



Virginia
Retirement
System

Comprehensive Annual Financial Report
For The Year Ended June 30, 2008

An Independent Agency of the Commonwealth of Virginia



A C E N T U R Y O F I N N O V A T I O N

Virginia Retirement System
 Fiscal Year 2008
 Financial and Statistical Highlights – All Pension Trust Funds

(DOLLARS IN THOUSANDS)

	2008	2007	% Change
Activity for the Year:			
Contributions	\$ 2,148,168	\$ 1,943,770	10.5%
Investment Income (Net of Investment Expenses)	\$ (2,774,300)	\$ 9,753,164	-128.4%
Retirement Benefits	\$ 2,536,268	\$ 2,313,489	9.6%
Refunds	\$ 102,935	\$ 95,765	7.5%
Administrative Expenses (Net of Miscellaneous Income)	\$ 25,236	\$ 24,190	4.3%
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	\$ (3,290,571)	\$ 9,263,490	-135.5%
Retirement Benefits as a Percentage of Contributions	118.1%	119.0%	
Retirement Benefits as a Percentage of Contributions and Investment Income	-405.1%	19.8%	
Net Assets Held in Trust for Benefits at Fiscal Year End:			
Virginia Retirement System (VRS)	\$ 51,743,477	\$ 54,948,224	-5.8%
State Police Officers' Retirement System (SPORS)	\$ 636,409	\$ 683,949	-7.0%
Virginia Law Officers' Retirement System (VaLORS)	\$ 852,640	\$ 868,366	-1.8%
Judicial Retirement System (JRS)	\$ 367,106	\$ 389,664	-5.8%
Investment Performance:			
One-Year Return on Investments	-4.4%	20.4%	
Three-Year Return on Investments	8.9%	14.9%	
Five-Year Return on Investments	11.3%	12.8%	
Participating Employers:			
Counties/Cities/Towns	250	249	
Special Authorities	188	183	
School Boards	144	145	
State Agencies	239	237	
Total Employers	<u>821</u>	<u>814</u>	0.9%
Members/Retirees:			
Active Members	345,737	339,215	1.9%
Retired Members	136,394	130,500	4.5%

OUR MISSION: TO SERVE AS STEWARDS OF
THE FUNDS IN OUR CARE AND TO PROVIDE
SUPERIOR CUSTOMER SERVICE

Virginia Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2008

1908 - 2008: A CENTURY OF INNOVATION

AN INDEPENDENT AGENCY OF THE COMMONWEALTH OF VIRGINIA



THIS REPORT WAS PREPARED BY THE FINANCIAL, ADMINISTRATIVE AND INVESTMENT STAFF OF THE VIRGINIA RETIREMENT SYSTEM

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Virginia Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.



Oliver S. Cox
President

Jeffrey R. Emery
Executive Director

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Public Pension Coordinating Council
Public Pension Standards
2007 Award

Presented to

Virginia Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

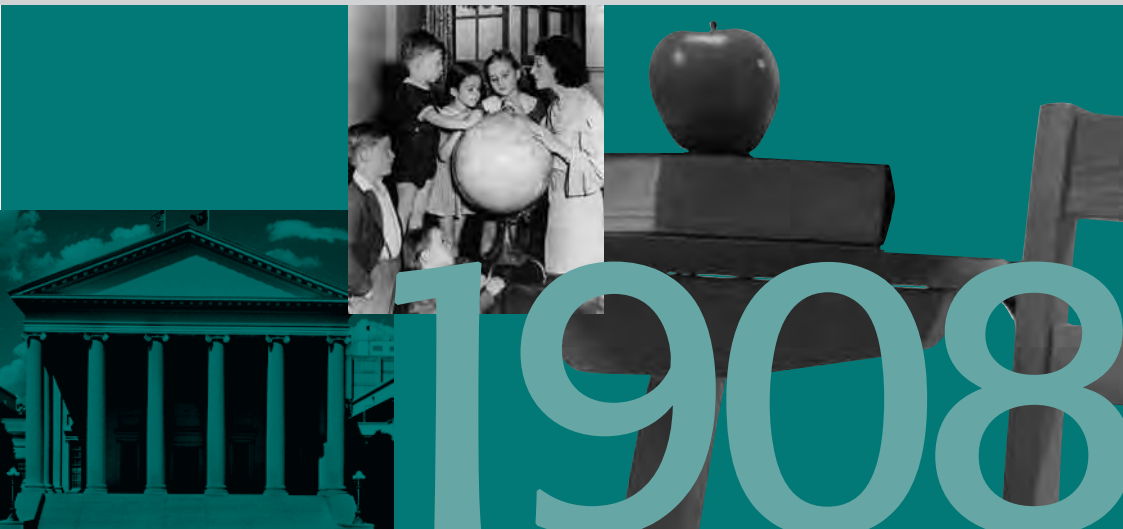
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle". The signature is written in black ink and is positioned above the printed name and title.

Alan H. Winkle
Program Administrator

Introductory Section

Chairman's Letter
VRS Board of Trustees
VRS Organization
VRS Investment Advisory Committee
VRS Administrative Executive Team
VRS Investment Executive Team
Professional Consultants
Letter of Transmittal



The First State-wide Retirement System in the U.S. – 1908

The innovation was the fund itself – a way for public employees to enjoy some retirement security after dedicating their lives to state service, in this case teaching in Virginia’s public schools. Established in 1908 by the Virginia General Assembly, the Retired Teachers’ Fund enrolled about 50 members.

In those days, most retired teachers received pensions varying from \$50 to \$400 per year. Eventually, because of poor funding compounded by the impact of the Great Depression, the fund could no longer pay benefits and was discontinued.

The idea of providing future security for dedicated public employees, however, persisted. In 1942, the Virginia Retirement System was established and began to enroll currently active teachers, school administrators and state employees. The 1942 Acts of Assembly stated that “In the case of all teachers whose compensation is paid exclusively out of funds derived from local revenues and appropriations from the general fund of the State treasury, and in the case of all State employees whose compensation is paid exclusively by the State out of the general fund of the State treasury, the State shall be the sole contributor to the State annuity accumulation fund.”

In 1944, state legislation allowed political subdivisions to join VRS, again providing for employers to contribute toward the funding of their employees' future retirement benefits.



