate-of-return assumption for the Group Life Insurance Program, the Retiree Health Insurance Credit Program and the Virginia Sickness and Disability Program (VSDP) from 7.50% to 7.00%.

5 statistical section

building blocks

2011

For many members, the VRS benefit and Social Security will not provide enough income to live comfortably in retirement. VRS has been enhancing member resources and tools and encouraging tax-deferred savings over the last several years to help members take responsibility for their future security, too.

for a secure future

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 information regarding retirees and an analysis of funding, enrollment and investment activity related to the Commonwealth's 457 and Cash Match Plans. 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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Assets Available– Beginning of Year	**$ 36,693**	**$ 33,456**	**$ 33,781**	**$ 39,039**	**$ 43,060**	**$ 47,627**	**$ 56,890**	**$ 53,600**	**$ 41,348**	**$ 46,287**
Funding:										
Member and Employer Contributions and Other Additions	1,044	1,042	1,185	1,468	1,567	1,944	2,148	2,097	1,862	1,549
Benefits and Administrative Expenses and Transfers	(1,529)	(1,687)	(1,865)	(2,049)	(2,214)	(2,434)	(2,665)	(2,857)	(3,157)	(3,397)
Net Funding	(485)	(645)	(680)	(581)	(647)	(490)	(517)	(760)	(1,295)	(1,848)
Investment Income:										
Interest, Dividends and Other Investment Income	624	569	461	667	823	1,157	983	762	775	1,031
Net Appreciation (Depreciation) in Fair Value	(3,376)	401	5,477	3,935	4,391	8,596	(3,756)	(12,254)	5,459	7,681
Net Investment Income	(2,752)	970	5,938	4,602	5,214	9,753	(2,773)	(11,492)	6,234	8,712
Net Increase (Decrease)	**(3,237)**	**325**	**5,258**	**4,021**	**4,567**	**9,263**	**(3,290)**	**(12,252)**	**4,939**	**6,864**
Net Assets Available– End of Year	**$ 33,456**	**$ 33,781**	**$ 39,039**	**$ 43,060**	**$ 47,627**	**$ 56,890**	**$ 53,600**	**$ 41,348**	**$ 46,287**	**$ 53,151**

FIGURE 5.2 – NUMBER OF ACTIVE MEMBERS

AT JUNE 30 (EXPRESSED IN THOUSANDS)

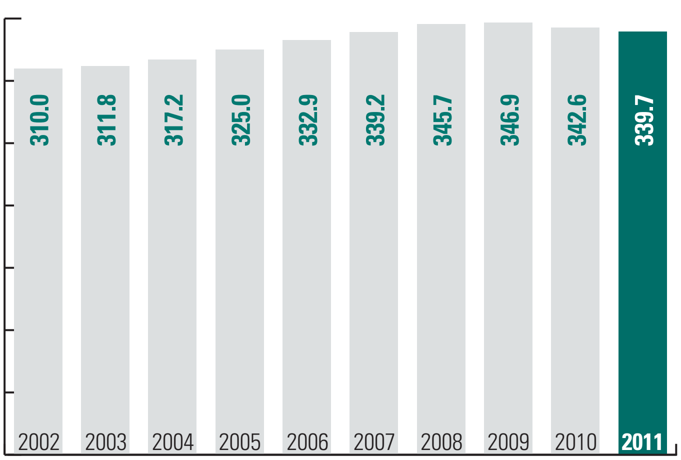


FIGURE 5.3 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS BY PENSION TRUST FUND

FOR THE YEARS ENDED JUNE 30

VIRGINIA RETIREMENT SYSTEM PENSION TRUST FUND

(EXPRESSED IN MILLIONS)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Assets Available–Beginning of Year	**$ 35,620**	**$ 32,448**	**$ 32,727**	**$ 37,784**	**$ 41,640**	**$ 46,021**	**$ 54,948**	**$ 51,743**	**$ 39,890**	**$ 44,646**
Funding:										
Member and Employer Contributions and Other Additions	974	965	1,097	1,366	1,459	1,834	2,022	1,979	1,765	1,482
Benefits and Administrative Expenses and Transfers	(1,478)	(1,621)	(1,791)	(1,963)	(2,121)	(2,333)	(2,550)	(2,735)	(3,024)	(3,254)
Net Funding	(504)	(656)	(694)	(597)	(662)	(499)	(528)	(756)	(1,259)	(1,772)
Investment Income:										
Interest, Dividends and Other Investment Income	604	547	446	645	796	1,118	948	736	748	995
Net Appreciation (Depreciation) in Fair Value	(3,272)	388	5,305	3,808	4,247	8,308	(3,625)	(11,833)	5,267	7,411
Net Investment Income	(2,668)	935	5,751	4,453	5,043	9,426	(2,677)	(11,097)	6,015	8,406
Net Increase (Decrease)	**(3,172)**	**279**	**5,057**	**3,856**	**4,381**	**8,927**	**(3,205)**	**(11,853)**	**4,756**	**6,634**
Net Assets Available–End of Year	**$ 32,448**	**$ 32,727**	**$ 37,784**	**$ 41,640**	**$ 46,021**	**$ 54,948**	**$ 51,743**	**$ 39,890**	**$ 44,646**	**$ 51,280**

STATE POLICE OFFICERS' RETIREMENT SYSTEM PENSION TRUST FUND

(EXPRESSED IN MILLIONS)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Assets Available–Beginning of Year	**$ 464**	**$ 423**	**$ 424**	**$ 486**	**$ 530**	**$ 581**	**$ 684**	**$ 636**	**$ 484**	**$ 534**
Funding:										
Member and Employer Contributions and Other Additions	15	13	15	19	20	21	26	25	21	13
Benefits and Administrative Expenses and Transfers	(21)	(24)	(27)	(32)	(33)	(35)	(41)	(41)	(43)	(47)
Net Funding	(6)	(11)	(12)	(13)	(13)	(14)	(15)	(16)	(22)	(34)
Investment Income:										
Interest, Dividends and Other Investment Income	8	7	6	9	10	14	12	9	9	12
Net Appreciation (Depreciation) in Fair Value	(43)	5	68	48	54	103	(45)	(145)	63	87
Net Investment Income	(35)	12	74	57	64	117	(33)	(136)	72	99
Net Increase (Decrease)	**(41)**	**1**	**62**	**44**	**51**	**103**	**(48)**	**(152)**	**50**	**65**
Net Assets Available–End of Year	**$ 423**	**$ 424**	**$ 486**	**$ 530**	**$ 581**	**$ 684**	**$ 636**	**$ 484**	**$ 534**	**$ 599**

VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM PENSION TRUST FUND

(EXPRESSED IN MILLIONS)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Assets Available– Beginning of Year	**$ 350**	**$ 350**	**$ 395**	**$ 498**	**$ 593**	**$ 700**	**$ 868**	**$ 853**	**$ 691**	**$ 792**
Funding:										
Member and Employer Contributions and Other Additions	43	51	56	66	69	64	74	69	56	35
Benefits and Administrative Expenses and Transfers	(12)	(19)	(24)	(30)	(34)	(40)	(45)	(50)	(58)	(64)
Net Funding	31	32	32	36	35	24	29	19	(2)	(29)
Investment Income:										
Interest, Dividends and Other Investment Income	7	8	6	8	11	17	16	12	12	18
Net Appreciation (Depreciation) in Fair Value	(38)	5	65	51	61	127	(60)	(193)	91	130
Net Investment Income	(31)	13	71	59	72	144	(44)	(181)	103	148
Net Increase (Decrease)	**-**	**45**	**103**	**95**	**107**	**168**	**(15)**	**(162)**	**101**	**119**
Net Assets Available– End of Year	**$ 350**	**$ 395**	**$ 498**	**$ 593**	**$ 700**	**$ 868**	**$ 853**	**$ 691**	**$ 792**	**$ 911**

JUDICIAL RETIREMENT SYSTEM PENSION TRUST FUND

(EXPRESSED IN MILLIONS)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Assets Available– Beginning of Year	**$ 259**	**$ 234**	**$ 235**	**$ 271**	**$ 296**	**$ 326**	**$ 390**	**$ 367**	**$ 284**	**$ 315**
Funding:										
Member and Employer Contributions and Other Additions	13	16	18	18	19	23	25	24	20	20
Benefits and Administrative Expenses and Transfers	(19)	(22)	(23)	(24)	(24)	(25)	(29)	(29)	(31)	(32)
Net Funding	(6)	(6)	(5)	(6)	(5)	(2)	(4)	(5)	(11)	(12)
Investment Income:										
Interest, Dividends and Other Investment Income	4	4	3	4	5	8	7	5	5	7
Net Appreciation (Depreciation) in Fair Value	(23)	3	38	27	30	58	(26)	(83)	37	51
Net Investment Income	(19)	7	41	31	35	66	(19)	(78)	42	58
Net Increase (Decrease)	**(25)**	**1**	**36**	**25**	**30**	**64**	**(23)**	**(83)**	**31**	**46**
Net Assets Available– End of Year	**$ 234**	**$ 235**	**$ 271**	**$ 296**	**$ 326**	**$ 390**	**$ 367**	**$ 284**	**$ 315**	**$ 361**

SCHEDULE OF RETIREMENT CONTRIBUTIONS BY SYSTEM

FISCAL YEARS 2002-2011 (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
2011***	$ 252,110	$ 622,904	$ 605,908	$ 1,480,922	$ 12,343	$ 34,423	$ 20,338	$ 1,548,026
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

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.

***The General Assembly suspended employer contributions for all state employees, 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 funded contribution rates for state employees and teachers significantly below those certified by the Board of Trustees.*

FIGURE 5.4 – NUMBER OF RETIREES AND BENEFICIARIES

AT JUNE 30 (EXPRESSED IN THOUSANDS)

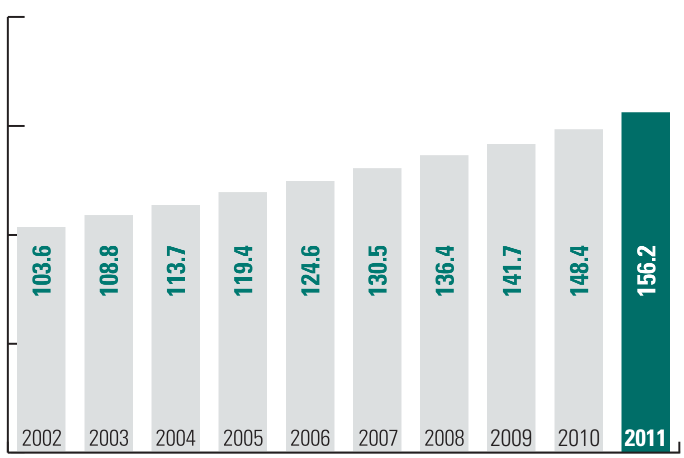
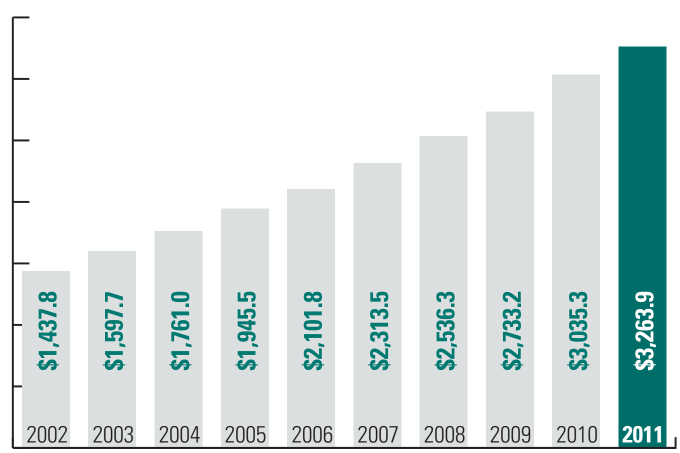


FIGURE 5.5 – RETIREMENT BENEFITS PAID

FISCAL YEARS 2002-2011 (EXPRESSED IN MILLIONS)



SCHEDULE OF PENSION TRUST FUND ADDITIONS BY SOURCE

FISCAL YEARS 2002-2011 (EXPRESSED IN THOUSANDS)

		Employer Contributions				
Year Ended June 30	Member Contributions	For Members	Employer Share	Investment Income (Loss)	Other	Total
Virginia Retirement System (VRS)						
2011	$ 26,529	$ 712,560	$ 741,833	$ 8,405,834	$ 1,290	$ 9,888,046
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)
State Police Officers' Retirement System (SPORS)						
2011	$ 121	$ 4,742	$ 7,480	$ 99,209	$ -	$ 111,552
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)
Virginia Law Officers' Retirement System (VaLORS)						
2011	$ 941	$ 16,102	$ 17,380	$ 147,982	$ 130	$ 182,535
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
Judicial Retirement System (JRS)						
2011	$ 32	$ 3,003	$ 17,303	$ 58,587	$ -	$ 78,925
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)

SCHEDULE OF PENSION TRUST FUND DEDUCTIONS BY TYPE

FISCAL YEARS 2002-2011

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Retirement Benefits	Refunds	Administrative Expenses	Other	Total
Virginia Retirement System (VRS)					
2011	$ 3,125,772	$ 96,209	$ 25,082	$ 6,464	$ 3,253,527
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
State Police Officers' Retirement System (SPORS)					
2011	$ 46,259	$ 279	$ 222	$ 68	$ 46,828
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
Virginia Law Officers' Retirement System (VaLORS)					
2011	$ 59,749	$ 4,051	$ 395	$ 103	$ 64,298
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
Judicial Retirement System (JRS)					
2011	$ 32,115	$ 5	$ 158	$ 40	$ 32,318
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

SCHEDULE OF RETIREMENT BENEFITS BY SYSTEM

FISCAL YEARS 2002-2011 (EXPRESSED IN THOUSANDS)

Year Ended June 30	Virginia Retirement System State	Teachers	Political Subdivisions	Sub-Total	State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	Total
2011	$ 931,893	$ 1,599,208	$ 594,671	$ 3,125,772	$ 46,259	$ 59,749	$ 32,115	$ 3,263,895
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

SCHEDULE OF RETIREMENT BENEFITS BY TYPE

FISCAL YEARS 2002-2011 (EXPRESSED IN THOUSANDS)

