



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

VIRGINIA RETIREMENT SYSTEM

AN INDEPENDENT AGENCY OF THE COMMONWEALTH OF VIRGINIA

FISCAL YEAR 2001 FINANCIAL AND STATISTICAL HIGHLIGHTS

All Pension Trust Funds

(Dollars in Thousands)

	2001	2000	% Change
For the Year			
Contributions	\$ 1,269,749	\$ 1,291,522	(1.7%)
Investment Income (Net of investment expenses)	\$ (2,969,655)	\$ 5,142,115	(157.7%)
Retirement Benefits	\$ 1,298,627	\$ 1,184,842	9.6%
Refunds	\$ 80,622	\$ 83,899	(3.9%)
Administrative Expenses (Net of misc. income)	\$ 14,381	\$ 12,857	11.8%
Increase in Net Assets Held in Trust for Pension Benefits.....	\$ (3,093,155)	\$ 5,152,308	(160.0%)
Retirement Benefits as a percentage of contributions	102.3%	91.7%	
Retirement Benefits as a percentage of contributions and investment income	(76.4%)	18.4%	
At Fiscal Year End			
Net Assets Held in Trust for Pension Benefits - VRS	\$ 35,619,620	\$ 38,991,105	(8.6%)
Net Assets Held in Trust for Pension Benefits - SPORS	\$ 464,215	\$ 495,214	(6.3%)
Net Assets Held in Trust for Pension Benefits - VaLORS	\$ 350,132	\$ 25,401	1,278.4%
Net Assets Held in Trust for Pension Benefits - JRS	\$ 259,350	\$ 274,752	(5.6%)
Investment Performance			
One-Year Return on Investments	(7.4%)	15.4%	
Three-Year Return on Investments	6.2%	15.2%	
Five-Year Return on Investments	11.5%	17.1%	
Participating Employers			
Counties/Cities/Towns	237	234	
Special Authorities	165	162	
School Boards	148	148	
State Agencies	235	235	
Total Employers	785	779	0.8%
Membership/Retirees			
Active Members	303,970	296,595	2.5%
Retired Members	99,497	94,772	5.0%

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FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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AN INDEPENDENT AGENCY OF THE COMMONWEALTH OF VIRGINIA

The Investment Section of this Report was prepared by the VRS Investment Department.
Everything else in this report was prepared by VRS Finance and Administrative Staff.

**DEDICATED WITH GRATITUDE TO GARY SMITH
ON HIS RETIREMENT**



For more than 20 years, Gary L. Smith has been a critical and valued part of the Virginia Retirement System's management team. As the agency's Chief Financial Officer, he has developed and implemented a series of financial controls that have made VRS one of the most highly regarded public pension funds in the world. As an executive leader, he has mentored and broadened the careers of many employees under his tutelage. His fairness, compassion and generosity of spirit have long made him one of VRS's most respected and admired employees.

Smith holds an undergraduate accounting degree from Duke University and an MBA from City College, New York. He worked as a staff accountant with Price Waterhouse, VP of the Administration Department at Drexel Burnham Lambert and VP and general auditor at the Bank of Virginia.

This diverse background in public accounting, investments, banking and internal audit made Smith the ideal candidate for CFO of VRS, a position he assumed in 1979. His first major task was to guide the agency's Finance Department in developing internal control procedures, including the segregation of duties to protect against fraudulent disbursements. Under his leadership, VRS quickly progressed to the

point where it regularly receives the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

Smith spearheaded the Data Integrity Project, an agency-wide undertaking that involved the methodical review of more than 50,000 member service records. He supported legislative changes to purchase of prior service regulations, thereby streamlining and simplifying a complex process. And he was the executive sponsor for the Direct Deposit Team, whose goal of getting 80% of retirees to receive their monthly checks via direct deposit was reached in a mere two years. All of this in addition to marshalling budgets and annual reports through to completion for more than 20 years.

But it is as a wonderful boss that Smith will be best remembered by those lucky enough to have worked with him. By encouraging innovative thinking and by fostering self-confidence and growth through hands-on experience, he has been instrumental in his staff's professional development. They also uniformly cite his fairness and quiet warmth, his ready encouragement and support, and his willing, public acknowledgment of staff contributions as qualities they have valued deeply.

These same compassionate and ethical qualities are illustrated in Smith's longtime contributions to his community. He served as a local Duke University representative for many years, interviewing and recommending qualified applicants for the school. He was also treasurer of his church and is an active member, volunteering his time to the Freedom House, a local homeless shelter.

Gary Smith is retiring from VRS and we are all more than a little sad about that. His congenial cooperation, his sense of fairness, his vast professional knowledge and his real kindness will be sorely missed. It is with great humility that we dedicate this 2001 Comprehensive Annual Financial Report to Gary L. Smith, our financial leader, our mentor and our friend.

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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, 2000

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.



Imelda Cruz
President

Jeffrey L. Esler
Executive Director

OUR FAVORITE TEACHERS



Over a third of the Virginia Retirement System's (VRS's) membership, including more than 100,000 public school instructors, come from the world of public education. These teachers are not only a mainstay of VRS but a critical part of Virginia's communities at large—we all benefit daily from their dedication and hard work.

During National Education Week last year (November 13–17, 2000), VRS honored the important work Virginia teachers do by holding a "Favorite Teachers Contest." VRS employees nominated teachers who they believed exemplify teaching excellence and who had made a lasting impact on their lives or their children's lives.

Some of these outstanding teachers—even Governor Jim Gilmore nominated a favorite—are featured in this report. They range widely in age and subject matter expertise, from an 84-year-old retired band teacher to a prime-of-life assistant principal, but all are testament to the ongoing excellence of Virginia public education. (The winner of VRS's contest, Barbara Tucker, is featured on pages 24–25.)

VRS would like to thank all the teachers for being a part of this book—and for being such a fine and notable part of our lives.

GOVERNOR GILMORE'S FAVORITE TEACHER

ALGER BATTS

J. R. TUCKER HIGH SCHOOL, HENRICO COUNTY



Alger Batts, almost 84 years old, inspired students as a music teacher at Tucker High School “off and on for 30 years,” by his own count. One of his well-known students, Governor James Gilmore, wants Batts to know what a difference his former teacher’s enthusiasm made in his life. “He is an excellent musician and was an inspirational band leader,” said Gilmore. It’s not surprising that the governor nominated Batts as Favorite Teacher of the Year.

Mr. Batts first taught the governor during private lessons while he was in elementary school. “His mother would bring him over

to the house on Saturday mornings,” the former teacher said. The governor grew up to play clarinet in the Tucker High School band under Batts’s direction.

Even after all this time, Mr. Batts remembers his former pupil: “He played quite well for a high school student. He went to a band clinic at East Carolina in the summer and ended up playing first clarinet in a band concert there. Jimmy seemed to enjoy his music.” That he did. “If I had the time now,” Gilmore said, “I’d be going over to Mr. Batts’s house for clarinet lessons so I could become a jazz musician.”



INTRODUCTORY SECTION



W. Forrest Matthews, Jr., *Chairman*
William H. Leighty, *Director*
Nancy C. Everett, *Chief Investment Officer*

P.O. Box 2500, Richmond, Virginia 23218-2500
1200 East Main Street, Richmond, Virginia 23219
Telephone: (804) 649-8059 TDD: (804) 344-3190

November 1, 2001

The Honorable James S. Gilmore, III
Members of the General Assembly

Fiscal year 2001 was a rewarding one for the Virginia Retirement System (VRS), as the agency made considerable progress in streamlining operations, maintaining high levels of customer service and achieving the high standards embodied in the strategic business plan. In recognition of substantial achievements in productivity and customer service, VRS received, for the fourth consecutive year, the U.S. Senate Productivity and Quality Award (SPQA).

While this is a turbulent and uncertain time for the nation and the Commonwealth, the investment principles that have allowed VRS to yield positive results over time remain sound and will continue to produce results for our membership in the long run. We all need to focus on this fact in today's economy.

In fiscal year 2001, the trust fund experienced its first negative one-year return since 1984. The total return on pension trust fund investments for the fiscal year ended June 30, 2001, was -7.4%. The negative return can be attributed to the correction under way in both the domestic and international equity markets. It is important, however, to look at pension fund investment performance over the long term. When examined from this perspective, the annualized return over the past five years was 11.5%, well ahead of our actuarial assumed rate of return objective of 8%. VRS's strategy of investment diversification, coupled with regular asset allocation adjustments, is a proven strategy to help minimize the long-term effects of any one-year negative return.

As board members, we are stewards of the funds accumulated by the retirement system, and we administer benefit programs for members and retirees. We strive to ensure that benefits earned by members, retirees, and beneficiaries are adequately funded and delivered in a timely manner to recipients, in return for their service to the citizens of Virginia. In doing so, we endeavor to achieve the highest level of service delivery to members and the employers that fund the benefit. In the past fiscal year, declining resources presented the Commonwealth and local governments with difficult budget decisions. In recognition and support of the budgetary situation, VRS (the only non-general fund agency to do so) voluntarily reduced its budget for the fiscal year by \$2.6 million. Through the dedicated and diligent efforts of staff, we achieved our benchmarks for service delivery to our clients despite this budget reduction, meeting both agency and departmental strategic business objectives.

While exercising diligence in controlling costs, the board is also cognizant of the importance of positioning the agency to maintain its high customer service levels as the baby boomers reach retirement age. Almost one-third of the total active VRS membership of about 300,000 are over the age of 50 and will reach the normal retirement age of 65 within the next 15 years, placing extraordinary demands on VRS staff and resources. Unless we take initiatives now to position the agency to meet the challenges ahead, service levels will decline, given the limitations on existing staffing and resources. With this in mind, VRS has taken significant initiatives to implement technological enhancements, streamline operations and reduce plan complexity while building an organizational structure that meets the needs of a rapidly growing customer base.



These initiatives will ensure timely and accurate payment of benefits. We also aim to build an organization that is relationship-based, with a communications and processing model that focuses on the specific needs of customers rather than on the products the agency delivers. Our goal is to build an organization that communicates with its customers in one voice and efficiently delivers consistent, reliable, and timely benefit information using the most effective communication tools and technology.

VRS regularly benchmarks with other retirement systems, both national and international, and compares quite favorably with its peers. VRS administrative costs are among the lowest of its benchmarking partners, while we continue to enhance the services provided for our members. All of this is accomplished through the hard work, dedication and professional acumen of the VRS staff, who daily commit themselves to excellence in serving our membership, whether through investment management or with member contact. Excellence in customer service is the area in which we set the benchmark for other retirement systems.

In closing, I would like to express my sincere thanks and gratitude to the members of the VRS Board of Trustees and its committees, and to the dedicated VRS staff. I also wish to thank Governor Gilmore and the members of the General Assembly for their continued support and leadership.

A handwritten signature in cursive script that reads "W Forrest Matthews, Jr".

W. Forrest Matthews, Jr.
Chairman

VRS BOARD OF TRUSTEES



Nine members serve on the VRS Board of Trustees. The appointment of board members is shared between the executive and legislative branches of the state government. Five, including the chairman, are appointed by the governor, and four are appointed by the Joint Rules Committee of the General Assembly. All nine members are confirmed by the General Assembly.

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 state-supported institution of higher education; one must be a state employee and one must be a public school teacher. The public employee members of the board may be either active or retired.

Back row (left to right):

Alfonso I. Samper
Director, Evergreen Investment Management Co.

R. William Bayliss III
Wheat First Union

Paul W. Timmreck
Senior VP for Finance and Administration, VCU

Robert C. Carlson
Managing Member, Carlson Wealth Advisor, LLC and President, Center for Retirement Security, Inc.

W. Mark Crain, Ph.D.
Professor of Economics, George Mason University

Front row (left to right):

William H. Leighty
Director, Virginia Retirement System

Clifford A. Cutchins III
Retired, Sovran Financial Corporation

W. Forrest Matthews Jr. (Board Chair)
County of Henrico

Elise Lindbloom Emanuel
Williamsburg/James City County Schools

Charles B. Walker
Albermarle Corp. and Ethyl Corp.

VRS INVESTMENT ADVISORY COMMITTEE



Back row (left to right):

Hunter E. Craig

President, Hunter E. Craig Co.

Joseph W. Montgomery

Managing Director, First Union Securities

Lawrence E. Kochard

Professor, University of Virginia

Middle row (left to right):

Joe Grills

Retired Chief Investment Officer,
IBM Retirement Funds

Charles B. Walker

Albermarle Corp. and Ethyl Corp.

Doyle E. Hull

Chairman, Norfolk Redevelopment
and Housing Authority

Front row (left to right):

Raymond D. Smoot Jr.

Vice President for Administration
and Treasurer, Virginia Tech

Sadie Gregory

Dean, School of Business,
Virginia Union University

Stuart A. Sachs (Committee Chair)

Retired President,
Sovran Capital Management

Nancy C. Everett

Chief Investment Officer,
Virginia Retirement System

VRS INVESTMENT EXECUTIVE COMMITTEE



left to right:

Nancy C. Everett

Chief Investment Officer
Virginia Retirement System

Charles W. Grant

Managing Director, Fixed Income

Lawrence E. Kochard

Managing Director
Public Equities

Curtis M. Mattson

Manager, Operations

Larry D. Kicher

Managing Director
Alternative Investments

VRS EXECUTIVE COMMITTEE



Back row (left to right):

Deardrian Scott
Chief Programs Support Officer

Franklin O. Berry
Internal Audit Director

J. Timothy Bass
Chief Technology Officer

Wallace G. Harris
Senior Deputy Director

Gary L. Smith
Chief Finance Officer

William H. Leighty
Director

Donna M. Blatecky
Deputy Director for
Customer Relationships

Virginia L. Bomar
Chief Customer Programs Officer

Not pictured:

Nancy C. Everett
Chief Investment Officer

Donna M. Shumate
Chief Human Resource Officer

PROFESSIONAL CONSULTANTS

Actuary:

W. Michael Carter
Watson Wyatt Worldwide

Auditor of Public Accounts:

Walter J. Kucharski
Commonwealth of Virginia

Life Insurance Carrier:

Joseph K. W. Chang
Minnesota Life Insurance Company

Master Custodian:

**Boston Safe Deposit and Trust
Company (Mellon Trust)**

Legal Counsel:

Office of the Attorney General
Michael K. Jackson

Virginia Sickness and Disability
Program:

Michelle Quinones
CORE, Inc.

LETTER OF TRANSMITTAL



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William H. Leighty
Director

September 27, 2001

To: Members of the Board of Trustees

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Virginia Retirement System (System) for the fiscal year ended June 30, 2001. The reporting entity consists of four pension plans administered by 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); two postemployment benefit programs: the Group Life Insurance and Retiree Health Insurance Credit Programs; and the Virginia Sickness and Disability Program (VSDP).

The System was established on March 1, 1952 to administer a statewide multiple-employer public employee retirement system providing defined benefit pension plan coverage for state employees, teachers and nonprofessional employees of public school boards, and employees of participating political subdivisions. The System also administers separate retirement systems for state police officers, other state law enforcement and correctional officers, and judges, which were established on July 1, 1950, October 1, 1999 and July 1, 1970, respectively. There were 235 state agencies, 148 local school boards and 402 political subdivisions participating in the retirement systems at June 30, 2001. In addition, 132 public school boards include their nonprofessional employees in the System. On January 1, 1999 the System began administering a new sickness and disability program for participating state employees.

The System also administers a group life insurance program, providing active and postemployment insurance coverage for employees participating in the retirement systems as well as other qualifying employees. The group life insurance program was established on July 1, 1960. An optional life insurance program providing additional optional coverage for employees participating in the group life insurance program and their families was established on November 1, 1995. A health insurance credit program was established on January 1, 1990 for eligible state retirees, and a similar program was

established for retired teachers and employees of participating political subdivisions on July 1, 1995.

The CAFR for FY2001 consists of five sections: an Introductory Section which contains a letter of transmittal, letters from the board chairman and the identification of the organization; a Financial Section which contains the opinion of the Auditor of Public Accounts, the financial statements and required supplementary data; an Investment Section which contains a review of investment activity and performance for the fiscal year; an Actuarial Section which contains the certification letter of the independent consulting actuary, Watson Wyatt Worldwide, as well as a summary of the results of the most recent actuarial valuations and a plan summary; and a Statistical Section which contains tables of significant data pertaining to the System, a listing of participating employers and information on other programs.

Accounting System and Internal Control

The financial statements included in the CAFR for FY2001 are the responsibility of System's management and have been prepared in accordance with generally accepted accounting principles for governmental accounting and reporting as pronounced or adopted by 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, and expenses are recorded when the liabilities are incurred. Investments are reported at fair value, as determined by the System's master custodian. Fixed assets are capitalized at cost and depreciated over their estimated useful life. Contributions to the retirement systems 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, 2001, and the changes in its plan net assets for the period then ended.

The System's management is also 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 generally accepted accounting principles. 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. There is 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. In addition, 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. We believe the internal controls in effect during the fiscal year ended June 30, 2001 adequately safeguard the System's assets and provide reasonable assurance regarding the proper recording of financial transactions.

Financial Highlights: Pension Trust Funds

Additions to Plan Net Assets

Pension trust fund revenue is used to finance the retirement benefits established and paid by the retirement plans. The primary sources of revenue for the retirement plans include contributions from active members and employers as well as investment income from plan assets. Total contributions and investment earnings for FY2001 amounted to a negative \$1,699.5 million, a decrease of \$8,133.4 million, or 126.4%, versus the 2000 period (Figure 1).

Figure 1. Contributions and Investment Earnings

	2001 (Millions)	2000 (Millions)	Increase (Decrease) Amount	Increase (Decrease) Percentage
Member contributions	\$ 66.0	\$ 68.4	(\$ 2.4)	(3.5%)
Member contributions paid by employer	475.4	443.6	31.8	7.2%
Employer contributions	728.4	779.5	(51.1)	(6.6%)
Investment income*	(2,969.3)	5,142.4	(8,111.7)	(157.7%)
Total	(\$1,699.5)	\$6,433.9	(\$8,133.4)	(126.4%)

* Net of investment expenses, including net securities lending income and miscellaneous revenue.

Member contributions, including those paid by employers, increased \$29.4 million, while employers' contributions decreased \$51.1 million for a net decrease in contributions of \$21.7 million, or 1.7%, over the prior fiscal year. Contributions provided the total addition to plan assets in FY2001 compared with 20.0% in FY2000. Member and employer contributions decreased slightly in FY2001, primarily due to a decrease in contribution rates for many employers. Active membership at June 30, 2001 and 2000, is distributed as follows:

Figure 2. Active Membership Distribution

	2001	2000
State employees	78,022	77,559
Teachers	126,764	123,082
Political subdivision employees	86,628	83,279
State police officers	1,769	1,773
Virginia law officers (VaLORS)	10,383	10,504
Judges	404	398
Total	303,970	296,595

Investments

The net investment income portion of total revenue decreased \$8,111.7 million to a negative \$2,969.3 million, or 157.7%, in FY2001 (Figure 1). Total pension trust fund investments decreased to \$36,828.3 million at fair value, a decrease of \$3,486.4 million, or 8.6%.

The total return on pension trust fund investments for the fiscal year ended June 30, 2001, was a negative 7.4%. The annualized return over the past three years was 6.2%; and over the past five years, was 11.5%. An explanation of investment policies and strategies and the portfolio's composition is included in the Investment Section of this CAFR. A review of investment activity and results for FY2001 are also provided in that section.

Deductions to Plan Net Assets

The primary expenses of the retirement plans include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members, and the cost of administering the retirement plans. Expenses for FY2001 totaled \$1,393.6 million, an increase of \$112.0 million, or 8.7%, over the 2000 period (Figure 3).

Figure 3. Primary Expenses

	2001 (Millions)	2000 (Millions)	Increase (Decrease) Amount	Increase (Decrease) Percentage
Benefits	\$1,298.6	\$1,184.8	\$113.8	9.6%
Refunds	80.6	83.9	(3.3)	(3.9%)
Administration	14.4	12.9	1.5	11.6%
Total	\$1,393.6	\$1,281.6	\$112.0	8.7%

The increase in benefit payments to \$1,298.6 million in FY2001 was due primarily to an increase in the number of retirees and beneficiaries receiving benefits, and a cost-of-living increase of 2.2% on July 1, 2000. The number of retirees and beneficiaries receiving benefit payments increased to approximately 99,497 up from 94,772 the previous year.

Refunds of contributions to members who terminated their employment during FY2001 amounted to \$80.6 million (14,004 refunds), compared to \$83.9 million (14,603 refunds) refunded during the previous fiscal year. Administration and other expenses for FY2001 were \$14.4 million, compared to \$12.9 million for the prior year. The increase in administration expenses was due primarily to an increase in staff salaries and related benefit costs.

Retirement Reserves

Funds are derived from the excess of revenues over expenses and are accumulated by the pension plans to meet current and future obligations to retirees and beneficiaries. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential.

The excess of expenses over revenues for FY2001 resulted in a net decrease of \$3,093.2 million in retirement reserves held by the plans. During the fiscal year, the amount of interest credited to member accounts was \$194.0 million. The amount of member balances transferred to employer reserves upon members' retirements was \$261.5 million. The balances in retirement reserves at June 30, 2001 were as follows (Figure 4).

Figure 4. Reserve Balances

	2001 (Millions)	2000 (Millions)	Increase (Decrease) Amount	Increase (Decrease) Percentage
Member				
Reserves	\$ 5,432.2	\$ 5,033.5	\$ 398.7	7.9%
Employer				
Reserves	31,261.1	34,753.0	(3,491.9)	(10.0%)
Total	\$36,693.3	\$39,786.5	(\$3,093.2)	(7.8%)

Funding Status

Actuarial valuations of VRS, SPORS, VaLORS and JRS are performed at least every two years to determine funding requirements by the System's actuarial firm, Watson Wyatt Worldwide. The funding policy 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 costs of all basic benefits when due.

The latest valuations of the four pension plans performed as of June 30, 2000 by Watson Wyatt Worldwide indicated that the ratio of assets accumulated by the plans to their total actuarial accrued liabilities for benefits were 105.3% for VRS, 86.0% for SPORS, 45.1% for VaLORS and 74.2% for JRS. The valuations reflect full prefunding of the statutory cost-of-living adjustments (COLA) for retirees. Funding progress for the pension plans is presented on Schedule 1 in the Financial Section of this CAFR. Additional information on the plans' funding progress is contained in the Actuarial Section of this CAFR.

Group and Optional Life Insurance Program

The group life insurance program enacted by the General Assembly in 1960 provides life insurance and accidental death and dismemberment coverage to the majority of members participating in the System-administered pension plans as well as other qualifying employees. Group life insurance premiums are paid by covered employees and/or employers to fund the program. Approximately 410,779 employees and retirees were covered by the group life insurance program during the fiscal year.

The optional life insurance program, enacted by the General Assembly of Virginia in 1995, provides life insurance and accidental death and

dismemberment coverage to employees covered under the VRS group life insurance program as a supplement to that program. Employees may also cover their spouses and children under this program. Optional life insurance premiums are paid by the covered employees. VRS collected \$15.9 million in optional life premiums for approximately 47,712 employees during FY2001.

During FY2001, the System remitted \$104.0 million to the insurance company for premiums and claims (\$88.2 million for the group life insurance program and \$15.8 million for the optional life insurance program). The difference between the premiums collected and paid by the System for the group life insurance program comes out of the reserve established to prefund death benefits for retirees. This reserve had net assets held in trust for benefits of \$938.1 million at June 30, 2001 and experienced an investment loss of \$77.4 million during the fiscal year.

Retiree Health Insurance Credit Program

The retiree health insurance credit program was established by the General Assembly of Virginia on January 1, 1990 and provides credits against health insurance premiums for eligible state retirees. Coverage under the program was extended to retired teachers and employees of participating political subdivisions on July 1, 1993. During FY2001, the System collected \$73.9 million in retiree health insurance credit contributions from participating employers and provided credits of \$54.6 million to approximately 55,367 eligible retirees. The Retiree Health Insurance Credit Fund reserve had net assets held in trust for benefits of \$54.0 million at June 30, 2001 and experienced an investment loss of \$3.1 million during the fiscal year.

Legislative Initiatives

The 2001 General Assembly marked a significant year for Virginia's 300,000 active public employees and 98,000 retirees as Senators and Delegates developed and passed comprehensive bills designed to strengthen benefits and enhance retirement options.

Purchase of Prior Service

One of the hallmark measures of the Session was contained in **House Bill 2295** and **Senate Bill 1077**. A total of thirteen individual bills were "rolled" into these two bills, enabling a comprehensive purchase of

service policy to be written. The goal of the legislation was to streamline the process employees use to purchase prior service, making it easier for them to understand the cost of purchasing service and to delete obsolete Code sections. These bills mark a major shift in policy regarding the purchasing of service by encouraging purchases early in employees' careers, when it is less costly for them and for the retirement system.

Life Insurance Changes

Several legislative changes were enacted to provide better life insurance options for employees. **House Bill 1960** gives VRS retirees the option to continue optional life insurance coverage into retirement; the bill also extends coverage to spouses and dependent children. Retirees have requested this for several years as a way to care for their families after retirement. Another provision of the bill simplifies the existing reduction in the regular group life insurance coverage that occurs after retirement. Life insurance will start to reduce one full year after retirement and the decrease will be taken once a year, rather than beginning immediately upon retirement and decreasing on a monthly basis.

House Bill 1739 and **Senate Bill 1071** provide three new life insurance benefits to approximately 317,220 covered public employees. First, if a covered employee dies as a result of an accident more than 75 miles away from home, this new coverage will pay for the costs incurred in transporting the employee's remains back home.

Second, if an employee dies in an accident while properly wearing a safety restraint, an additional benefit of up to \$50,000 will be paid. This benefit is designed to encourage public employees to lead the way in promoting safety belt usage.

Finally, two additional benefits will be paid if employees die or suffer a covered dismemberment as a result of a felonious assault in the workplace: the Lump Sum Benefit and the College Tuition Benefit. The Lump Sum Benefit provides an additional benefit equal to the lesser of \$50,000, or 25% of the accidental death or dismemberment benefit amount otherwise payable under the life insurance policy. The Prepaid College Tuition Program Benefit provides any dependent children a contract from the Virginia Higher Education Tuition Trust Fund, covering attendance at any community college, college or university.

New Retirement Options

Senate Bill 843 and **House Bill 2629** assist employers in retaining their “best and brightest” employees in the work force. The Partial Lump-sum Option Payment (PLOP) allows members who work beyond normal retirement age to elect a lump-sum distribution up to 36 times their monthly retirement allowance. This bill eliminates the leveling option, effective July 1, 2001, and provides a safer mechanism for employees to receive an up-front cash amount.

House Bills 252 and **1589** address the teacher shortage by allowing retired teachers and school administrators to retire, draw their benefits and continue to work full time under limited circumstances. In order to maintain VRS’ tax-exempt status with the IRS, the bills limit use to areas certified by the Superintendent of Public Instruction as being “critical shortage areas.” In addition, the teacher must have a “bona fide break in service,” and the teacher may not have taken an early retirement inducement to leave.

House Bill 2081 sets a higher multiplier of 2.0%, instead of the current 1.7%, for all newly enrolled employees in VaLORS. The bill also repeals the current supplement for these new employees. All current VaLORS-covered employees had the option of electing the new multiplier, in lieu of the current multiplier and supplement, by October 1, 2001. In addition, this bill extends the supplement provided to State Police Officers’ Retirement System (SPORS) members and local law enforcement officers and firefighters (LEOS/FIRE) to the age that they become eligible for full Social Security benefits.

VRS Administrative Enhancements

House Bill 1740 allows the VRS Board of Trustees to establish, if needed, additional medical boards to review disability cases. In addition, the bill allows VRS to have specialists assist with recommendations and analysis when particular conditions are reviewed. This will enable VRS to be more responsive and flexible to individuals applying for disability.

House Bill 1741 makes the Optional Retirement Plans (ORPs) more uniform and much simpler to administer, while giving more flexibility to members. The bill also clarifies that the defined contribution plan for school superintendents is available to newly hired superintendents only.

House Bill 1748 and **Senate Bill 856** allow the VRS Board of Trustees to establish and to administer a Benefit Restoration Plan for members whose annual

benefits exceed limits established by §415 (b) of the Internal Revenue Code. The plan will be funded from the pension contributions that are required under current law.

House Bill 1776 and **Senate Bill 840** simplify the system for maintaining member accounts.

House Bill 1909 makes several technical corrections to the Virginia Sickness and Disability Program (VSDP) to enhance the administration of the short- and long-term disability program.

Services Provided

The Benefit Programs Division includes Benefit Programs, the Information Center and Contract Assurance. **Benefit Programs** experienced an increase in service and disability retirements in FY2001. The department processed 7,254 service retirement applications, 1,149 disability retirement applications and 14,004 refund requests. The Disability Retirement Unit implemented a Social Security Advocacy Program to help disability retirees secure Social Security disability benefits. VRS uses an outside advocacy service to provide these benefits at no cost to the retiree. The department met its strategic business objectives by placing 98.9% of retirements on payroll within 90 days of the expected retirement date, with an accuracy rate of 98.3%; processing 99.7% of refunds within 60 days from the later of the termination date or receipt of the completed application; and processing 99.5% of death claims within 30 days days of receipt of all necessary information.

The **Information Center** continued its focus on customer service delivery for the year. The staff attended training courses sponsored by the Community College System to further enhance their delivery of customer service to the VRS membership. In addition, staff members have begun to study for the Certified Employee Benefits Specialist (CEBS) designation exams.

The Center’s Strategic Business Objective (SBO) is to answer 80% of all calls within 30 seconds, with no more than 15% of calls transferred to other departments. The Information Center answered 157,989 calls, which reflects only a slight increase over last year’s results; this was due to the success of the new Virginia Informational Phone System (VIPS). The VIPS system responded to 44,206 calls, with almost no intervention by the Information Center staff. This trend reflects a willingness on the part of our

membership to access benefit information through automated technology. The customer feedback survey indicates a 95% satisfaction level with the quality of the automated VIPS system.

The Information Center began working with Field Services to calculate estimates and to provide in-house telephone counseling. In addition, staff trained on how to respond to agency e-mails from the VRS Internet site. In an effort to continuously improve workflow processes, the Center worked with several cross-functional teams to improve communications and internal processes in support of the Information Center's agency SBO.

The **Contracts Assurance Department** oversees the performance of the two third-party administrators (TPAs): Minnesota Life, the life insurance carrier; and CORE, administrator of the Virginia Sickness and Disability Program (VSDP), a short- and long-term disability program for the employees of the Commonwealth of Virginia. Contracts Assurance ensures that the performance guarantees are met through TPA audits, meetings held with employees and employers, feedback from employees and employers, quarterly Stewardship Meetings held with each TPA and employer and employee satisfaction surveys.

The department partnered with state employers this year to further enhance administration of the VSDP by forming Employer Focus Groups to serve in an advisory capacity to VRS and the VSDP third party administrator on matters related to program process, procedure and policy.