Chairman's Letter



A. Marshall Acuff, Jr., Chairman
Robert P. Schultze, Director
Charles W. Grant, CFA, Chief Investment Officer

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

November 20, 2008

**The Honorable Timothy M. Kaine, Governor of Virginia, and
 Members of the General Assembly:**

After four years of exceptional performance, the Virginia Retirement System (VRS) experienced a -4.4% return on its investment portfolio for fiscal year 2008, ending the year with \$55.1 billion in assets.

While the portfolio outperformed its policy benchmarks, absolute returns suffered due to stress in the housing and credit markets and general economic weakness. In this environment, risk premiums increased, resulting in lower market prices for equities and other risk assets.

The fund's private equity and fixed income programs produced returns of 15.5% and 6.3%, respectively, while real estate investments generated a 4.1% return. The fund's public equity program experienced a -10.4% return and the credit strategies program had a -4.7% return. The portfolio included \$30.5 billion in public equity, \$11.2 billion in fixed income, \$4.5 billion in private equity, \$4.1 billion in real estate and \$4.0 billion in credit strategy investments as of June 30, 2008.

Since July 1, the market has continued to experience significant declines. At October 31, 2008, the VRS fund stood at \$43.0 billion. The Board remains confident, however, in the global economy's long-term growth prospects and the fund's ability to generate acceptable returns over a long investment horizon. Putting fiscal year 2008 into perspective, the fund's three-year annualized return was 8.9%, and its five-year annualized return was an outstanding 11.3%, exceeding both our investment policy benchmarks and our long-term actuarial return assumption of 7.5%. This performance keeps the VRS fund in the top quartile among public pension funds across the country and stands as a testament to the skills and abilities of our investment staff.

VRS' administrative division also outperformed its benchmarks for the fiscal year, exceeding its standards for paying benefits accurately and on time, processing retirement and other benefit applications and performing many other critical business functions on behalf of our members, retirees and employers. In addition, the administrative staff implemented the following key initiatives:

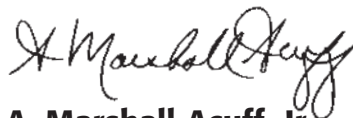
- A comprehensive retirement planner in *myVRS*, a secure online system that provides members and their employers access to member information.
- Secure online access for retirees through *myVRS*.
- Continued "early wins" toward VRS' long-term modernization program, including improvements in the efficiency of workflow processes and streamlining the process of certifying and paying claims as a result of a member's death.

- The groundwork to begin working with selected vendors to implement the modernization program over the next four years.
- Self-funding the VSDP Long-Term Care program, seeded with a return of reserves from the previous insurance carrier of \$21 million.
- Automatic enrollment for state employees in the Commonwealth of Virginia 457 Deferred Compensation Plan and Virginia Cash Match Plan.
- Unitization of the VRS Trust Fund, in collaboration with the Investment Division, to allow defined contribution plan members to purchase shares in the VRS Investment Portfolio (VRSIP).
- Preparing for Senate Bill 1166, which provided increased retirement benefits for a number of law enforcement groups and made enhanced coverage for all deputy sheriffs mandatory effective July 1, 2008.

Finally, VRS runs efficiently. CEM Benchmarking, Inc., a research and assessment service for national and international public pension systems, reported that VRS' total adjusted cost of administration for the previous year was \$44 per active member and annuitant. This compares to our peer group average of \$76 for the largest U.S. public pension systems participating in CEM.

Although the investment picture dimmed this year because of market volatility, the VRS investment and administrative staff, in typical fashion, turned in an exceptional performance. Our mission to provide financial security for members and retirees depends on these knowledgeable and dedicated people as well as responsible governance by the Board of Trustees.

On behalf of the Board and VRS, I would like to express our gratitude to you for your continued support and leadership.



A. Marshall Acuff, Jr.

Chairman
Virginia Retirement System

VRS Board of Trustees



A. Marshall Acuff, Jr.,
Chair
Cary Street
Partners



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



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



Judith Ewell, Ph.D.
The College of
William and Mary
(Retired)



Palmer P. Garson
Cary Street
Partners



Robert L. Greene
Syncom Venture
Partners



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



Paul W. Timmreck
Virginia
Commonwealth
University (Retired)



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

Composition of the Board

Nine members serve on the VRS Board of Trustees. Their appointment is shared between the executive and legislative branches of state government.

The Governor appoints five members, including the chairman. The Joint Rules Committee of the Virginia General Assembly appoints four members. The General Assembly confirms all appointments.

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

VRS Organization

BOARD OF TRUSTEES

ADMINISTRATION



Robert P. Schultze
Director

INVESTMENTS



Charles W. Grant, CFA
Chief Investment Officer

INTERNAL AUDIT



Franklin O. Berry
Internal Audit Director

VRS Investment Advisory Committee



LEFT TO RIGHT:
*Christopher J. Brightman,
Erwin H. Will, Jr.,
Deborah Allen Hewitt,
Joe Grills,
Stuart A. Sachs,
Hance West and
Patricia Gerrick*

NOT PICTURED:
*Donald W. Lindsey and
Rod Smyth*

Joe Grills, Chair
Former Chief
Investment Officer,
IBM Retirement Funds

Christopher J. Brightman
Chief Executive Officer,
University of Virginia
Investment Management
Company

Patricia Gerrick
Deputy State Treasurer and
State Investment Officer,
North Carolina Department
of the State Treasurer

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

Donald W. Lindsey
Chief Investment Officer,
The George Washington
University

Stuart A. Sachs
President (Retired),
Sovran Capital Management

Rod Smyth
Chief Investment Strategist,
Riverfront Investment Group

Hance West
Managing Director,
Investure

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

VRS Administrative Executive Team

Robert P. Schultze
Director

Donna M. Blatecky
Deputy Director,
Customer Relationships
Division

Barry C. Faison
Chief Financial Officer

Franklin O. Berry
Internal Audit Director

LaShaunda B. King
Executive Assistant

L. Farley Beaton, Jr.
Chief Technology Officer

Craig M. Burns
Director of Policy,
Planning and Compliance

Kenneth C. Robertson, Jr.
Director of Human
Resources

Jeanne L. Chenault
Director of Public Relations

VRS Investment Executive Team

Charles W. Grant, CFA
Chief Investment Officer

Field H. Griffith, CFA
Director of Real Estate
Investments

Larry D. Kicher, CFA
Chief Operating Officer

John P. Alouf, CFA
Director of Private Equity

Steven C. Henderson, CFA
Director of Fixed Income

Stephen R. McClelland, CFA
Director of Credit Strategies

John T. Grier, CFA
Director of Internal Equity

Kenneth C. Howell, CFA
Director of Global Equity

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

Professional Consultants

ACTUARY
Daniel L. Homan, EA,
MAAA
Senior Consultant,
Wachovia Retirement
Services

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

**VIRGINIA SICKNESS &
DISABILITY PROGRAM**
Michelle Jackson
Unum Corporation

MASTER CUSTODIAN
Mellon Trust

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

LEGAL COUNSEL
Office of the Attorney
General,
Commonwealth of
Virginia

Letter of Transmittal



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

P.O. Box 2500, 1200 East Main Street
Richmond, Virginia 23218-2500

November 19, 2008

Toll Free: 1-888-VARETIR (827-3847); TDD: (804) 344-3190

To the Members of the Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Virginia Retirement System (the System) for the fiscal year ended June 30, 2008.