Year Ended June 30	Service Benefits	Disability Benefits	Survivor Benefits	Total
2011	$ 2,948,702	$ 288,951	$ 26,242	$ 3,263,895
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

SCHEDULE OF REFUNDS BY TYPE

FISCAL YEARS 2002-2011 (EXPRESSED IN THOUSANDS)

Year Ended June 30	Separations	Death	Total
2011	$ 87,221	$ 13,323	$ 100,544
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

SCHEDULE OF RETIREES AND BENEFICIARIES BY TYPE OF RETIREMENT

AS OF JUNE 30, 2011

		Type of Retirement								
Min. Guaranteed Benefit Amount	Number of Retirees	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	14,847	12,775	3	-	1	702	600	51	4	711
201-400	19,601	15,563	166	2	-	2,121	467	121	10	1,151
401-600	16,569	12,473	379	24	1	2,466	298	233	24	671
601-800	13,879	10,098	477	53	2	2,161	200	406	20	462
801-1,000	12,017	8,645	618	149	4	1,654	140	416	18	373
1,001-1,200	10,502	7,476	595	337	6	1,331	124	330	14	289
1,201-1,400	8,851	6,310	547	397	16	1,011	79	255	8	228
1,401-1,600	8,257	5,897	486	576	23	761	64	218	9	223
1,601-1,800	7,753	5,549	347	841	31	588	43	165	4	185
1,801-2,000	8,203	5,821	271	1,251	32	485	55	167	1	120
Over 2,000	35,686	27,762	527	5,020	129	1,255	192	494	6	301
Totals	**156,165**	**118,369**	**4,416**	**8,650**	**245**	**14,535**	**2,262**	**2,856**	**118**	**4,714**

SCHEDULE OF RETIREES AND BENEFICIARIES BY PAYOUT OPTION SELECTED

AS OF JUNE 30, 2011

	Payout Option Selected															
Min. Guaranteed Benefit Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
$ 1-200	12,112	42	529	142	821	4	69	4	-	1	684	6	286	68	71	8
201-400	15,597	19	547	244	792	4	822	25	2	26	666	2	611	94	133	17
401-600	12,398	23	451	307	767	11	1,173	46	-	66	503	1	530	95	181	17
601-800	10,005	15	369	333	779	11	978	45	-	80	421	3	540	83	193	24
801-1,000	8,358	3	328	377	793	17	639	30	1	40	415	1	576	85	311	43
1,001-1,200	7,063	1	328	364	669	11	462	21	1	35	255	2	653	95	457	85
1,201-1,400	5,942	2	261	338	443	20	281	12	1	15	193	-	598	90	550	105
1,401-1,600	5,464	1	249	312	314	30	176	4	-	19	146	1	578	107	705	151
1,601-1,800	5,094	-	204	287	176	31	106	3	-	6	108	-	567	131	830	210
1,801-2,000	5,286	-	168	297	126	28	85	3	-	2	85	1	547	127	1,203	245
Over 2,000	19,625	-	576	879	199	175	99	8	-	7	245	3	3,820	1,090	7,508	1,452
Totals	**106,944**	**106**	**4,010**	**3,880**	**5,879**	**342**	**4,890**	**201**	**5**	**297**	**3,721**	**20**	**9,306**	**2,065**	**12,142**	**2,357**

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, 2007 TO JUNE 30, 2011

		Years of Service Credit					
		1-10	11 - 15	16 - 20	21 - 25	26 - 30	Over 30
FY 2011	Average Monthly Benefit	$ 346.15	$ 590.10	$ 923.89	$ 1,364.97	$ 2,058.50	$ 2,791.19
	Number of Active Retirees	1,218	1,196	1,164	1,383	1,637	4,318
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

FIGURE 5.6 – DISTRIBUTION OF RETIREES BY PAYOUT OPTION SELECTED

ALL RETIREES AT JUNE 30, 2011

	Basic Benefit	Survivor Option	PLOP with Basic Benefit	PLOP with Survivor Option	Advance Pension Option	Total
VRS	72.00%	11.00%	8.00%	1.00%	8.00%	100.00%
SPORS	52.00%	32.00%	9.00%	6.00%	1.00%	100.00%
VaLORS	61.00%	19.00%	13.00%	4.00%	3.00%	100.00%
JRS	48.00%	34.00%	7.00%	8.00%	3.00%	100.00%
All Plans	**72.00%**	**11.00%**	**8.00%**	**1.00%**	**8.00%**	**100.00%**

FY 2011 RETIREES

	Basic Benefit	Survivor Option	PLOP with Basic Benefit	PLOP with Survivor Option	Advance Pension Option	Total
VRS	65.00%	11.00%	19.00%	3.00%	2.00%	100.00%
SPORS	41.00%	15.00%	21.00%	23.00%	0.00%	100.00%
VaLORS	57.00%	13.00%	22.00%	6.00%	2.00%	100.00%
JRS	54.00%	13.00%	12.00%	21.00%	0.00%	100.00%
All Plans	**64.00%**	**12.00%**	**19.00%**	**3.00%**	**2.00%**	**100.00%**

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, 2011

	1 - 10 Years	11 - 20 Years	21 - 30 Years	Over 30 Years	Total
VRS	11.00%	24.00%	30.00%	35.00%	100.00%
SPORS	3.00%	4.00%	20.00%	73.00%	100.00%
VaLORS	7.00%	19.00%	54.00%	20.00%	100.00%
JRS	1.00%	2.00%	6.00%	91.00%	100.00%
All Plans	**11.00%**	**24.00%**	**30.00%**	**35.00%**	**100.00%**

FY 2011 RETIREES

	1 - 10 Years	11 - 20 Years	21 - 30 Years	Over 30 Years	Total
VRS	11.00%	22.00%	27.00%	40.00%	100.00%
SPORS	2.00%	2.00%	28.00%	68.00%	100.00%
VaLORS	5.00%	25.00%	48.00%	22.00%	100.00%
JRS	0.00%	0.00%	14.00%	86.00%	100.00%
All Plans	**11.00%**	**22.00%**	**28.00%**	**39.00%**	**100.00%**

FIGURE 5.8 – DISTRIBUTION OF RETIREES BY AGE AT RETIREMENT

ALL RETIREES AT JUNE 30, 2011

	Under Age 55	Age 55-59	Age 60-65	Over Age 65	Total
VRS	17.00%	27.00%	46.00%	10.00%	100.00%
SPORS	48.00%	34.00%	16.00%	2.00%	100.00%
VaLORS	45.00%	26.00%	25.00%	4.00%	100.00%
JRS	2.00%	13.00%	44.00%	41.00%	100.00%
All Plans	**18.00%**	**27.00%**	**45.00%**	**10.00%**	**100.00%**

FY 2011 RETIREES

	Under Age 55	Age 55-59	Age 60-65	Over Age 65	Total
VRS	13.00%	25.00%	45.00%	17.00%	100.00%
SPORS	51.00%	23.00%	22.00%	4.00%	100.00%
VaLORS	41.00%	22.00%	29.00%	8.00%	100.00%
JRS	0.00%	7.00%	29.00%	64.00%	100.00%
All Plans	**14.00%**	**25.00%**	**45.00%**	**16.00%**	**100.00%**