Minnesota Life processed 3,247 death notifications and claims, enrolled 13,000 members in the Optional Life Insurance Program and provided or participated in 241 employer and employee training sessions in fiscal year 2001.

CORE managed approximately 5,015 short- and long-term disability cases; assisted 3,947 VSDP participants in returning to work, issued an average of 300 long term disability checks monthly and provided training at 11 employer sessions. As of fiscal year end, there were 43,983 employees enrolled in the VSDP. This is an 11.25% increase in the number of participating employees from the 2000 fiscal year end.

The results of the satisfaction surveys for Minnesota Life indicated an overall service satisfaction rating of 95.6%. The results of the satisfaction surveys for CORE indicated an overall satisfaction rating of 92.6%.

Field Services conducted 52 benefit administrator training sessions, with 732 participants, and 39 PREP sessions, with 3,094 members in attendance through a contract with the Virginia Community College System (VCCS). VCCS is currently coordinating the sessions with consulting services provided by Field Services staff. Staff will continue to present VRS-related information and provide quality assurance monitoring for this program.

One-on-one and small group counseling are very important services to members who sometimes must make difficult and generally irreversible decisions related to their retirement. Throughout the year, 1,920 members received counseling, 1,024 in Richmond and 896 at locations around the Commonwealth. Field Services staff completed 8,635 retirement estimates.

At the request of employers, Field Services conducted 40 overviews, with 3,381 members attending, and held seven PREP I and PREP II sessions, with 442 attending. The department participated in 23 benefit fairs and conferences throughout the state, with 1,195 participants. Field Services received 8,930 estimate requests and completed 8,635, with an average turn-around time of 14 days. Eight special employer training sessions were held throughout the state with 320 participants attending.

During fiscal year 2001, the **Communications, Policy and Planning Department** continued to lead the implementation of a Knowledge Management System (KMS) for VRS. A KMS administrator was hired, a content classification system was developed, and the Gartner Group was hired to assist with process mapping and the development of a Request For Proposals (RFP) for software and services to support the KMS. It is anticipated that the RFP will be issued in fiscal year 2002.

The external Web site proved to be a valuable tool in communicating many legislative changes enacted in 2001. Content on the Web site continues to expand and improve, leading to increased usage. In fiscal year 2001 there were 2.5 million visits to the VRS site, compared to 1.1 million in fiscal year 2000 and 53,190 in fiscal year 1999.

Working with the Virginia Commonwealth University Survey and Evaluation Research Laboratory, CP&P surveyed participating employers to determine their level of satisfaction with VRS services. With a 60% response rate, this survey will serve as a benchmark for future evaluations of our customer service.

During the fiscal year, Communications, Policy and Planning staff participated in a number of special projects including the Senate Productivity and Quality Award and the Second Annual Human Resource Leadership Conference.

In the compliance area, staff received 40 new disability appeals and closed 40 cases. New domestic relations orders received during the fiscal year totaled 155; 103 Approved Domestic Relations Orders (ADROs) were recorded.

The unit completed a comprehensive federal and state compliance audit of VRS's qualified (401a) defined benefit and defined contribution plans, the 457 deferred compensation plan, and the group life insurance programs. All plans were found to be in substantial compliance with applicable federal and state laws. The audit will position VRS to update its Internal Revenue Service determination letters for each of the plans.

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 for the fiscal year ended June 30, 2000. To be awarded a Certificate of Achievement, 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.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgements

This annual report of the Virginia Retirement System was prepared through the combined efforts of the System's staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, and as a means of determining responsible stewardship for the assets contributed by the members and their employers.

This report is being mailed to the Governor, every member of the General Assembly, the Cabinet, all participating employers and other interested parties.

Respectfully submitted,



William H. Leighty
Director



Gary L. Smith
Chief Financial Officer

DIRECTOR LEIGHTY'S FAVORITE TEACHER

HELEN ONDERDONK

DENBIGH HIGH SCHOOL, NEWPORT NEWS



An English teacher for more than 20 years, Helen Onderdonk knew that her students would learn best if she could make the subject more interesting for them. “I tried to bring the material to life,” she said. “If I found a game or questions that pertained to what I was teaching, I’d take that to school. If I knew of something enjoyable, things that weren’t in their textbooks, I would read those to them.” Some of those read-

ings were from the works of Rudyard Kipling and Mark Twain, including Twain’s *The Diaries of Adam and Eve*. “It’s about Adam and Eve in the Garden of Eden, and Adam is trying to figure out what Eve is. It’s quite humorous.”

Onderdonk’s sharing of the joy she found in learning had a lasting impact on two of her students—Bill Leighty, director of the Virginia Retirement System, and Sara Redding Wilson,



director of the Department of Human Resources Management. “At a time in life when students were distracted by so many things they thought more interesting, Mrs. Onderdonk could take us into that classroom and pull our attention toward the lesson of the day,” said Leighty.

Onderdonk’s retirement in 1977. Soon after she left a full-time teaching career, she was volunteering with the local elementary school, working one-on-one with students to enhance their reading skills and tutoring children who had learning disabilities.

“I JUST TRIED TO GIVE THE STUDENTS THINGS I HAD ENJOYED OVER THE YEARS—THINGS THEY MIGHT ALSO ENJOY KNOWING.”

“Her classroom was always a special environment. She made a special effort to involve us in the learning process through stories and assignments that transfixed us until the bell rang.”

What Wilson remembers best is that Onderdonk “went out of her way to reach individual students. She left a positive, long-lasting impression on them; they knew she cared.” That generosity of spirit hasn’t flagged since

Meeting with her again in 2001 was a heart-warming experience for Leighty and Wilson. “As we so vividly saw when we visited her 32 years later,” Leighty said, “she hasn’t changed at all. Her stories and enthusiasm for the youth of America are as crisp and strong as they ever were.” Onderdonk is modest in the face of such praise. “I just tried to give the students things I had enjoyed over the years—things they might also enjoy knowing.”

OUR FAVORITE TEACHERS

BARBARA TUCKER

MEADOWBROOK HIGH SCHOOL, CHESTERFIELD COUNTY



Barbara Tucker—winner of the VRS Favorite Teacher Contest—actually made learning math fun. “Her class was one of the rare few that you really enjoyed going to every day,” said Sandy Gentry, a former accounting student from Meadowbrook High School who nominated Tucker for the honor. Tucker is remembered fondly as a great teacher whose students left her class with a love of education. “While we were having fun, she had a way of teaching us the importance of learning,” said Gentry. “I worked very hard in her class, and I guess I have her to thank for the working path I took in life.” Gentry won the Accounting Student of the Year award in 1978 while she was in Tucker’s class.

Tucker smiles as she recalls her days teaching accounting, shorthand and keyboarding. “It was a



pleasure to see progress in my students,” she said. But the connection was deeper than pride in a job well done. “The kids I had in my class, we were like family.” Students would seek Tucker out when they needed someone to listen. “They’d come with their problems and talk about them. At that time, teachers considered themselves surrogate par-

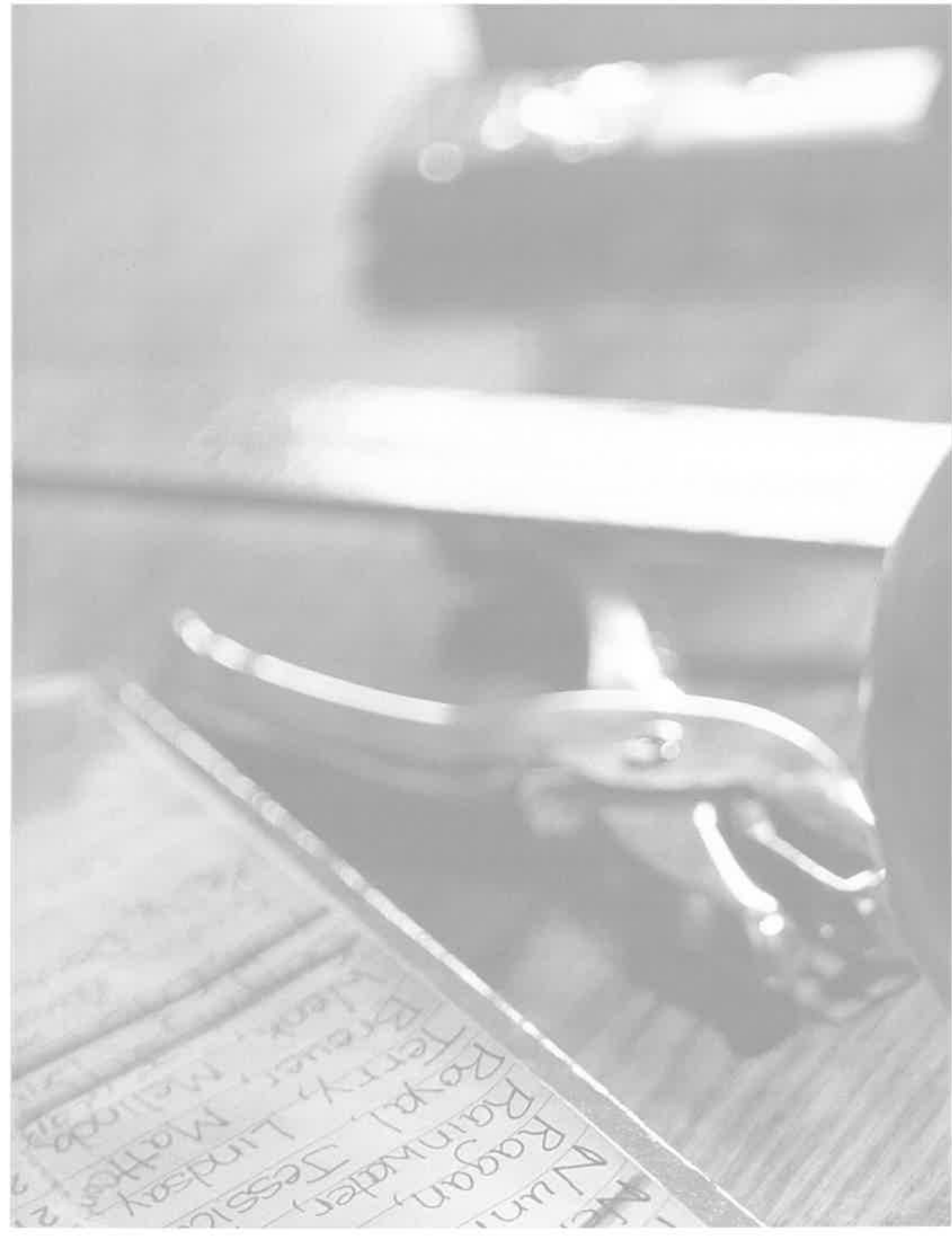
band own and volunteers at a local elementary school one day a week. She was surprised and delighted to have been nominated and named as the Favorite Teacher. “This is an experience I never expected,” she said. “It was such a surprise to be chosen. You do what you can to help out, but you don’t expect a return.”

“THE KIDS IN MY CLASS, WE WERE LIKE FAMILY. THEY’D COME WITH THEIR PROBLEMS AND TALK ABOUT THEM.”

ents,” Tucker said. The family atmosphere included birthday celebrations, too. “We’d have someone watch the office,” she recalled, “and we’d have little parties.” Mrs. Tucker’s birthday was among those celebrated, and the students surprised her on one occasion with a cake shaped like a woman. “She just thought that was hysterical,” said Gentry.

Retired since 1992, Tucker keeps the accounting books for rental properties she and her hus-

The respect between Tucker and her students, so evident in their mutual praise, is what made her a friend as well as a teacher. “The children I taught were caring people. They appreciated what you did for them,” said Tucker. Many still keep in touch with her and would likely echo Gentry’s sentiments: “Not only was she a great teacher, but she was an awesome human being.”





FINANCIAL SECTION

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Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

September 27, 2001, except for Note 14 as to
which the date is October 31, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit and Review Commission

The Board of Trustees
Virginia Retirement System

Independent Auditor's Report on Financial Statements

We have audited the general-purpose financial statements of the Virginia Retirement System as of and for the years ending June 30, 2001 and 2000, as listed in the Table of Contents. The general purpose financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 financial statements of the Virginia Retirement System are intended to present the financial position and results of its operations and the cash flows of its proprietary funds on only that portion of the financial reporting entity of the Commonwealth of Virginia that is attributable to the transactions of the Virginia Retirement System.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Retirement System as of June 30, 2001 and 2000, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2001, on our consideration of the Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements. The supplementary information listed in the Financial Section of the Table of Contents is presented for the purpose of additional analysis and is not a required part of the general-purpose financial statements. This information, and not the information in the Introductory, Investment, Actuarial, and Statistical Sections, has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole. We express no opinion on the information in the Introductory, Investment, Actuarial, or Statistical Sections.

Auditor of Public Accounts

Handwritten signature of Walter J. Kucharski in cursive script.

**Statement of Plan Net Assets –
Defined Benefit Pension Trust Funds and Postemployment Benefit Plans
and Balance Sheets for Agency and Internal Service Funds**

As of June 30, 2001 and 2000

	Pension Trust Funds				Total Pension Trust Funds
	Virginia Retirement System	State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	
Assets:					
Cash (Note 5)	\$ 99,011	\$ 1,275	\$ 230	\$ 711	\$ 101,227
Receivables:					
Contributions	121,673	1,035	2,775	982	126,465
Interest and dividends	115,885	1,496	269	834	118,484
Receivable for security transactions	1,880,548	24,279	4,372	13,534	1,922,733
Other receivables	649,314	8,370	1,507	4,666	663,857
Total receivables	2,767,420	35,180	8,923	20,016	2,831,539
Due from other funds	1,780	1,556	264,320	1,673	269,329
Investments (Note 5):					
Bonds and mortgage securities....	8,757,881	113,072	20,358	63,030	8,954,341
Stocks	8,561,960	110,541	19,903	61,620	8,754,024
Fixed income commingled funds...	516,000	6,662	1,199	3,714	527,575
Index and pooled funds	13,693,713	176,798	31,831	98,553	14,000,895
Real estate	1,271,985	16,422	2,957	9,154	1,300,518
Venture capital	2,422,587	31,277	5,632	17,435	2,476,931
Short-term investments	796,114	10,278	1,851	5,730	813,973
Total investments	36,020,240	465,050	83,731	259,236	36,828,257
Collateral on loaned securities	2,033,443	26,253	4,727	14,635	2,079,058
Property, plant, furniture and equipment (Note 6)	6,449	—	—	—	6,449
Total assets	40,928,343	529,314	361,931	296,271	42,115,859
Liabilities and Retained Earnings:					
Liabilities:					
Retirement benefits payable	116,227	1,519	193	1,524	119,463
Refunds payable	5,853	17	182	33	6,085
Accounts payable and accrued expenses	637,146	8,211	1,478	4,577	651,412
Compensated absences payable ..	1,074	—	—	—	1,074
Insurance premiums and claims payable	—	—	—	—	—
Payable for security transactions..	2,242,753	28,957	5,213	16,141	2,293,064
Other payables	334	—	—	—	334
Obligations under security lending program	2,033,443	26,253	4,727	14,635	2,079,058
Due to other funds	271,893	142	6	11	272,052
Total liabilities	5,308,723	65,099	11,799	36,921	5,422,542
Retained earnings	—	—	—	—	—
Total liabilities and retained earnings	5,308,723	65,099	11,799	36,921	5,422,542
Net assets held in trust for benefits (Note 4) (A schedule of funding progress for each pension plan is presented on Schedule 1) ...	\$ 35,619,620	\$ 464,215	\$ 350,132	\$ 259,350	\$ 36,693,317

The accompanying notes to financial statements are an integral part of this statement.

(Expressed in Thousands)

Group Life Insurance	Postemployment Benefit Plans		Agency Fund	Internal Service Fund	Totals	
	Retiree Health Insurance Credit	Total Postemployment Benefit Plans	Optional Life Insurance Fund	Disability Insurance Trust Fund	2001	2000
\$ 2,647	\$ 145	\$ 2,792	\$ 1,221	\$ 126	\$ 105,366	\$ 106,967
7,890	1,861	9,751	—	1,065	137,281	137,518
3,107	170	3,277	—	148	121,909	137,555
50,413	2,757	53,170	—	2,398	1,978,301	2,008,262
17,379	951	18,330	—	1,074	683,261	88,625
<u>78,789</u>	<u>5,739</u>	<u>84,528</u>	<u>—</u>	<u>4,685</u>	<u>2,920,752</u>	<u>2,371,960</u>
1	4,464	4,465	1,728	—	275,522	10,349
234,777	12,840	247,617	—	11,166	9,213,124	9,940,720
229,525	12,554	242,079	—	10,916	9,007,019	9,786,020
13,832	757	14,589	—	658	542,822	709,853
367,094	20,078	387,172	—	17,458	14,405,525	14,245,720
34,099	1,865	35,964	—	1,622	1,338,104	1,159,949
64,943	3,552	68,495	—	3,089	2,548,515	3,810,510
21,342	1,167	22,509	—	1,015	837,497	1,789,268
<u>965,612</u>	<u>52,813</u>	<u>1,018,425</u>	<u>—</u>	<u>45,924</u>	<u>37,892,606</u>	<u>41,442,040</u>
54,511	2,981	57,492	—	2,593	2,139,143	2,243,868
—	—	—	—	—	6,449	6,723
<u>1,101,560</u>	<u>66,142</u>	<u>1,167,702</u>	<u>\$ 2,949</u>	<u>\$ 53,328</u>	<u>43,339,838</u>	<u>46,181,907</u>
—	—	—	\$ —	\$ —	119,463	109,065
124	5	129	—	95	6,309	6,753
17,048	5,534	22,582	—	908	674,902	74,344
—	—	—	—	—	1,074	907
29,255	—	29,255	2,949	—	32,204	29,589
60,123	3,288	63,411	—	2,859	2,359,334	2,835,609
—	—	—	—	—	334	239
54,511	2,981	57,492	—	2,593	2,139,143	2,243,868
2,380	354	2,734	—	736	275,522	10,349
<u>163,441</u>	<u>12,162</u>	<u>175,603</u>	<u>2,949</u>	<u>7,191</u>	<u>5,608,285</u>	<u>5,310,723</u>
—	—	—	—	46,137	46,137	30,887
<u>163,441</u>	<u>12,162</u>	<u>175,603</u>	<u>\$ 2,949</u>	<u>\$ 53,328</u>	<u>5,654,422</u>	<u>5,341,610</u>
<u>\$ 938,119</u>	<u>\$ 53,980</u>	<u>\$ 992,099</u>			<u>\$ 37,685,416</u>	<u>\$ 40,840,297</u>

Statement of Changes in Plan Net Assets – Defined Benefit Pension Trust Funds and Postemployment Benefit Plans

For the Years Ended June 30, 2001 and 2000

	Pension Trust Funds				Total Pension Trust Funds
	Virginia Retirement System	State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	
Additions:					
Contributions (Note 3):					
Members	\$ 65,810	\$ 125	\$ 77	\$ 4	\$ 66,016
Member paid by employers	453,133	4,087	15,858	2,315	475,393
Employers	635,985	20,420	51,105	20,830	728,340
Total contributions	1,154,928	24,632	67,040	23,149	1,269,749
Investment income:					
Net appreciation in fair value of investments	(3,676,053)	(47,020)	(5,128)	(26,090)	(3,754,291)
Interest, dividends and other investment income	865,297	11,068	1,207	6,141	883,713
Total investment income before investment expenses	(2,810,756)	(35,952)	(3,921)	(19,949)	(2,870,578)
Investment expenses	(111,980)	(1,432)	(156)	(794)	(114,362)
Net investment income	(2,922,736)	(37,384)	(4,077)	(20,743)	(2,984,940)
Security lending income:					
Gross income	142,188	1,819	198	1,009	145,214
Less: Borrower rebates and agent fees	(127,221)	(1,627)	(178)	(903)	(129,929)
Net security lending income	14,967	192	20	106	15,285
Miscellaneous revenue	381	—	—	—	381
Total additions	(1,752,460)	(12,560)	62,983	2,512	(1,699,525)
Deductions:					
Retirement benefits	1,261,348	17,980	1,511	17,788	1,298,627
Refunds of member contributions	79,439	289	862	32	80,622
Insurance premiums and claims	—	—	—	—	—
Retiree health insurance credits	—	—	—	—	—
Administrative expenses	14,100	170	17	94	14,381
Other expenses	—	—	—	—	—
Total deductions	1,354,887	18,439	2,390	17,914	1,393,630
Transfers (Note 13)	(264,138)	—	264,138	—	—
Net increase (decrease)	(3,371,485)	(30,999)	324,731	(15,402)	(3,093,155)
Net assets held in trust for benefits					
- Beginning of year	38,991,105	495,214	25,401	274,752	39,786,472
Net assets held in trust for benefits					
- End of year	\$ 35,619,620	\$ 464,215	\$ 350,132	\$ 259,350	\$36,693,317

The accompanying notes to financial statements are an integral part of this statement.

(Expressed in Thousands)

Postemployment Benefit Plans			Totals	
Group Life Insurance	Retiree Health Insurance Credit	Total Postemployment Benefit Plans	2001	2000
\$ 53,173	\$ —	\$ 53,173	\$ 119,189	\$ 68,483
—	—	—	475,393	443,595
35,451	73,901	109,352	837,692	797,080
<u>88,624</u>	<u>73,901</u>	<u>162,525</u>	<u>1,432,274</u>	<u>1,309,158</u>
(97,805)	(3,905)	(101,710)	(3,856,001)	4,563,564
23,022	919	23,941	907,654	828,638
(74,783)	(2,986)	(77,769)	(2,948,347)	5,392,202
(2,979)	(119)	(3,098)	(117,460)	(113,713)
<u>(77,762)</u>	<u>(3,105)</u>	<u>(80,867)</u>	<u>(3,065,807)</u>	<u>5,278,489</u>
3,783	151	3,934	149,148	123,523
(3,384)	(135)	(3,519)	(133,448)	(114,025)
399	16	415	15,700	9,498
—	—	—	381	546
<u>11,261</u>	<u>70,812</u>	<u>82,073</u>	<u>(1,617,452)</u>	<u>6,597,691</u>
—	—	—	1,298,627	1,184,842
—	—	—	80,622	83,899
88,179	—	88,179	88,179	83,025
—	54,628	54,628	54,628	50,456
475	347	822	15,203	13,649
170	—	170	170	196
<u>88,824</u>	<u>54,975</u>	<u>143,799</u>	<u>1,537,429</u>	<u>1,416,067</u>
—	—	—	—	—
(77,563)	15,837	(61,726)	(3,154,881)	5,181,624
1,015,682	38,143	1,053,825	40,840,297	35,658,673
<u>\$ 938,119</u>	<u>\$ 53,980</u>	<u>\$ 992,099</u>	<u>\$ 37,685,416</u>	<u>\$40,840,297</u>

Statement of Revenues, Expenses and Changes in Retained Earnings Internal Service Fund – Disability Insurance Trust Fund

For the Years Ended June 30, 2001 and 2000

(Expressed in Thousands)

	2001	2000
Operating revenues:		
Employer contributions.....	\$ 27,233	\$ 25,317
Total operating revenues	27,233	25,317
Operating expenses:		
Long-term disability benefits.....	8,336	4,647
Administrative expenses.....	729	676
Total operating expenses	9,065	5,323
Operating revenue (loss)	18,168	19,994
Nonoperating revenues (expenses):		
Investment income:		
Interest, dividends and other investment income (loss).....	(2,820)	2,526
Investment expenses	(113)	(53)
Net investment income (loss)	(2,933)	2,473
Security lending income:		
Gross income	143	58
Less: Borrower rebates and agent fees.....	(128)	(53)
Net security lending income	15	5
Nonoperating revenues (expenses)	(2,918)	2,478
Net income	15,250	22,472
Retained earnings - Beginning of year	30,887	8,415
Retained earnings - End of year	\$ 46,137	\$ 30,887

The accompanying notes to financial statements are an integral part of this statement.

Statement of Cash Flows

Internal Service Fund – Disability Insurance Trust Fund

For the Years Ended June 30, 2001 and 2000

(Expressed in Thousands)

	2001	2000
Cash flows from operating activities:		
Cash received from employers	\$ 27,363	\$ 25,517
Cash disbursements for benefit payments	(8,504)	(4,707)
Cash disbursements for program administration	(671)	(754)
Net cash provided by operating activities	18,188	20,056
Cash flows from investing activities:		
Proceeds from sale of investments	7,600	4,166
Purchase of investments	(26,600)	(24,531)
Income on investment securities	861	386
Net cash provided by investing activities	(18,139)	(19,979)
Net increase (decrease) in cash	49	77
Cash balance - Beginning of year	77	—
Cash balance - End of year	\$ 126	\$ 77
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 18,168	\$ 19,994
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
(Increase) decrease in contributions receivable	87	(201)
(Increase) decrease in other receivables	(247)	—
Increase (decrease) in due from other funds	2	347
Increase (decrease) in refunds payable	41	54
Increase (decrease) in accounts payable and accrued expenses	79	(60)
Increase (decrease) in due to other funds	58	(78)
Total adjustments	20	62
Net cash provided by operating activities	\$ 18,188	\$ 20,056

Statement of Cash Flows (continued)
Internal Service Fund – Disability Insurance Trust Fund

For the Years Ended June 30, 2001 and 2000

(Expressed in Thousands)

	2001	2000
Reconciliation of Cash, Cash Equivalents and Investments:		
Per the balance sheet:		
Cash, cash equivalents and investments.....	\$ 48,747	\$ 32,657
Investments with original maturities greater than three months	(48,621)	(32,580)
Cash and cash equivalents per statement of cash flows	\$ 126	\$ 77
Noncash Investing, Capital and Financing Activities	\$ —	\$ —

The accompanying notes to financial statements are an integral part of this statement.

Statement of Changes in Assets and Liabilities
Agency Fund – Optional Life Insurance Fund

For the Years Ended June 30, 2001 and 2000

(Expressed in Thousands)

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
Assets:				
Cash.....	\$ 1,133	\$ 15,899	\$ 15,811	\$ 1,221
Due from other funds	1,606	122	—	1,728
Total assets.....	\$ 2,739	\$ 16,021	\$ 15,811	\$ 2,949
Liabilities:				
Insurance premiums and claims payable	\$ 2,739	\$ 210	\$ —	\$ 2,949
Due to other funds	—	—	—	—
Total liabilities.....	\$ 2,739	\$ 210	\$ —	\$ 2,949

The accompanying notes to financial statements are an integral part of this statement.

Notes to Financial Statements

June 30, 2001 and 2000

1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity:

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

Defined Benefit Pension Plans:

Virginia Retirement System (VRS)

State Police Officers' Retirement System (SPORS)

Virginia Law Officers' Retirement System (VaLORS)

Judicial Retirement System (JRS)

Postemployment Benefit Plans:

Group Life Insurance Fund

Retiree Health Insurance Credit Fund

Internal Service Fund:

Disability Insurance Trust Fund

(also known as the Virginia Sickness and Disability Program [VSDP])

Agency Fund:

Optional Life Insurance Fund

Effective January 1, 1997, the Constitution of Virginia was amended to strengthen the independence of the Virginia Retirement System and to protect its funds by requiring that they be separate and independent trust funds segregated from all other funds of the Commonwealth and administered solely in the interest of the members and beneficiaries thereof.

B. Affiliated Organizations:

The System Realty Companies which had been formed for the purpose of holding title to real estate have been dissolved and are no longer in existence. The System's investments in these affiliates have been

liquidated and are no longer included in real estate investments on the Statement of Plan Net Assets.

C. Administration:

The responsibility for general administration and operation of the defined benefit pension plans, post-employment benefit plans and other funds is vested in the Board of Trustees. The board consists of five members appointed by the Governor and four members appointed by the Joint Rules Committee, all subject to confirmation by the General Assembly of Virginia. A director is appointed by the Board of Trustees to serve as the chief administrative officer of the retirement systems, and a chief investment officer is employed by the board to direct, manage and administer the investment of the System's funds. Full power to invest and reinvest the assets of the defined benefit pension plans, postemployment benefit plans and other funds is vested in the board. The Board of Trustees has appointed Boston Safe Deposit and Trust Company (Mellon Trust) as the custodian of designated assets of the System.

The Virginia Retirement System, the State Police Officers' Retirement System, the Virginia Law Officers' Retirement System and the Judicial Retirement System are administered in accordance with Title 51.1, Chapters 1, 2, 2.1, 3 and 4 of the Code of Virginia (1950), as amended.

The Group Life Insurance and Retiree Health Insurance Credit Programs are administered in accordance with Title 51.1, Chapter 5 and Title 2.1, Chapter 2, respectively, of the Code of Virginia (1950), as amended.

The Disability Insurance Trust Fund is administered in accordance with Title 51.1, Chapter 11 of the Code of Virginia (1950), as amended.

The Optional Life Insurance Fund is administered in accordance with Section 51.1-512 and 51.1-512.1 of the Code of Virginia (1950), as amended.

Other programs of the Commonwealth of Virginia for which the Board of Trustees has oversight responsibility but has little administrative involvement and does not perform the investment function include the following: the Deferred Compensation Plan (IRC Section 457) and its Cash Match Plan for state employees and employees of participating political subdivisions; Defined Contribution Plans for political appointees, employees of institutions of higher

education and certain employees of public school divisions and teaching hospitals; the Commonwealth Health Research Fund, which provides financial support for research efforts that may maximize human health benefits for citizens of the Commonwealth; and the Volunteer Firefighters' and Rescue Squad Workers' Service Award Fund, which provides service awards to eligible volunteer firefighters and rescue squad workers. Inasmuch as the Board of Trustees has a limited administrative role, it neither owns the assets nor does it custody them, and their financial transactions are not recorded in the System's accounting system, these programs are not included in the System's financial statements.

D. Basis of Accounting:

The accounts of the defined benefit pension plans, postemployment benefit plans and the Disability Insurance Trust Fund are accounted for and presented on a flow of economic resources measurement focus (accrual basis of accounting). Under the accrual basis, revenues are recognized when earned and expenses are recognized when the liability is incurred. Employee and employer contributions are recognized as revenues in the period in which employee services are performed, and 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.

The agency fund is accounted for on a modified accrual basis; however, because it is purely custodial, it does not recognize revenues and expenditures and does not have a fund balance. The agency fund accounts for assets received and disbursed by the System in its capacity as an agent for the Commonwealth of Virginia.

E. Investments:

1. Investment Valuation

Investments are reported at fair value as determined by the System's master custodian, Boston Safe Deposit and Trust Company (Mellon Trust), from its Global Pricing System. This system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian. When a price 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. Commingled funds, partnerships and real estate assets are priced by the master custodian from statements received from the funds, partnerships or investment managers.

The pricing sources utilized 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, CMOs, ARM and asset-backed securities are priced either daily, weekly or twice a month, and at month end. Municipal fixed income securities and options on 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/losses arising from the daily settlement of 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 (losses) for the period are included in investment income using the equity method.

F. Property, Plant, Furniture and Equipment:

Fixed assets are recorded at cost at the time of acquisition and are reported net of accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful life of the property ranging from five to 40 years.