VRS administers benefits and services for more than 600,000 members, retirees and beneficiaries covered under the following systems:

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

Benefits include:

- Defined benefit plans
- Defined contribution plans
- Basic Group Life Insurance Plan and Optional Group Life Insurance Plan
- Retiree Health Insurance Credit Program
- Virginia Sickness and Disability Program (VSDP)
- VSDP Long-Term Care Plan

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

VRS' Comprehensive Annual Report for FY 2008 has been prepared in accordance with Section 51.1-1003 of the *Code of Virginia* (1950), as amended, and Section 4-10.00 of Chapter 879 of the 2008 Virginia Acts of Assembly, which requires every retirement system to publish an annual report. The report has been mailed to the Governor and the members of his Cabinet, the members of the Virginia General Assembly, VRS' participating employers and other interested parties. It also is available on the VRS Web site at www.varetire.org.

The FY 2008 report consists of the following sections:

- **Introductory Section:** Letter from the Chairman of the VRS Board of Trustees; Letter of Transmittal; identification of the organization.
- **Financial Section:** Opinion of the Auditor of Public Accounts; Management's Discussion and Analysis; the financial statements and notes; required supplementary data; additional financial information.
- **Investment Section:** Letter from the Chief Investment Officer; review of investment activity and performance for the fiscal year.
- **Actuarial Section:** Certification letter of the independent consulting actuary, Wachovia Retirement Services; summary of the results of the most recent actuarial valuations; plan summary information.
- **Statistical Section:** Significant historical trend data pertaining to the System; list of participating employers; information on other programs.

Accounting System and Internal Control

The financial statements included in the CAFR for FY 2008 are the responsibility of the System's management and have been prepared in accordance with generally accepted accounting principles (GAAP) for governmental accounting and reporting under the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

The accrual basis of accounting is used in the preparation of the financial statements. Revenues are taken into account when they are earned and become measurable; expenses are recorded when the liabilities are incurred. Investments are reported at fair value as determined by the System's master custodian. Capital assets are recorded at cost and depreciated over their estimated useful life. Contributions to the System are based on the principle of level cost funding and are developed using the entry age normal cost method with current service financed on a current basis and prior service amortized within a period of 30 years or less. In management's opinion, the financial statements fairly present the plan net assets of the System at June 30, 2008 and the changes in its plan net assets for the period then ended.

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

VRS Milestones

- | | |
|------|---|
| 1908 | Retired Teachers Fund created. |
| 1942 | VRS created for teachers and state employees. |
| 1944 | Political subdivisions have the option to join VRS. |
| 1950 | State Police Officers' Retirement System (SPORS) created. |
| 1960 | Group Life Insurance Program established. |
| 1970 | Cost-of-Living Adjustment (COLA) established. Judicial Retirement System (JRS) created. |

VRS Milestones

- 1990** Health Insurance Credit for state retirees established.
- 1993** Health Insurance Credit for retired teachers and political subdivision retirees established.
- 1995** Optional Group Life Insurance Program established.
- 1999** Virginia Sickness and Disability Program (VSDP) for state employees established. Virginia Law Officers' Retirement System (VaLORS) created.
- 2002** Long-term care benefit added to VSDP.

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

The retirement funds held by the System are constitutionally established as independent trust funds dedicated to the exclusive benefit of its members, retirees and beneficiaries. In management's opinion, the internal controls in effect during the fiscal year ended June 30, 2008 adequately safeguard the System's assets and provide reasonable assurance regarding the proper recording of financial transactions.

Funding

The System's most recent actuarial valuation was prepared as of June 30, 2007. As expected, the report indicated an improvement in the funded ratios for most of the plans. This improvement resulted from the positive impact of investment returns since FY 2003 on the Actuarial Value of Assets. Further information on this valuation is included in the Financial Section and the Actuarial Section of this CAFR.

Contributions for FY 2008 were based on the June 30, 2005 actuarial valuation. In most cases, these rates increased from the prior valuation because of the reduction in the funded ratios. For teachers and state employees, the rates certified by the VRS Board of Trustees were not fully funded by the Governor and General Assembly. The funded rates for FY 2008, however, were greater than the funded rates in FY 2007. This change is reflected in the Financial Section of the CAFR.

Investments

The VRS investment objective is to maximize the investment return while managing risk within an acceptable range. Due to the long-term nature of the plan's liabilities, the horizon for investment decisions is generally defined as 10 years or longer. Risk is assessed in an asset-liability framework. The primary risk measures are volatility in the plan's assets, funded status and contribution rates.

At June 30, 2008, the total value of the VRS investment portfolio was \$56.5 billion. This is a decrease from the investment balance of \$59.9 billion at June 30, 2007. The decrease in the portfolio resulted from an investment return of -4.4% for FY 2008 and the excess of benefit payments over contributions for the year. The System's net assets at June 30, 2008 totaled \$55.1 billion, a decrease from the net asset balance of \$58.3 billion at June 30, 2007.

Legislative Initiative

During the 2008 session, the Virginia General Assembly enacted several technical bills for VRS. Of these bills, only House Bill 245 affected benefits for members and retirees. HB245 allows the Department of Social Services (DSS) to file child support liens against members' and retirees' life insurance policies administered by VRS. Upon the death of any member or retiree with such a lien, VRS must disburse life insurance proceeds to DSS to satisfy the member's or retiree's outstanding child support obligations before distributing the remainder to the member's or retiree's beneficiaries.

Year in Review

MEMBER AND RETIREE HIGHLIGHTS

The VRS membership grew from 582,469 in fiscal year 2007 to 600,481 in fiscal year 2008, an increase of 3.1%:

- Active VRS members increased 2%, from 339,215 to 345,737.
- Retirees and beneficiaries increased 4.5%, from 130,500 to 136,394. During the year, VRS paid \$2,536.3 million in benefits to annuitants, compared to \$2,313.5 million during FY 2007.
- Inactive and deferred members increased 4.9%, from 112,754 to 118,350.