FIGURE 5.9 – DISTRIBUTION OF RETIREES BY AVERAGE FINAL COMPENSATION

ALL RETIREES AT JUNE 30, 2011

	Up to $10,000	$10,001 - 20,000	$20,001 - 30,000	$30,001 - 40,000	$40,001 - 50,000	$50,001 - 70,000	Over $70,000	Total
VRS	8.00%	20.00%	19.00%	16.00%	14.00%	15.00%	8.00%	100.00%
SPORS	4.00%	6.00%	9.00%	15.00%	20.00%	29.00%	17.00%	100.00%
VaLORS	0.00%	0.00%	15.00%	46.00%	26.00%	12.00%	1.00%	100.00%
JRS	4.00%	2.00%	1.00%	5.00%	7.00%	13.00%	68.00%	100.00%
All Plans	**7.00%**	**20.00%**	**19.00%**	**17.00%**	**14.00%**	**15.00%**	**8.00%**	**100.00%**

FY 2011 RETIREES

	Up to $10,000	$10,001 - 20,000	$20,001 - 30,000	$30,001 - 40,000	$40,001 - 50,000	$50,001 - 70,000	Over $70,000	Total
VRS	1.00%	7.00%	11.00%	15.00%	14.00%	31.00%	21.00%	100.00%
SPORS	0.00%	0.00%	0.00%	2.00%	5.00%	24.00%	69.00%	100.00%
VaLORS	0.00%	0.00%	4.00%	46.00%	29.00%	20.00%	1.00%	100.00%
JRS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%
All Plans	**1.00%**	**6.00%**	**11.00%**	**15.00%**	**15.00%**	**31.00%**	**21.00%**	**100.00%**

SCHEDULE OF FUNDING PROGRESS – VRS PENSION PLANS

(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			
2010	$ 14,700,854	$ 19,539,453	$ 4,838,599	75.2%	$ 3,514,396	137.7%
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%)
			VRS - Teachers			
2010	$ 25,447,677	$ 37,088,576	$ 11,640,899	68.6%	$ 7,119,889	163.5%
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%)
			VRS - Political Subdivisions			
2010	$ 12,580,044	$ 16,172,372	$ 3,592,328	77.8%	$ 4,123,505	87.1%
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%)
			VRS - Total			
2010	$ 52,728,575	$ 72,800,401	$ 20,071,826	72.4%	$ 14,757,790	136.0%
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%)

Revised economic and demographic assumptions due to experience study.

Other Employee Benefit Trust Funds

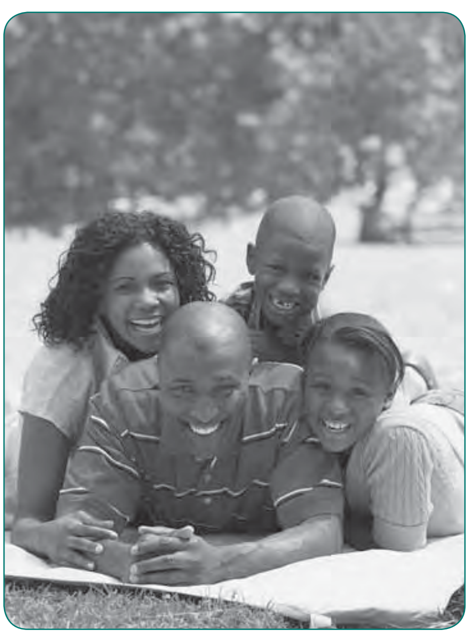
FIGURE 5.10 – ANALYSIS OF CHANGES AND GROWTH IN PLAN NET ASSETS – GROUP LIFE INSURANCE FUND

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	2002*	2003*	2004*	2005*	2006*	2007	2008	2009	2010*	2011
Net Assets Available– Beginning of Year	**$938,119**	**$838,601**	**$751,747**	**$778,464**	**$771,817**	**$751,361**	**$962,328**	**$937,146**	**$713,812**	**$783,058**
Funding:										
Member and Employer Contributions and Other Additions	68,800	44	20	(31)	52	169,824	158,823	135,063	94,860	45,048
Benefits and Administrative Expenses	(96,297)	(105,195)	(107,018)	(98,163)	(112,695)	(119,738)	(133,407)	(153,083)	(139,344)	(146,550)
Net Funding	(27,497)	(105,151)	(106,998)	(98,194)	(112,643)	50,086	25,416	(18,020)	(44,484)	(101,502)
Investment Income:										
Interest, Dividends and Other Investment Income	16,317	10,706	10,366	13,256	14,546	19,078	17,908	13,582	14,128	17,924
Net Appreciation (Depreciation) in Fair Value	(88,338)	7,591	123,349	78,291	77,641	141,803	(68,506)	(218,896)	99,602	133,585
Net Investment Income	(72,021)	18,297	133,715	91,547	92,187	160,881	(50,598)	(205,314)	113,730	151,509
Net Increase (Decrease)	**(99,518)**	**(86,854)**	**26,717**	**(6,647)**	**(20,456)**	**210,967**	**(25,182)**	**(223,334)**	**69,246**	**50,007**
Net Assets Available– End of Year	**$838,601**	**$751,747**	**$778,464**	**$771,817**	**$751,361**	**$962,328**	**$937,146**	**$713,812**	**$783,058**	**$833,065**

**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 2002-2011

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Contributions: State	Contributions: Teachers	Contributions: Political Subdivisions	Contributions: Sub-Total	Investment Income (Loss)	Other	Total
2011	$ 13,348	$ 19,427	$ 11,920	$ 44,695	$ 151,509	$ 353	$ 196,557
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)

**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 2002-2011

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Group Life Claims: Active	Group Life Claims: Retired	Group Life Claims: Sub-Total	Administrative Expenses	Other	Total
2011	$ 51,236	$ 93,791	$ 145,027	$ 484	$ 1,039	$ 146,550
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

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)

	2002	2003	2004	2005	2006	2007	2008 *	2009	2010 **	2011
Net Assets Available– Beginning of Year	**$ 53,980**	**$ 76,184**	**$ 92,222**	**$120,895**	**$146,956**	**$178,068**	**$224,606**	**$251,634**	**$231,994**	**$244,958**
Funding:										
Employer Contributions and Other Additions	85,209	74,123	78,383	81,995	86,913	92,919	148,908	146,333	100,613	50,052
Reimbursements and Administrative Expenses	(57,925)	(61,350)	(65,292)	(69,474)	(72,819)	(80,803)	(109,426)	(115,878)	(120,872)	(126,963)
Net Funding	27,284	12,773	13,091	12,521	14,094	12,116	39,482	30,455	(20,259)	(76,911)
Investment Income:										
Interest, Dividends and Other Investment Income	1,150	1,910	1,207	1,960	2,685	4,082	4,407	3,314	4,127	4,849
Net Appreciation (Depreciation) in Fair Value	(6,230)	1,355	14,375	11,580	14,333	30,340	(16,861)	(53,409)	29,096	36,137
Net Investment Income	(5,080)	3,265	15,582	13,540	17,018	34,422	(12,454)	(50,095)	33,223	40,986
Net Increase (Decrease)	**22,204**	**16,038**	**28,673**	**26,061**	**31,112**	**46,538**	**27,028**	**(19,640)**	**12,964**	**(35,925)**
Net Assets Available– End of Year	**$ 76,184**	**$ 92,222**	**$120,895**	**$146,956**	**$ 178,068**	**$224,606**	**$251,634**	**$ 231,994**	**$244,958**	**$ 209,033**