G. Accumulated Vacation, Sick Leave and Disability Credits:

Employees of the System participate in the Commonwealth's accumulated vacation program and in either its sick leave or the Virginia Sickness and Disability Program (VSDP), which is administered by the System. Unused vacation may be accumulated and is paid at the time of permanent separation from service up to the maximum calendar year limit. Unused sick leave may be accumulated, and if the member is vested, is paid at the rate of 25% of the

amount accumulated not to exceed \$5,000 at the time of permanent separation from service. Unused VSDP disability credits converted from unused sick leave are paid in the same manner as unused sick leave at the time of permanent separation from service. The accrued liability for unused vacation, sick leave or disability credits reflected in the accompanying statements at June 30, 2001, and 2000 was computed using salary rates in effect at those times and represents vacation and sick leave earned up to the allowable ceilings and unused, converted disability credits.

H. Administrative Expenses and Budget:

The administrative expenses related to the administration and trust fund management activities of the System are approved by the Board of Trustees and 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 year end. Administrative expenses are funded exclusively from investment income, and expenses for goods and services received but not paid for prior to the System's fiscal year end are accrued for financial reporting purposes (GAAP basis). A reconciliation of the difference between the GAAP and budgeted basis is presented on Schedule 3.

I. Investment Income Allocation:

Income earned on investments is distributed monthly to the Virginia Retirement System, the State Police Officers' Retirement System, the Virginia Law Officers' Retirement System, the Judicial Retirement System, the Group Life Insurance and Retiree Health Insurance Credit Funds 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:

1. Investment income is distributed to each of the individual member accounts based on a rate of 4% applied to each member's cumulative balance as of the close of the preceding fiscal year.

2. The remaining portion is allocated quarterly to the participating employer accounts based on the ratio of their member account and employer account balances to the total of all such balances.

2. Plan Description

A. Retirement Plans:

The Virginia Retirement System (System) was established on March 1, 1952, as the administrator of the Virginia Retirement System (VRS), a qualified governmental retirement plan, which provides defined benefit coverage for state employees, public school board employees, employees of participating political subdivisions and other qualifying employees. The VRS is a mixed agent and cost-sharing, multiple employer retirement plan. The assets accumulated by the plan may legally be used to pay all benefits provided by the plan to any of the plan members or beneficiaries.

The System also administers single-employer retirement plans for state police officers who are covered under a separate State Police Officers' Retirement System (SPORS) established on July 1, 1950; state law enforcement and correctional officers other than state police officers who are covered under the Virginia Law Officers' Retirement System (VaLORS) established on October 1, 1999; and judges of a court of record or a district court of the state and other qualifying employees who are covered under the Judicial Retirement System (JRS), established on July 1, 1970.

At June 30, 2001 and 2000, the number of participating employers in the VRS was:

VRS Employers		
	2001	2000
Cities and Towns	145	142
Counties	92	92
School Boards*	148	148
Special Authorities	165	162
State Agencies	235	235
Total employers	785	779

**Of the 148 school boards, 132 also provide coverage for their nonprofessional employees and are treated as political subdivisions by the System.*

Membership Figures for the Years Ending June 30

	2001				2000	
	VRS	SPORS	VaLORS	JRS	TOTAL	TOTAL
Retirees and beneficiaries receiving benefits	98,143	702	287	365	99,497	94,772
Terminated employees entitled to benefits but not yet receiving them	23,850	39	48	10	23,947	22,914
Total	121,993	741	335	375	123,444	117,686
Active Plan Participants:						
Vested	183,689	1,403	5,570	324	190,986	190,568
Nonvested	107,725	366	4,813	80	112,984	106,027
Total	291,414	1,769	10,383	404	303,970	296,595

The table above shows membership in VRS, SPORS, VaLORS and JRS at June 30, 2001 and 2000.

All full-time, salaried, permanent employees of participating employers, with the exception of certain full-time faculty and administrative staff of state colleges and universities and eligible classified employees of the two state teaching hospitals who have the option not to participate in the systems, must participate in VRS, SPORS, VaLORS or JRS. Benefit provisions and all other requirements are established by Title 51.1 of the Code of Virginia (1950), as amended.

Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers and firefighters) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating law enforcement officers and firefighters). Employees may retire with a reduced benefit at age 50 with at least 10 years of credited service or at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 % of their average final salary (AFS) for each year of credited service. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Members of SPORS, VaLORS and participating law enforcement officers and firefighters

may receive a monthly benefit supplement if they retire prior to age 65. Members of JRS receive weighted years of creditable service for each year of actual service under JRS. VRS, SPORS, VaLORS and JRS also provide death and disability benefits. Cost-of-living increases, based on changes in the Consumer Price Index and limited to 5% per year, are granted in the second year of retirement and in every year thereafter.

Employees are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the retirement plans. This 5% member contribution may be assumed by the employer. If an employee leaves covered employment, the accumulated contributions plus earned interest may be refunded to the employee. Each participating employer is required by state statute to contribute the remaining amounts necessary to fund the retirement plans using the Entry Age Normal actuarial cost method adopted by the Board of Trustees. State statute may be amended only by the General Assembly of Virginia.

B. Group and Optional Life Insurance Programs:

The Group Life Insurance Program was established on July 1, 1960, for state employees, teachers and employees of political subdivisions participating in the Virginia Retirement System (VRS); state police officers; other state law enforcement and correctional officers; judges and other qualifying employees. The program provides life insurance for natural death coverage equal to an employee's annual salary rounded to the next highest \$1,000, and then doubled. Accidental

death coverage is double the natural death coverage. The program also provides coverage for accidental dismemberment and accidental blindness, as well as an accelerated death benefit for terminal conditions. Approximately 317,220 employees and 93,559 retirees were covered under the program at June 30, 2001.

Employees who retire or terminate from service after age 50 with at least 10 years of service (including five years of continuous service) or age 55 with at least five years of continuous service (age 50 for state police officers, other state law enforcement and correctional officers, and participating law enforcement officers and firefighters of political subdivisions), or who retire because of disability are entitled to post-employment life insurance benefits. At retirement or termination accidental benefits cease, and natural death coverage starts to reduce by 2% each month until coverage reaches 25% of its value at retirement or termination (after age 65 for disability). These group life insurance benefit provisions and requirements are established by Title 51.1 of the Code of Virginia (1950), as amended.

Participating employers and their 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. Retirees are not required to contribute, and employers may assume the employees' contributions.

Contribution requirements are determined on the aggregate actuarial cost method adopted by the Board of Trustees. Since 1960, when the group life insurance program was first established, a portion of the premium contributions collected during employees' active careers has been placed in an Advance Premium Deposit Reserve, which was established to prefund death benefits to members after retirement.

An Optional Group Life Insurance Program was established on November 1, 1995 for all employees currently covered under the basic group life program as a supplement to that plan. Employees may also purchase optional life insurance on their spouses and children. The optional program provides life insurance for natural death coverage for the employee equal to one, two, three or four times annual salary rounded to the next highest \$1,000, up to a maximum of \$500,000. Spouse coverage is available up to one-half of the employee's optional insurance amount, and children can be insured for \$5,000, \$10,000 or \$15,000, depending on the option chosen by the employee.

For children under two years of age, coverage is limited to \$2,000, \$4,000 or \$6,000. An additional accidental death and dismemberment benefit is payable for death or bodily injuries. Approximately 47,712 employees were covered under this program at June 30, 2001.

Optional group life insurance coverage ends for employees when they retire, terminate their employment or when their basic coverage is terminated. Employees who retire for disability may continue their optional coverage until age 65 provided they continue to pay the required insurance premiums. Spouse coverage terminates upon divorce or when the employee terminates employment. Children's coverage ends with the termination of the employee's coverage or when the child marries or turns 21 years of age (25 years of age for full-time college students).

Premiums for optional life insurance coverage are the responsibility of the covered employees and are deducted from their salaries by their employers as required by Title 51.1 of the Code of Virginia (1950), as amended. Premium requirements are based on the age of the covered employee and are determined by the Board of Trustees.

C. Retiree Health Insurance Credit Program:

The retiree health insurance credit program was established on January 1, 1990, for retired state employees, state police officers, other state law enforcement and correctional officers and judges with at least 15 years of creditable service under the retirement plans. The program provides a maximum credit reimbursement of \$120.00 against the monthly health insurance premiums of eligible retirees.

A similar program was established on July 1, 1993 for retired teachers and employees of participating local governments with at least 15 years of creditable service under the retirement plans. Retired teachers may receive a monthly credit ranging from a maximum of \$75.00 to \$105.00, and local government retirees may receive a maximum credit of \$45.00.

Benefit provisions and eligibility requirements are established by Title 2.1 of the Code of Virginia (1950), as amended. The amount required to fund all credits is financed on a current disbursement basis by the employers based on contribution rates determined by the System's actuary. Approximately 55,367 retired employees were covered under this program at June 30, 2001.

D. Virginia Sickness and Disability Program:

The Virginia Sickness and Disability Program (VSDP) was established on January 1, 1999 for all full-time, classified state employees, including state police officers, and other state law enforcement and correctional officers hired on or after January 1, 1999. Part-time, classified state employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. Eligible state employees and state police officers of the Commonwealth employed prior to January 1, 1999 had the option during an open enrollment period to elect to participate in the VSDP or to remain in the Commonwealth's existing sick leave and disability retirement program (Virginia Retirement System [VRS] and State Police Officers' Retirement System [SPORS]). Eligible employees enrolled in VSDP are not eligible for disability retirement benefits under the VRS, SPORS or VaLORS.

Teaching, administrative and research faculty of Virginia institutions of higher education hired or appointed on or after January 1, 1999 who elected VRS as their retirement plan must make an irrevocable election to participate in the VSDP or in the institution's disability program. If there is no institution program, the faculty member is covered under the VSDP.

By providing sick leave, family and personal leave, and short- and long-term disability benefits, the VSDP gives its members income protection from their very first day on the job. After a seven calendar-day waiting period following the first incident of disability, full-time and eligible part-time classified employees receive short-term disability benefits from 60% to 100% of compensation up to a maximum of 125 work days, based on months of state service. After a 180-calendar-day waiting period (125 work days of short-term disability), full-time and eligible part-time classified employees receive long-term disability benefits equal to 60% of compensation until they return to work, or until age 65 (age 60 for state police officers and other state law enforcement and correctional officers), or until death. Approximately 43,983 employees were covered under the program at June 30, 2001.

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 of administering the program. Initial contribution requirements to fund the program were determined by the System's actuary based on an estimate of the amount of liability for disability benefits that would transfer from VRS, SPORS and VaLORS to VSDP for the anticipated participants in VSDP.

3. Contributions – Retirement Plans

The funding policy of the retirement 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 basic benefits when due. 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 that is being amortized as a level percentage of payroll within 30 years or less.

The amount of contributions to be provided by employers for FY2001 and FY2000 was actuarially computed by Watson Wyatt & Company for state employees, each participating political subdivision, the State Police Officers' Retirement System, the Virginia Law Officers' Retirement System and the Judicial Retirement System. In addition, a separate contribution requirement was computed for the teacher cost-sharing pool.

Contributions totaling \$1,269,749,000 and \$1,291,522,000 for the fiscal years ended June 30, 2001 and 2000, respectively, were made by employers and employees in accordance with statutory requirements. These contributions covered employers' normal costs and amortization of unfunded actuarial accrued liabilities.

Total employer contributions were \$728,340,000 for FY2001. Included in total employer contributions were \$2,461,000 from school boards representing contributions toward the Early Retirement Program costs. Included in the employee contributions were \$19,284,000 paid for the purchase of previously refunded service and other qualifying service.

Contributions for the Years Ending June 30, 2001 and 2000

(Expressed in Thousands)

	2001				2000	
	VRS	SPORS	VaLORS	JRS	TOTAL	TOTAL
Employer contributions	\$ 635,985	\$ 20,420	\$ 51,105	\$ 20,830	\$ 728,340	\$ 779,478
Employee contributions paid by employer	453,133	4,087	15,858	2,315	475,393	443,595
Employee contributions.....	65,810	125	77	4	66,016	68,449
Total contributions.....	\$1,154,928	\$ 24,632	\$ 67,040	\$ 23,149	\$1,269,749	\$1,291,522

Employer contributions to the VRS cost-sharing pool for teachers represented 7.54% of covered payrolls. Additionally, employer contributions to VRS by the state were 5.22% of covered payroll, and each political subdivision's contributions ranged from zero (0.0%) to 15.53% of covered payrolls. Employer contributions to SPORS by the state represented 25.00%, employer contributions to VaLORS by the state represented 16.15%, and employer contributions to JRS by the state represented 45.00% of covered payrolls. Employee contributions represented 5.00% of covered payrolls. Employer and employee contributions are required by Title 51.1 of the Code of Virginia (1950), as amended.

In addition to determining contribution requirements, the actuarial computations present an estimate of the discounted present value of the prospective accrued liability contributions that will have to be paid by employers in the future so that such contributions, together with the assets on hand, the normal contributions to be made in the future by employers and employees, and the income guaranteed by investing the funds, will be sufficient to provide all benefits to be paid in the future to present members and annuitants and their designated beneficiaries. Historical trend information designed to provide information about the System's progress in accumulating sufficient assets to pay benefits when due is presented in the "Required Supplementary Information."

4. Reserve Accounts

The reserve account balances available for benefits at June 30, 2001 and 2000 are presented in the table on the following page. These funds are required by Titles 51.1 and 2.1 of the Code of Virginia (1950), as amended, to provide for the payment of current and future benefits.

Member and Employer Reserves are funded by member and employer contributions and investment income. Each individual member has an account which accumulates member contributions plus annual interest. Each employer has an account which accumulates employer contributions, transfers of investment income reduced by the administrative expenses incurred in operating the retirement plans and transfers of member contributions and interest upon a member's retirement. Employer accounts are charged with benefit payments.

The Advance Premium Deposit Reserve accumulates a portion of insurance premium contributions collected during an employee's active career and investment earnings thereon and is charged for death benefits paid and expenses incurred in operating the group life insurance program.

The Retiree Health Insurance Credit Reserve is funded by employer contributions and investment income. It is charged for credit reimbursements applied to the monthly health insurance premiums of eligible retired employees and expenses incurred for the operation of the Retiree Health Insurance Credit Program.

The Disability Insurance Trust Fund is funded by employer contributions and investment income. It is charged for long-term disability benefits and expenses incurred in operating the Virginia Sickness and Disability Program.

Reserve Balances Available for Benefits at June 30

(Expressed in Thousands)

	2001	2000
Virginia Retirement System:		
Member Reserve	\$ 5,240,175	\$ 4,948,223
Employer Reserve.....	30,379,445	34,042,882
Total VRS	35,619,620	38,991,105
State Police Officers' Retirement System:		
Member Reserve	55,390	50,874
Employer Reserve.....	408,825	444,340
Total SPORS	464,215	495,214
Virginia Law Officers' Retirement System:		
Member Reserve	112,598	11,221
Employer Reserve.....	237,534	14,180
Total VaLORS	350,132	25,401
Judicial Retirement System:		
Member Reserve	24,086	23,166
Employer Reserve.....	235,264	251,586
Total JRS	259,350	274,752
Group Life Insurance:		
Advance Premium Deposit Reserve	938,119	1,015,682
Retiree Health Insurance Credit Reserve.....	53,980	38,143
Total Pension and Postemployment Benefit Reserve	\$ 37,685,416	\$ 40,840,297
Virginia Sickness and Disability Program:		
Disability Insurance Trust Fund	\$ 46,137	\$ 30,887
Total Internal Service Fund Reserve.....	\$ 46,137	\$ 30,887

5. Deposits and Investments

A. Deposits:

Deposits of the System that are maintained by the Treasurer of Virginia at June 30, 2001 and 2000 were entirely insured under the Virginia Security for Public Deposits Act, Section 2.1-359 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, Boston Safe Deposit and Trust Company (Mellon Trust), were entirely insured by federal depository insurance coverage.

The carrying amounts of these deposits at June 30, 2001 and 2000 consisted of (in thousands):

Deposits	2001	2000
	Carrying Amount	Carrying Amount
Treasurer of Virginia	\$ 104,757	\$ 90,292
Master Custodian	609	16,675
Total Deposits	\$ 105,366	\$ 106,967

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 interest of the beneficiaries and 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. The board must also diversify such instruments so as to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to do so.

There is no concentration of investments in any one organization that represent 5% or more of plan net assets available for benefits.

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 held the following composition of investments at June 30, 2001 and 2000 (in thousands):

	2001 Fair Value	% of Total Value	2000 Fair Value	% of Total Value
Bonds and Mortgage Securities:				
U.S. Government and agencies	\$ 2,386,237	6.30%	\$ 3,252,846	7.85%
Mortgage securities	277,602	11.29%	4,411,711	10.65%
Corporate and other bonds.....	2,549,285	6.73%	2,276,163	5.49%
Total bonds and mortgage securities	9,213,124	24.32%	9,940,720	23.99%
Common and Preferred Stocks.....	9,007,019	23.77%	9,786,020	23.61%
Index and Pooled Funds:				
Equity index and pooled funds.....	14,405,525	38.02%	14,245,720	34.38%
Fixed income commingled funds.....	542,822	1.43%	709,853	1.71%
Total index and commingled funds	14,948,347	39.45%	14,955,573	36.09%
Real Estate:				
Commingled funds.....	444,177	1.17%	359,706	0.87%
Properties	11,334	0.03%	13,925	0.03%
Real estate loans.....	4,310	0.01%	4,310	0.01%
System Realty Companies	—	0.00%	26,509	0.07%
Focused.....	878,283	2.32%	755,499	1.82%
Total real estate.....	1,338,104	3.53%	1,159,949	2.80%
Venture Capital	2,548,515	6.73%	3,810,510	9.19%
Short-term Investments:				
Treasurer of Virginia – LGIP Investment Pool....	77,544	0.20%	55,462	0.13%
TBC pooled employee trust funds	727,920	1.92%	1,692,678	4.09%
Foreign currencies.....	32,033	0.08%	41,128	0.10%
Total short-term investments.....	837,497	2.20%	1,789,268	4.32%
Total investments	\$ 37,892,606	100.00%	\$ 41,442,040	100.00%

Investment value and earnings of the investment pool are proportionally allocated among the System's trust funds based on each fund's equity interest in the common investment pool. As of June 30, 2001 and 2000, the equity interests of each fund were as follows:

	2001	2000
Virginia Retirement System.....	95.06 %	95.34 %
State Police Officers' Retirement System.....	1.23 %	1.21 %
Virginia Law Officers' Retirement System.....	0.22 %	0.06 %
Judicial Retirement System.....	0.68 %	0.67 %
Group Life Insurance Fund.....	2.55 %	2.55 %
Retiree Health Insurance Credit Fund.....	0.14 %	0.09 %
Disability Insurance Trust Fund.....	0.12 %	0.08 %
Total	100.00 %	100.00 %

2. Custodial Risk

Investments held by the System at June 30, 2001 have been categorized according to the level of credit risk associated with its custodial arraignments at fiscal year end. Category 1 includes investments that are insured or registered or for which securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty, or by its trust department

or agent, but not in the System's name. Certain investments cannot be categorized because they are not evidenced by physical securities. Securities lent at year end for cash collateral are presented as unclassified, while securities lent for non-cash collateral are classified according to the custodial arrangements for the related noncash collateral securities. The cash collateral is invested in instruments, such as commercial paper, repurchase agreements, asset-backed securities, certificates of deposit and floating rate notes, in an agent-managed separate account.

Summary of Categorized Investments at Fair Value

As of June 30, 2001

(Expressed in Thousands)

	Category			Non-Categorized	Total Fair Value at June 30, 2001
	1	2	3		
Long-Term Investments:					
Bonds and Mortgage Securities:					
U.S. Government and agencies.....	\$4,811,830	\$ —	\$ 170,316	\$ —	\$ 4,982,146
Corporate and other bonds.....	2,301,528	—	10,394	—	2,311,922
Held by brokers-dealers under					
Securities lending program:					
U.S. Government and agencies.....	84,233	—	110,076	1,487,383	1,681,692
Corporate and other bonds.....	—	—	—	237,364	237,364
Common and preferred stocks.....	8,654,364	—	—	—	8,654,364
Held by brokers-dealers under					
Securities lending program					
Equity index and pooled funds	—	—	3,640	349,015	352,655
Fixed income commingled funds	—	—	—	14,405,525	14,405,525
Real estate investments	—	—	—	542,822	542,822
Venture capital	—	—	—	1,338,104	1,338,104
	—	—	—	2,548,515	2,548,515
Total long-term investments	15,851,955	—	294,426	20,908,728	37,055,109
Short-term Investments:					
Investments held by Treasurer:					
Local Government Investment Pool...	—	—	—	77,544	77,544
Investments held with Trustees:					
TBC Pooled Employees Trust Funds ..	—	—	—	727,920	727,920
Foreign currencies.....	—	—	—	32,033	32,033
Total short-term investments	—	—	—	837,497	837,497
Total Investments.....	\$15,851,955	\$ —	\$ 294,426	\$21,746,225	\$37,892,606
Securities Lending Separate Account	\$ —	\$ —	\$ 2,139,143	\$ —	\$ 2,139,143

3. Securities Lending

Under authorization of the board, the System lends its fixed income and equity securities to various broker-dealers on a temporary basis. The program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities or irrevocable letter of credit issued by major banks, having a market value equal to at least 102% of the market value on domestic securities and 105% on international securities.

Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts with the lending agent require them to indemnify the System if the borrowers fail to return the securities lent and related distributions, and the collateral is inadequate to replace the securities lent.

All security loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans in which the rebate is set daily, resulting in a maturity of one or two days on average for loans, although securities are often out on loan for a longer period of time. The maturity of loans generally does not match the maturity of collateral investments, which averages 122 days. At year end, the System has no credit risk exposure to borrowers because the amounts it owes the borrowers exceed the amounts the borrowers owe it. The market value of securities on loan at June 30, 2001 and June 30, 2000 was \$2,271,711,000 and \$2,375,499,000, respectively, and the value of collateral (cash and noncash) at June 30, 2001 and June 30, 2000 was \$2,342,115,000 and \$2,418,924,000, respectively.

Securities out on loan are included with investments on the statement of net assets and are classified in the summary of custodial risk (see Note 5B2. Custodial Risk). The invested cash collateral is included in the statement of net assets as an asset and corresponding liability. The invested cash collateral is also classified in the summary of custodial risk.

4. 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, 2001 and 2000, respectively, include receivables for deposits with brokers for securities sold short of \$836,361,000 and \$1,246,715,000 and payables for securities sold short and not covered with market values of \$703,435,000 and \$1,103,286,000, respectively.

5. 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 or swap contracts. In addition, 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, which are sensitive to changes in interest rates and prepayments. Futures, forwards, options and swaps are generally not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The System is a party, both directly and indirectly, to various derivative financial investments off and on the financial statements that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value due to 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. Credit risk is the possibility that loss may occur from the failure of a counterparty to perform according to the terms of the contract. Market risk arises due to adverse changes in market price, interest rate and foreign exchange rate fluctuations that may result in a decrease in the market value of a financial investment and/or increases in its funding cost.

In addition to the derivative financial instruments directly held, the System may have indirect exposure to risk through its ownership interests in commingled investment funds which use, hold or write derivative financial instruments. Indirect exposure may also arise from stock lending programs in which the commingled funds participate. Such programs usually reinvest a portion of their cash collateral holdings in derivative instruments. The System's pro rata share of the contractual or notional amounts of outstanding derivative transactions in commingled investment funds and their related security lending programs approximated \$203,012,000 at June 30, 2001.

6. Forward, Futures and Option Contracts

Forward contracts are contracts to purchase or sell and futures contracts are contracts to deliver or receive financial instruments, foreign currencies or commodities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange traded) and require 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. 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 due to nonperformance of counterparties to futures contracts is minimal. In contrast, forward contracts traded over-the-counter are generally negotiated between two counterparties and are subject to credit risks due to nonperformance of one of the counterparties and to market risks as a result of adverse fluctuations in market prices, interest rates and foreign exchange rates.

Options, which may be either exchange traded or negotiated directly between two counterparties over the counter, grant the holder the right, but not the obligation, to purchase or sell 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 which is reflected as an asset on the financial statements. The System then retains the right but not the obligation to exercise the option and purchase the underlying financial instrument. Should the option not be exercised, it would expire worthless and the premium would be 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 which is reflected as a liability on the financial statements and bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Forward, futures 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 are exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates. At June 30, 2001, the System had purchased S&P and Russell Index futures and options on Eurodollar and Treasury bond note futures, including options on Eurodollar futures, with a market value of \$1,497,562,000 and sold S&P Index futures and options on Eurodollar and Treasury bond and note futures, including options on these futures, with a net market value of \$355,993,000. At June 30, 2001, the System had pledged as collateral U.S. Treasury and U.S. Government Agency securities with a total market value of \$166,556,000 as the margin requirement for futures contracts.

7. Foreign Exchange Contracts

Foreign exchange contracts include forward, futures and options contracts and involve either the exchange of specific amounts of two currencies or the delivery of a fixed amount of a currency at a future date and specified exchange rate. Forward and futures contracts settle three or more business days from the contract date. Forward contracts are negotiated over-the-counter between two counterparties, while futures contracts are exchange traded. Foreign currency options, which are either negotiated between two counterparties or are exchanged traded, grant the buyer the right, but not the obligation, to purchase or sell at a specified price, a stated amount of an underlying currency at a future date. At June 30, 2001, the System had sold foreign currency contracts with a market value of \$98,436,000 and had purchased foreign currency contracts with a market value of \$97,424,000.

Foreign exchange contracts 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 the foreign currencies. 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 is usually 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.

8. Asset-Backed Securities

In the area of on-financial statement instruments with derivative-like characteristics, the System invests in various asset-backed securities such as collateralized mortgage obligations (CMO), principal-only strips (PO) and interest-only strips (IO) primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets. CMO securities are bonds collateralized by mortgage-backed securities and issued in several tranches which represent a reallocation of the underlying mortgage-backed securities cash flows. Both PO and IO securities are created by splitting the asset-backed

securities into principal-only and interest-only portions. At June 30, 2001, the System held CMO securities with a market value of \$271,260,000 and IO and PO securities with a market value of \$2,666,000.

The credit risks on the various asset-backed securities in which the System invests are usually very low. Many of the securities held by the System are issued by quasi-U.S. governmental agencies. Others are issued by organizations with AAA or AA credit ratings. The market risk of these securities is dependent on changes in interest rates and the level of the underlying prepayments, i.e., when the underlying principal and interest are repaid by the mortgagors.

6. Property, Plant, Furniture and Equipment

The summary of property, plant, furniture and equipment at June 30, 2001 and 2000 is as follows (in thousands):

	June 30, 2001	Accumulated Depreciation	Net June 30, 2001	Net June 30, 2000
Land.....	\$ 1,368	\$ —	\$ 1,368	\$ 1,368
Building	4,632	(347)	4,285	4,401
Furniture and equipment	3,130	(2,334)	796	954
Total	\$ 9,130	\$(2,681)	\$ 6,449	\$ 6,723

Depreciation expense amounted to \$365,000 and \$352,000 in 2001 and 2000, respectively.

7. Operating Leases

The System is committed under various operating leases for equipment. In general, the leases are for a 3-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 fiscal year ended June 30, 2001, was \$430,000. The System has, as of June 30, 2001, the following total future minimum rental payments due under the above leases (in thousands):

2002	\$ 352
2003	260
2004	113
Total future minimum rental payments	\$ 725

8. Defined Benefit Pension Plan

Contributions to Pension Plan:

All full-time, salaried, permanent employees of the System are employees of the Commonwealth and are included in the Commonwealth's participation in the Virginia Retirement System (VRS), a defined benefit pension plan administered by the System. The Commonwealth, not the System, has overall responsibility for contributions to this plan and other postemployment benefit plans.

Information regarding types of employees covered, benefit provisions, employee eligibility requirements, including eligibility requirements for vesting and the authority under which benefit provisions as well as employer and employee obligations to contribute are established, can be found in Note 2A. Additional information on funding policy and contributions required and made can be found in Note 3. Information on the actuarial method and assumptions can be found in the "Notes to Required Supplementary Information."

Historical trend information showing the Commonwealth of Virginia's progress in accumulating sufficient assets to pay benefits when due is presented in the Commonwealth's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001.

9. Postemployment and Other Benefit Programs Other than Pension Benefits

A. Life Insurance Benefits:

The Commonwealth of Virginia participates in the System-administered Group Life Insurance program which provides postemployment life insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. There were approximately 97,027 state employees and 35,916 retirees in the program during FY2001. Information regarding eligibility requirements and benefit provisions as well as contribution requirements can be found in Note 2B.

Postemployment life insurance benefits are advance-funded, based on biennial actuarial computations using the aggregate cost actuarial method. The significant actuarial assumptions used were the same as those used to prepare actuarial valuations of the System-administered pension plans at June 30, 1998,

and the modified market value of plan assets was used for valuation purposes.

Separate measurements of assets and actuarial accrued liabilities are not made for individual employers participating in the program. The accrued liabilities for postemployment death benefits actuarially determined through an actuarial valuation performed as of June 30, 2000, were \$1,352.4 million. The actuarial value of the program's assets available for benefits on that date was \$892.4 million, leaving a present value of future contributions of \$460.0 million. The System's contribution requirements for its employees for the fiscal years ended June 30, 2001 and 2000 were \$72,000 and zero, respectively. The General Assembly of Virginia granted a contribution holiday for FY2000.

B. Retiree Health Insurance Credits:

The Commonwealth of Virginia provides health insurance credit reimbursements, in accordance with state statutes, against the monthly health insurance premiums of its retirees who have at least 15 years of service. The monthly credit amounts to \$4.00 per year of service, not to exceed a maximum credit of \$120.00. All state agencies are required to contribute to the program at an actuarially determined percent of their payroll. Contributions are being financed on a current disbursement basis. Approximately 25,813 state retirees were receiving health insurance credits at June 30, 2001. Information regarding eligibility requirements and benefit provisions as well as contribution requirements can be found in Note 2C. The System's contribution requirements for its employees for the fiscal years ended June 30, 2001 and 2000 were \$101,000 and \$2,000, respectively. The General Assembly of Virginia granted a contribution holiday for FY2000.

C. Virginia Sickness and Disability Program:

By providing sick leave, family and personal leave, and short- and long-term disability benefits, the VSDP gives its members income protection from their very first day on the job. At June 30, 2001 there were approximately 43,983 participants enrolled in the program.

For the fiscal year ended June 30, 2001, state agencies were required to contribute to the program at the actuarially estimated rate of 0.83% of payroll for state employees and 1.10% for state police officers and state law enforcement and correctional officers other than state police officers. The System's contribution

requirements for its employees for the fiscal years ended June 30, 2001 and 2000 were \$75,000 and \$63,000, respectively.