In addition, at June 30, 2008, more than 53,000 members held accounts through the Commonwealth of Virginia 457 Deferred Compensation Plan. Of these participants, more than 48,000 received a cash match through the Virginia Cash Match Plan.

VSDP LONG-TERM CARE PLAN

Effective December 1, 2007, VRS began managing the Virginia Sickness and Disability Program (VSDP) Long-Term Care Plan as a self-funded plan for state employees participating in VSDP. The previous insurer, Aetna Life Insurance Company, announced that it would no longer sell group long-term care insurance. Since December, VRS also has been managing the investments of the VSDP Long-Term Care Plan. The plan provides up to \$96 per day, up to a two-year maximum, to help eligible members with the cost of services such as nursing home care, assisted living care and in-home care.

DEFINED CONTRIBUTION PLANS

- On January 1, 2008, legislation from the previous year went into effect making enrollment in the Commonwealth of Virginia 457 Deferred Compensation Plan and Virginia Cash Match Plan automatic for newly hired and rehired state employees. The purpose of the legislation was to make it easier for state employees to save for retirement. Employees can opt out of the program if they do not wish to participate. Between January 1 and June 30, 2008, 426 state employees were automatically enrolled in the 457 Plan.
- In April, participants in the 457 Plan and Virginia Cash Match Plan, Optional Retirement Plan for Political Appointees, Optional Retirement Plan for School Superintendents and Virginia Supplemental Retirement Plan for school “turnaround” specialists were provided a new investment option through the VRS Investment Portfolio.

EXCEEDING BENCHMARKS

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

Operating Standard	Benchmark	FY 2008 Result
Retiree Payroll (benefits paid each month to retirees and other annuitants)	100% of all monthly payrolls run no later than the first day of the month.	100% of monthly payrolls ran on time.
Customer Contact Center Abandoned Call Rate (rate of incoming calls going unanswered)	The abandoned call rate does not exceed 5% averaged over 11 of 12 months.	The rate was 1.5%.
Service Retirements	Service retirement applications are processed in an average of 60 days with a 95% accuracy rate.	Service retirement applications were processed in an average of 30 days with a 99.9% accuracy rate.
Disability Retirements	98% of disability retirement applications are processed within 40 days of approval by the VRS Medical Board.	99.7% of disability retirement applications were processed within 15 days of approval by the VRS Medical Board.
Purchase of Prior Service	Cost letters sent to members applying to purchase prior service are processed within 30 days of receiving a completed application with a 95% accuracy rate.	Cost letters were processed within 6.7 days with a 99.9% accuracy rate.
Refunds	95% of requests for refunds of member contributions are processed within 60 days.	99.8% of refunds were processed within 7 days.
Benefit Estimates	90% of requests for benefit estimates are completed within 30 days.	96.5% of estimates were completed within 14 days.
Employer Reports	96% of reports submitted to VRS by employers are processed within 30 days.	98.9% of employer reports were processed within 30 days.
Workflow Imaging	95% of documents VRS receives are imaged and available to customer service and operations personnel within 24 hours.	97.7% of documents were imaged and available within 24 hours.
System Availability	The system is available for all critical business functions 99% of the time.	The system was available 99.3% of the time.
Administrative Cost	VRS' administrative cost does not exceed the median cost of peer public pension systems as defined by CEM Benchmarking, Inc.	VRS' median administrative cost was \$44 per active member and annuitant, compared to \$76 for its peer pension systems.

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

- The Member Counseling Team assisted more than 2,300 members in one-on-one counseling sessions and responded to more than 4,300 e-mails. Staff also conducted 186 retirement education and group counseling sessions, special presentations and benefit fairs, reaching approximately 15,300 members around the state.
- VRS' Employer Representatives made more than 28 site visits and held 90 workshops in locations around the state attended by more than 412 employer contacts. In addition, the Employer Representatives assisted six new employers joining VRS; 14 employers adding enhanced coverage for hazardous duty employees; 47 employers adding an enhanced multiplier for hazardous duty employees; and eight employers electing the health insurance credit.
- The Employer Training Team provided 25 sessions for more than 725 human resource and payroll officers during FY 2008.
- During the fiscal year, the number of visits to the VRS Web site at www.varetire.org exceeded 1 million, reflecting an increase of more than 9% over the previous June 30.

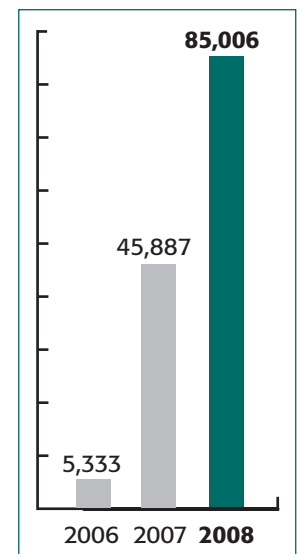
A Year of Innovation

myVRS SUITE

The *myVRS* suite of online customer services continued to grow during the fiscal year:

- VRS launched the *myVRS* Retirement Planner in January 2008, giving registered *myVRS* members access to a comprehensive retirement planning tool. Members can create a Detailed Plan, customized with their VRS benefit estimate, 457 Plan savings and other information such as spouse's income, personal retirement savings and estimated Social Security benefit. The planner also provides estimates for health insurance costs, taxes and living expenses, or members can enter their own estimates. For an instant snapshot, members can use the Quick Plan, providing a general idea of retirement income and expenses based on their VRS information and assumptions built into the planner. As of June 30, 2008, *myVRS* users had created more than 14,000 Quick Plans and nearly 2,600 Detailed Plans.
- The *myVRS* suite opened to retirees in June 2008. Retirees now have secure online access to their benefit payment information, benefit payment history, direct deposit bank account information, cost-of-living adjustments, tax withholdings, health and life insurance and the health insurance credit. They also can print tax documents for income tax filing purposes, print income verification information and update their personal contact information. By June 30, nearly 650 retirees had registered for *myVRS*.

myVRS Member Users



Since *myVRS* was launched in May 2006, more than 85,000 members have created personal online accounts.