The health insurance credit for teachers was raised to $4.00 for each year of service credit per month 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.*

SCHEDULE OF RETIREE HEALTH INSURANCE CREDIT ADDITIONS BY SOURCE

FISCAL YEARS 2002-2011 (EXPRESSED IN THOUSANDS)

	Contributions						
Year Ended June 30	State	Teacher	Political Subdivisions	Sub-Total	Investment Income (Loss)	Other	Total
2011	$ 6,702	$ 41,410	$ 1,940	$ 50,052	$ 40,986	$ -	$ 91,038
2010*	44,485	53,114	3,014	100,613	33,223	-	133,836
2009	66,256	77,205	2,872	146,333	(50,095)	-	96,238
2008	65,696	79,518	3,694	148,908	(12,454)	-	136,454
2007	55,289	34,019	3,611	92,919	34,422	-	127,341
2006	50,979	34,758	1,176	86,913	17,018	-	103,931
2005	48,196	32,745	1,054	81,995	13,540	-	95,535
2004	38,590	38,881	912	78,383	15,582	-	93,965
2003	38,576	34,739	808	74,123	3,265	-	77,388
2002	52,731	31,912	566	85,209	(5,080)	-	80,129

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

SCHEDULE OF RETIREE HEALTH INSURANCE CREDIT DEDUCTIONS BY TYPE

FISCAL YEARS 2002-2011

(EXPRESSED IN THOUSANDS)

	Retiree Health Insurance Reimbursements						
Year Ended June 30	State	Teacher	Political Subdivisions	Sub-Total	Administrative Expenses	Other	Total
2011	$ 58,433	$ 66,608	$ 1,459	$ 126,500	$ 463	$ -	$ 126,963
2010	56,337	62,573	1,359	120,269	603	-	120,872
2009	52,742	61,229	1,307	115,278	600	-	115,878
2008*	49,248	58,748	993	108,989	437	-	109,426
2007	47,263	32,308	876	80,447	356	-	80,803
2006	41,560	30,177	745	72,482	337	-	72,819
2005	40,038	28,255	673	68,966	508	-	69,474
2004	38,088	26,247	585	64,920	372	-	65,292
2003	36,015	24,524	487	61,026	324	-	61,350
2002	34,196	23,039	355	57,590	335	-	57,925

**The health insurance credit reimbursement for teachers was increased to $4.00 for each year of service credit per month with no cap on the benefit.*

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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 *	2011 *
Net Assets Available Beginning of Year	**$ 46,137**	**$ 57,906**	**$ 78,383**	**$103,322**	**$144,234**	**$191,872**	**$263,586**	**$313,521**	**$290,481**	**$336,213**
Funding:										
Employer Contributions and Other Additions	27,850	34,813	35,247	54,505	57,991	65,726	99,430	71,337	31,021	6
Disability Insurance Benefits and Administrative Expenses	(12,069)	(17,571)	(24,506)	(26,316)	(27,915)	(34,048)	(32,697)	(28,800)	(28,415)	(29,001)
Net Funding	15,781	17,242	10,741	28,189	30,076	31,678	66,733	42,537	2,606	(28,995)
Investment Income:										
Interest, Dividends and Other Investment Income	908	1,893	1,101	1,843	2,771	4,749	5,946	4,339	5,358	7,317
Net Appreciation (Depreciation) in Fair Value	(4,920)	1,342	13,097	10,880	14,791	35,287	(22,744)	(69,916)	37,768	54,536
Net Investment Income	(4,012)	3,235	14,198	12,723	17,562	40,036	(16,798)	(65,577)	43,126	61,853
Net Increase (Decrease)	**11,769**	**20,477**	**24,939**	**40,912**	**47,638**	**71,714**	**49,935**	**(23,040)**	**45,732**	**32,858**
Net Assets Available– End of Year	**$ 57,906**	**$ 78,383**	**$103,322**	**$144,234**	**$191,872**	**$263,586**	**$313,521**	**$290,481**	**$336,213**	**$369,071**

**The disability insurance contribution rate for fiscal year 2011 and the last quarter of fiscal year 2010 was zero as a result of a statutory contribution holiday.*

SCHEDULE OF DISABILITY INSURANCE TRUST FUND ADDITIONS BY SOURCE

FISCAL YEARS 2008-2011

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Contributions	Investment Income	Transfers and Other Additions**	Total
LONG-TERM DISABILITY PROGRAM				
2011	$ 5	$ 55,686	$ -	$ 55,691
2010	24,196	39,586	7,029	70,811
2009	61,371	(59,852)	-	1,519
2008*	66,606	(15,332)	-	51,274
LONG-TERM CARE PROGRAM				
2011	$ 1	$ 6,167	$ -	$ 6,168
2010	6,825	3,540	-	10,365
2009	9,966	(5,725)	-	4,241
2008*	11,754	(1,466)	21,070	31,358
TOTAL DISABILITY INSURANCE TRUST FUND				
2011	$ 6	$ 61,853	$ -	$ 61,859
2010	31,021	43,126	7,029	81,176
2009	71,337	(65,577)	-	5,760
2008*	78,360	(16,798)	21,070	82,632

Fiscal year 2008 was the first year for program activity with the current program design.

***Transfers and Other Additions in fiscal year 2008 was a transfer of assets from a fully insured plan. Transfers and Other Additions in fiscal year 2010 includes a transfer of $7,029,000 between long-term care and long-term disability.*

SCHEDULE OF DISABILITY INSURANCE TRUST FUND DEDUCTIONS BY TYPE

FISCAL YEARS 2008-2011

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Long-Term Disability Benefits	Long-Term Care and Costs	Third-Party Administrator Administrative Services	VRS Administrative Expenses	Transfers and Other Expenses **	Total
LONG-TERM DISABILITY PROGRAM						
2011	$ 20,050	$ -	$ 7,512	$ 585	$ 148	$ 28,295
2010	19,771	-	7,191	747	25	27,734
2009	19,076	-	8,285	716	-	28,077
2008*	19,675	-	8,438	583	-	28,696
LONG-TERM CARE PROGRAM						
2011	$ -	$ 624	$ -	$ 65	$ 17	$ 706
2010	-	612	-	67	7,031	7,710
2009	-	655	-	68	-	723
2008*	-	3,098	-	903	-	4,001
TOTAL DISABILITY INSURANCE TRUST FUND						
2011	$ 20,050	$ 624	$ 7,512	$ 650	$ 165	$ 29,001
2010	19,771	612	7,191	814	7,056	35,444
2009	19,076	655	8,285	784	-	28,800
2008*	19,675	3,098	8,438	1,486	-	32,697

Fiscal year 2008 is the first year for program activity with the current program design.