10. Litigation

The System, its Board of Trustees, officers and employees are defendants in claims and lawsuits now pending, in progress or which have been settled since June 30, 2001. It is not reasonably possible at the present time to estimate the ultimate outcome or liability, if any, with respect to the various proceedings. However, on the basis of advice received from the Attorney General and outside counsel who have reviewed the status of these claims and lawsuits, it is the opinion of management that such liability, if any, would not have a material adverse effect upon the financial condition of the System.

11. Risk Management

In order to cover its exposures to various risks of loss, the System, an independent agency of the Commonwealth of Virginia, participates in the Commonwealth's self insurance plans for state employee health care and risk management insurance. The latter includes property, general (tort) liability, medical malpractice and automobile plans. The System's employees are covered by the Commonwealth's worker's compensation program administered by the Department of Human Resources. In addition, the System is self-insured for fiduciary liability and director's and officer's liability insurance under a program administered by the Commonwealth's Division of Risk Management. There were neither any claims nor any reductions in coverage during FY2001 and three preceding fiscal years.

12. Commitments

The System extends investment commitments in the normal course of business, and at June 30, 2001 and 2000, these commitments amounted to \$1,628,699,621 and \$1,506,910,447, respectively.

13. Transfers

The System recorded a transfer of assets from the State member and employer reserves of VRS to VaLORS to reflect the actuarial value of the prior VaLORS-type service for members eligible for VaLORS coverage on October 1, 1999.

14. Subsequent Event

Subsequent to June 30, 2001, equity markets have experienced significant declines. VRS management estimates the market value of investments held by the trust funds declined from \$37,892,606,000 as of June 30, 2001 to approximately \$34,282,920,000 as of September 30, 2001 or 9.5%. The amount of assets and reserves required to meet future obligations are based, in part, on long-term investment returns and management does not expect the recent decline in market value will have a significant effect on future funding requirements.

15. Pending GASB Statement

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999, will be effective for the Commonwealth for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The changes to the System's general purpose financial statements will be minimal since its activity is accounted for in pension and postemployment benefit trust funds. However, the Systems' management will be required to provide a management's discussion and analysis that gives readers an analysis of the agency's overall financial position and results of operations including a comparison of current year results with the prior year. The System has completed its assessment of the changes required by this Statement and is preparing for implementation.

Required Supplemental Schedule of Funding Progress

Schedule 1

(Dollars in Millions)

Biennial Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)–Entry Age (b)	Unfunded AAL (UAAL) (a–b)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll (b–a)/(c)
Virginia Retirement System (VRS)						
2000**	\$ 34,374	\$ 32,637	\$ (1,737)	105.3%	\$ 9,529	(18.2%)
1999	29,804	31,419	1,615	94.9%	9,138	17.7%
1998*	25,481	29,027	3,546	87.8%	8,638	41.1%
1996**	19,032	23,842	4,810	79.8%	7,769	61.9%
1994	14,891	20,405	5,514	73.0%	7,274	75.8%
State Police Officers' Retirement System (SPORS)						
2000**	\$ 441	\$ 513	\$ 72	86.0%	\$ 81	88.9%
1999	377	463	86	81.4%	77	111.7%
1998*	322	425	103	75.8%	65	158.5%
1996**	243	371	128	65.5%	60	213.3%
1994	201	277	76	72.6%	58	131.0%
Virginia Law Officers' Retirement System (VaLORS)						
2000***	\$ 307	\$ 680	\$ 373	45.1%	\$ 315	118.4%
Judicial Retirement System (JRS)						
2000**	\$ 245	\$ 330	\$ 85	74.2%	\$ 45	188.9%
1999	210	302	92	69.5%	42	219.0%
1998*	180	274	94	65.7%	39	241.0%
1996**	138	243	105	56.8%	36	291.7%
1994	115	199	84	57.8%	33	254.5%

* Change in benefit formula, unreduced early retirement age and in the actuarial amortization method.

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

***The first actuarial valuation for the Virginia Law Officers' Retirement System, established on October 1, 1999, was performed as of June 30, 2000.

Required Supplemental Schedule of Employer Contributions Schedule 2

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
Virginia Retirement System (VRS)				
2001*	\$ 630,458	99.99%	\$ 630,370	100.00%
2000*	785,376	93.24%	732,273	100.00%
1999*	738,051	85.64%	632,084	100.00%
1998*	757,164	71.06%	538,016	100.00%
1997**	720,436	61.91%	446,005	100.00%
State Police Officers' Retirement System (SPORS)				
2001	\$ 20,420	100.00%	\$ 20,420	100.00%
2000*	17,684	85.07%	15,044	100.00%
1999*	16,088	69.87%	11,241	100.00%
1998*	11,764	71.70%	8,435	100.00%
1997**	11,099	64.69%	7,180	100.00%
Virginia Law Officers' Retirement System (VaLORS)				
2001	\$ 51,072	100.00%	\$ 51,072	100.00%
2000***	16,216	84.81%	13,753	100.00%
Judicial Retirement System (JRS)				
2001	\$ 20,822	100.00%	\$ 20,822	100.00%
2000*	15,075	99.07%	14,935	100.00%
1999*	14,118	91.64%	12,938	100.00%
1998*	12,873	86.74%	11,166	100.00%
1997**	12,378	83.43%	10,327	100.00%

* Contributions made by employers during the fiscal years ended June 30, 1998, 1999, 2000 and 2001 were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet the statutory requirements. Beginning with FY1998, all employers were provided an option to elect an annual contribution that met the parameters of the ARC, which includes full pre-funding of the automatic cost-of-living increases (COLAs) for retirees, or an annual contribution that would phase in the parameters over a five-year period ending with FY2002.

** Contributions made by employers during the fiscal year ended June 30, 1997 were in accordance with statutory requirements which differ from the actuarially determined Annual Required Contributions (ARC) primarily because statutory required contributions funded cost-of-living increases (COLAs) for retirees on a current disbursement basis. Contribution information that meets the ARC parameters of GASB Statement No. 25 is unavailable for fiscal years prior to FY1997.

*** The VaLORS program was effective on October 1, 1999.

Notes to Required Supplemental Schedules

Actuarial Methods and Significant Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2000
Actuarial Cost Method	Entry Age Normal
Amortization Method:	
State Employees	Level percent, open
Political Subdivision Employees	Level percent, open
Teachers	Level percent, open
State Police /VA Law Officers /Judges	Level percent, closed
Payroll Growth Rate	3.00%
Remaining Amortization Period:	
State Employees	0 Years
Political Subdivision Employees	0 to 30 Years
Teachers	8 Years
State Police /VA Law Officers /Judges	26 Years
Asset Valuation Method	Modified Market
Actuarial Assumptions:	
Investment Rate of Return*	8.00%
Projected Salary Increases:*	
State /Political Subdivision Employees	4.25% to 6.10%
Teachers	4.00% to 6.10%
State Police /VA Law Officers	4.50% to 5.75%
Judges	5.00%
Cost-of-Living Adjustments	3.00%

* Includes inflation at 3.00%

Schedule of Administrative Expenses
Years Ended June 30, 2001 and 2000
Schedule 3

(Expressed in Thousands)

	2001	2000
Personal Services:		
Salaries and wages	\$ 9,993	\$ 8,678
Per diem services	225	228
Retirement contributions	1,036	836
Social Security	632	618
Group life and medical insurance	898	571
Compensated absences	194	167
Total personal services	12,978	11,098
Professional Services:		
Data processing	3,538	3,856
Actuarial and consulting	1,437	564
Legal	336	264
Medical	233	239
Management services	100	145
Public information services	19	—
Personnel development services	64	13
Total professional services	5,727	5,081
Communication Services:		
Media	67	90
Printing	688	564
Postal and delivery	478	456
Telecommunications	171	249
Total communication services	1,404	1,359
Rentals:		
Business equipment	305	177
Office space	125	103
Total rentals	430	280
Other Services and Charges:		
Skilled and clerical services	111	123
Depreciation	365	352
Dues and memberships	41	56
Building expense	338	355
Equipment	427	485
Insurance	63	20
Repairs and maintenance	57	15
Supplies and materials	170	162
Travel and training	766	635
Miscellaneous	43	20
Total other services and charges	2,381	2,223
Total Administrative Expenses (GAAP basis)	22,920	20,041
Adjustments necessary to convert administrative expenses on the GAAP basis to the budgetary basis at year end (net)	(681)	(232)
Administrative Expenses (Budgetary basis)	\$ 22,239	\$ 19,809
Administrative Expenses Appropriated	\$ 24,959	\$ 21,826
Distribution of Administrative Expenses:		
Total Administrative Expenses (GAAP Basis)	\$ 22,920	\$ 20,041
Less: In-house Investment Management	(6,988)	(5,716)
Net Administrative Expenses	\$ 15,932	\$ 14,325

**Schedule of Investment Expenses
for the Year Ended June 30, 2001
Schedule 4**

(Expressed in Thousands)

Management fees:

Domestic managers	\$ 5,786	
Non-U.S. equity managers.....	10,021	
Fixed income managers	5,514	
Real estate managers.....	11,560	
Alternative investment managers	48,547	
Subtotal management fees		\$ 81,428

Performance fees.....

26,744

Total management and performance fees.....

108,172

Miscellaneous fees and expenses:

Custodial fees.....	1,889	
Legal fees.....	85	
Taxes and ADR and wire fees.....	14	
Other fees and expenses	425	
Subtotal miscellaneous fees and expenses.....		2,413

In-House Investment Management.....

6,988

Total investment expenses

\$ 117,573

**Schedule of Professional and Consulting Services
for the Year Ended June 30, 2001
Schedule 5**

(Expressed in Thousands)

Actuarial, Legal and Oversight Services:

Attorney General of Virginia	Legal Services	\$ 116	
Joint Legislative Audit Review Commission	Oversight Responsibilities	96	
Troutman Sanders Mays & Valentine, LLP	Legal Services	135	
Watson Wyatt Worldwide	Actuarial Services	630	
Subtotal Actuarial, Legal and Oversight Services			\$ 977

Consulting Services:

Aitius Associated Limited	Investment Consultant Services	58	
Boynton Rothschild Rowland Architects, PC	Architectural Services	9	
Clear Management Human Resource Consultants	Consulting Services	54	
Cost Effectiveness Measurement Inc.	Cost Driver Benchmarking	40	
Gartner Group, Inc.	Knowledge Management Consultant	88	
Groom Law Group, Chartered	VRS Compliance Audit Consultant	90	
Lane & Associates, PC	VSDP Policy Development	11	
Medical Board	Medical Examiners	53	
Palmer & Cay Consulting Group	Consulting Services	52	
Pension Consulting Alliance Inc.	Real Estate Services	80	
Social Security Disability Consultants	Social Security Advocacy	34	
Strategic Economic Decisions, Inc.	Economic Advisory Services	20	
VCU Center for Public Policy	Strategic Planning Consultants	24	
Subtotal Consulting Services			613

Total

\$ 1,590

OUR FAVORITE TEACHERS

JOEL DEXTER

JAMES RIVER HIGH SCHOOL, CHESTERFIELD COUNTY



Most people bring back souvenirs from their travels, and Joel Dexter, a former history teacher at James River High School in Chesterfield County, Virginia, is no exception. Dexter's souvenirs typically found their way into the classroom, becoming props in discussions of U.S. and world history. "Ninth graders are so open to new ideas," Dexter said. "It's wonderful to see them realize that the world is much larger than they thought it was."

Now an instruction specialist for social studies K-12, Dexter spends his days writing curricula, training teachers and choosing textbooks. But during his 27 years as a teacher, he found unique ways to excite his students and transport them to different times and places. To start a discussion about the Middle Ages, for example, Dexter



would show a film clip from *Monty Python and the Holy Grail*. To interest students in ancient Greece, he would hold a moot court to reenact the trial of Socrates. During school breaks, said Rolly Butts, mother of Sarah Butts, a former student, "Mr. Dexter took groups of high school

travel through China; and a grant in 2000 to study at Oxford. These awards have enabled him to visit about a dozen countries and collect artifacts and stories for the enrichment of his students. One goal of his 1993 trip to study Native American culture, he said, was "to bring out the

"NOT ONLY IS HE A FABULOUS TEACHER, HE IS ALSO AN ADULT WHO KNOWS HOW TO CONNECT WITH STUDENTS."

students on overseas trips to enrich their experiences and instill a love of history. Not only is he a fabulous teacher, he is also an adult who knows how to connect with students."

Dexter has been the recipient of many honors through the years, including a 1992 grant to study in Germany; the 1993 R.E.B. Award for Teaching Excellence, which he used to study Native American reservations and ruins across the United States; a 1997 Fulbright scholarship to

way life really is for Native Americans today. I want to dispel the stereotypes people have in their heads."

Dexter credits a "crazy world history teacher" he had in the ninth grade for giving him the teaching bug. In turn, Dexter's passion for history rubbed off on Sarah Butts, who considers him her favorite teacher. "He was so inspiring," said her mother, "that Sarah went on to pursue a double major in history and anthropology."

OUR FAVORITE TEACHERS

MARY LEE ELLIS

KING GEORGE HIGH SCHOOL, KING GEORGE COUNTY



Most children would not choose to be students in a class taught by their mother, but for Lynda Buncie, who nominated Mary Lee Ellis for the Favorite Teacher award, 11th grade English in her mother's classroom was an exhilarating experience. Once, while the class was studying Edgar Allen Poe, Ellis turned off the lights to heighten the experience of hearing *The Telltale Heart*. After that, said Buncie, "I couldn't wait to read the rest of his works. She introduced us to a world of the greatest authors and titles of the century. It was not until I had the privilege of having Mrs. Mary Lee Ellis ... that I truly 'learned' to read."



Retired in 1988 from King George High School in King George County, Virginia, after 41 years of teaching, Ellis has two daughters, both of whom learned from her firsthand about the rigors and



rewards of an 11th grade literature class. “[School administrators] didn’t let all the teachers instruct their own children,” said Ellis. “I felt honored that they trusted I wouldn’t show favoritism.”

Mary Lee Ellis pushed her high school students not just to achieve but to achieve to her high standards, and, in the process, to believe in

professor. The grade was subsequently changed to an A,” Ellis recalled, with a touch of pride. “Things like that make teaching worthwhile—seeing young people learning, then leaving high school and succeeding.”

Ellis, who still tutors and substitute teaches when she isn’t playing a round of golf, was

“IT WAS NOT UNTIL I HAD THE PRIVILEGE OF HAVING MRS. MARY LEE ELLIS ... THAT I TRULY ‘LEARNED’ TO READ.”

themselves. One of Ellis’s former students, who went on to the University of North Carolina, reported to her that during his freshman year at college, a professor had given him an incomplete on a paper; the instructor was unwilling to believe the student could have written such a perfect report. “The student went home to get his first draft, note cards, and references to show the

surprised and delighted to learn that her daughter had nominated her for the award. But she still hasn’t lowered her exacting standards. After reading her daughter’s nomination essay, she exclaimed, “Lynda, I need to edit this! It has some mistakes!”





INVESTMENT SECTION

INVESTMENT ACCOUNT

The VRS investment account consists of funds contributed by both employers and employees of Virginia's state agencies, teachers, state police, law enforcement, and many local governments. These contributions are pooled and invested to provide for the payment of current and future benefits to these participants when they retire. The VRS Board of Trustees has the responsibility to invest the account solely in the interest of the beneficiaries of the system.

Account Objectives

Each individual's retirement benefit is based on a formula that takes into account years of service and salary. VRS utilizes an actuarial process in order to estimate what the aggregate of these benefit payments will look like into the future. This process includes certain assumptions about the long-term rate of return necessary to meet the liabilities, along with other assumptions about the demographics of the workforce and the growth of salaries. Based on this analysis, one of the objectives of the account is to meet the long-term actuarial return assumption, currently 8%. Meeting this objective will help maintain the stability of the required contributions and the System's funded status.

The Board of Trustees has also established intermediate-term objectives related to certain benchmark indices to measure the ongoing success of the investment program over 5 to 10 year periods. These objectives serve as management tools to help judge the progress toward achieving long-term goals.

Investment Strategies

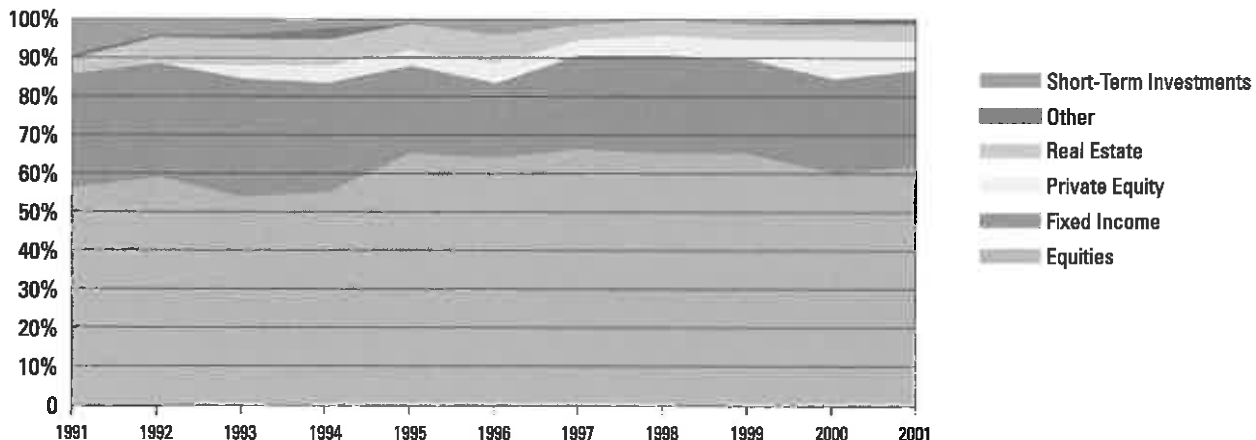
In order to achieve these objectives, the Board of Trustees has adopted various investment policies and guidelines and retains a professional investment staff, as well as outside managers, to advise and assist in the implementation of these policies. As established

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." The investment horizon of the fund's portfolio reflects the long-term nature of VRS' pension obligations.

Every four years, the Board conducts an asset allocation study, incorporating an analysis of the long-term liabilities of the plan. The results of this study help the Board to determine its long-term risk tolerance and devise a strategic asset allocation strategy designed to maximize the expected return of the fund while controlling risk. Diversification among investments, which individually may be volatile in the short run, provides a framework for this asset allocation strategy. This study was completed during this fiscal year in December 2000. While there were no revisions to the long-term strategy, the Board did revise its investment policy to allow a higher maximum exposure to alternative investments (20%) and a lower minimum exposure to domestic equity (40%). Other policy restrictions include required minimums of 55% in public equity and 20% in fixed income.

The graph below demonstrates the long-term nature of the evolution of asset allocation.

Investment Comparison at Fair Market Value



Investment Results

The 11.5% annualized five-year return for the total fund remains well ahead of the 8% actuarial assumption despite the first negative one-year return to the fund since 1984. This negative return was attributable to the correction under way in both the domestic and international equity markets. The bursting of the so-called "technology bubble" also had a significant impact on our venture capital investments in

the private equity portfolio. Once again, our philosophy of managing a diversified portfolio helped to dampen the one-year negative returns. The real estate portfolio earned 14.1% and the fixed income portfolio earned 11.7% over the past 12 months. Considering the unprecedented returns the fund has earned over the past 15 years, it is unrealistic to not expect some years when returns are below average.

Investment Performance Summary

Annualized Data for Periods Ending June 30, 2001

	1 Year	3 Years	5 Years
1. Total Fund Time Weighted Returns			
VRS	-7.4%	6.2%	11.5%
Inflation (CPI)	3.3%	2.9%	2.6%
Actuarial Assumed Return	8.0%	8.0%	8.0%
2. Total U.S. Equity			
VRS	-12.2%	3.1%	13.0%
Russell 3000 Index	-13.9%	4.2%	13.8%
3. Total Non-U.S. Equity			
VRS	-25.2%	-0.1%	0.9%
Salomon BMI Global ex-US	-22.0%	0.9%	0.3%
4. Total Fixed Income			
VRS	11.7%	6.3%	7.7%
Lehman Brothers VRS Benchmark	11.2%	6.3%	7.5%
5. Total Real Estate			
VRS	14.1%	9.2%	11.4%
Custom Benchmark	15.3%	12.5%	12.9%
6. Total Private Equity			
VRS	-15.2%	34.6%	34.5%
Custom Benchmark	-11.4%	6.7%	16.3%

Investment return calculations were prepared using a time-weighted rate of return based on AIMR's performance presentation standards.

PORTFOLIO HIGHLIGHTS

U.S. Equity

Publicly traded domestic stocks totaled \$18.1 billion at year-end, approaching 48% of the total fund. Seventy-one percent of the portfolio was invested in passive strategies and 20% managed internally. The objective of the portfolio is to exceed the return of the Russell 3000 Index over three year periods net of all costs.

The U.S. Equity program outperformed the benchmark Russell 3000 Index during the fiscal year by 1.7%. The market as a whole, however, had significant negative returns due to the slowing economy and the return of equity valuations to more normal territory. During the year, the Russell 3000 Index was down 13.9% and the NASDAQ lost 45%.

In a reversal of fortune, value stocks outperformed growth stocks, especially in the mid and smaller capitalization companies.

	1-Year Total Return June 30, 2001
Russell Top 200 Growth	-37.2%
Russell Top 200 Value	5.0%
Russell MidCap Growth	-31.5%
Russell MidCap Value	24.1%
Russell 2000 Growth	-23.3%
Russell 2000 Value	31.1%

The VRS portfolio remained fairly close to the markets' exposure in individual economic sectors. At year-end the portfolio had a slight underweight in the Health Care and Technology sectors, with the largest overweight in the Materials and Processing sector.

Sector	VRS Exposure	Russell 3000 Index	1-Year Return
Autos and Transportation	2.5%	2.3%	18.5%
Consumer Discretionary	13.4%	13.3%	-6.2%
Consumer Staples	6.1%	6.0%	13.1%
Financial Services	20.5%	20.5%	24.9%
Health Care	13.6%	14.3%	-5.0%
Integrated Oils	3.9%	3.9%	15.9%
Materials and Processing	3.8%	3.3%	20.0%
Other	5.3%	5.1%	-1.5%
Other Energy	2.4%	2.4%	-5.1%
Producer Durables	3.7%	3.4%	-13.0%
Technology	15.5%	16.3%	-52.1%
Utilities	9.3%	9.2%	-17.1%

The top 10 holdings in the U.S. Equity program comprised 18.9% of the program at year-end. In addition to representing a smaller portion of the total portfolio than last year's 20.8%, three large technology companies have fallen from the list. Cisco Systems, Oracle, and Lucent Technologies have been replaced by AOL Time Warner, American International Group, and Johnson & Johnson.

Company	Market Value	Shares Held
General Electric Co.	\$630,398,067	13,676,408
Exxon Mobil Corp.	412,416,225	4,779,037
Microsoft Corp.	378,894,617	5,806,514
Pfizer Inc.	365,930,775	8,972,582
Citigroup Inc.	361,941,285	7,315,893
AOL Time Warner Inc	285,761,583	5,618,218
Intel Corp.	263,556,982	9,449,366
International Business Machines Corp.	240,710,109	2,346,445
American International Group Inc.	237,890,162	2,818,045
Johnson & Johnson	225,838,832	4,307,989

Non-U.S. Equity

Almost 15% of the total portfolio was invested in foreign stocks at year-end. Forty-seven percent of this portfolio is managed passively and all assets are managed externally. Ninety-five percent of the portfolio was invested in developed countries and 5% in emerging markets. The objective of the program is to exceed the return of the unhedged Salomon Smith Barney BMI Global ex US Index over three-year periods net of all costs.

Non-U.S. markets took the lead of the U.S. market, experiencing a significant negative return for the year. The VRS benchmark, the Salomon Smith Barney BMI World ex US, lost 22.0% during this time. Over one-half of the negative return was due to the appreciation of the U.S. dollar.

Value stocks also mirrored the U.S. experience and outperformed growth in all regions of the developed markets. In addition, small capitalization stocks outperformed large.

Fixed Income

At year-end over \$9 billion was invested in fixed income, almost 25% of the total portfolio. Of this amount, 40% was invested passively, the majority of which (34%) was managed in-house. The objective of the program is to exceed the return of the VRS custom Lehman Index over rolling three-year periods net of all costs.

This was a very good year for the Fixed Income portfolio. The 11.7% return beat the benchmark return of 11.2%, both well above historical averages and future expectations.

Bond returns were strong over the last year as the economy weakened and inflation pressures eased. In January the Federal Reserve initiated the first of six interest rate reductions before the end of the fiscal year. The impact of this action on the yield curve was significant as short-term Treasury yields fell by over 2.5%. Long-term yields remained relatively high due to the reduced expectations for the government budget surplus and the associated pay down of long-term Treasury debt. Both corporate bonds and mortgage securities performed well over the last year, although prepayment fears began to limit the price performance of the mortgages as the rally progressed.

Fixed Income Portfolio As of June 30, 2001

Sector Allocation: Sector	Market Value (in millions)	% Portfolio
U.S. Government/Agency	\$2,157	23.3%
Corporate	2,372	25.6%
Mortgage/Asset Backed	4,346	46.9%
Foreign	332	3.6%
Other	59	0.6%
Total	\$ 9,266	100.0%

Credit Quality Breakdown: Rating	Market Value (in millions)	% Portfolio
U.S. Government/Agency	\$5,271	56.9%
AAA	1,425	15.4%
AA	473	5.1%
A	1,158	12.5%
BBB	741	8.0%
BB	132	1.4%
B	0	0.0%
NR	66	0.7%
Total	\$9,266	100.0%

Portfolio Characteristics:

Characteristic	Value
Average Quality	AAA
Average Duration	4.9
Average Yield	6.5

VRS Fixed Income: Top 10 Holdings by Market Value As of June 30, 2001

Par	Security Description	Market Value
155,729,000	GNMA 6.500% 30-year MBS	\$154,025,325
96,900,000	FNMA 7.500% 30-year MBS	98,822,859
77,675,000	FHLMC 6.875% 9/15/2010	81,501,273
86,750,000	U.S. Treasury Bonds 5.250% 2/15/2029	79,440,442
92,105,000	Republic of Italy 5.000% 6/15/2003	78,880,616
76,700,000	GNMA 7.000% 30-year MBS	77,371,125
58,450,000	FNMA 6.500% 8/15/2004	60,757,605
56,000,000	FHLMC 6.000% 6/1/2016	55,212,080
55,000,000	FNMA 7.000% 30-year MBS	55,116,050
55,710,000	U.S. Treasury Notes 4.625% 5/15/2006	54,939,529

Short-Term Investments

As a general rule, 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. The return on such investments approximates the return on 90-day U.S. Treasury bills, which was 5.89% over the last year.

Alternative Investments

The VRS Board policy allows for up to 20% of the portfolio to be invested in an Alternative Investments program. The objective of the program is to improve the expected risk/return profile of the total fund. Currently the program has investments in Real Estate and Private Equity. At June 30, 2001, Alternative Investments comprised 12.2% of the portfolio.

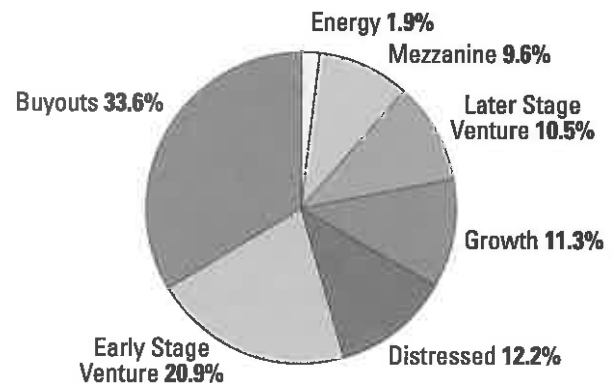
Private Equity

VRS invests in Private Equity in order to achieve returns greater than those available in the public equity markets. Specifically, the program seeks to earn 2.5% over the return for the Russell 3000 Index annually. The results are measured differently from the publicly traded investments in that a dollar-weighted or internal rate-of-return (IRR) calculation is considered more appropriate. Based on this methodology, the Private Equity IRR since program inception (1989) was an annualized 28.5%. Comparatively, a dollar-weighted return for the Russell 3000 Index over the same time frame would be 17.9%.

As of June 30, 2001, the appraised value of the program was approximately \$2.5 billion or close to 7% of the portfolio. The majority of the program is invested in limited partnerships that invest in venture capital and buyouts. Other sectors include growth, mezzanine, distressed, and energy.

In the shorter term, the Private Equity program has been greatly impacted by the rise and fall of the technology or "dot.com" sector of the market. The time-weighted return for the program in 2000 was over 148%, while this year it returned -15.2%. The long-term returns remain strong, however, and the program has generated an excess cash flow of over \$900 million since inception.

Private Equity



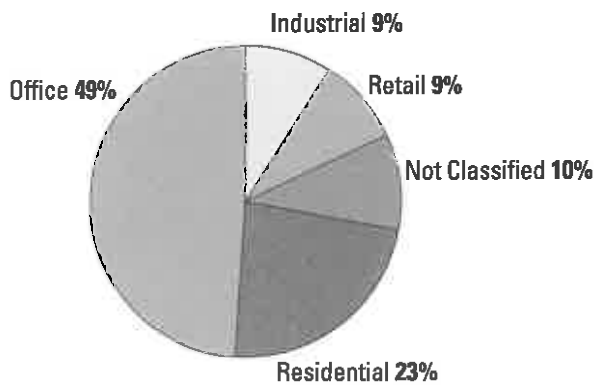
Real Estate

A portion of the Alternative Investments portfolio is invested in Real Estate in order to diversify the total fund and give it exposure to an asset class that has low correlation with the public markets. The program was the best performing asset class in 2001, returning 14.1%. A significant portion of this performance came from the public market or Real Estate Investment Trusts (REITs), which returned over 22% for the year.

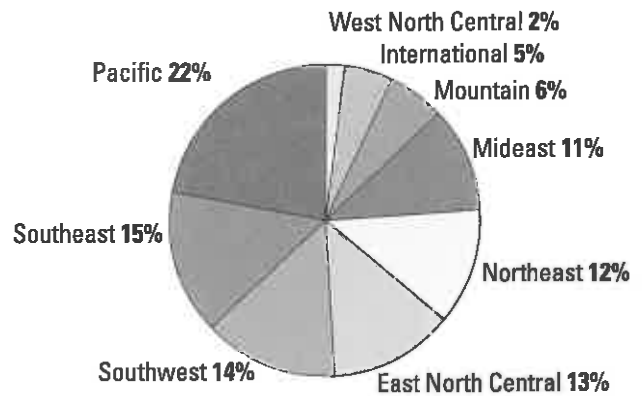
The characteristics of the Real Estate portfolio remained stable over the year. At year-end the portfolio was composed of approximately 23% in public real estate and 77% in private assets. Debt as a percentage of total real estate assets remained at a conservative level of 33%.