The number of users of *myVRS* and *myVRS* for Employers also continued to increase during the fiscal year. At June 30, 2008:

- 85,006 members were registered for *myVRS*, representing 19.13% of the active and deferred membership and an increase of 85.3% in registered members from June 30, 2007. During the year, *myVRS* member users logged in more than 231,000 times to view their VRS records and created more than 252,000 benefit estimates.
- 1,048 employer contacts were registered for *myVRS* for Employers, representing 90.5% of employers eligible to access member data and an increase of 61.5% in registered employers from June 30, 2007. During the year, employer users logged in more than 54,000 times and created more than 76,000 estimates for their employees.

MODERNIZATION ACHIEVEMENTS

Fiscal year 2008 was pivotal for the future success of VRS' long-range modernization program. Modernization seeks to update VRS' business model and customer services, with the support of a new Web-based platform.

During the year, vendors from around the country responded to a 600-page Request for Proposals (RFP) spelling out the requirements for the design and implementation of modernization over the next four years. After an extensive evaluation process, the project team selected several vendors for site visits, presentations and interviews. The process continued through the summer of 2008 toward recommending a vendor to the Board of Trustees to become VRS' modernization business partner.

In addition, the project team continued to implement business process reengineering "early wins" toward the modernization objective to streamline processes and services for VRS customers:

- Working with Minnesota Life, the third-party administrator for the Group Life Insurance Program, staff implemented an electronic process to notify VRS of life insurance payments, replacing the old paper method. This enhancement allows employers, Minnesota Life and VRS staff to better coordinate death claims on behalf of beneficiaries and survivors.
- The process of employers reporting new members to VRS was greatly simplified.
- Notarization of members' signatures on approximately 30 forms was eliminated, thus reducing members' time spent getting notarizations and delays in processing forms. Eliminating notarizations for all but unique circumstances or those required by state statute paves the way for increased online transactions for VRS members and retirees in the future.

Fiduciary Responsibility

The VRS Board of Trustees (the Board) has full power to invest and reinvest the trust funds of the System. To fulfill its responsibility, the Board has adopted various investment policies and guidelines. The Board's investment objective for the VRS portfolio is to maximize long-term investment returns while targeting an acceptable level of risk. Primary risk measures

are volatility in the plan's assets, funded status and contribution rates. As set forth in Section 11 of Article X of the *Constitution of Virginia*, the funds of the retirement system shall be deemed separate and independent trust funds; shall be segregated from all other funds of the Commonwealth; and shall be invested and administered solely in the interests of the members and beneficiaries. The Board retains a professional investment staff, as well as outside managers, to advise and assist in the implementation of these policies and objectives.

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

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Virginia Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This was the 26th consecutive year that VRS achieved this prestigious recognition.

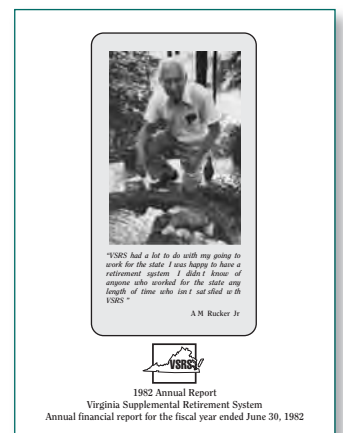
To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. The certificate is valid for a period of one year only. The VRS *Comprehensive Annual Financial Report for FY 2008* continues to conform to the Certificate of Achievement Program requirements and will be submitted to GFOA to determine its eligibility for another certificate.

Achievement Award from the Public Pension Coordinating Council

VRS received the 2007 Achievement Award from the Public Pension Coordinating Council (PPCC) in recognition of the agency's excellence in meeting the Public Pension Standards. Developed by PPCC, these standards are the benchmark for measuring excellence in defined benefit plan administration. This is the System's fourth award from PPCC.

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

26 Years of Excellence



VRS earned its first Certificate of Conformance in Financial Reporting with the VRS *Comprehensive Annual Report for 1982* from the Municipal Finance Officers Association of the United States and Canada (MFOA), the forerunner to the GFOA.

Leadership Award from the National Association of Government Defined Contribution Administrators

The National Association of Government Defined Contribution Administrators (NAGDCA) recognized VRS with the first ever Leadership Recognition Award of Distinction for outstanding achievement in the field of government defined contribution administration and plan design. The award recognized VRS for its communication program and plan design developed for the implementation of automatic enrollment in the Commonwealth of Virginia 457 Deferred Compensation Plan and Virginia Cash Match Plan for newly hired and rehired state employees, effective January 1, 2008.

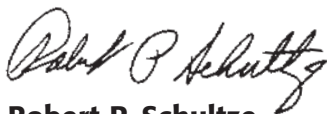
Acknowledgements

The mission of the Virginia Retirement System calls on us to provide the best service possible and to be responsible stewards of the funds in our care on behalf of VRS members, retirees and beneficiaries. This report provides complete and reliable information that supports management's decisions in carrying out this mission.

Responsible stewardship, however, is more than sound management. It also encompasses the outstanding commitment of VRS staff to excellence and the support of VRS' affiliated employers and business partners as well as the guidance and dedication of the Board of Trustees. We would like to express our sincere thanks and appreciation to each of these exceptional individuals and representatives.

Finally, we wish to thank Governor Timothy M. Kaine and the members of the Virginia General Assembly for their continued commitment to the financial security of the members and retirees of the Virginia Retirement System.

Respectfully submitted,



Robert P. Schultze
Director



Barry C. Faison
Chief Financial Officer

Financial Section

Independent Auditor's Report
Management's Discussion
and Analysis

Basic Financial Statements:

Statement of Plan Net Assets
Statement of Changes in Plan Net Assets

Notes to Financial Statements

Required Supplementary Information:

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

Additional Financial Information:

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



The First to Join Social Security – 1952

Public employees who did not have state or local retirement coverage became eligible for coverage under the Old-Age, Survivors and Disability Health Insurance provisions of the Social Security Act, which was signed into law by President Franklin D. Roosevelt in 1935. States that had retirement systems could elect to enter into a Federal-State Social Security Agreement in order to extend Social Security coverage to state employees.

Thus it was on February 6, 1952 that Virginia became the first state to repeal its retirement system so that it could cover its employees under Social Security. The Virginia Supplemental Retirement System (VSRS) was created on March 1, 1952 to reflect that state benefits were now supplemental to Social Security benefits.

Meanwhile, in 1950 Virginia extended enhanced hazardous duty coverage to state police officers through the creation of the State Police Officers' Retirement System.

By 1959, VSRS had more than 72,000 active and inactive members, paid benefits of approximately \$3.2 million in FY 1959 to more than 2,200 retirees and, together with SPORS, had a fund balance of approximately \$116.6 million.