*** Transfers and Other Expenses in fiscal year 2010 includes a transfer of $7,029,000 between long-term care and long-term disability.*

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, 2011:

PARTICIPATING POLITICAL SUBDIVISIONS: 449

A - retirement only B - retirement and group life insurance
C - retirement, group life insurance and retiree health insurance credit D - retirement and retire health insurance credit

COUNTIES: 93

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

CITIES AND TOWNS: 161

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

Continued

CITIES AND TOWNS, CONTINUED

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

AUTHORITIES, COMMISSIONS, DISTRICTS, REGIONAL INSTITUTIONS AND COMMUNITY SERVICES BOARDS: 195

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

Continued

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

Continued

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

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

SCHOOLS: 144

E- professional employees covered by retirement, group life insurance and the retiree health insurance credit and non-professional employees (as applicable) covered by retirement and group life insurance F - professional and non-professional employees covered by retirement, group life insurance and the retiree health insurance credit

COUNTY SCHOOLS: 94

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

Continued

COUNTY SCHOOLS, CONTINUED

Stafford County Schools - F
Surry County Schools - E
Sussex County Schools - E
Tazewell County Schools - E
Warren County Schools - E
Washington County Schools - F
Westmoreland County Schools - E
Wise County Schools - F
Wythe County Schools - F
York County Schools - E

CITY AND TOWN SCHOOLS: 39

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

OTHER SCHOOLS: 11

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

Of the 144 school boards,134 also provide coverage for non-professional employees and are treated as political subdivisions.

AGENCIES OF THE COMMONWEALTH OF VIRGINIA, INCLUDING PUBLIC COLLEGES AND UNIVERSITIES: 236

Covered by retirement, group life insurance and the health insurance credit

TOTAL VRS-PARTICIPATING EMPLOYERS: 829

FIGURE 5.13 – VRS EMPLOYER RANKING

CURRENT YEAR

AS OF JUNE 30, 2011

	Employer	Active Employees	Percentage of Total
1	Fairfax County Schools - Professional Employees	19,783	5.82%
2	Virginia Beach City Schools - Professional Employees	8,410	2.48%
3	Prince William County Schools - Professional Employees	7,621	2.24%
4	Loudoun County Schools - Professional Employees	7,170	2.11%
5	Chesterfield County Schools - Professional Employees	5,890	1.73%
6	City of Virginia Beach - General Government	5,886	1.73%
7	University of Virginia - Academic Division	5,371	1.58%
8	Henrico County Schools - Professional Employees	5,086	1.50%
9	Henrico County - General Government	4,918	1.45%
10	Norfolk City Schools - Professional Employees	4,907	1.44%
11	All other	264,698	77.92%
	Total	**339,740**	**100.00%**

HISTORICAL COMPARISON

AS OF JUNE 30, 2005*

	Employer	Active Employees	Percentage of Total
1	Fairfax County Schools - Professional Employees	18,821	5.81%
2	Virginia Beach City Schools - Professional Employees	8,401	2.59%
3	Prince William County Schools - Professional Employees	6,558	2.02%
4	Chesterfield County Schools - Professional Employees	5,660	1.75%
5	City of Virginia Beach - General Government	5,655	1.75%
6	University of Virginia - Academic Division	5,248	1.62%
7	Loudoun County Schools - Professional Employees	5,163	1.59%
8	Norfolk City Schools - Professional Employees	4,960	1.53%
9	Henrico County - General Government	4,526	1.40%
10	Virginia Polytechnic Institute and State University - Academic	4,493	1.39%
11	All other	254,540	78.55%
	Total	**324,025**	**100.00%**

**Fiscal year 2005 is the earliest year for which comparative information exists to support this detailed presentation by specific employer.*

Commonwealth of Virginia 457 Deferred Compensation and Cash Match Plans
Program with Oversight by VRS

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 Cash Match Plan is qualified under Section 401(a) of the Internal Revenue Code and is regulated by Title 51.1, Chapter 6, of the *Code of Virginia*. Employees participating in the Deferred Compensation Plan are eligible to receive an employer-provided contribution to the Cash Match Plan if they are state employees or employees whose employers have elected the Cash Match Plan.

The Virginia Retirement System (the System) has oversight but no investment responsibility for the Deferred Compensation and Cash Match Plans. These plans' assets, therefore, are not included in the System's Basic Financial Statements.

FIGURE 5.14 – STATEMENT OF CHANGES IN PLAN ACCUMULATION ASSETS

FOR THE YEARS ENDED JUNE 30

	Deferred Compensation Plan - 457(b)		Cash Match Plan - 401(a)	
	2011	2010	2011	2010
Plan Assets on July 1	$1,170,879,848	$ 994,261,567	$194,558,168	$ 154,875,646
Contributions	124,262,495	125,231,318	10,166,265	16,401,655
Distributions	(68,806,648)	(51,876,239)	(12,330,319)	(10,143,351)
Plan Transfers*	381,635	164,180	13,749,669	18,946,786
Third Party Administrative Fees**	(2,127,903)	(1,895,731)	(376,101)	(314,323)
Period Earnings	210,724,857	104,994,753	30,747,873	14,791,755
Plan Assets on June 30	**$1,435,314,284**	**$1,170,879,848**	**$ 236,515,555**	**$ 194,558,168**

**For the Deferred Compensation Plan, this represents plan transfers from other eligible Section 457(b) plans into the Commonwealth's Plan. For the Cash Match Plan, this represents transfers from other qualified plans, including Partial Lump-Sum Option Payments (PLOPs) for the VRS pension plans.*

***The current third-party administrator, ING Institutional Plan Services (ING), is compensated based on an annual recordkeeping and communication fee of 18 basis points (0.18%) capped at combined account balances of $130,000. In addition, administrative costs are incurred by VRS for each of the plans. For the Deferred Compensation Plan, they were $531,280 and $486,504 in fiscal year 2011 and fiscal year 2010, respectively. For the Cash Match Plan, they were $243,803 and $315,357 in fiscal year 2011 and fiscal year 2010, respectively. These costs are funded by the employers participating in the plans.*

ELIGIBILITY

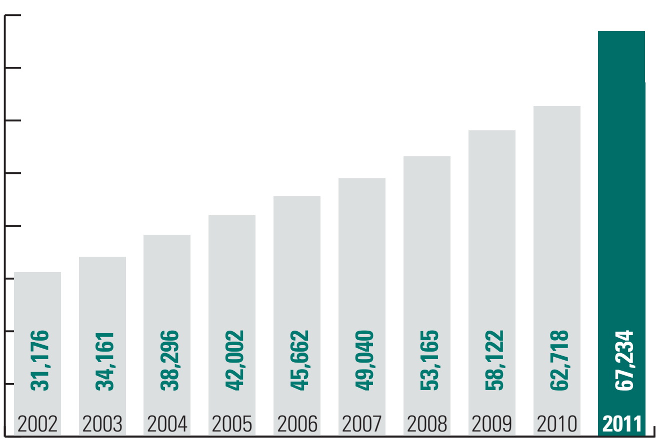
New and re-hired salaried state employees are automatically enrolled in the Deferred Compensation Plan upon employment with two opportunities to opt out of the plan. The Deferred Compensation Plan is voluntary to salaried state employees hired before January 1, 2008 and to eligible political subdivision employees whose employers have elected to participate in the plan. Wage employees of employers that offer the plans may participate in the Deferred Compensation Plan but not the Cash Match Plan.