Diversification Characteristics

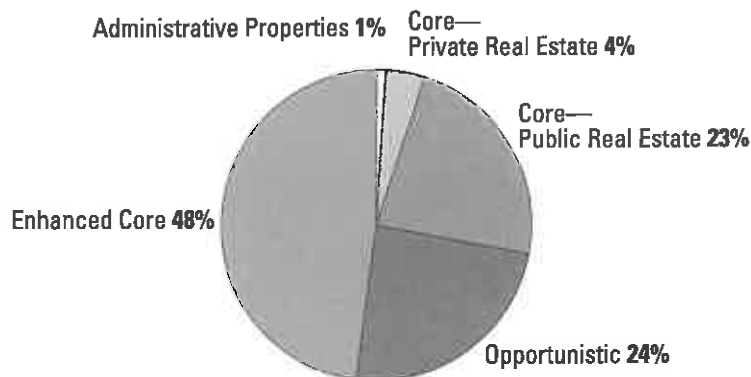
By property type



By region



By risk and return



VRS MONEY MANAGERS

The diversified investment structure as of June 30, 2001, is reflected in the following table, which lists all VRS managers by investment program and style.

U.S. Equity	Style Description	VRS Assets Under Management as of June 30, 2001 (in millions)	VRS Management Fees Paid in FY2001 (in millions)
External Asset Management			
Aronson & Partners	Medium-Small	\$ 147	\$ 0.2
Credit Suisse Asset Management	Broad Market	490	1.3
Fan Asset Management	Broad Market	191	0.3
Fiduciary Asset Management	Broad Market	345	0.7
Franklin Portfolio Associates	Medium-Small	128	0.2
Freeman Associates Investment	Broad Market	225	0.6
Goldman Sachs Asset Management	Small	348	0.8
J.P. Morgan Investment Management	Broad Market	425	0.9
Progress Invest Management Company	Broad Market	291	0.5
State Street Global Advisors	Broad Market	11,601	0.3
Symphony Asset Management	Broad Market	369	1.0
Subtotal		14,560	6.8
Internal Asset Management*			
Chesapeake	Medium Growth	226	—
Skyline Value	Medium Value	355	—
Dominion Growth	Large Growth	1,024	—
Tidewater Value	Large Value	873	—
Potomac Core	Broad Market	255	—
Equal Weighted S&P 500	Equal Weighted S&P 500	836	—
Subtotal		3,569	0.0
Total Incentive Fees Paid (Current Managers)		—	14.3
Total Fees Paid (Terminated Managers)		—	0.7
Total U.S. Equity		\$ 18,129	\$ 21.8

VRS Money Managers, continued

Non U.S. Equity	Style Description	VRS Assets Under Management as of June 30, 2001 (in millions)	VRS Management Fees Paid in FY2001 (in millions)
Acadian Asset Management	Emerging Markets/SSB PMI Emerging Markets	\$ 165	\$ 0.8
Baillie Gifford	Developed Market/SSB PMI Developed Markets	358	0.5
Blackrock International	International Small Cap/SSB EMI Global ex U.S.	182	—
Capital Guardian	International Small Cap/SSB EMI Global ex U.S.	372	1.3
Goldman Sachs International	International Small Cap/SSB EMI Global ex U.S.	191	1.1
Nicholas Applegate	International Small Cap/SSB EMI Global ex U.S.	193	0.4
Northern Trust	Developed Markets/SSB PMI Developed Markets	114	—
Robeco	Developed Markets/SSB PMI Developed Markets	349	0.5
Sanford Bernstein	Developed Markets/SSB PMI Developed Markets	395	0.5
Schroders	Emerging Markets/SSB PMI Emerging Markets	149	1.2
State Street Global Advisors	Passive Developed Markets/SSB Developed BMI	2,606	0.4
T. Rowe-Price International	Emerging Markets/SSB PMI Emerging Markets/ Developed Markets/SSB PMI Developed Markets	438	2.7
Subtotal		5,512	9.4
Total Incentive Fees (Current Managers)		—	5.7
Total Fees Paid (Terminated Managers)		—	1.5
Total Non-U.S. Equity		\$ 5,512	\$16.6
Fixed Income			
Agincourt	Core/External Active	\$ 174	\$ 0.2
BlackRock	Core/External Active	2,645	2.4
Wellington Capital	Core/External Active	1,337	1.5
Western Asset Management	Core/External Active	1,405	1.4
BlackRock	External Passive	536	0.3
VRS Internal*	Internal Passive	3,169	—
Total Fixed Income		\$ 9,266	\$ 5.8
Private Equity			
Private Equity**		\$ 2,562	\$ 8.5
Cash			
VRS Cash		\$ 112	\$ —
Treasurer of Virginia		78	—
Total Cash		\$ 190	\$ —

VRS Money Managers, continued

Real Estate Program	Account	Year Funded or Committed	Market Value as of June 30, 2001 (in millions)	VRS Management Fees Paid FYE June 30, 2001 (in millions)
Core Private Real Estate				
J.P. Morgan	Real Estate Fund	1986	\$ 63.7	\$ 0.7
Subtotal			63.7	0.7
Core Public Real Estate				
Clarion•CRA	REIT Portfolio	1995	388.7	0.6
Security Capital Group	Public Real Estate Equity	1996	23.4	—
Subtotal			412.1	0.6
Enhanced Core				
Koll Bren Schreiber	Fund IV	1997	38.7	0.2
Prudential	PRISA II	1981	366.0	2.5
Prudential	Separate Account	1997	207.2	1.6
Prudential	SPF-II	1997	41.0	0.4
Security Capital Group	Global Realty	1998	42.2	—
TA Associates	Separate Account	1997	145.3	0.4
Subtotal			840.4	5.1
Opportunistic				
Hines	1997 US Office Dev. Fund	1997	35.9	0.2
Hines	1999 US Office Dev. Fund	1999	—	—
J.E. Robert Co.	JER RE Partners, LP	1997	83.3	0.9
J.E. Robert Co.	JER RE Partners II,LP	2000	68.2	1.8
Koll Bren Schreiber	Fund V	1998	45.8	0.2
Lazard Frères	Fund II	1997	37.7	0.8
Lazard Frères	LFSRI II	1998	34.5	0.6
Oaktree Capital Mgmt.	Fund B	1997	50.4	0.4
Colonnade Properties	MCPI	1997	70.3	0.4
Subtotal			426.1	5.3
Directly Owned				
VRS	Ninth & Franklin Garage	1990	11.3	—
Total Management Fees			—	11.7
Total Incentive Fees Paid			—	3.0
VRS Real Estate Program Total			\$1,753.6	\$ 14.7

**No fees were paid on internally managed accounts with the exception of \$0.1 paid to BGI for index units held in the VRS Internal Corporate Transition account.*

***Certain Private Equity management fees are estimated due to structure of the investment vehicle.*

NOTE: Due to timing of bills, fees listed may not represent a full year.

VRS Brokers with over \$75,000 of 2001 Fiscal Year Commissions

VRS U.S. Equity Commissions

<u>Broker</u>	<u>Commission</u>
B Trades Services	\$ 169,553
Balentine & Company	129,510
Bear Stearns & Co. Inc.	300,147
Bridge Trading Company	131,988
Cantor Fitzgerald Company	239,412
Credit Suisse First Boston	218,798
Davenport & Co. of Virginia	99,541
Deutsche Bank Securities	424,670
Ernst & Company	585,057
Goldman Sachs & Company	131,111
Instinet Corporation	1,094,659
Investment Tech Group	1,143,302
Jefferies & Company	281,419
Lehman Brothers	255,843
Merrill, Lynch, Pierce, Fenner & Smith	442,456
Morgan Stanley & Company	254,321
Pershing Securities	287,359
Prudential Securities	167,734
Quaker Securities	101,107
R.A. Rosenblatt, Inc.	245,843
Salomon Smith Barney	403,378
Sanford Bernstein & Company	218,542
Spear Leeds And Kellogg	290,274
Weeden & Company	98,269
Weiss, Peck & Greer	113,443
Brokers under \$75,000	1,281,877
Total U.S. Equity Commissions	\$ 9,109,613

VRS Non-U.S. Equity Commissions

<u>Broker</u>	<u>Commission</u>
ABN Amro Securities	\$ 227,653
BT Alex Brown Inc.	108,387
Credit Lyonnais Securities	888,132
Credit Suisse First Boston	258,172
Daiwa Europe	298,491
Deutsche Bank	372,952
Goldman Sachs & Company	700,639
HSBC Securities	117,709
J.P. Morgan Securities	141,474
Kleinwort Benson Securities	163,633
Lehman Brothers	382,116
Merrill Lynch Pierce Fenner Smith	588,333
Morgan Grenfell Equities	84,736
Morgan Stanley Dean Witter & Company	457,897
Salomon Smith Barney	721,920
Skandinaviska Enskilda Banken	99,959
UBS Warburg	957,312
Brokers under \$75,000	1,616,447
Total Non-U.S. Equity Commissions	\$ 8,185,962

NOTE: A complete list of the Investment Portfolio is available upon request.

OUR FAVORITE TEACHERS

LYNNE HOLICKY

SALEM CHURCH ELEMENTARY SCHOOL, CHESTERFIELD COUNTY



Elementary school teachers have a special responsibility to nurture a love of learning in young minds, while at the same time teaching young bodies how to sit still. Lynne Holicky, now a fifth grade teacher at Salem Church Elementary School in Chesterfield County, Virginia, has mastered both for 22 years and counting. “She’s very easy to talk to and my son took to her right away,” said Sandy Gentry, who nominated Holicky, her son’s former second grade teacher. “If he had a problem, he knew he could go to her for anything. She was very firm, but never strict with the kids.



“She had a way of talking to the kids, not talking down to them,” Gentry continued. “My son was always coming home saying, ‘Mrs. Holicky said this’ or ‘Mrs. Holicky said that.’ I knew she was making a difference in his life. He loved going to



school and was very enthusiastic about whatever she was teaching on any given day.”

Holicky says her enthusiasm stems from her enjoyment of the students. “I like the interaction with kids. Changing grade levels is exciting and

to heart: Gentry’s son, now a seventh grader, still keeps in touch. Says his mother, “Mrs. Holicky has a page on the school’s website, and occasionally my son will go to it and answer her trivia question for the week.... She always e-mails him back.

**“I LIKE THE INTERACTION WITH KIDS.
CHANGING GRADE LEVELS IS EXCITING AND KEEPS YOU FRESH.”**

keeps you fresh. And as my own children have gotten older, teaching fifth graders has helped keep me in their world.” Holicky also stays connected with kids in her free time: She tutors and helps coach the neighborhood swim team.

Holicky was once a student in the same school district where she now teaches. “I wanted to give back some of what I was given,” she said. “When I was student teaching, my principal, Nancy Gibbs, gave me some good advice. She said three words will carry you through a career in education: firm, fair, and friendly.” Holicky clearly took the words

They’ve become accustomed to cutting up with each other now.”

For Holicky, the best part of teaching is “seeing that light bulb click on for a child and knowing you may have played a small part in making that happen.” Gentry believes Holicky helped turn on the light for her son, Jamie. “My son is an excellent student, and I know she’s partly responsible for that. I can’t thank her enough for the contribution she made to his education, and I know he’ll look back when he reaches adulthood and be grateful that he had her for a teacher.”





ACTUARIAL SECTION



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January 31, 2001

Board of Trustees
Virginia Retirement System
P. O. Box 2500
Richmond, VA 23218-2500

Subject: Actuarial Valuation as of June 30, 2000

Dear Members of the Board:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Virginia Retirement System (VRS) as of June 30, 2000, with respect to the Virginia Retirement System (State Employee and Teacher members), the State Police Officers' Retirement System, the Judicial Retirement System, and the Virginia Law Officers' Retirement System. Separate reports are issued later for each of the political subdivisions that participate in VRS.

The employer contribution rates calculated in this report are to be effective one year after the valuation date. In other words, the employer contribution rate determined by the June 30, 2000, actuarial valuation will be effective for the period beginning July 1, 2001, and ending June 30, 2002.

Our firm, as actuary for the System, supplied the data presented in the schedule of funding progress in the financial section of the Comprehensive Annual Financial Report (CAFR) as well as the supporting schedules in the actuarial section of the CAFR.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion the results presented also comply with the Virginia statutes and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries and all are experienced in performing valuations for large public retirement systems.

Actuarial Valuation

The primary purposes of the valuation report are (i) to determine the employer contribution rate, (ii) to describe the current financial condition of VRS, and (iii) to analyze changes in VRS's condition. In addition, the report provides information required by VRS in connection with Governmental Accounting Standards Board Statement No. 25 (GASB No. 25), and it provides various summaries of the data.

Due to a statutory change, this actuarial valuation is now prepared one year after the previous valuation as of the last day of VRS's plan and fiscal year (June 30).

Financing Objectives

The member contribution rates are established by statute. The employer contribution rates are calculated by the actuarial valuation. The contribution rates are applicable for the year beginning July 1 one year after the valuation date. The rates are intended to be sufficient to pay the normal cost and to amortize the unfunded actuarial accrued liability (UAAL) in level percentage of payroll payments over a period of 26 years from the current valuation date, July 1, 2000. We consider this period to be reasonable.



In consideration of the funded condition of the State Police, Virginia Law Officers, and State Judges Systems, the Board of Trustees has set the employer contribution rate to 25%, 25%, and 45% of annual payroll, respectively. The Board mandated these rates to be effective until these Systems have funded ratios (the ratio of the actuarial value of assets to the actuarial accrued liability) of 90% or greater.

Beginning with this valuation, the contribution rate for the State Employees and Teachers is calculated by combining the liability and assets of the employee groups. The resulting "pooled" rate is tested to comply with GASB Statement No. 27 requirements. The pooled rate is then the required contribution rate for each respective group.

Progress Toward Realization of Financing Objectives

The funded ratio improved significantly for four of the groups since the last actuarial valuation. The funded ratio improved from 95% to 105% for State Employees and from 93% to 103% for Teachers, with similar improvements for State Police and Judges. This is the first actuarial valuation for the Virginia Law Officers, so this year will be a benchmark in determining its funding progress. It starts its existence with a funded ratio of 45.2%. Its initial assets were transferred from the State Employees plan along with the corresponding liabilities for the initial group of active members.

Benefit Provisions

The actuarial valuation reflects the benefit provisions set forth in the Virginia statutes. There were no material changes in these provisions other than the creation of the Virginia Law Officers' Retirement System (VaLORS). There are no ancillary benefits (such as cost-of-living increases to retirees) funded by a source independent of VRS.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. Several of the assumptions used in this valuation have been changed from those used for the 1999 valuation, as a result of the 2000 Experience Study. The assumptions proposed as a result of the Experience Study were adopted by the Board of Trustees on November 15, 2000. Principal assumptions used for the June 30, 2000, valuation can be found in Table 20.

Data

Member data for retired, active, and inactive participants were supplied as of June 30, 2000, by the staff of VRS. We have not subjected these data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior valuation's data. The VRS staff also supplied required asset information.

Sincerely,

W. Michael Carter, FSA
Vice President

John J. Garrett, Jr., ASA
Actuary

Daniel J. White, ASA
Actuary

Solvency Test

(Expressed in Thousands)

Valuation Date (June 30)	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members*	Valuation Assets	(1)	(2)	(3)
Virginia Retirement System (VRS)							
2000	\$ 4,639,007	\$ 12,652,663	\$ 15,350,685	\$ 34,392,303	100.00%	100.00%	111.40%
1999	4,240,017	11,820,608	15,358,116	29,803,990	100.00%	100.00%	89.49%
1998	3,937,941	10,732,243	14,359,783	25,480,634	100.00%	100.00%	75.28%
1996	3,202,232	9,213,095	11,426,575	19,031,780	100.00%	100.00%	57.90%
1994	2,842,030	7,257,368	10,305,790	14,890,663	100.00%	100.00%	46.49%
State Police Officers' Retirement System (SPORS)							
2000	\$ 50,044	\$ 199,822	\$ 262,761	\$ 440,903	100.00%	100.00%	72.70%
1999	45,516	200,288	217,252	376,780	100.00%	100.00%	60.29%
1998	42,154	190,196	192,348	321,696	100.00%	100.00%	46.45%
1996	37,715	139,258	193,888	243,066	100.00%	100.00%	34.10%
1994	37,211	80,867	158,520	201,149	100.00%	100.00%	52.40%
Virginia Law Officers' Retirement System (VaLORS)**							
2000	\$ 108,538	\$ 27,356	\$ 543,943	\$ 307,301	100.00%	100.00%	31.51%
Judicial Retirement System (JRS)							
2000	\$ 24,079	\$ 191,146	\$ 115,127	\$ 244,721	100.00%	100.00%	25.62%
1999	20,978	171,136	110,328	209,992	100.00%	100.00%	16.20%
1998	19,239	152,557	102,629	179,693	100.00%	100.00%	7.69%
1996	16,885	140,964	84,918	137,886	100.00%	85.80%	0.00%
1994	15,593	102,889	80,080	115,306	100.00%	96.91%	0.00%

Actuarial Assumptions and Methods:	1994/6	1998/9	2000
Valuation interest rate	8%	8%	8%
Salary scale inflation factor	4%	4%	3%
Change in decremental assumptions	Yes	No	Yes
Value of ancillary benefits included	Yes	Yes	Yes
Value of post-retirement adjustments to date included	Yes	Yes	Yes
Assets valued at	Modified Market	Modified Market	Modified Market

Aggregate Accrued Liabilities 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 retirants 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 retirants 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 accumulated assets and will increase over time.

* Employer-financed portion.

**Virginia Law Officers' Retirement System was established October 1, 1999.

Schedule of Active Member Valuation Data

Active Members					
Valuation Date (June 30)	Number	Annual Payrolls (000s)	Average Annual Pay	Annualized % Increase in Average Pay	Number of Employers
Virginia Retirement System (VRS)					
2000	284,486	\$ 9,528,666	\$ 33,494	4.7%	545
1999	285,596	9,138,060	31,996	2.7%	532
1998	277,223	8,638,414	31,161	3.1%	519
1996	264,656	7,769,043	29,355	3.0%	513
1994	262,512	7,274,210	27,710	2.7%	504
State Police Officers' Retirement System (SPORS)					
2000	1,768	\$ 80,977	\$ 45,801	5.3%	1
1999	1,761	76,628	43,514	11.9%	1
1998	1,682	65,427	38,898	2.3%	1
1996	1,604	59,599	37,156	1.6%	1
1994	1,607	57,838	35,991	3.3%	1
Virginia Law Officers' Retirement System (VaLORS)*					
2000	10,542	\$ 315,158	\$ 29,895	—	1
Judicial Retirement System (JRS)					
2000	399	\$ 45,394	\$ 113,769	6.7%	1
1999	390	41,590	106,641	3.8%	1
1998	383	39,332	102,695	4.2%	1
1996	378	35,783	94,664	2.4%	1
1994	362	32,716	90,376	2.7%	1

*Virginia Law Officers' Retirement System was established October 1, 1999.

Schedule of Retirants and Beneficiaries

Retired Members and Beneficiaries

Valuation Date (June 30)	Retirees and Beneficiaries Added/Removed*	Total Retirees and Beneficiaries	Annual Allowances (000)s	Annualized % Increase in Annual Allowances	Average Annual Allowances
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Virginia Retirement System (VRS)

2000	7,932/3,685	93,472	\$ 1,150,213	8.6%	\$ 12,305
1999		89,225	1,059,602	16.4%**	11,786
1998		88,500	896,409	3.4%	10,129
1996		80,499	838,147	8.9%	10,412
1994		72,422	711,518	7.9%	9,825

State Police Officers' Retirement System (SPORS)

2000	38/8	697	\$ 17,362	9.9%	\$ 24,910
1999		667	15,793	23.2%**	23,678
1998		668	12,844	15.1%	19,227
1996		572	9,865	14.5%	17,247
1994		470	7,649	11.9%	16,275

Virginia Law Officers' Retirement System (VaLORS)***

2000	124/14	110	\$ 730	—	\$ 6,636
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Judicial Retirement System (JRS)

2000	21/9	364	\$ 17,373	4.3%	\$ 47,728
1999		352	16,659	11.1%**	47,327
1998		347	14,787	4.1%	42,615
1996		330	13,666	12.4%	41,412
1994		305	10,944	5.9%	35,882

* Number of retirees and beneficiaries added and removed is unavailable prior to FY2000.

**Increase in annual allowances due to 2% ad hoc increase in retiree benefit allowances effective January 1, 1999 and an increase in the benefit formula multiplier.

***Virginia Law Officers' Retirement System was effective October 1, 1999.

Summary of Actuarial Assumptions and Methods

The following actuarial assumptions and methods were adopted by the VRS Board of Trustees on November 15, 2000, on the recommendation of its actuary. Assumptions were changed effective for the June 30, 2000, valuation based on an analysis of plan experience for the four years then ending.

Investment Return Rate	8.00% per annum, compounded annually, composed of an assumed 3.00% inflation rate and a 5.00% real rate of return. Benefits are assumed to increase by 3.0% annually due to the COLA.
Mortality Rates	Virginia Retirement System, State Police Officers' Retirement System, Virginia Law Officers' Retirement System, and Judicial Retirement System.
• Pre-Retirement	1994 Group Annuity Mortality Table for males and females.
• Post-Retirement	1994 Group Annuity Mortality Table for males and females (set back two years for male teachers, one year for female teachers, and three years for state police officers).
• Post-Disablement	70% of PBGC Disabled Mortality Table 5a for males. 90% of PBGC Disabled Mortality Table 6a for females.

Retirement Rates

State Employees and Employees of Political Subdivisions

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

Age	Retirement Per 100 Members			
	Reduced Retirement		Unreduced Retirement	
	Male	Female	Male	Female
50	1.00	1.25	10.00	5.00
55	2.25	3.00	10.00	5.00
59	6.00	4.25	6.50	7.50
60	4.00	7.50	11.50	10.00
61	12.50	12.50	20.00	20.00
62	20.00	20.00	30.00	25.00
64	20.00	20.00	29.00	20.00
65	—	—	42.00	45.00
67	—	—	28.00	15.00
70	—	—	100.00	100.00

Retirement Rates *continued*

Teachers

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

Retirement Per 100 Members				
Age	Reduced Retirement		Unreduced Retirement	
	Male	Female	Male	Female
50	1.00	1.50	7.50	6.50
55	2.00	2.00	22.50	19.50
59	5.00	5.00	22.50	19.50
60	6.00	6.00	30.00	19.50
61	8.00	8.00	30.00	26.00
62	20.00	20.00	52.50	45.50
64	20.00	20.00	30.00	32.50
65	—	—	90.00	58.50
67	—	—	30.00	39.00
70	—	—	100.00	100.00

State Police Officers' and Virginia Law Officers' Retirement Systems

Retirement Per 100 Members		
Age	Reduced Retirement	Unreduced Retirement
50	3.00	18.00
55	6.00	27.00
56	6.00	36.00
60	—	100.00

Judicial Retirement System

50% of members are assumed to retire after age 60 when they reach the maximum benefit accrual.

Retirement Per 100 Members				
Age	Reduced Retirement		Unreduced Retirement	
	Male	Female	Male	Female
50	5.00	5.00	—	—
55	5.00	5.00	5.00	5.00
65	—	—	5.00	5.00
70	—	—	100.00	100.00

Disability Rates

For selected ages.

State Employees and Employees of Political Subdivisions

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

Age	Disability Per 100 Members	
	Male	Female
20	0.030	0.009
30	0.120	0.036
40	0.270	0.081
50	1.020	0.306
60	3.000	0.900

Teachers

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

Age	Disability Per 100 Members	
	Male	Female
20	—	—
30	0.026	0.016
40	0.052	0.093
50	0.299	0.326
60	0.845	0.884

State Police Officers' and Virginia Law Officers' Retirement Systems

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

Age	Disability Per 100 Members	
	Male	Female
20	—	—
30	0.019	—
40	0.400	—
50	1.350	—
60	—	—

Judicial Retirement System

Age	Disability Per 100 Members	
	Male	Female
20	—	—
30	0.007	0.007
40	0.142	0.090
50	0.480	0.397
60	—	—

Termination Rates

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

State Employees and Employees of Political Subdivisions

Portability of Decrement Due to Withdrawal										
Age	Years of Service – Male Members					Years of Service – Female Members				
	1	3	6	9	10+	1	3	6	9	10+
25	0.1599	0.1105	0.0705	0.0437	0.0294	0.1787	0.1303	0.0916	0.0545	0.0393
35	0.1263	0.0841	0.0622	0.0365	0.0171	0.1327	0.0968	0.0656	0.0408	0.0218
45	0.0969	0.0603	0.0435	0.0240	0.0107	0.1030	0.0692	0.0460	0.0240	0.0110
55	0.0849	0.0507	0.0228	0.0104	0.0088	0.0925	0.0568	0.0261	0.0090	0.0065

Teachers

Portability of Decrement Due to Withdrawal										
Age	Years of Service – Male Members					Years of Service – Female Members				
	1	3	6	9	10+	1	3	6	9	10+
25	0.1293	0.0965	0.0577	0.0385	0.0280	0.1156	0.1065	0.0733	0.0524	0.0325
35	0.1158	0.0764	0.0525	0.0322	0.0117	0.1113	0.0839	0.0535	0.0306	0.0130
45	0.1022	0.0621	0.0392	0.0202	0.0074	0.0916	0.0574	0.0353	0.0205	0.0067
55	0.1067	0.0624	0.0201	0.0060	0.0055	0.0945	0.0552	0.0262	0.0116	0.0051

State Police Officers' and Virginia Law Officers' Retirement Systems

Portability of Decrement Due to Withdrawal										
Age	Years of Service – Male Members					Years of Service – Female Members				
	1	3	6	9	10+	1	3	6	9	10+
25	0.0576	0.0534	0.0384	0.0216	0.0165	0.0911	0.0686	0.0500	0.0396	0.0405
35	0.0629	0.0504	0.0305	0.0198	0.0094	0.0951	0.0658	0.0453	0.0424	0.0394
45	0.0688	0.0476	0.0282	0.0154	0.0065	0.0751	0.0660	0.0687	0.0446	0.0274
55	0.0776	0.0489	0.0273	0.0090	0.0064	0.0329	0.0697	0.1201	0.0462	0.0410

Judicial Retirement System

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

Salary Increase Rates

Sample salary increase rates are shown below.

State Employees and Employees of Political Subdivisions

Inflation rate of 3.00% plus productivity component of 1.25% plus step-rate/promotional component as shown.

Years of Service	Annual Step Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.85%	6.10%
3	1.25%	5.50%
6	0.95%	5.20%
9	0.50%	4.75%
11-19	0.15%	4.40%
20 or more	0.00%	4.25%

Teachers

Inflation rate of 3.00% plus productivity component of 1.00% plus step-rate/promotional component as shown.

Years of Service	Annual Step Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	2.10%	6.10%
3	2.00%	6.00%
6	1.60%	5.60%
9	1.50%	5.50%
11-19	1.00%	5.00%
20 or more	0.00%	4.00%

State Police Officers' and Virginia Law Officers' Retirement Systems

Inflation rate of 3.00% plus productivity component of 1.50% plus step-rate/promotional component as shown.

Years of Service	Annual Step Rate/Promotional Rates of Increase	Total Annual Rate of Increase
1	1.25%	5.75%
3	1.25%	5.75%
6	0.90%	5.40%
9	0.90%	5.40%
11-19	0.50%	5.00%
20 or more	0.00%	4.50%

Judicial Retirement System

Salary increase rates are 5.00%.

It is assumed that state employees covered under the VSDP (Virginia Sickness and Disability Program) receive a 4.25% annual increase in pay and state police and Virginia law officers receive a 4.50% annual increase in pay while disabled. This adjusted pay is used to determine deferred retirement benefits.

Percent Electing a Deferred Termination Benefit

(Excludes Judicial Retirement System)

Terminating members are assumed to elect a return of contribution or a deferred annuity, whichever is the most valuable benefit at the time of termination. Termination benefits are assumed to commence at the first age at which unreduced benefits are available.

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 (shortfall) between expected investment return 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 funding period required to amortize the unfunded actuarial accrued liability (UAAL) is determined using the Entry Age Normal actuarial cost method. This method assigns the plan's total actuarial present value of future benefits to various periods. The actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost rate is determined using a group of new entrants. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The UAAL is the excess of the actuarial accrued liability over the actuarial value of assets.

Payroll Growth Rate

3.00% based on a zero population-growth assumption.

Funding Period

State employees 0 years; teachers 8 years; political subdivision employees 0 to 30 years (open amortization, computed as level percent of payroll). Calculation is pooled for state employees and teachers.

State police officers, Virginia law officers and judges 26 years (closed amortization, computed as a level percent of payroll).

Cost-of-Living Increase

3.00% per year compounded annually for the basic benefit. The temporary supplement is assumed to increase at the inflation rate (3.00% per year, compounded annually) for state police and Virginia law officers.

Summary of Plan Benefit Provisions

Retirement Plans

- Virginia Retirement System (VRS), effective March 1, 1952
- State Police Officers' Retirement System (SPORS), effective July 1, 1950
- Judicial Retirement System (JRS), effective July 1, 1970
- Virginia Law Officers' Retirement System (VaLORS), effective October 1, 1999

Plan Year

Twelve-month period ending June 30.

Administration

Plans are administered by the Board of Trustees of the Virginia Retirement System.

Type of Plans

- VRS is a qualified governmental defined benefit retirement plan. For Governmental Accounting Standards Board purposes, it is considered an agent multiple-employer Public Employee/Retirement System (PERS) for participating Virginia cities, counties, towns, and political subdivisions, with separate cost-sharing pools for state employees and teachers.
- SPORS is a qualified governmental defined benefit retirement plan. For Governmental Accounting Standards Board purposes, it is considered a single-employer PERS.
- JRS is a qualified governmental defined benefit retirement plan. For Governmental Accounting Standards Board purposes, it is considered a single-employer PERS.
- VaLORS is a qualified governmental defined benefit retirement plan. For Governmental Accounting Standards Board purposes, it is considered a single-employer PERS.

Eligibility

All full-time, salaried, permanent employees of the Commonwealth of Virginia and all full-time, salaried, permanent employees of local Virginia school boards, or any participating Virginia county, city, town, or political subdivision are eligible to become members of VRS. All state police officers of the Commonwealth of Virginia are eligible to become members of SPORS. All full-time judges of the Commonwealth of Virginia are eligible to become members of JRS. All full-time, salaried, permanent Virginia law officers are eligible to become members of VaLORS.

Employee Contributions

All active members contribute 5.00% of their creditable compensation per year. The employer may "pick up" the member's assessments under the provisions of Internal Revenue Code Section 414(h).

Creditable Compensation

Annual salary minus any overtime pay, payments of a temporary nature, or payments for extra duties.

Service

Employees, state police, and Virginia law officers receive credit of one month of service for each month a contribution is made on their behalf to VRS, VaLORS, and SPORS. Judges receive credit of one month of service multiplied by a weighting factor of 3.5 (2.5 for judges entering JRS on or after January 1, 1995) for each month a contribution is made to JRS on their behalf. A member may also purchase credit for certain periods, such as time spent in the military, by paying a purchase rate (5% or 15% of the larger of current creditable compensation or final average compensation times the number of years to be purchased). Special rules and limits govern the purchase of additional service.