Walter J. Kucharski, Auditor

Commonwealth of Virginia

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

November 19, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
And Review Commission

Board of Trustees
Virginia Retirement System

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Virginia Retirement System** as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Virginia Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the basic financial statements of the Virginia Retirement System are intended to present the financial position and the changes in financial position of only that portion of the aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the Virginia Retirement System. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Virginia Retirement System as of June 30, 2008 and 2007, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, funding progress, and employer contributions included in the report on pages 25 through 33 and 64 through 66 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with Government Auditing Standards, we have also issued our report dated November 19, 2008, on our consideration of the Virginia Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

A handwritten signature in black ink, appearing to read "Arthur J. Kucharski". The signature is written in a cursive style with a large initial "A".

Management's Discussion and Analysis (Unaudited)

The Financial Section presents Management's Discussion and Analysis of the financial statements of the Virginia Retirement System (the System) and the significant events and conditions that affected the operations and performance of the System for the year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the information provided in the Letter of Transmittal in the Introductory Section.

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

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

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

Financial Highlights

- The combined total net assets held in trust for benefits of the pension trust funds decreased by \$3,290.6 million, or 5.8%, during the fiscal year ended June 30, 2008. The decrease was due to weak investment returns and increased expenses for benefit payments. However, these decreases were partially offset by higher contribution rates.
- The System's rate of return on investments during the fiscal year ended June 30, 2008 was -4.4% compared to a return of 20.4% for the fiscal year ended June 30, 2007. The decrease is primarily due to the poor performance of the public equity investments.
- The VRS, SPORS, VaLORS and JRS plans were actuarially funded at 82.3%, 73.8%, 65.7% and 76.9% based on the actuarial valuation as of June 30, 2007. For the VRS, VaLORS and JRS plans, this was an increase from their funded ratios of 80.8%, 59.9% and 71.3% based on the actuarial valuation as of June 30, 2006. For the SPORS plan, there was no change from the June 30, 2006 funded ratio of 73.8%. There were no changes in the primary actuarial assumptions for the investment rate of return or inflation. However, the funded ratios reflect the positive impact of the net investment gains recorded since FY 2003 on the Actuarial Value of Assets because of the "five-year smoothing" asset valuation method used by the VRS actuary.

Overview of the Financial Statements and Accompanying Information

1. **FUND FINANCIAL STATEMENTS.** The System presents the Statement of Plan Net Assets as of June 30, 2008 and 2007 and the Statement of Changes in Plan Net Assets for the years then ended. The statements were prepared on the accrual basis of accounting and are used to account for resources administered by VRS for plan members and beneficiaries. These statements include:
 - Statement of Plan Net Assets – Defined Benefit Pension Trust Funds and Other Employee Benefit Trust Funds. This statement reflects the balance of the resources available to pay benefits to members, retirees and beneficiaries at the end of the fiscal year.
 - Statement of Changes in Plan Net Assets – Defined Benefit Pension Trust Funds and Other Employee Benefit Trust Funds. This statement reflects the changes in the resources available to pay benefits to members, retirees and beneficiaries during the fiscal year.
2. **NOTES TO FINANCIAL STATEMENTS.** The Notes to Financial Statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.
3. **REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLANS.** The required supplementary information consists of:
 - Required Supplemental Schedule of Funding Progress – Pension Plans
 - Required Supplemental Schedule of Employer Contributions – Pension Plans
4. **REQUIRED SUPPLEMENTARY INFORMATION – OTHER POST-EMPLOYMENT BENEFITS (OPEBs).** The required supplementary information consists of:
 - Required Supplemental Schedule of Funding Progress – Other Post-Employment Benefit Plans
 - Required Supplemental Schedule of Employer Contributions – Other Post-Employment Benefit Plans
5. **OTHER SUPPLEMENTARY SCHEDULES.** The following supplementary schedules provide additional details not included in the basic financial statements:
 - Schedule of Administrative Expenses
 - Schedule of Professional and Consulting Services
 - Schedule of Investment Expenses

Plan Net Assets at June 30

(EXPRESSED IN MILLIONS)

	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Assets:					
Cash, Receivables and Capital Assets	\$ 3,568.0	\$ (194.2)	\$ 3,762.2	\$ 1,334.3	\$ 2,427.9
Investments	56,476.5	(3,406.6)	59,883.1	10,696.3	49,186.8
Security Lending Collateral	3,427.0	(2,313.4)	5,740.4	1,721.4	4,019.0
Total Assets	\$ 63,471.5	\$ (5,914.2)	\$ 69,385.7	\$ 13,752.0	\$ 55,633.7
Liabilities:					
Accounts Payable	\$ 352.1	\$ 195.0	\$ 157.1	\$ (216.8)	\$ 373.9
Investment Purchases Payable	4,584.1	(563.4)	5,147.5	2,654.7	2,492.8
Obligations under Security Lending	3,433.4	(2,307.0)	5,740.4	1,721.4	4,019.0
Total Liabilities	\$ 8,369.6	\$ (2,675.4)	\$ 11,045.0	\$ 4,159.3	\$ 6,885.7
Total Net Assets	\$ 55,101.9	\$ (3,238.8)	\$ 58,340.7	\$ 9,592.7	\$ 48,748.0

This schedule incorporates a change in presentation reflecting the elimination of the due-to and due-from accounts. The adjustment reduced Total Assets and Total Liabilities by \$20.4 million for FY 2007 and \$15.6 million for FY 2006.

Changes in Plan Net Assets at June 30

(EXPRESSED IN MILLIONS)

	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Additions:					
Member Contributions	\$ 120.6	\$ (11.7)	\$ 132.3	\$ 92.5	\$ 39.8
Member Contributions Paid by Employers	742.5	38.6	703.9	42.9	661.0
Employer Contributions	1,671.2	235.2	1,436.0	425.2	1,010.8
Net Investment Income	(2,854.2)	(12,842.7)	9,988.5	4,648.4	5,340.1
Miscellaneous Revenue and Transfers	21.7	21.2	0.5	–	0.5
Total Additions	\$ (298.2)	\$ (12,559.4)	\$ 12,261.2	\$ 5,209.0	\$ 7,052.2
Deductions:					
Retirement Benefits	\$ 2,536.3	\$ 222.8	\$ 2,313.5	\$ 211.7	\$ 2,101.8
Refunds of Member Contributions	102.9	7.1	95.8	4.6	91.2
Insurance Premiums and Claims	132.1	13.5	118.6	7.1	111.5
Retiree Health Insurance Credit Reimbursements	103.8	23.4	80.4	7.9	72.5
Disability Insurance Benefits	31.2	(2.1)	33.3	6.0	27.3
Administrative and Other Expenses	34.3	7.4	26.9	4.1	22.8
Total Deductions	\$ 2,940.6	\$ 272.1	\$ 2,668.5	\$ 241.4	\$ 2,427.1
Net Increase (Decrease) in Net Assets	\$ (3,238.8)	\$ (12,831.5)	\$ 9,592.7	\$ 4,967.6	\$ 4,625.1

This schedule incorporates a change in presentation reflecting the segregation of Miscellaneous Revenue and Transfers from Net Investment Income.