Figure 5.14 presents details of each plan's activity for the years ended June 30, 2011 and 2010. Contributions to the Deferred Compensation Plan during FY 2011 and FY 2010 were $124,262,495 and $125,231,318, respectively. Contributions to the Cash Match Plan during FY 2011 and FY 2010 were $10,166,265 and $16,401,655, respectively.

As shown in Figures 5.15 and 5.16, there were approximately 67,234 employees in the Deferred Compensation Plan and 62,888 employees in the Cash Match Plan as of June 30, 2011.

FIGURE 5.15 – 457(B) ACTIVE AND INACTIVE PLAN PARTICIPANTS

AT JUNE 30



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 108 plan participants used the trustee-to-trustee transfer provision to buy VRS service credit.

FIGURE 5.16 – 401(A) ACTIVE AND INACTIVE PLAN PARTICIPANTS

AT JUNE 30

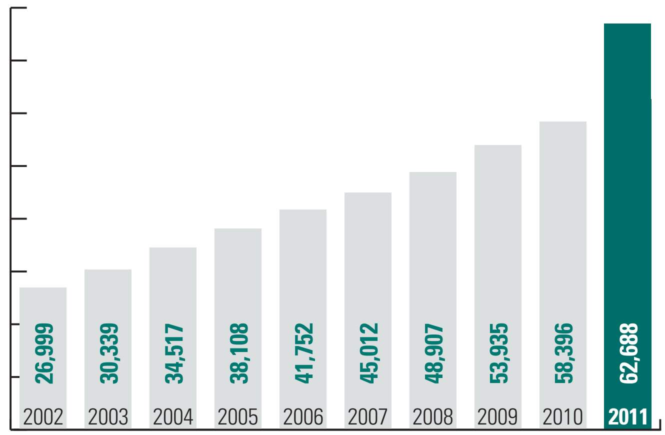


FIGURE 5.17 – TOTAL PARTICIPANT ACCOUNTS IN EACH FUND OPTION

AT JUNE 30, 2011

Fund Name	Deferred Compensation Plan - 457(b)	Cash Match Plan - 401(a)
Income & Growth Fund	7,813	6,355
Balanced Growth Fund	25,570	20,876
Long-Term Growth Fund	9,961	8,768
Bond Index Fund	7,038	5,337
S&P 500 Index Fund	21,701	19,352
Russell 1000 Value Index Fund	7,421	5,728
Russell 1000 Growth Index Fund	5,349	4,008
Russell 3000 Index Fund	2,937	2,068
Small/Mid Cap Equity Index Fund	13,012	10,667
International Equity Index Fund	9,965	7,883
Real Estate Investment Trust Index Fund	8,338	6,689
Money Market Fund	4,857	3,923
Active Inflation-Protected Bond Fund	4,064	2,796
Active Bond Fund	6,405	4,792
Active High-Yield Bond Fund	3,622	2,526
Active Global Equity Fund	5,507	4,119
Stable Value Fund	22,333	23,299
VRS Investment Portfolio	1,004	619
Self-Directed Brokerage	191	20

The number of participant accounts exceeds the number of participants as a participant may invest in more than one fund.

FIGURE 5.18 – ACCUMULATION PLAN ASSETS BY FUND

FOR THE YEARS ENDED JUNE 30

	Deferred Compensation Plan - 457(b)		Cash Match Plan - 401(a)	
	2011	2010	2011	2010
Income & Growth Fund	$ 37,957,124	$ 30,771,790	$ 7,435,371	$ 6,128,044
Balanced Growth Fund	143,536,553	114,463,914	22,285,229	16,638,130
Long-Term Growth Fund	58,378,593	43,727,480	12,919,624	10,020,604
VRS Investment Portfolio Interim Account	458,953	435,950	33,918	25,815
Bond Index Fund	57,228,608	54,643,191	6,825,991	6,148,402
S&P 500 Index Fund	276,682,240	212,317,227	42,767,233	31,980,102
Russell 1000 Value Index Fund	56,328,745	41,998,030	6,381,531	4,620,457
Russell 1000 Growth Index Fund	33,199,775	22,570,820	4,337,766	2,949,973
Russell 3000 Index Fund	16,228,616	9,639,496	1,744,614	982,445
Small/Mid Cap Equity Index Fund	127,224,233	85,602,944	16,199,431	11,086,196
International Equity Index Fund	65,868,873	49,358,794	7,790,452	5,843,650
Real Estate Investment Trust Index Fund	49,622,680	34,048,706	7,406,225	5,391,857
Money Market Fund	32,646,827	30,886,705	5,317,891	4,806,243
Active Inflation-Protected Bond Fund	29,017,387	25,331,968	2,777,760	2,487,213
Active Bond Fund	37,826,670	34,319,023	5,346,306	4,979,694
Active High-Yield Bond Fund	13,162,974	9,582,014	1,650,137	1,272,268
Active Global Equity Fund	31,696,754	23,270,973	3,706,644	2,681,207
Stable Value Fund (Galliard)	349,600,593	333,319,963	80,039,032	75,248,116
VRS Investment Portfolio	6,343,787	5,001,149	1,405,118	1,128,395
Self-Directed Brokerage	12,304,299	9,589,711	145,282	139,357
Total Accumulation Plan Assets	**$ 1,435,314,284**	**$ 1,170,879,848**	**$ 236,515,555**	**$ 194,558,168**

Description of Plan Funds

AS OF JUNE 30, 2011

The Commonwealth of Virginia 457 Deferred Compensation and Cash Match Plans offer the following core investment options to plan participants.

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 consists of government, corporate, mortgage-backed and asset-backed securities.

Mortgage-Backed Securities-33.5% Treasury-33.1% Industrial-10.6% Finance-7.2%
Agency-5.7% Non-Corporates-5.2% CMBS-2.4% Utility-2.2%
Asset-Backed Securities-0.3% Cash-(0.2%)

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-17.6%   Financials-15.1%   Energy-12.7%   Health Care-11.7%   Industrials-11.3%
Consumer Discretionary-10.7%   Consumer Staples-10.7%   Materials-3.7%   Utilities-3.4%   Telecommunications Services-3.1%

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 value-oriented domestic stock market in general and is comprised of stocks in the Russell 1000 that have lower price-to-book ratios and lower forecasted growth values.

Financials-26.9%   Energy-12.4%   Health Care-12.2%   Industrials-9.4%
Consumer Discretionary-9.0%   Information Technology-8.6%   Consumer Staples-7.2%
Utilities-6.7%   Telecommunication Services-4.7%   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-27.0%   Consumer Discretionary-14.0%   Industrials-13.4%
Consumer Staples-11.8%   Energy-11.6%   Health Care-10.9%   Materials-6.0%
Financials-4.0%   Telecommunication Services-1.2%   Utilities-0.1%

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 98% of the investable U.S stock market.