Average Final Compensation

The average of the member's highest consecutive 36 months of creditable compensation.

Normal Retirement

Eligibility

Members of VRS and JRS may retire under Normal Retirement on or after age 65 with five years of service credit. A member of SPORS or VaLORS may retire under Normal Retirement on or after age 60 with five years of service credit.

Annual Benefit

For members of VRS, VaLORS, and SPORS, the annual benefit is 1.7% of average final compensation (AFC) times years of service. For members of JRS, it is 1.7% of AFC times years of service, not to exceed 78% of AFC.

Supplement

Members of SPORS and VaLORS with 20 or more years of service in a hazardous position or with a hire date prior to July 1, 1974, shall receive an additional allowance payable annually from the date of retirement to age 65. This amount is adjusted biennially based on increases in Social Security benefits during the interim period.

Payment Form

Benefits are paid as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's contributions plus interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's beneficiary. See below for optional forms of payment.

Early Retirement

Eligibility

A member of VRS may retire early after reaching age 50 with credit for 10 years of service, or at age 55 with credit for five years of service. Members of SPORS and VaLORS may retire early after reaching age 50 with credit for five years of service. A member of JRS may retire early after reaching age 55 with credit for five years of service.

Annual Benefit

Calculated the same as the normal retirement benefit, using actual service at retirement and multiplied by a reduction factor. No reduction applies if the member of VRS has credit for 30 years of service at retirement and is at least age 50 (25 years of service and at least age 50 for members of SPORS and VaLORS, and 30 years of service and at least age 60 for a member of JRS). For members of VRS and JRS at least age 55 (at least age 50 for members of SPORS and VaLORS), the reduction is 0.5% per month for the first 60 months and 0.4% per month for the next 60 months. This reduction is applied for each month the retirement age precedes 65 or, if more favorable, for each month the service at retirement is less than 30 (age 60 with service less than 25 for members of SPORS and VaLORS). For members of VRS younger than 55 at retirement, the reduction factor is determined as though the member were 55 and is further reduced by multiplying it by a second factor, to reflect a 0.6% reduction for each month retirement precedes age 55.

Supplement

Members of SPORS and VaLORS with 20 or more years of service in a hazardous position or with a hire date prior to July 1, 1974, receive an additional allowance payable annually from the date of retirement to age 65. This amount is adjusted biennially based on increases in Social Security benefits during the interim period.

Payment Form

Same as for Normal Retirement above.

Disability Retirement

Eligibility

VRS teacher and political subdivision members and JRS members are eligible from the first day of employment. VRS state employees, and SPORS and VaLORS members hired prior to January, 1999 and who declined coverage under the Virginia Sickness and Disability Program (VSDP) are eligible from the first day of employment.

Annual Benefit

Members with less than five years of service credit receive the minimum guaranteed benefit. Members with more than five years of service credit receive the greater of the minimum guaranteed benefit, which is 50% (66 2/3% for work-related disability) of AFC if member does not qualify for primary Social Security and 33 1/3% of AFC (50% for work-related disability) if member qualifies for primary Social Security; or 1.7% of AFC times service credit. The work-related benefit is reduced by Workers' Compensation (if any).

Service Credit

If a disability occurs before age 60, service is the lesser of (1) twice actual service, or (2) rendered service plus the number of years remaining between the member's age at disability retirement and age 60.

Payment Form

The disability benefit commences immediately upon the member's retirement. Benefits cease on recovery or re-employment. A disability benefit is payable as a monthly life annuity. If, at the member's death, payments made have not exceeded the sum of the member's contributions plus interest as of the date of retirement, the balance is paid in a lump sum to the member's beneficiary. The 50% and 100% Survivor Options are also permitted for disability retirement. (A refund of the member contribution account is paid for work-related disability.)

Virginia Sickness and Disability Program (VSDP)

In lieu of the above benefits, VRS state employee, VaLORS, and SPORS members who elected this benefit (which is automatic for any new employee since January 1, 1999) are covered by the Virginia Sickness and Disability Program. These members will receive a deferred service retirement benefit payable at 65 (age 60 for SPORS and VaLORS). The deferred benefit will be computed like a normal retirement benefit. For this calculation, a member's creditable service will include the period of disability, and the Average Final Compensation will be adjusted to reflect increases in the cost of living between the date of disability and age 65. If the member dies while disabled, a death benefit will be determined as though the employee were an active member.

Deferred Retirement Benefit

Eligibility

A member with at least five years of service who does not withdraw his or her contributions from the fund is eligible for a deferred retirement benefit.

Annual Benefit

The annual benefit is the same as the Normal Retirement benefit, but both AFC and service are determined at the time the member leaves active employment. Reduced benefits may commence at or after age 55 with at least five years of service, or at age 50 with 10 years of service (age 50 with at least five years of service for members of SPORS and VaLORS).

Payment Form

The form of payment is the same as for Normal Retirement above.

Death Benefit

The beneficiary of a member who dies after leaving active service but before retiring is entitled to receive a lump-sum distribution of the deceased member's contribution account.

Withdrawal (Refund) Benefit

Eligibility

All members leaving covered employment are eligible. Vested members (those with five or more years of service) may withdraw their contributions plus interest instead of receiving the deferred benefits otherwise due.

Benefit

A member who takes a refund receives a lump-sum payment of his/her member contributions, plus the interest credited on these contributions. Interest is credited at 4%, compounded annually on contributions in the account for at least one year.

Death Benefit

Eligibility

Death must have occurred while the member is an active or inactive, non-retired member.

Benefit

Upon the death of a non-vested active or inactive member, a refund of the member's contributions and interest is paid to the beneficiary. Upon the death of a vested active member, if the named beneficiary is the spouse, minor child, mother, or father of the member, the beneficiary is eligible to receive a monthly benefit under the 100% Survivor Option. If death occurs before age 55 (age 50 for members of SPORS and VaLORS), the member is assumed to be age 55 (age 50 for members of SPORS and VaLORS) for benefit calculation purposes. A beneficiary may elect to receive a refund of the member's contributions plus interest in place of the monthly benefit.

Work-related Death

If the member's death is work-related, the surviving spouse, minor child, or parent is eligible to receive 50% of AFC if the survivor does not qualify for Social Security survivor benefits, or 33⅓% of AFC if the survivor does qualify for Social Security survivor benefits. This benefit is reduced by Workers' Compensation. The named beneficiary receives a refund of the member's contributions and interest. Benefits paid to a spouse cease upon remarriage.

Optional Forms of Payment

There are optional forms of payment available on an actuarially equivalent basis, as follows:

100% Survivor Option

This option is payable for the member's life. Upon the member's death, 100% of the benefit continues to the contingent annuitant.

Variable Survivor Option

Upon the member's death, a designated percentage of the benefit continues to the contingent annuitant.

Leveling Option*

Under this non-level annuity payable to the member, the member receives higher payments in the early years of retirement and smaller payments at a date the member specifies.

** This option is no longer available for retirements after July 1, 2001.*

Cost-of-Living Increases

Members qualify for cost-of-living increases on July 1 of the second calendar year after retirement. Automatic cost-of-living increases are calculated as the first 3% of the Consumer Price Index increase plus half of each percentage increase from 3% to 7%. Cost-of-living increases are capped at 5%.

Summary of Plan Changes

1996 Valuation

1. Any member with at least 25 years of service may purchase up to three years of prior service credit for a) active duty military service in the armed forces of the United States, b) certified creditable service in the retirement system of another state, or c) both, at the rate of 5% of current compensation or average final compensation, if greater, times years of service purchased.
2. VRS may enter into an agreement with any political subdivision of the Commonwealth of Virginia which has a defined benefit plan that is not supplemental to VRS to permit portability of service credit on a cost-neutral basis.
3. Early retirement is allowed at age 50 with 10 years of service. The early retirement benefit is determined as if the member is age 55 (but using actual service and AFC), reduced by 6/10% for each month the member is younger than age 55. This benefit can be no smaller than the value of the member's contributions and interest paid in monthly installments over the member's lifetime.
4. The service multiplier for judges entering the Judicial Retirement System after January 1, 1995 is 2.5.
5. Effective July 1, 1998, a health insurance credit of \$1.50 per month per year of service (up to 30 years) is automatically provided to teachers in VRS who retire with at least 15 years of service. At local option, an additional credit of \$1.00 per month per year of service (up to 30 years) can be provided.

1998 Valuation

1. Effective January 1, 1999, the retirement benefit became 1.7% of average final pay times years of service. The 3% benefit adjustment was eliminated for future retirees. A 2% ad hoc benefit increase was provided for all retirees and beneficiaries receiving benefits as of December 31, 1998.
2. On January 1, 1999, the Virginia Sickness and Disability Program (VSDP) became effective. All future new members are covered by this program and thus will only receive a deferred retirement benefit from VRS. Members joining before 1999 will be allowed to make a one-time irrevocable election to join this new program (available to state employees and state police).
3. Effective July 1, 1999, state employees, teachers, and employees of participating local units that had not elected out of the 50/30 benefit may retire with an unreduced benefit if they are at least 50 years old and have at least 30 years of service.

1999 Valuation

1. This report reflects the creation of the new Virginia Sickness and Disability Program (VSDP) on January 1, 1999.

2000 Valuation

1. On October 1, 1999, the Virginia Law Officers' Retirement System became effective.
2. On November 15, 2000, the VRS Board of Trustees adopted the recommended economic and demographic assumptions proposed by the actuary as a result of the June 2000 actuarial experience study.
3. The Board of Trustees adopted the use of a "pooled" contribution rate for State Employees and Teachers.

OUR FAVORITE TEACHERS

SAM KING

VARINA HIGH SCHOOL, HENRICO COUNTY



“I love to see the kids work, take on responsibility and grow, and do something positive for themselves,” said Sam King, a Varina High School physical education teacher and football coach of the Blue Devils. “As a teacher, it’s not what I know, it’s what I can help them know.”

“Coach King is a great role model for our kids,” said Betty Hall, who nominated Sam King as her son’s Favorite Teacher of the Year. “He shows an interest in the students’ ideas, and he wants to know what they’re planning for the future,” she said. “The students say he’s not there just because it’s his job, he’s there because he really cares.”



In 2000, King, himself an alumnus of Varina High School, experienced one of the most difficult



upheavals a teacher can have—the death of a student. One of the football players collapsed during a practice the day before school started and later died. It was hard for the team to accept the death of a classmate; it was heartbreaking for King to lose a young person who had his whole life ahead of him. The mutual admiration and

guidance.” King, who is also the minister of Elko Union Church, “tried to help make sense of this injustice,” said Hall. “We all needed someone to help us try to understand. He opened his arms and his heart.”

The father of three, including a son who’s currently a Blue Devils quarterback, King

**“THE STUDENTS SAY HE’S NOT THERE JUST BECAUSE IT’S HIS JOB,
HE’S THERE BECAUSE HE REALLY CARES.”**

respect King and the students have for each other made it possible for the students to look to him for guidance, and to receive the help they needed from their coach.

“He was the rock that held everyone together,” said Hall. “The school made arrangements for extra guidance counselors to help out, but most of the students turned to Coach King for

enjoys being able to work with many different people. He helped start an athletic fellowship at Varina and invites inspirational speakers to come and talk to the players. King plans to keep teaching and coaching for the foreseeable future. “As long as I have enthusiasm and enjoy going to work every day, I don’t have any plans for retirement.”

OUR FAVORITE TEACHERS

LOUIS LEGRAND

BROOKLAND MIDDLE SCHOOL, HENRICO COUNTY



“Every job isn’t a bed of roses, but teaching is close to it,” says music teacher Louis LeGrand. LeGrand retired in 1992 from Brookland Middle School in Henrico County, Virginia, where he spent 36 years teaching students how to play a note and get it right. He considers himself lucky because he got the chance to teach. His former students think they’re the lucky ones.

“Mr. LeGrand used music to teach discipline and develop character in young teenagers, who often didn’t want to learn those things,” said Jason Styles, a former student who nominated LeGrand for the Favorite Teacher award. “Although many students didn’t like his demanding style, he had something to offer those students who were willing to go the extra mile. He realized that the most talented person in



class was not necessarily the hardest worker. He rewarded diligence,” said Styles.

Music class tended to attract those who were willing to work hard, to put in some extra effort for a good result, LeGrand found. “In education, there are so many areas of gray,” he said. “But in music, the note is either right or wrong. You have to strive for perfection.” Teaching music also gave him the advantage of seeing his students progress

and sense of self that proved useful to them in the real world. “I’ll never forget the bumper sticker he had on his podium,” said Styles. “It said, ‘You never fail until you stop trying.’ The thought of him standing behind that bumper sticker has given me the encouragement to keep going on several occasions.”

These days, LeGrand is enjoying his retirement and indulging his love of trains, both full-

“IN EDUCATION THERE ARE SO MANY AREAS OF GRAY. BUT IN MUSIC THE NOTE IS EITHER RIGHT OR WRONG. YOU HAVE TO STRIVE FOR PERFECTION.”

from year to year. “I got to work with most of the students for three years. You get to know them and watch them grow up.” And if you stay for 36 years, you get to see your students’ children pass through your door, too. “In my last years of teaching, I was teaching the second generation.”

Like any good teacher, no matter the subject, LeGrand instilled in his students a confidence

and model-size. “I’ve always loved trains. I’ve taken two cross-country trips, and I used to take the Norfolk & Western to Cincinnati when I was in college.” For the past year and a half, he’s been working on model train layouts using prototypes of Norfolk & Western and Southern railroad trains. He’s also been traveling a lot lately, mostly by train.





STATISTICAL SECTION

Pension Trust Funds

Analysis of Changes and Growth in Plan Net Assets

(Millions of Dollars)

For the Years Ended June 30	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Net Assets Available,										
Beginning of Year	12,037	13,554	15,262	15,449	18,215	21,460	26,057	30,784	34,634	39,786
Employee and Employer										
Contributions.....	754	718	758	900	879	913	1,131	1,141	1,291	1,270
Benefit and Administration										
Expenses	(640)	(711)	(748)	(834)	(934)	(1,017)	(1,090)	(1,176)	(1,282)	(1,394)
Net Funding	114	7	10	66	(55)	(104)	41	(35)	9	(124)
Investment Income:										
Interest, Dividends and										
Other Investment Income	729	629	891	707	413	504	534	551	705	785
Net Appreciation										
(Depreciation) in Fair Value ..	674	1,072	(714)	1,993	2,887	4,197	4,152	3,334	4,438	(3,754)
Net Investment Income	1,403	1,701	177	2,700	3,300	4,701	4,686	3,885	5,143	(2,969)
Net Assets Available,										
End of Year	13,554	15,262	15,449	18,215	21,460	26,057	30,784	34,634	39,786	36,693

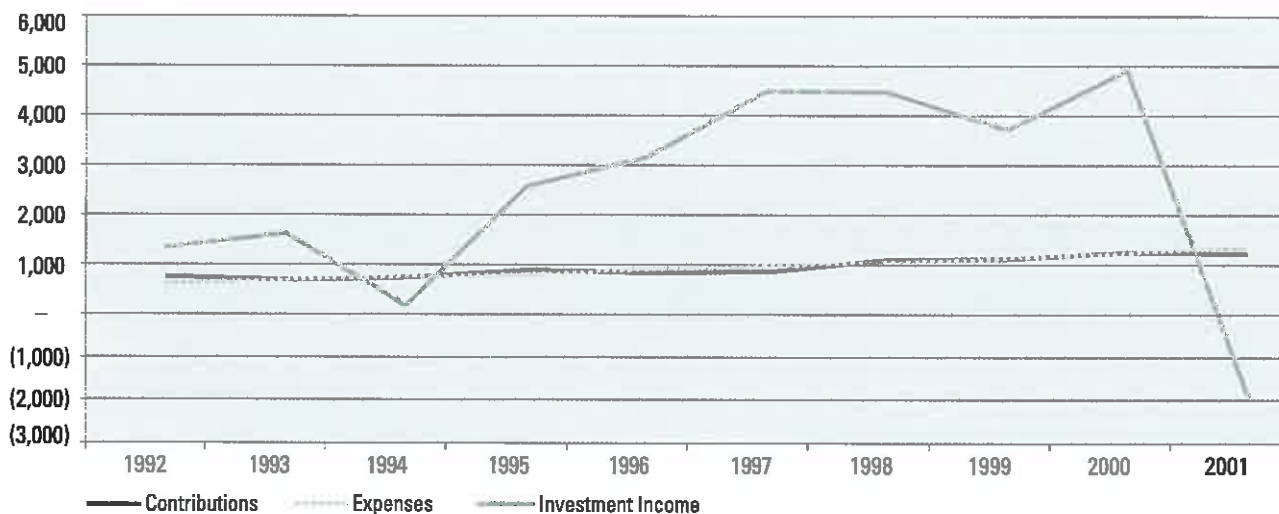
FY 1995 and 1996 Net Appreciation were restated to reflect adjustments from conversion to GASB 25 presentation.

FY 1996 Investment Income categories were restated to reflect recategorization of Index Fund, Real Estate and Venture Capital income as Net Appreciation (Depreciation) in Fair Value.

Pension Trust Funds Additions Versus Deductions

Fiscal Years 1992 through 2001

(Millions of Dollars)

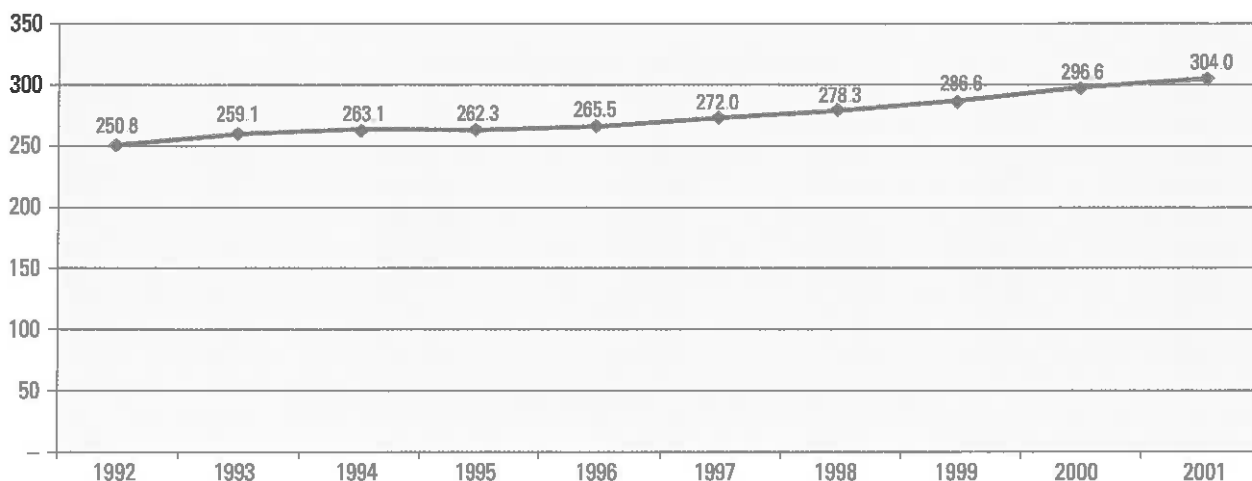


Pension Trust Funds

Number of Active Members

Fiscal Years 1992 through 2001

(Expressed in Thousands)



Schedule of Retirement Contributions by System

Fiscal Years 1992–2001

(Expressed in Thousands)

Year Ended June 30	Virginia Retirement System				State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	Total
	State	Teacher	Political	Sub-Total				
2001	\$299,079	\$591,620	\$264,229	\$1,154,928	\$24,632	\$67,040	\$23,149	\$1,269,749
2000	314,044	631,344	284,841	1,230,029	19,170	25,192****	17,131	1,291,522
1999	296,748	556,712	257,140	1,110,600	15,298	—	15,034	1,140,932
1998***	265,364	603,579**	237,736	1,106,679	11,767	—	13,107	1,131,553
1997	242,380	439,490	203,427	885,297	16,035**	—	11,957	913,289
1996	240,393	442,600**	176,545	859,538	8,330	—	11,087	878,955
1995	308,978**	406,670**	166,497	882,145	7,603	—	10,614	900,362
1994	218,998	365,339	154,634	738,971	8,431	—	10,088	757,490
1993*	209,375	345,033	146,662	701,070	7,968	—	9,565	718,603
1992	222,573	357,033	155,142	734,748	8,741	—	10,036	753,525

* Decreased by a change in actuarial assumptions and methods used to value plan assets.

** Increased as a result of the Workforce Transition Act of 1995 for state agencies and school board contributions for the 1991 early retirement program.

*** In fiscal year 1998, employer contributions increased to begin prefunding cost-of-living adjustments (COLAs) for retirees.

**** The Virginia Law Officers' Retirement System was effective on October 1, 1999.

Pension Trust Funds

Pension Trust Funds Additions by Source

Fiscal Years 1992–2001

(Expressed in Thousands)

Year Ended June 30	Member Contributions	Employer Contributions		Investment Income	Other	Total
		For Members	Employer Share			
Virginia Retirement System (VRS)						
2001	\$65,810	\$453,133	\$635,985	\$(2,907,769)	\$381	\$(1,752,460)
2000	68,208	426,088	735,733	5,042,490	269	6,272,788
1999	55,710	406,543	648,347	3,809,905	703	4,921,208
1998****	57,032	379,953	669,694	4,594,358	116	5,701,153
1997	58,003	356,759	470,535	4,608,323	—	5,493,620
1996	51,595	340,645	467,298	3,235,211	—	4,094,749
1995**	50,376	331,880	499,889	2,645,875	—	3,528,020
1994	49,391	315,725	373,855	173,918	33	912,922
1993*	47,373	299,470	354,227	1,667,447	2	2,368,519
1992	58,573	275,777	400,398	1,374,302	285	2,109,335
State Police Officers' Retirement System (SPORS)						
2001	\$125	\$4,087	\$20,420	\$(37,192)	\$—	\$(12,560)
2000	192	3,922	15,056	63,638	—	82,808
1999	179	3,548	11,571	47,974	—	63,272
1998	121	3,152	8,494	58,661	2	70,430
1997***	136	2,923	12,976	58,840	—	74,875
1996	270	2,984	5,076	41,865	—	50,195
1995	18	2,965	4,620	33,965	—	41,568
1994	45	2,827	5,559	2,194	—	10,625
1993*	17	2,680	5,271	21,837	—	29,805
1992	31	2,660	6,050	17,864	—	26,605
Virginia Law Officers' Retirement System (VaLORS)						
2001	\$77	\$15,858	\$51,105	\$(4,057)	\$—	\$62,983
2000*****	33	11,405	13,754	690	—	25,882
Judicial Retirement System (JRS)						
2001	\$4	\$2,315	\$20,830	\$(20,637)	\$—	\$2,512
2000	16	2,180	14,935	35,297	—	52,428
1999	6	2,049	12,979	26,569	—	41,603
1998	49	1,892	11,166	32,637	—	45,744
1997	25	1,780	10,152	32,952	—	44,909
1996	10	1,745	9,332	23,492	—	34,579
1995	—	1,662	8,952	19,194	—	29,808
1994	—	1,575	8,513	1,259	—	11,347
1993*	1	1,492	8,072	12,529	—	22,094
1992	—	1,450	8,586	10,449	—	20,485

* In fiscal year 1993, changes in the method used to value plan assets had the effect of reducing employer contributions by \$96.3 million for VRS, \$1.2 million for SPORS and \$993 thousand for JRS.

** In fiscal year 1995, employer contributions increased by \$75.6 million for state agencies as a result of the Workforce Transition Act of 1995, and by \$31.7 million for school boards toward the cost of the 1991 early retirement program.

*** In fiscal year 1997, employer contributions increased by \$5.9 million for SPORS as a result of the Workforce Transition Act of 1995.

**** In fiscal year 1998, employer contributions increased to begin prefunding cost of living adjustments (COLAs) for retirees.

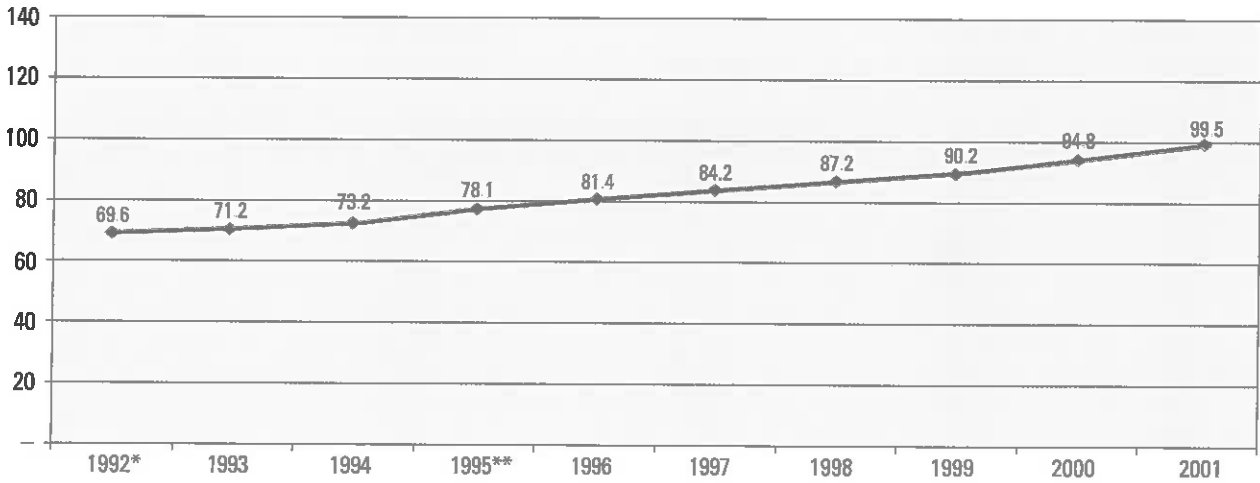
***** The Virginia Law Officers' Retirement System was effective on October 1, 1999.

Pension Trust Funds

Number of Retired Members

Fiscal Years 1992 through 2001

(Expressed in Thousands)



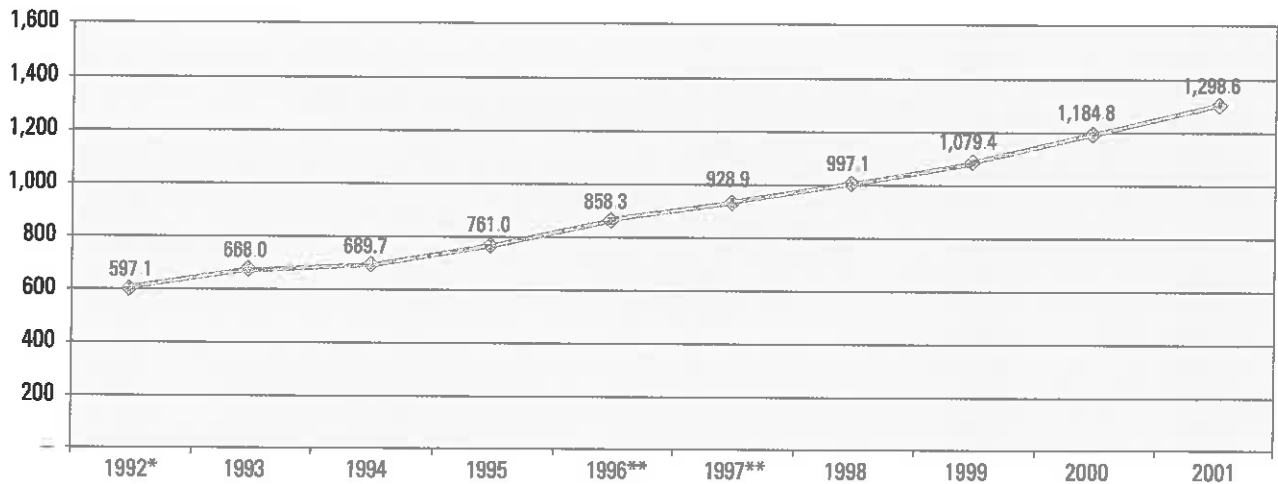
* Increased by the 1991 early retirement program.

** Increased by the Workforce Transition Act of 1995 for state agencies.

Retirement Benefits Paid

Fiscal Years 1992 through 2001

(Millions of Dollars)



* Increased by the 1991 early retirement program.

** Increased by the Workforce Transition Act of 1995 for state agencies.

Pension Trust Funds

Pension Trust Funds Deductions by Type

Fiscal Years 1992–2001

(Expressed in Thousands)

Year Ended June 30	Retirement Benefits	Refunds	Administrative Expenses	Other	Total
Virginia Retirement System (VRS)					
2001	\$1,261,348	\$79,439	\$14,100	\$ —	\$1,354,887
2000	1,150,694	83,412	12,613	—	1,246,719
1999	1,047,362	84,797	11,359	—	1,143,518
1998	966,876	81,168	10,980	123	1,059,147
1997	900,241**	76,884	10,395	—	987,520
1996	833,927**	65,157	10,189	3	909,276
1995	740,639*	63,182	8,801	12	812,634
1994	671,983	49,741	7,902	—	729,626
1993	651,061	35,383	7,785	—	694,229
1992	582,069	35,198	7,043	—	624,310
State Police Officers' Retirement System (SPORS)					
2001	\$17,980	\$289	\$170	\$ —	\$18,439
2000	16,946	314	137	—	17,397
1999	16,020	420	141	—	16,581
1998	15,324	474	139	—	15,937
1997	14,634	465	131	—	15,230
1996	11,039**	420	134	—	11,593
1995	8,448*	457	109	—	9,014
1994	7,214	375	99	—	7,688
1993	6,638	158	94	—	6,890
1992	5,897	81	85	—	6,063
Virginia Law Officers' Retirement System (VaLORS)					
2001	\$1,511	\$862	\$17	\$ —	\$2,390
2000***	330	149	2	—	481
Judicial Retirement System (JRS)					
2001	\$17,788	\$32	\$94	\$ —	\$17,914
2000	16,872	24	105	—	17,001
1999	16,050	6	79	—	16,135
1998	14,856	—	78	—	14,934
1997	13,986	—	74	—	14,060
1996	13,380	—	74	—	13,454
1995	11,893*	56	62	—	12,011
1994	10,498	5	56	—	10,559
1993	10,272	—	56	—	10,328
1992	9,182	66	50	—	9,298

* Retirement benefits increased as a result of a one-time 3% increase in retirement allowances on October 1, 1994, provided by SB2008.