Analysis of Financial Activities – Pension Plans

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

MEMBERSHIP

As discussed earlier, the System administers retirement plans for a variety of employee groups. The distribution of the active membership as of June 30, 2008, 2007 and 2006 is presented in Figure 1.

CONTRIBUTIONS AND INVESTMENT EARNINGS

Pension trust fund revenue is used to finance the retirement benefits provided by the retirement plans. The primary sources of revenue for the retirement plans include contributions from active members and their employers and investment income generated from the investment of plan assets. Total contributions and investment earnings for the fiscal year ended June 30, 2008 amounted to minus \$625.5 million. This was a decrease of \$12,322.9 million when compared with FY 2007 and also a decrease from the gain of \$4,917.0 million recorded in FY 2007. This information is presented in Figure 2.

Total member contributions, including those paid by employers, increased by \$33.7 million. The portion of member contributions paid by members decreased by \$4.9 million due primarily to a continuing decline in members purchasing refunded and other qualified prior service. Employer contributions increased \$170.7 million for a total increase in contributions of \$204.4 million from the previous fiscal year. The increase in employer contributions was due primarily to payroll growth, an increase in the employer contribution rates for some employer groups as a result of improved funding by the Commonwealth for the state and teacher employer groups, and the addition of special and enhanced coverage by some local governments. Employer contributions are discussed further in Note 14 to the Financial Statements.

During FY 2007, the System experienced growth in total member contributions of \$33.3 million and an increase in employer contributions of \$343.8 million. As in FY 2008, the member contributions were affected by a decline in the number of members purchasing service. The growth in employer contributions was primarily related to the increased contribution rates as a result of the June 30, 2005 actuarial valuation. The remaining increase in employer contributions was related to payroll growth, the addition of some new local government employers and the addition of enhanced hazardous duty or other coverage by some local governments.

FIGURE 1.
Active Membership Distribution at June 30

	2008		2007		2006	
	Number	%	Number	%	Number	%
State Employees (VRS)	81,206	23.5%	80,262	23.6%	79,728	24.0%
Teachers (VRS)	147,149	42.6%	145,122	42.8%	142,467	42.8%
Political Subdivision Employees (VRS)	104,803	30.3%	101,461	29.9%	98,690	29.6%
State Police Officers (SPORS)	1,840	0.5%	1,885	0.6%	1,790	0.5%
Virginia Law Officers (VaLORS)	10,330	3.0%	10,061	3.0%	9,826	3.0%
Judges (JRS)	409	0.1%	424	0.1%	415	0.1%
Total	345,737	100.0%	339,215	100.0%	332,916	100.0%

FIGURE 2.
Contributions and Investment Earnings for the Years Ended June 30

(EXPRESSED IN MILLIONS)

	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Member Contributions	\$ 25.3	\$ (4.9)	\$ 30.2	\$ (9.6)	\$ 39.8
Member Contributions Paid by Employers	742.5	38.6	703.9	42.9	661.0
Employer Contributions	1,380.4	170.7	1,209.7	343.8	865.9
Net Investment Income	(2,774.3)	(12,527.4)	9,753.1	4,539.4	5,213.7
Miscellaneous Revenue and Transfers	0.6	0.1	0.5	0.5	—
Total	\$ (625.5)	\$ (12,322.9)	\$ 11,697.4	\$ 4,917.0	\$ 6,780.4

This schedule incorporates a change in presentation reflecting the segregation of Miscellaneous Revenue and Transfers from Net Investment Income.

INVESTMENTS

There was net investment income for FY 2008 of minus \$2,774.3 million, which represented a decrease of \$12,527.4 million from FY 2007 (Figure 2). This contrasts with the net investment income increase of \$4,539.4 million in FY 2007. Total pension trust fund investments decreased to \$54,919.2 million at fair value at June 30, 2008. This was a decrease of \$3,452.5 million from the fair value of \$58,371.7 million at June 30, 2007. The total pension trust fund investments increased in FY 2007 by \$10,345.3 million from their fair value of \$48,743.2 million at June 30, 2006.

The total return on pension trust fund investments for the fiscal year ended June 30, 2008 was -4.4%. The annualized return was 8.9% over the past three years and 11.3% over the past five years. 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 FY 2008 also is provided in that section.

The System's investment portfolio consists of funds contributed by both employers and employees, including state employees, teachers, state police, other law enforcement officers and participating local government employees. These contributions are held in a commingled pool and invested to provide for the payment of current and future benefits to participants when they retire. Each plan owns an equity position in the pool and receives a proportionate share of the total investment income or loss from the pool.

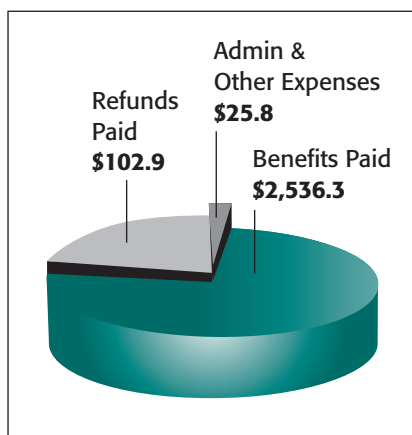
FIGURE 3.
Primary Expenses for the Years Ended June 30

(EXPRESSED IN MILLIONS)

	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Benefits	\$ 2,536.3	\$ 222.8	\$ 2,313.5	\$ 211.7	\$ 2,101.8
Refunds	102.9	7.1	95.8	4.6	91.2
Administrative and Other Expenses	25.8	1.1	24.7	4.1	20.6
Total	\$ 2,665.0	\$ 231.0	\$ 2,434.0	\$ 220.4	\$ 2,213.6

Pension Plan Activity – Fiscal Year 2008

(EXPRESSED IN MILLIONS)



EXPENSES—DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the pension trust funds include annuity benefits for retirees and beneficiaries, refunds of contributions to former members and expenses associated with the administration of the retirement plans. Expenses for FY 2008 totaled \$2,665.0 million, an increase of \$231.0 million, or 9.5%, over the 2007 period. The details are presented in Figure 3.