Information Technology-17.9%   Financials-15.8%   Industrials-11.8%
Consumer Discretionary-11.7%   Health Care-11.6%   Energy-11.5%   Consumer Staples-8.9%
Materials-4.5%   Utilities-3.5%   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- 19.4%   Information Technology-16.7%   Consumer Discretionary-15.5%
Industrials-14.3%   Health Care-11.0%   Materials-7.4%   Energy-7.1%   Utilities-3.8%
Consumer Staples-3.3%   Telecommunication Services-1.5%

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-23.4% Industrials-12.9% Materials-11.3% Consumer Discretionary-10.5%
Consumer Staples-10.2% Health Care-8.8% Energy-8.1% Telecommunication Services-5.5%
Information Technology-4.7% Utilities-4.6%

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-17.4% Retail Malls-16.5% Office-13.6% Health Care-12.8%
Retail Strip Centers-7.9% Industrial-7.7% Hotels-6.5% Diversified-6.4% Storage-5.9%
Industrial Mixed-3.8% Manufactured Homes-0.9% Factory Outlets-0.6%

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-61.1% Repurchase Agreements-17.7% Commercial Paper-15.7%
Bank Notes/Corporates-4.1% U.S. Agencies-1.4%

Active Inflation-Protected Bond Fund: Seeks to provide inflation protection and income consistent with investment in inflation-indexed securities.

U.S Treasury/Agency-99.5% Other-0.5%

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.

Net Cash Equivalents-29.0% Mortgage-21.0% Investment Grade Credit-17.0%
Non-U.S. Developed 13.0% Emerging Markets-11.0% Government-Related-9.0%
High Yield Credit-5.0% Municipal-4.0% Swaps and Liquid Rates-(9.0%)

Active High-Yield Bond Fund: Seeks to provide a high level of current income which exceeds 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-17.5% Finance-14.7% Consumer Cyclical-14.6% Consumer Non-Cyclical-13.2%
Basic Industry-8.2% Technology-7.9% Utilities-7.7% Capital Goods-6.3% Energy-5.7%
Treasury/Agency-2.9% Transportation-1.3%

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 in general.

Geographic Breakdown: Europe-43.0% United States-30.9% Asia & Pacific Basin-18.2%
Canada and Latin America-3.9% Cash & Equivalents-3.8% Other-0.2%

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-quality fixed-income (bond) securities and liquidity to accommodate participant transactions.

Security-Backed Contracts (Wrap Providers): JP Morgan Chase Bank-22.7% State Street Bank and Trust-20.9%
Royal Bank of Canada-16.5% ING Life Insurance and Annuity Co.-16.5%
Stable Value Funds: Wells Fargo Stable Return Fund-23.4%

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.

Domestic Equity-21.2% Fixed Income-20.1% Non-U.S. Equity (Dev)-18.2% Credit Strategies-9.8%
Private Equity-8.8% Emerging Markets-8.6% Private Real Estate-5.5% Convertibles-4.3%
Emerging Market Debt-1.5% Public Real Estate-1.3% Cash-0.7%

TIER IV: SELF-DIRECTED BROKERAGE OPTION

The Self-Directed Brokerage Account (SDBA) allows investors to select from thousands of publicly-traded mutual funds, exchange-traded funds (ETFs) and individual stocks and bonds in addition to the core investment options in Tier I, Tier II and Tier III. The SDBA option is offered through TD Ameritrade, a division of Ameritrade, Inc. The SDBA option is for knowledgeable investors who acknowledge and understand the risks and costs associated with the investments contained in this option. 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 TD Ameritrade and invesment management-related fees and expenses for the funds or investments selected.

Investment Option Performance Summary

FOR THE PERIOD ENDING JUNE 30, 2011 (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	**10.57%**	**6.36%**	**6.19%**	**0.05%**
Benchmark (75% Barclays Capital Aggregate Bond, 22% Russell 3000, 3% MSCI EAFE indices)	10.61%	6.14%	6.01%	
Balanced Growth Fund	**17.50%**	**5.66%**	**5.43%**	**0.05%**
Benchmark (50% Barclays Capital Aggregate Bond, 43% Russell 3000, 7% MSCI EAFE Indices)	17.54%	5.46%	5.27%	
Long-Term Growth Fund	**24.68%**	**4.75%**	**4.50%**	**0.05%**
VRS Investment Portfolio-Interim Account	24.68%	4.75%	4.50%	0.05%
Benchmark (25% Barclays Capital Aggregate Bond, 64% Russell 3000, 11% MSCI EAFE Indices)	24.71%	4.47%	4.31%	

TIER II: PASSIVELY MANAGED FUNDS

Investment Options	1 Year	3 Years	5 Years	Expense Ratio
Bond Index Fund	**3.88%**	**6.55%**	**6.62%**	**0.05%**
Barclays Capital Aggregate Bond Index	3.90%	6.46%	6.52%	
S&P 500 Index Fund	**30.70%**	**3.44%**	**3.00%**	**0.02%**
S&P 500 Index	30.69%	3.34%	2.94%	
Russell 1000 Value Index Fund	**28.97%**	**2.31%**	**1.20%**	**0.08%**
Russell 1000 Value Index	28.94%	2.28%	1.15%	
Russell 1000 Growth Index Fund	**34.80%**	**4.95%**	**5.27%**	**0.08%**
Russell 1000 Growth Index	35.01%	5.02%	5.33%	
Russell 3000 Index Fund	**32.29%**	**4.20%**	**3.47%**	**0.07%**
Russell 3000 Index	32.37%	4.00%	3.35%	
Small/Mid Cap Equity Index Fund	**39.06%**	**7.55%**	**5.53%**	**0.07%**
Russell Small Cap Completeness Index	38.97%	7.33%	5.38%	
International Equity Index Fund	**30.45%**	**-1.59%**	**1.62%**	**0.14%**
MSCI EAFE Index	30.36%	-1.77%	1.48%	
Real Estate Investment Trust Index Fund	**34.51%**	**4.33%**	**1.44%**	**0.16%**
Dow Jones U.S. Select REIT Index	34.95%	4.71%	1.67%	

INVESTMENT OPTION PERFORMANCE SUMMARY, continued

TIER III: ACTIVELY MANAGED FUNDS

Investment Options	1 Year	3 Years	5 Years	Expense Ratio
Money Market Fund	**0.23%**	**0.61%**	**2.25%**	**0.10%**
Barclays Capital 3-Month Treasury Bill Index	0.18%	0.47%	2.07%	
Active Inflation-Protected Bond Fund	**7.28%**	**4.74%**	**6.66%**	**0.07%**
Barclays Capital US Treasury Inflation Notes Index	7.74%	5.28%	6.91%	
Active Bond Fund	**5.93%**	**9.46%**	**8.87%**	**0.47%**
Barclays Capital Aggregate Bond Index	3.90%	6.46%	6.52%	
Active High-Yield Bond Fund	**13.91%**	**9.77%**	**7.25%**	**0.13%**
Custom Composite Index	14.09%	10.46%	8.18%	
Active Global Equity Fund	**29.80%**	**1.22%**	**4.81%**	**0.50%**
MCSI World Index	30.51%	0.47%	2.28%	
Stable Value Fund	**2.73%**	**3.29%**	**4.11%**	**0.24%**
The Stable Value Fund current yield as of June 30, 2011 was 2.62%				
VRS Investment Portfolio (VRSIP)*	**18.65%**	**0.76%**	**4.46%**	**0.66%**
Intermediate-Term Benchmark	19.69%	1.73%	4.56%	
Long-Term Benchmark	17.54%	2.83%	4.53%	

**VRSIP and benchmark performance returns are reported with a one-month lag. Information is as of May 31, 2011.*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