** Retirement benefits increased as a result of the Workforce Transition Act of 1995 for state agencies.

*** The Virginia Law Officers' Retirement System was effective on October 1, 1999.

Pension Trust Funds

Schedule of Retirement Benefits by System

Fiscal Years 1992–2001

(Expressed in Thousands)

Year Ended June 30	Virginia Retirement System				State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	Total
	State	Teacher	Political	Sub-Total				
2001	\$421,033	\$639,760	\$200,555	\$1,261,348	\$17,980	\$1,511	\$17,788	\$1,298,627
2000	394,601	575,876	180,217	1,150,694	16,946	330***	16,872	1,184,842
1999	372,503	514,124	160,735	1,047,362	16,020	—	16,050	1,079,432
1998	354,862	467,367	144,647	966,876	15,324	—	14,856	997,056
1997	339,687**	429,892	130,662	900,241	14,634**	—	13,986	928,861
1996	317,398**	400,111	116,418	833,927	11,039**	—	13,380	858,346
1995*	267,238	370,088	103,313	740,639	8,448	—	11,893	760,980
1994	242,104	339,410	90,469	671,983	7,214	—	10,498	689,695
1993	239,148	327,076	84,837	651,061	6,638	—	10,272	667,971
1992	207,576	301,115	73,378	582,069	5,897	—	9,182	597,148

* Increased as a result of a one-time 3% retirement allowance increase under SB 2008.

** Increased as a result of the Workforce Transition Act of 1995 for state agencies.

*** The Virginia Law Officers' Retirement System was effective on October 1, 1999.

Schedule of Retirement Benefits by Type

Fiscal Years 1992–2001

(Expressed in Thousands)

Year Ended June 30	Service Benefits	Disability Benefits	Survivor Benefits	Total
2001	\$1,121,588	\$167,931	\$9,108	\$1,298,627
2000	1,021,185	155,450	8,207	1,184,842
1999	928,862	143,181	7,389	1,079,432
1998	861,377	128,637	7,042	997,056
1997	805,391**	117,133	6,337	928,861
1996	745,864**	106,449	6,033	858,346
1995*	661,231	94,239	5,510	760,980
1994	604,791	79,905	4,999	689,695
1993	588,267	74,876	4,828	667,971
1992	528,965	63,823	4,360	597,148

* Increased as a result of a one-time 3% retirement allowance increase under SB2008.

** Increased as a result of the Workforce Transition Act of 1995 for state agencies.

Schedule of Refunds by Type

Fiscal Years 1992–2001

(Expressed in Thousands)

Year Ended June 30	Separations	Death	Total
2001	\$73,659	\$6,963	\$80,622
2000	77,027	6,872	83,899
1999	78,530	6,693	85,223
1998	74,731	6,911	81,642
1997	72,077	5,272	77,349
1996	61,126	4,451	65,577
1995*	59,225*	4,470	63,695
1994	46,519	3,602	50,121
1993	32,510	3,031	35,541
1992	32,649	2,696	35,345

*Increased as a result of the Workforce Transition Act of 1995 for state agencies.

Pension Trust Funds

Schedule of Retired Members by Type of Benefit and Option Selected

As of June 30, 2001

Amount of Retirement Benefit	Number of Retirants	Service	Type of Retirement						
			Early Retirement Window	Regular Disability	Survivor Payment—Death in Service	Line-of-Duty Disability	Survivor Payment—Death in Line-of-Duty	50/10 Provision	50/30 Service Retirement
\$ 1 – 200	18,069	15,560	1	1,478	565	95	14	356	—
201 – 400	17,740	14,339	62	2,415	306	148	24	446	—
401 – 600	13,318	10,075	240	2,360	161	217	24	240	1
601 – 800	9,788	7,086	373	1,754	88	321	11	146	9
801 – 1,000	7,748	5,390	493	1,322	54	297	7	156	29
1,001 – 1,200	6,088	4,082	611	921	40	195	5	143	91
1,201 – 1,400	4,922	3,215	661	668	12	163	4	116	83
1,401 – 1,600	4,285	2,747	706	475	20	117	3	103	114
1,601 – 1,800	3,873	2,468	639	326	10	99	1	96	234
1,801 – 2,000	3,548	2,242	560	268	8	93	—	76	301
Over 2,001	10,118	7,192	1,304	483	26	187	1	134	791
Totals	99,497	74,396	5,650	12,470	1,290	1,932	94	2,012	1,653

Amount of Retirement Benefit	Number of Retirants	Basic Benefit	Option Selected									
			Increased Basic Benefit	100% Survivor Benefit	50% Survivor Benefit	Soc. Sec. Leveling Benefit	Special Survivor Lump Option	Min. Guar. Disability Basic Benefit	Min. Guar. Disability Survivor	Leveling Benefit	Benefit Rollover	
\$ 1 – 200	18,069	14,980	155	592	339	1,394	3	1	100	7	493	5
201 – 400	17,740	14,035	77	646	586	1,091	6	—	754	49	490	6
401 – 600	13,318	9,558	47	572	632	944	15	1	1,027	104	415	3
601 – 800	9,788	6,777	19	440	620	822	13	—	743	75	271	8
801 – 1,000	7,748	5,085	9	400	645	731	24	—	525	50	271	8
1,001 – 1,200	6,088	3,837	3	353	596	700	16	—	295	37	240	11
1,201 – 1,400	4,922	3,151	3	300	491	530	22	—	174	24	212	15
1,401 – 1,600	4,285	2,734	1	277	434	483	36	—	125	7	179	9
1,601 – 1,800	3,873	2,591	—	201	400	411	35	—	51	6	166	12
1,801 – 2,000	3,548	2,379	—	153	354	375	37	—	43	5	195	7
Over 2,001	10,118	6,306	1	530	1,112	784	187	—	56	14	964	164
Totals	99,497	71,433	315	4,464	6,209	8,265	394	2	3,893	378	3,896	248

Retirement Breakdown: During fiscal year 2001, 88% of all retirements were service retirements, and 12% were certified as disability retirements by the Medical Board.

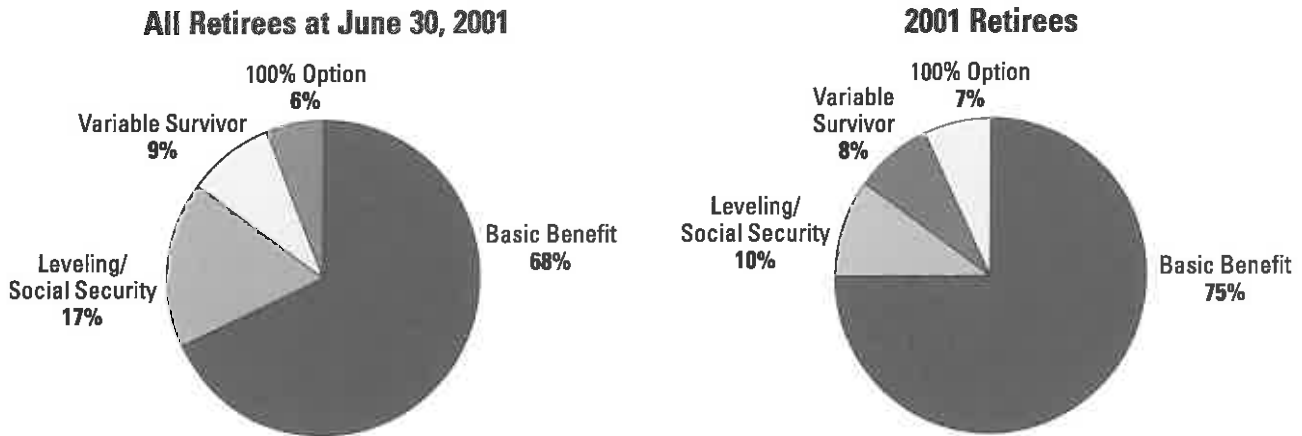
Schedule of Average Benefit Payments

Retirement Effective Date		Years of Credited Service					
July 1, 1996 to June 30, 2001		1–10	11–15	16–20	21–25	26–30	Over 30
FY 2001	Average Monthly Benefit	\$306.46	\$452.17	\$678.20	\$999.05	\$1,689.12	\$2,302.94
	Number of Active Retirants	623	803	805	1,037	1,504	2,453
FY 2000	Average Monthly Benefit	\$234.76	\$414.85	\$686.39	\$911.42	\$1,587.73	\$2,218.68
	Number of Active Retirants	673	742	762	1,039	1,385	2,482
FY 1999	Average Monthly Benefit	\$351.22	\$444.94	\$651.13	\$927.54	\$1,577.71	\$2,215.74
	Number of Active Retirants	651	696	761	923	937	1,650
FY 1998	Average Monthly Benefit	\$413.88	\$538.80	\$711.86	\$876.36	\$1,576.32	\$2,053.74
	Number of Active Retirants	761	687	920	1,023	1,138	1,444
FY 1997*	Average Monthly Benefit	\$556.40	\$484.48	\$679.48	\$901.10	\$1,507.76	\$2,279.31
	Number of Active Retirants	1,444	737	904	959	774	1,051

* Average monthly benefit and years of service reflect impact of 1995 Workforce Transition Act for state agencies.

Pension Trust Funds

Distribution of Retirees by Payment Option Selected



Options for Retirement

VRS offers several options for retirement:

Basic Benefit:

Monthly annuity payments are based on the normal benefit formula. Any accumulated contributions that have not been used between the date of contributions and the date of death are paid in a lump sum to the designated beneficiary.

Variable Survivor:

For the retiree, the benefit is more than the 100% survivor option benefit. At death, a percentage of the monthly benefit is continued to the designated contingent annuitant.

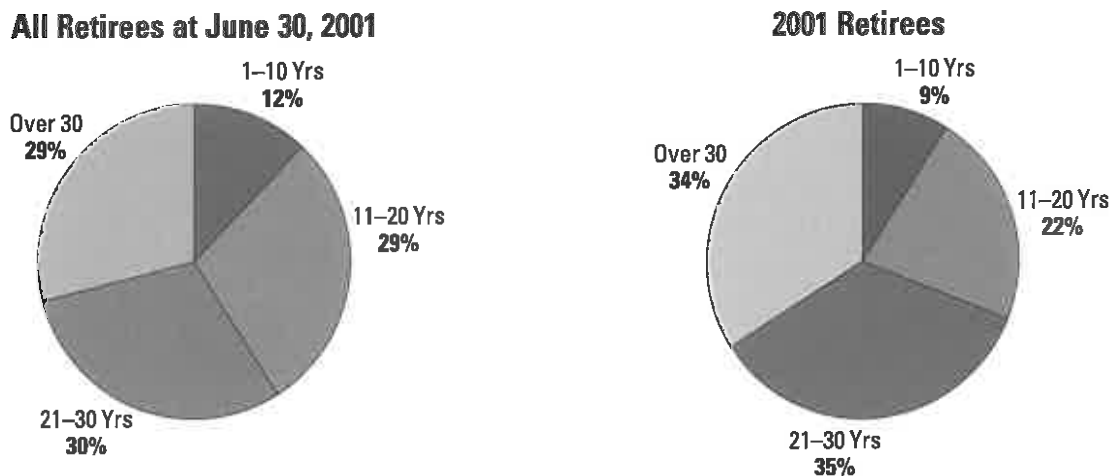
Leveling/Social Security:

This option allows an advance on the benefit; therefore, the retiree receives a higher benefit in the early years of retirement. The advance is paid from retirement date until the age specified by the retiree (between 59½ and 70½, or age 65 under the Social Security option). This benefit reduces at the level age.

100% Survivor:

The basic benefit is reduced during the member's lifetime. At death, the benefit is continued in the same amount to the designated contingent annuitant.

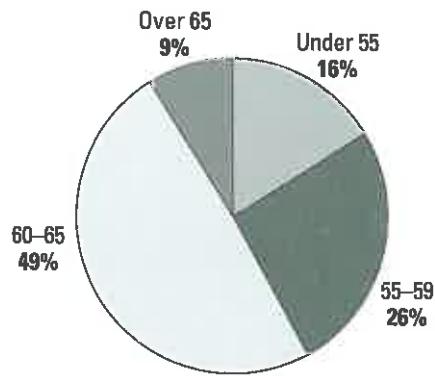
Distribution of Retirees by Years of Service



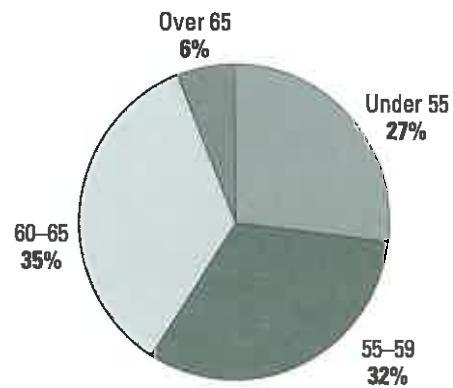
Pension Trust Funds

Distribution of Retirees by Age at Retirement

All Retirees at June 30, 2001

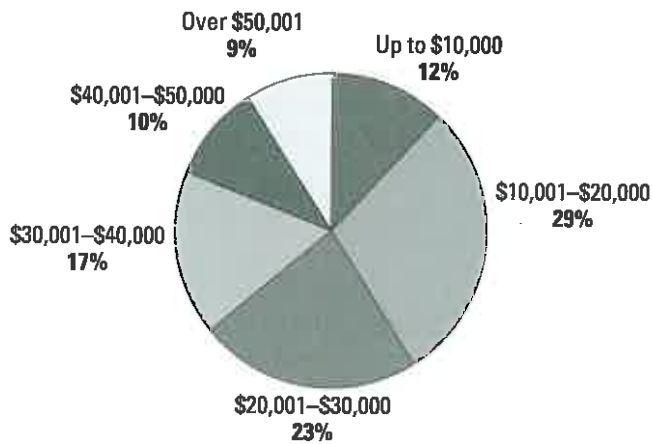


2001 Retirees

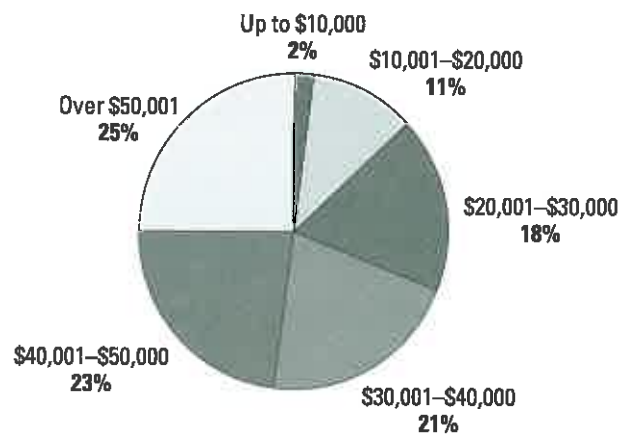


Distribution of Retirees by Average Final Salary

All Retirees at June 30, 2001



2001 Retirees



Post-employment Benefit Plans

Schedule of Group Insurance Additions by Source

Fiscal Years 1992–2001

(Expressed in Thousands)

Year Ended June 30	Contributions				Investment		Total
	State	Teacher	Political	Sub-Total	Income	Other	
2001	\$29,703	\$37,027	\$21,894	\$88,624	\$(77,363)	\$—	\$ 11,261
2000*	1	2	41	44	139,707	277	140,028
1999*	(1)	1	22	22	110,393	—	110,415
1998	8,973	10,958	6,435	26,366	145,280	—	171,646
1997*	12	(39)	33	6	154,091	—	154,097
1996	9,904	12,136	6,924	28,964	116,840	—	145,804
1995	5,025	5,853	3,311	14,189	95,497	—	109,686
1994*	(25)	2	5	(18)	5,392	—	5,374
1993	23,002	26,182	14,836	64,020	74,394	—	138,414
1992	18,577	20,696	11,667	50,940	60,773	—	111,713

* The group life insurance contribution rates for fiscal years 2000, 1999, 1997 and 1994 were zero. Amounts shown are adjustments and contributions for new employers. A statutory change in the actuarial period for prefunding post-employment life insurance benefits eliminated contribution requirements for fiscal year 1994. For fiscal years 2000, 1999 and 1997 the rate change was the result of a statutory premium holiday.

Schedule of Group Insurance Claims by Type

Fiscal Years 1992–2001

(Expressed in Thousands)

Year Ended June 30	Active Claims	Retired Claims	Total
2001	\$36,899	\$51,280	\$88,179
2000	34,113	48,912	83,025
1999	23,309	36,772	60,081
1998	26,854	45,919	72,773
1997	27,461	44,644	72,105
1996	25,081	40,095	65,176
1995	28,659	35,372	64,031
1994	25,884	36,163	62,047
1993	21,649	32,964	54,613
1992	22,113	32,218	54,331

Schedule of Retiree Health Insurance Credit Additions and Reimbursements

Fiscal Years 1992–2001

(Expressed in Thousands)

Year Ended June 30	Additions				Total	Health Insurance Reimbursements
	Contributions	Investment Income	Other			
2001	\$73,901	\$(3,089)	\$—		\$70,812	\$54,628
2000***	17,592	6,323	—		23,915	50,456
1999**	35,260	7,689	1		42,950	30,254
1998	22,123	7,637	14		29,774	17,372
1997	20,357	7,158	—		27,515	16,810
1996	20,180	3,592	—		23,772	13,594
1995	20,057	3,023	—		23,080	13,652
1994*	11,652	97	—		11,749	12,551
1993	10,374	1,304	—		11,678	7,894
1992	10,673	699	—		11,372	7,116

* The retiree health insurance credit was increased on July 1, 1993 from \$1.50 to \$2.50 per month and the maximum from \$45.00 to \$75.00 per month.

** Data for FY 1999 reflect extension of coverage to all teachers on July 1, 1998 and a premium holiday for state agencies in May and June 1999.

*** No contributions were paid for state employees during FY 2000. The maximum health credit increased for state employees to \$120.00 per month and for teachers to \$75.00 effective July 1, 1999.

Participating Employers as of June 30, 2001

Political Subdivisions (402)

Accomack County	Nelson County	City of Petersburg	Town of Herndon
Albemarle County	New Kent County	City of Poquoson	Town of Hillsville
Alleghany County	Northampton County	City of Portsmouth	Town of Hurt
Amelia County	Northumberland County	City of Radford	Town of Independence
Amherst County	Nottoway County	City of Richmond	Town of Iron Gate
Appomattox County	Orange County	City of Roanoke	Town of Jarratt
Augusta County	Page County	City of Salem	Town of Jonesville
Bath County	Patrick County	City of Staunton	Town of Kenbridge
Bedford County	Pittsylvania County	City of Suffolk	Town of Kilmarnock
Bland County	Prince Edward County	City of Virginia Beach	Town of Lawrenceville
Botetourt County	Prince George County	City of Waynesboro	Town of Leesburg
Brunswick County	Prince William County	City of Williamsburg	Town of Louisa
Buchanan County	Pulaski County	City of Winchester	Town of Luray
Buckingham County	Rappahannock County	Town of Abingdon	Town of Marion
Campbell County	Richmond County	Town of Alberta	Town of McKenney
Caroline County	Roanoke County	Town of Aitavista	Town of Middleburg
Carroll County	Rockbridge County	Town of Amherst	Town of Middletown
Charles City County	Rockingham County	Town of Appomattox	Town of Montross
Charlotte County	Russell County	Town of Ashland	Town of Mt. Jackson
Chesterfield County	Scott County	Town of Berryville	Town of Narrows
Clarke County	Shenandoah County	Town of Big Stone Gap	Town of New Market
Craig County	Smyth County	Town of Blacksburg	Town of Onancock
Culpeper County	Southampton County	Town of Blackstone	Town of Onley
Cumberland County	Spotsylvania County	Town of Bluefield	Town of Orange
Dickenson County	Stafford County	Town of Bowling Green	Town of Parksley
Dinwiddie County	Surry County	Town of Boyce	Town of Pearisburg
Essex County	Sussex County	Town of Boydton	Town of Pembroke
Fauquier County	Tazewell County	Town of Bridgewater	Town of Pound
Floyd County	Warren County	Town of Broadway	Town of Pulaski
Fluvanna County	Washington County	Town of Brookneal	Town of Purcellville
Franklin County	Westmoreland County	Town of Cape Charles	Town of Quantico
Frederick County	Wise County	Town of Chase City	Town of Remington
Giles County	Wythe County	Town of Chatham	Town of Rocky Mount
Gloucester County	York County	Town of Chilhowie	Town of Round Hill
Goochland County	City of Alexandria	Town of Chincoteague	Town of Rural Retreat
Grayson County	City of Bedford	Town of Christiansburg	Town of Saltville
Greene County	City of Bristol	Town of Clarksville	Town of Scottsville
Greensville County	City of Buena Vista	Town of Coeburn	Town of Shenandoah
Halifax County	City of Chesapeake	Town of Colonial Beach	Town of Smithfield
Hanover County	City of Clifton Forge	Town of Courtland	Town of South Boston
Henrico County	City of Colonial Heights	Town of Craigsville	Town of South Hill
Henry County	City of Covington	Town of Crewe	Town of St. Paul
Highland County	City of Danville	Town of Culpeper	Town of Stanley
Isle of Wight County	City of Emporia	Town of Dayton	Town of Strasburg
James City County	City of Fairfax	Town of Dillwyn	Town of Stuart
King George County	City of Falls Church	Town of Dublin	Town of Tappahannock
King & Queen County	City of Franklin	Town of Dumfries	Town of Tazewell
King William County	City of Fredericksburg	Town of Edinburg	Town of Timberville
Lancaster County	City of Galax	Town of Elkton	Town of Urbanna
Lee County	City of Hampton	Town of Exmore	Town of Victoria
Loudoun County	City of Harrisonburg	Town of Floyd	Town of Vienna
Louisa County	City of Hopewell	Town of Front Royal	Town of Vinton
Lunenburg County	City of Lexington	Town of Gate City	Town of Wakefield
Madison County	City of Lynchburg	Town of Glasgow	Town of Warrenton
Mathews County	City of Manassas	Town of Gretna	Town of Warsaw
Mecklenburg County	City of Manassas Park	Town of Grottoes	Town of Waverly
Middlesex County	City of Martinsville	Town of Grundy	Town of Weber City
Montgomery County	City of Norfolk	Town of Halifax	Town of West Point
	City of Norton	Town of Hamilton	Town of Wise

Town of Woodstock	Colonial Soil & Water	Highlands Juvenile Detention	Peter Francisco Soil & Water
Town of Wytheville	Conservation District	Center Commission	Conservation District
Accomack-Northampton	Covington Redevelopment &	Hopewell Redevelopment &	Petersburg Redevelopment &
Planning District Commission	Housing Authority	Housing Authority	Housing Authority
Albemarle County Service	Crater Juvenile Detention Home	Industrial Development	Peumansend Creek Regional
Authority	Culpeper Soil & Water	Authority of Henrico County	Jail
Albermarle-Charlottesville	Conservation District	James City Service Authority	Piedmont Planning District
Regional Jail	Cumberland Mountain	John Marshall Soil & Water	Commission
Alexandria Redevelopment &	Community Services	Conservation District	Piedmont Regional Jail
Housing Authority	Cumberland Plateau Regional	Lee County Redevelopment &	Pittsylvania County Service
Alexandria Sanitation Authority	Housing Authority	Housing Authority	Authority
Alleghany Highlands Community	Daniel Boone Soil & Water	Lenwisco Planning District	Planning District One
Services Board	Conservation District	Commission	Community Services Board
Amherst County Service	Danville-Pittsylvania Mental	Lonesome Pine Regional Library	Potomac & Rappahannock
Authority	Health Services Board	Lord Fairfax Planning District	Transportation Commission
Anchor Commission	Danville Redevelopment &	Commission	Potomac River Fisheries
Appomattox Regional Library	Housing Authority	Loudoun County Sanitation	Commission
Appomattox River Water	Dinwiddie County Water	Authority	Prince William Soil & Water
Authority	Authority	Massanutten Regional Library	Conservation District
Augusta County Service	District 19 Mental Health &	Meherrin Regional Library	Rappahannock Area Community
Authority	Mental Retardation Services	Middle Peninsula-Northern	Services Board
Bedford County Public Service	Board	Neck Community Services	Rappahannock Juvenile Center
Authority	Duffield Development Authority	Middle Peninsula Regional	Rappahannock-Rapidan
Bedford Public Library	Eastern Shore Community	Center	Community Services Board
Big Walker Soil & Water	Services Board	Moccasin Gap Sanitation	Rappahannock-Rapidan
Conservation District	Eastern Shore Public Library	District	Planning District Commission
Blacksburg-Christiansburg-VPI	Evergreen Soil & Water	Monacan Soil & Water	Rappahannock Security Center
Water Authority	Conservation District	Conservation District	Region Ten Community
Blacksburg-VPI Sanitation	Fauquier County Water &	Montgomery Regional Solid	Services Board
Authority	Sanitation Authority	Waste Authority	Richmond Metropolitan
Blue Ridge Regional Jail	Franklin Redevelopment &	Natural Tunnel Soil & Water	Authority
Authority	Housing Authority	Conservation District	Richmond Redevelopment
Bristol Redevelopment &	Frederick County Sanitation	Nelson County Service Authority	& Housing Authority
Housing Authority	Authority	New River Planning District	Rivanna Solid Waste Authority
Brunswick Industrial	Fredericksburg-Stafford Park	Commission	Rivanna Water & Sewer
Development Authority	Authority	New River Resource Authority	Authority
Campbell County Utilities &	Giles County Public Service	New River Soil & Water	Riverside Regional Jail
Service Authority	Authority	Conservation District	Roanoke Higher Education
Capital Regional Airport	Goochland-Powhatan	New River Valley Juvenile	Authority
Commission	Community Services Board	Detention Home Commission	Robert E. Lee Soil & Water
Central Rappahannock Regional	Great Southwest Regional	New River Valley Regional Jail	Conservation District
Library	Group Home Commission	Norfolk Airport Authority	Rockbridge Area Community
Central Virginia Community	Greensville County Water &	Norfolk Redevelopment &	Services Board
Services Board	Sewer Authority	Housing Authority	Rockbridge Area Social
Central Virginia Regional Jail	Greensville-Emporia Department	Northern Neck-Essex County	Services Department
Central Virginia Waste	of Social Services	Group Home Commission	Rockbridge County Public
Management Authority	Hampton-Newport News	Northern Neck Planning District	Service Authority
Charles Pickney Jones	Community Services Board	Commission	Rockbridge Regional Library
Memorial Library	Hampton Redevelopment &	Northern Neck Regional Jail	Russell County Water & Sewage
Charlottesville-Albemarle	Housing Authority	Northern Virginia Health Care	Authority
Airport Authority	Hampton Roads Planning	Center Commission	Scott County Public Service
Charlottesville Redevelopment	District Commission	Northern Virginia Juvenile	Authority
& Housing Authority	Hampton Roads Regional Jail	Detention Home	Scott County Redevelopment
Chesapeake Bay Bridge &	Hampton Roads Sanitation	Northwestern Community	and Housing Authority
Tunnel District	District	Services Board	Shenandoah Valley Juvenile
Chesapeake Redevelopment &	Handley Library Board	Pamunkey Regional Jail	Detention Home Commission
Housing Authority	Harrisonburg-Rockingham	Peaks of Otter Soil & Water	South Central Wastewater
Chesterfield County Health	Community Services Board	Conservation District	Authority
Center Commission	Harrisonburg-Rockingham	Peninsula Airport	Southeastern Tidewater
Coeburn-Norton-Wise Regional	Regional Sewer Authority	Commission	Manpower Authority
Water Treatment Authority	Henry County Public Service	Pepper's Ferry Regional	Southeastern Virginia Public
Colonial Services Board	Authority	Wastewater Authority	Services Authority

Southside Community Services Board
 Southside Planning District Commission
 Southside Regional Jail
 Southside Regional Juvenile Group Home Commission
 Southside Regional Library Board
 Spotsylvania-Stafford-Fredericksburg Group Home Commission
 Staunton Redevelopment & Housing Authority
 Suffolk Redevelopment & Housing Authority
 Sussex Service Authority
 Tazewell Soil & Water Conservation District
 Thomas Jefferson Planning District Commission
 Thomas Jefferson Soil & Water Conservation District
 Tidewater Regional Group Home
 Tidewater Transportation District Commission
 Tri-County/City Soil & Water Conservation District
 Upper Occoquan Sewage Authority
 Valley Community Services Board
 Virginia Biotechnological Research Park
 Virginia Coalfield Economic Development Authority
 Virginia Highlands Airport Commission
 Virginia Peninsulas Public Service Authority
 Virginia Peninsula Regional Jail
 Washington County Service Authority
 Waynesboro Redevelopment & Housing Authority
 Western Tidewater Community Services
 Western Tidewater Regional Jail
 Wise County Redevelopment & Housing Authority
 Wythe-Grayson Regional Library
 Wytheville Redevelopment & Housing Authority

**Public School Boards—
Professional Employees**

City Schools (39)

Alexandria City Schools*
 Bristol Schools*
 Buena Vista City Schools*
 Charlottesville Schools*

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

County Schools (94)

Accomack County Schools*
 Albemarle County Schools*
 Alleghany County Schools*
 Amelia County Schools*
 Amherst County Schools*
 Appomattox County Schools*
 Arlington County Schools
 Augusta County Schools*
 Bath County Schools*
 Bedford County Schools*
 Bland County Schools*
 Botetourt County Schools*
 Brunswick County Schools*
 Buchanan County Schools*
 Buckingham County Schools*
 Campbell County Schools*
 Caroline County Schools*
 Carroll County Schools*
 Charles City County Schools*
 Charlotte County Schools*
 Chesterfield County Schools*
 Clarke County Schools*
 Craig County Schools*
 Culpeper County Schools*

Cumberland County Schools*
 Dickenson County Schools*
 Dinwiddie County Schools*
 Essex County Schools*
 Fairfax County Schools
 Fauquier County Schools*
 Floyd County Schools*
 Fluvanna County Schools*
 Franklin County Schools*
 Frederick County Schools*
 Giles County Schools*
 Gloucester County Schools*
 Goochland County Schools*
 Grayson County Schools*
 Greene County Schools*
 Greensville County Schools*
 Halifax County Schools*
 Hanover County Schools*
 Henrico County Schools*
 Henry County Schools*
 Highland County Schools*
 Isle of Wight County Schools*
 King George County Schools*
 King & Queen County Schools*
 King William County Schools*
 Lancaster County Schools*
 Lee County Schools*
 Loudoun County Schools*
 Louisa County Schools*
 Lunenburg County Schools*
 Madison County Schools*
 Mathews County Schools*
 Mecklenburg County Schools*
 Middlesex County Schools*
 Montgomery County Schools*
 Nelson County Schools*
 New Kent County Schools*
 Northampton County Schools*
 Northumberland County Schools*
 Nottoway County Schools*
 Orange County Schools*
 Page County Schools*
 Patrick County Schools*
 Pittsylvania County Schools*
 Powhatan County Schools*
 Prince Edward County Schools*
 Prince George County Schools*
 Prince William County Schools*
 Pulaski County Schools*
 Rappahannock County Schools*
 Richmond County Public Schools*
 Roanoke County Schools*
 Rockbridge County Schools*
 Rockingham County Schools*
 Russell County Schools*
 Scott County Schools*
 Shenandoah County Schools*
 Smyth County Schools*
 Southampton County Schools*
 Spotsylvania County Schools*

Stafford County Schools*
 Surry County Schools*
 Sussex County Schools*
 Tazewell County Schools*
 Warren County Schools*
 Washington County Schools*
 Westmoreland County Schools*
 Wise County Schools*
 Wythe County Schools*
 York County Schools*

Other Schools (15)

Amelia-Nottoway Vocational Center
 Appomattox Region Governor's School
 Charlottesville-Albemarle Vocational Technical Center
 George Washington Carver - Piedmont Technical Education Center*
 Governor's School for Global Economics and Technology
 Governor's School for Government and International Studies
 Jackson River Vocational Center*
 Massanutten Vocational Technical Center
 New Horizons Technical Center*
 Northern Neck Regional Special Education Program
 Northern Neck Regional Vocational Center*
 Northwestern Regional Education Program*
 Rowanty Vocational Technical Center
 The Pruden Center for Industry and Technology*
 Valley Vocational Technical Center*

**Non-Professional employees also covered (132 School Boards)*

Agencies of the Commonwealth of Virginia (235)

Program with Oversight by VRS: Deferred Compensation Plan of the Commonwealth of Virginia

The Deferred Compensation Plan is regulated by Chapter Six of Title 51.1 of the Code of Virginia and is intended to be an eligible plan within the meaning of Internal Revenue Code Section 457(b). The purpose of the Plan is to provide participants with a convenient way to save for retirement through deferrals of compensation. The Plan is available, on a voluntary basis, to all salaried (full-time or part-time) employees, including elected and appointed officials providing services to the Commonwealth, and to eligible employees of participating political subdivisions.

Combined Statement of Changes in Plan Assets

Years Ended June 30, 2001 and 2000

	2001	2000
Plan Assets—Beginning of Year	\$456,797,671	\$399,887,131
Contributions ¹	52,207,301	42,375,764
Distributions	(12,160,707)	(15,946,194)
Plan Transfers ²	279,976	309,117
Third Party Administration Fees ³	(1,402,796)	(1,427,861)
VRS Administration Fees ⁴	—	(196,596)
Period Earnings	(38,744,316)	32,710,832
Net Decrease/Increase in the	(940,269)	(914,522)
Present Value of Annuitants' Future Benefits		
Plan Assets—End of Year	\$456,036,860	\$456,797,671

¹ Includes \$2,087,288 of contributions not posted FY 2000.

² Represents plan transfers from other eligible Section 457(b) plans into the Commonwealth's Plan.

³ The previous third party administrator (Citistreet) was compensated based on an annual fee of 35 basis points on total non-annuitized assets. The current third party administrator (Great-West) is compensated based on an annual fee of 30 basis points capped at account balances of \$150,000 on total non-annuitized assets.

⁴ The 2000 General Assembly amended §51.1-602 of the Code of Virginia by requiring participating employers to pay for VRS plan oversight costs rather than the plan participants.

Operational Overview

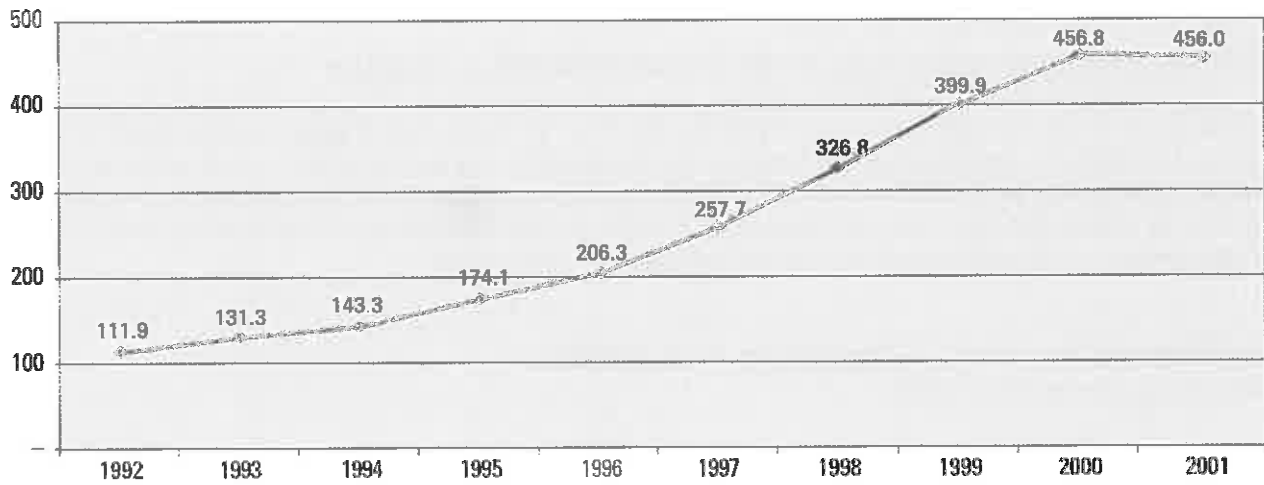
A total of 4,101 employees enrolled in the Deferred Compensation Plan during the 2000–2001 fiscal year. Inactive participant accounts and those participants receiving distribution payments should be considered along with this growth. As of June 30, 2001 there were 23,488 actively contributing participants, approximately 3,654 inactive participant accounts, 860 participants receiving systematic withdrawals, and 264 participants receiving annuity withdrawals. In addition to this activity, 584 lump-sum distributions were processed during the fiscal year.

It should be noted that the third party administrator changed from Citistreet to Great-West effective February 1, 2001 and a self-directed brokerage window option was made available to participants beginning March 1, 2001.

Plan Statistics

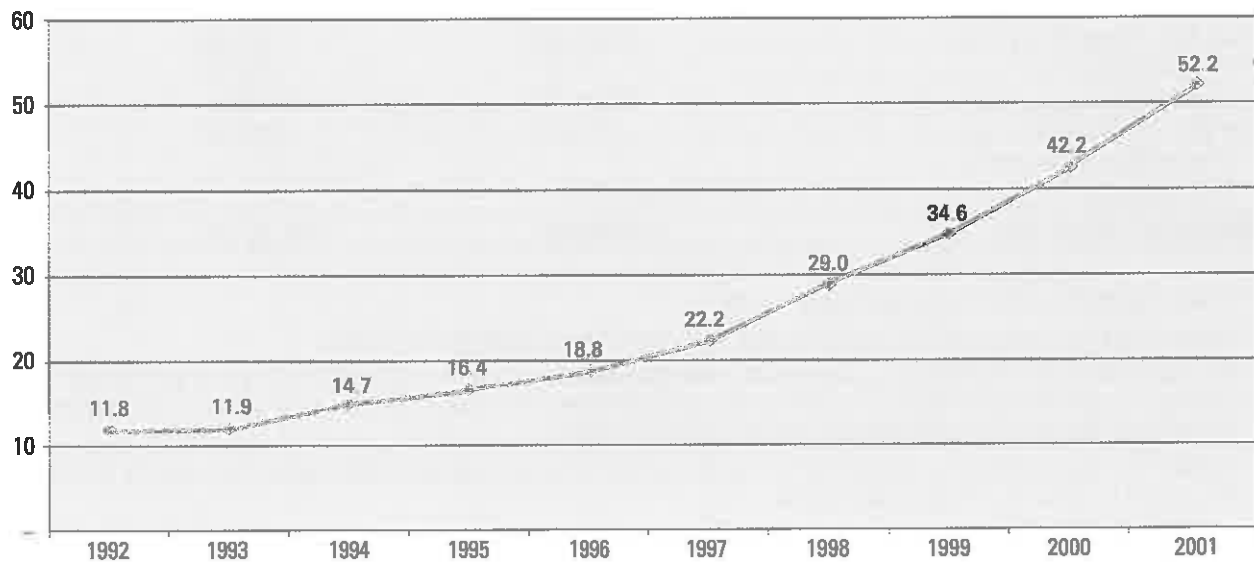
Deferred Compensation Program Assets

(Millions of Dollars)



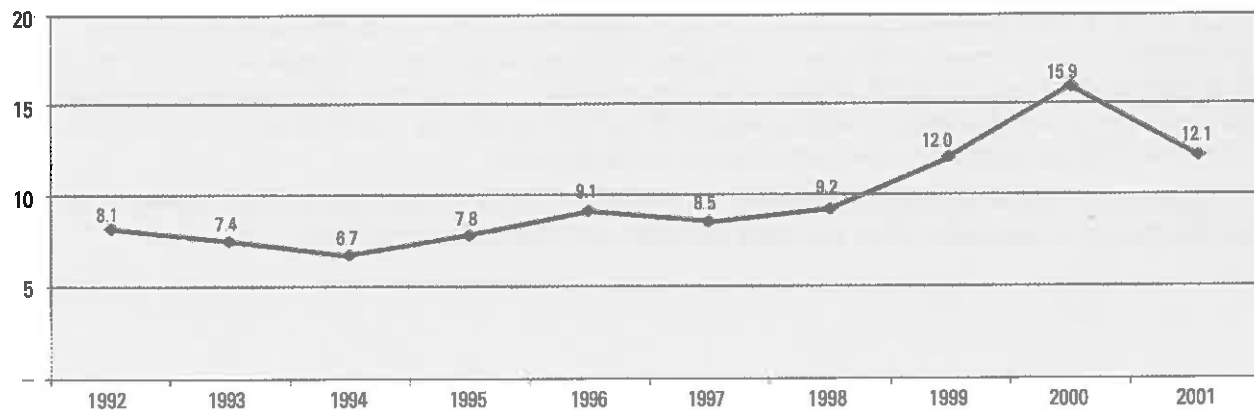
Contributions to the Deferred Compensation Plan

(Millions of Dollars)

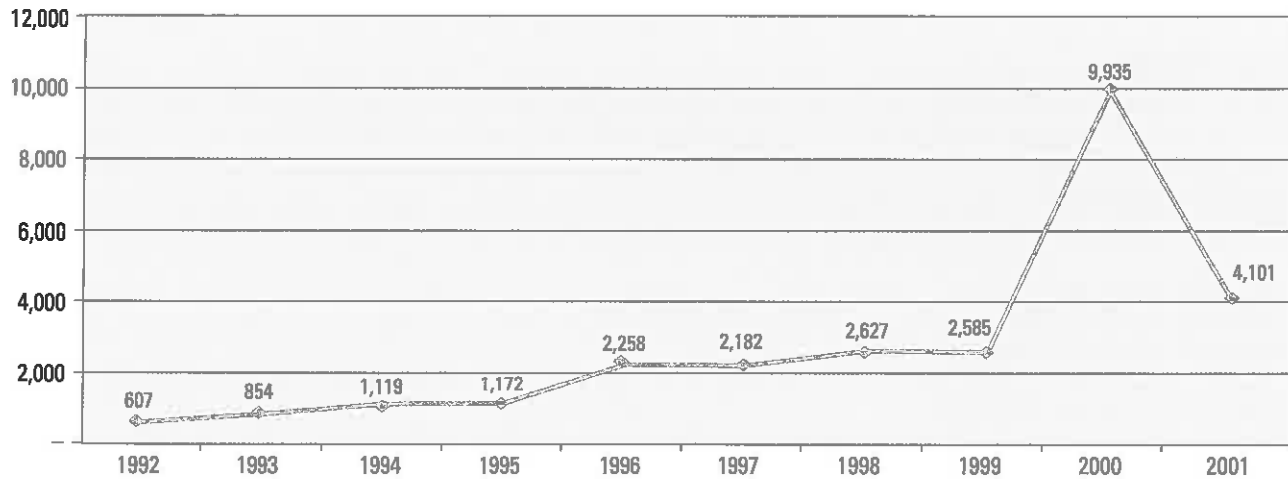


Distributions from the Deferred Compensation Plan

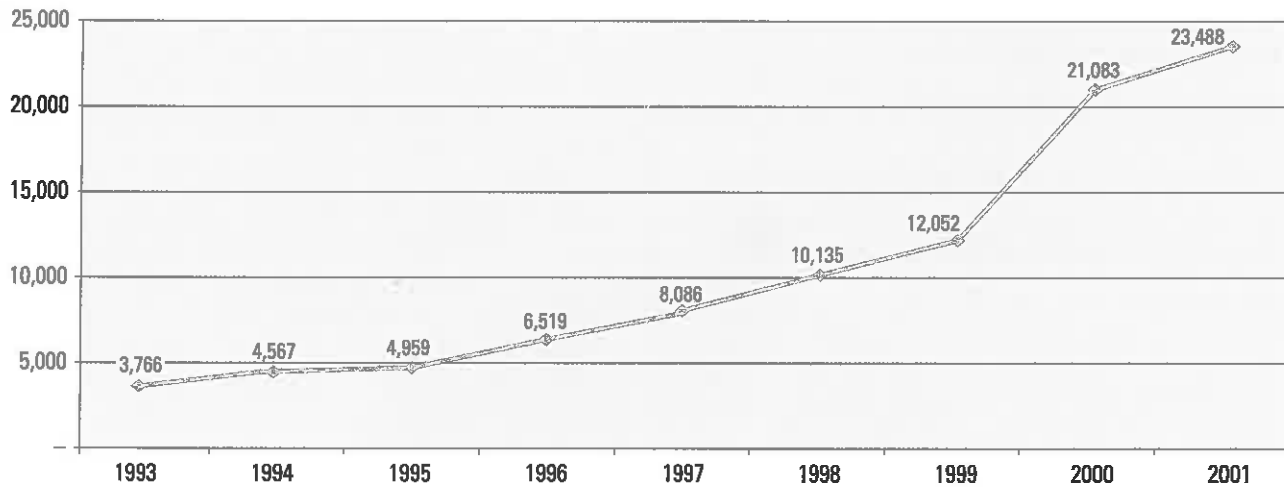
(Millions of Dollars)



New Enrollments in the Deferred Compensation Plan



Actively Contributing Plan Participants*



* Data not available prior to 1993

Total Participant Accounts in Each Fund Option

Fund Name	Total Participant Accounts
VRS Income & Growth Fund	1,697
VRS Balanced Growth Fund	8,424
VRS Long-Term Growth Fund	3,470
Bond Index Fund	3,257
S&P 500 Index Fund	14,397
Russell 1000 Growth Index Fund	1,018
Russell 1000 Value Index Fund	638
Small/Mid Cap. Equity Index Fund	3,585
International Equity Index Fund	1,519
Money Market Fund	1,247
Stable Value Fund	8,296
VRS Bond Fund	2,023
VRS Large Cap. Equity Fund	13,699
VRS Small/Mid Cap Equity Fund	5,460
VRS International Equity Fund	3,710
CSFB Direct	39

Plan Assets

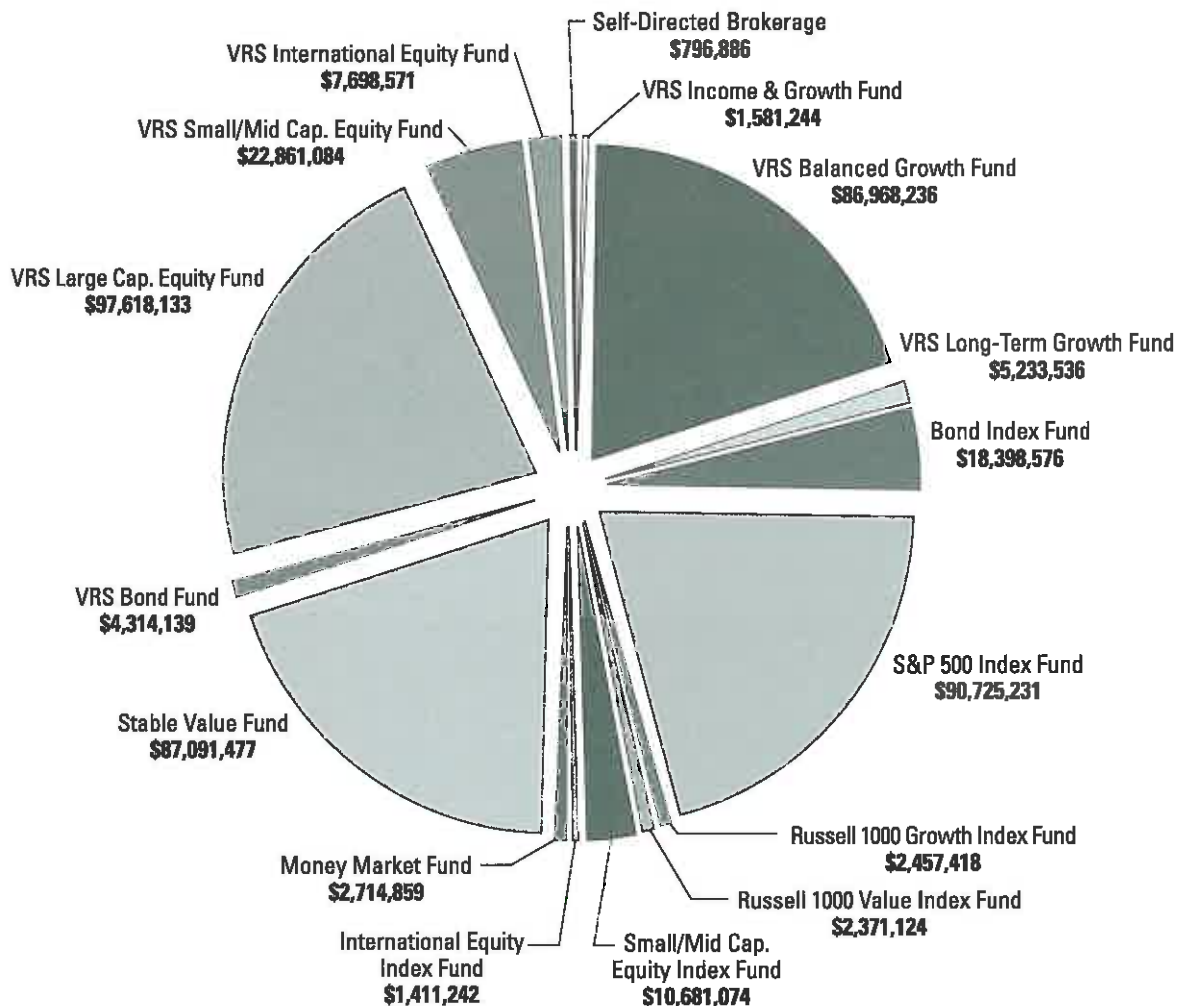
Plan Assets are divided into two categories. Annuity Plan Assets represent the present value of future benefits for those participants who chose an annuity as a distribution payment. Accumulation Plan Assets represent funds invested among the 15 core investment options, the self-directed brokerage option, and funds providing systematic withdrawal distribution payments.

Annuity Plan Assets

The Hartford Life Insurance Company Annuity Plan Assets at June 30, 2001	\$ 10,230,903
Metropolitan Life Annuity Plan Assets at June 30, 2001	2,883,127
Total at June 30, 2001	\$ 13,114,030

Accumulation Plan Assets

Total at June 30, 2001 – \$442,922,830



Description of Funds

VRS Income & Growth Fund: Seeks to provide income and a modest level of capital growth by investing in a combination of bonds and stocks that 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%
U.S. Stocks – 22%
Foreign Stocks – 3%

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

U.S. Bonds – 50%
U.S. Stocks – 43%
Foreign Stocks – 7%

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

U.S. Bonds – 25%
U.S. Stocks – 64%
Foreign Stocks – 11%

Bond Index Fund: Seeks to track the performance of the Lehman Brothers Aggregate Bond Index. This Index is a combination of government, corporate, mortgage-backed and asset-backed bonds.

Mortgage-Backed Securities – 35%	Agency – 11%
Corporates – 26%	Asset-Backed Securities – 2%
Treasury – 24%	CMBS – 2%

S&P 500 Index Fund: Seeks to track the performance of the Standard & Poor's 500 Index. This Index is comprised of 500 widely held U.S. stocks chosen by Standard & Poor's.

Financials – 18%	Consumer Staples – 7%
Information Technology – 18%	Energy – 7%
Consumer Discretionary – 13%	Telecommunication Services – 6%
Health Care – 13%	Utilities – 4%
Industrials – 11%	Basic Materials – 3%

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

Information Technology – 40%	Consumer Staples – 5%
Health Care – 21%	Financials – 2%
Consumer Discretionary – 15%	Telecommunication Services – 2%
Industrials – 13%	Other – 2%

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

Financials – 31%	Health Care – 9%
Consumer Discretionary – 11%	Telecommunication Services – 8%
Industrials – 10%	Utilities – 6%
Consumer Staples – 9%	Information Technology – 4%
Energy – 9%	Materials – 3%

Small/Mid Capitalization Equity Index Fund:

Seeks to track the performance of the Russell Small Capitalization Completeness Index. This Index is a measure of the small-to-mid capitalization sector of the U.S. stock market.

Financials – 21%	Energy – 4%
Information Technology – 20%	Utilities – 4%
Consumer Discretionary – 17%	Consumer Staples – 3%
Health Care – 14%	Materials – 3%
Industrials – 11%	Telecommunication Services – 3%

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 comprised of approximately 1,000 stocks in 20 countries in Europe and the Pacific Basin.

Financials – 25%	Telecommunication Services – 8%
Consumer Discretionary – 15%	Consumer Staples – 7%
Health Care – 10%	Energy – 7%
Industrials – 10%	Materials – 5%
Information Technology – 8%	Utilities – 4%
	Other – 1%

Money Market Fund: Seeks to provide short-, medium-, and long-term returns that provide for a high level of current income while preserving capital.

CDs, ECDs, TDs, BAs – 48%	Bank Notes,
Commercial Paper – 28%	Corporates, Medium
Floating Rate Corporate	Term Notes – 3%
Notes – 13%	Agency – 2%
Repurchase	Floating Rate Agencies – 2%
Agreements – 4%	

Stable Value Fund: Seeks to provide attractive credited rates and competitive market returns relative to the Lehman Brothers Intermediate Government/Corporate Index. Principal and interest are guaranteed by MetLife for participant accounts during the active life of the Fund. (Rates are reset every six months.)

Corporates – 32%	Mortgages – 9%
U.S. Government – 30%	Non Corporates – 6%
ABS – 19%	Cash – 4%

VRS Bond Fund: Seeks to provide long-term returns that exceed the performance of the Lehman Brothers Aggregate Bond Index. This Index is a combination of government, corporate, mortgage-backed and asset-backed bonds.

Mortgage-Backed	Corporates – 9%
Securities – 53%	Other – 2%
Foreign – 25%	Emerging Markets – 1%
U.S. Treasury/Agency – 10%	

VRS Large Capitalization Equity Fund: Seeks to provide long-term returns that exceed the performance of the Standard & Poor's 500 Index. This Index is comprised of 500 widely held U.S. stocks chosen by Standard & Poor's.

Technology – 19%	Energy – 7%
Financials – 17%	Communication
Health Care – 13%	Services – 6%
Consumer Staples – 12%	Basic Materials – 3%
Capital Goods – 10%	Utilities – 3%
Consumer Cyclical – 9%	Transportation – 1%

VRS Small/Mid Capitalization Equity Fund: Seeks to provide long-term returns that exceed the performance of the Russell Small Capitalization Completeness Index. This Index is a measure of the small-to-mid capitalization sector of the U.S. stock market.

Technology – 22%	Energy – 4%
Financials – 20%	Utilities – 4%
Consumer Cyclical – 12%	Basic Materials – 3%
Consumer Staples – 12%	Communication
Health Care – 10%	Services – 3%
Capital Goods – 8%	Transportation – 2%

VRS International Equity Fund: Seeks to provide long-term returns that exceed the performance of the Morgan Stanley Capital International Europe, Australasia, Far East Index (MSCI EAFE). This Index is comprised of approximately 1,000 stocks in 20 countries in Europe and the Pacific Basin.

Financials – 23%	Other – 8%
Consumer	Energy – 7%
Discretionary – 16%	Consumer Staples – 6%
Information	Industrials – 6%
Technology – 12%	Materials – 2%
Health Care – 10%	Utilities – 1%
Telecommunication	
Services – 9%	

Self-Directed Brokerage Account Option: This option is for knowledgeable investors who acknowledge and understand the risks associated with the mutual fund investments contained within the option. Eligible participants are allowed to select from thousands of mutual funds in addition to the Plan's core investment options. (Participants cannot invest in individual securities such as stocks, bonds or options.)

Investment Option Performance Summary

Below are the totals for the period ending June 30, 2001

(Returns greater than one year are annualized)

Investment Options	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	Fund Expense Ratio
Tier I: Asset Allocation Funds							
VRS Income & Growth Fund¹	-0.24%	1.95%	0.98%	4.38%	5.98%	9.01%	0.07%
Benchmark (75% Lehman Bros. Aggregate Bond Index, 22% Russell 3000, 3% MSCI EAFE)	-0.24%	1.94%	1.03%	4.38%	5.95%	8.99%	
VRS Balanced Growth Fund¹	-0.89%	3.25%	-1.76%	-2.35%	5.46%	10.29%	0.07%
Benchmark (50% Lehman Bros. Aggregate Bond Index, 43% Russell 3000, 7% MSCI EAFE)	-0.89%	3.22%	-1.73%	-2.44%	5.36%	10.22%	
VRS Long-Term Growth Fund¹	-1.54%	4.51%	-4.56%	-8.90%	4.64%	11.35%	0.07%
Benchmark (25% Lehman Bros. Aggregate Bond Index, 64% Russell 3000, 11% MSCI EAFE)	-1.53%	4.45%	-4.56%	-9.04%	4.54%	11.28%	
Tier II: Passively Managed Funds							
Bond Index Fund	0.39%	0.55%	3.55%	11.17%	6.28%	n/a	0.05%
Lehman Bros. Aggregate Bond Index	0.38%	0.56%	3.60%	11.23%	6.25%	7.48%	
S&P 500 Index Fund	-2.44%	5.88%	-6.70%	-14.81%	3.92%	14.50%	0.02%
S&P 500 Index	-2.43%	5.85%	-6.70%	-14.83%	3.89%	14.48%	
Russell 1000 Value Index Fund	-2.23%	4.89%	-1.18%	10.45%	5.32%	14.84%	0.08%
Russell 1000 Value Index	-2.22%	4.88%	-1.26%	10.34%	5.36%	14.95%	
Russell 1000 Growth Index Fund	-2.29%	8.47%	-13.90%	-35.95%	0.84%	12.12%	0.08%
Russell 1000 Growth Index	-2.32%	8.42%	-14.24%	-36.17%	0.69%	11.98%	
Small/Mid Cap Equity Index Fund*	0.43%	13.17%	-4.67%	-16.91%	5.22%	11.31%	0.08%
Russell Small Cap Completeness Index	0.53%	13.13%	-4.83%	-17.52%	4.75%	10.71%	
International Equity Index Fund**	-4.09%	-0.69%	-14.71%	-24.33%	-1.44%	2.65%	0.20%
MSCI EAFE Index	-4.09%	-1.05%	-14.61%	-23.54%	-1.21%	2.91%	
Tier III: Actively Managed Funds							
Money Market Fund	0.35%	1.17%	2.65%	6.08%	5.74%	5.70%	0.09%
91-Day Treasury Bill	0.30%	0.96%	2.25%	5.58%	5.37%	5.35%	
VRS Bond Fund	0.28%	-0.25%	2.59%	10.50%	6.50%	8.07%	0.43%
Lehman Bros. Aggregate Bond Index	0.38%	0.56%	3.60%	11.23%	6.25%	7.48%	
VRS Large Cap Equity Fund²	-1.96%	6.94%	-5.22%	-13.83%	3.72%	14.53%	0.48%
S&P 500 Index	-2.43%	5.85%	-6.70%	-14.83%	3.89%	14.48%	
VRS Small/Mid Cap Equity Fund² *	0.01%	11.31%	-7.04%	-18.79%	3.22%	12.34%	0.65%
Russell Small Cap Completeness Index	0.53%	13.13%	-4.83%	-17.52%	4.75%	10.71%	
VRS International Equity Fund**	-4.26%	-0.98%	-16.32%	-27.74%	-1.57%	3.29%	0.89%
MSCI EAFE Index	-4.09%	-1.05%	-14.61%	-23.54%	-1.21%	2.91%	
Stable Value Fund	The credited rate from 7/1/00 through 12/31/00 was set at 6.26%. The credited rate from 1/1/01 through 6/30/01 was set at 6.32%.						0.37%

*Equity securities of companies with relatively small market capitalization may be more volatile than securities of larger, more established companies.

**Foreign investments involve special risks, including currency fluctuations and political developments.

¹ Investment operations for the VRS Asset Allocation Funds began 11/1/99. Returns prior to this date are a simulation based upon the historical performance of the Funds' indices according to the Funds' target allocation, and therefore, do not reflect the Funds' actual historical performance.

² Investment operations for the VRS Large Capitalization Equity Fund and the VRS Small/Mid Capitalization Equity Fund began 11/1/99. Returns prior to this date are simulated and are for illustrative purposes only.

The performance returns shown reflect all fund management fees and expenses, but do not reflect the Plan administrative fee, which would further reduce the returns shown. All calculations assume reinvestment of dividends and capital gains.

OUR FAVORITE TEACHERS

MARY TRIMMER ROBINSON

JAMES RIVER HIGH SCHOOL, CHESTERFIELD COUNTY



When it became clear to Barbara Billmyer that her son was in danger of dropping out of high school in his sophomore year, she turned to Mary Trimmer, then a vice principal at Monacan High School in Chesterfield County. “Chuck was a handful for his dad and me,” Billmyer said. “He hated school, had failing to poor grades... he couldn’t wait to drop out.” Trimmer—now Mary Trimmer Robinson—suggested an alternative vocational program available to at-risk students 16 years or older. Chuck was only 15 at the time, but Robinson worked to get special approval for him to enter the program. He flourished there, passing the GED before his 16th birthday and eventually becoming a welder.

Robinson (who followed her grandfather, mother and two aunts into teaching) believes



“education is important, but the kind we offer—comprehensive high school education—is not for everyone. We’re starting to look at more alternatives for kids.” She works hard to find the right alternative, even if it means creating one herself. While working at the Chesterfield

level. A life-skills-based approach allows them to get enough schooling to be successful.”

Chuck Billmyer is an example of that success. In the dozen years since he completed the vocational program, he has gone on to earn a certificate in computer engineering

“I’M THANKFUL THERE ARE SCHOOL ADMINISTRATORS LIKE MARY TRIMMER ROBINSON, WHO HELP STUDENTS—NOT JUST COLLEGE-BOUND STUDENTS—TO BE ALL THEY CAN.”

Technical Center in the mid-1980s, she and another teacher “developed and ran an alternative program for overage, underachieving middle school students. Some were 17 and 18 years old and stuck in the 8th grade; some had repeated a grade more than once.” Robinson and her colleague created a program that included a half day of academics and a half day of technical training. “More students drop out in the 9th grade than at any other

and now works installing software and hardware systems. “Every now and then I think about how this was made possible by Ms. Trimmer opening an alternative door in education to Chuck,” said Billmyer. “I’m thankful there are teachers and school administrators like Mary Trimmer Robinson, who help lay the educational foundation for students—not just college-bound students—to be all they can and want to be.”



Alex
Brenden
Trent
Royce
Rainwater
Ragan
Vuni



NOTES



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