As shown in Figure 3, benefit payments increased to \$2,536.3 million in FY 2008. This is an increase of \$222.8 million compared to an increase of \$211.7 million for FY 2007. The increase in FY 2008 was due to continued growth in the number of retirees and beneficiaries receiving benefits. Retirees and beneficiaries grew from approximately 130,500 at June 30, 2007 to approximately 136,394 at June 30, 2008, an increase of 4.5%. The FY 2008 increase also was due to a cost-of-living adjustment (COLA) of 3.1% on July 1, 2007.

Refunds of contributions to members who terminated employment during FY 2008 amounted to \$102.9 million (14,497 refunds), compared with \$95.8 million refunded (13,586 refunds) during FY 2007 and \$91.2 million refunded (14,139 refunds) during FY 2006. The change during FY 2008 reflects the increase in the volume of refunds and a slightly higher average refund amount compared to FY 2007.

Administrative and other expenses for FY 2008 were \$25.8 million, compared with \$24.7 million for FY 2007 and \$20.6 million for FY 2006. Administrative expenses increased \$1.1 million for FY 2008. This compares to an increase in administrative expenses in FY 2007 of \$4.1 million. The increase is related to benefit and other administrative costs, offset by a decrease in furniture and equipment purchases. Further details are provided in the Schedule of Administrative Expenses.

RETIREMENT RESERVES

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

Since revenues did not exceed expenses for FY 2008, there was a net decrease of \$3,290.6 million in the retirement reserves held by the plans. This contrasts with an increase of \$9,263.5 million in the retirement reserves in FY 2007. As noted above, the decrease for FY 2008 was related primarily to the investment performance for the year, which was significantly lower than in FY 2007. During the fiscal year, the amount of interest credited to member accounts was \$349.1 million. The amount of member balances transferred to employer reserves upon members' retirements was \$537.6 million. The member and employer balances in retirement reserves at June 30, 2008 are presented in Figure 4.

ACTUARIAL VALUATIONS AND FUNDING PROGRESS

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

The latest valuations of the four pension plans performed as of June 30, 2007 by the VRS consulting actuary, Wachovia Retirement Services, indicated that the ratio of assets accumulated by the plans to their total actuarial accrued liabilities for benefits was 82.3% for VRS, 73.8% for SPORS, 65.7% for VaLORS and 76.9% for JRS. The valuations reflect full pre-funding of the statutory cost-of-living adjustment (COLA) for retirees. Funding progress for the pension plans is presented in the Required Supplemental Schedule of Funding Progress – Pension Plans. Additional information on the plans' funding progress is presented in the Actuarial Section of this CAFR.

FIGURE 4.
Reserve Balances at June 30

(EXPRESSED IN MILLIONS)

	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Member Reserves	\$ 9,597.6	\$ 480.9	\$ 9,116.7	\$ 1,198.7	\$ 7,918.0
Employer Reserves	44,002.0	(3,771.5)	47,773.5	8,064.8	39,708.7
Total	\$ 53,599.6	\$ (3,290.6)	\$ 56,890.2	\$ 9,263.5	\$ 47,626.7

Analysis of Financial Activities – Other Employee Benefit Plans

GROUP AND OPTIONAL LIFE INSURANCE PROGRAMS

The Group Life Insurance Program, enacted by the Virginia General Assembly on July 1, 1960, provides life insurance and accidental death and dismemberment coverage to the majority of members covered under the pension plans administered by the System as well as to other qualifying employees. Group life insurance premiums are paid by covered employees and/or employers to fund the program. Approximately 361,906 members and 128,502 retirees were covered by the Group Life Insurance Program at June 30, 2008.

During FY 2008, the System remitted \$132.1 million to the insurance company for claims and administrative costs. This is an increase from the \$118.6 million remitted for FY 2007. The difference between the amounts collected and paid by the System for the Group Life Insurance Program is added to the reserve established to pre-fund death benefits for retirees. This reserve had net assets held in trust for benefits of \$937.2 million at June 30, 2008 and investment income, including net securities lending income, of minus \$50.6 million during the fiscal year. For FY 2007, this reserve had investment income of \$160.9 million and ended the year with a reserve balance of \$962.3 million, up from the \$751.4 million at June 30, 2006. For FY 2008, the decline is the result of negative investment income, increased claims and administrative costs, and a decline in contributions associated with a reduction in the contribution rate.

The Optional Life Insurance Program, enacted by the General Assembly on November 1, 1995, provides life insurance and accidental death and dismemberment coverage to members covered under the Group Life Insurance Program as a supplement to that program. Members also may cover their spouses and minor children under this program. Members pay the premiums for optional life insurance coverage. There were approximately 63,734 members participating in the program at June 30, 2008. This compares to approximately 60,820 members participating in the program at June 30, 2007.

RETIREE HEALTH INSURANCE CREDIT PROGRAM

The Retiree Health Insurance Credit Program was established by the General Assembly on January 1, 1990 to provide 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 FY 2008, the System collected \$148.9 million in retiree health insurance credit contributions from participating employers and provided reimbursements of \$103.8 million to 80,115 eligible retirees. During FY 2007, the System collected \$92.9 million in retiree health insurance credit contributions from participating employers and provided reimbursements of \$80.4 million to approximately 76,119 eligible retirees. The growth in contributions reflects a continuation of general payroll increases and an increase in the teacher contribution rate to fund an increase in the maximum credit for teachers. The growth in retiree health insurance credits reflects the increase in the number of eligible retirees and the increase in the credit for teachers. The Retiree Health Insurance Credit Fund reserve had net assets held in trust for benefits of \$251.6 million at June 30, 2008 and investment income, including net securities lending income, of minus \$12.5 million during the fiscal year. The reserve balances at June 30, 2007 and June 30, 2006 were \$224.6 million and \$178.1 million, respectively.

VIRGINIA SICKNESS AND DISABILITY PROGRAM

The Disability Insurance Trust Fund, also known as the Virginia Sickness and Disability Program (VSDP), was established by the General Assembly on January 1, 1999 to provide eligible state employees with sick, family and personal leave and short-term and long-term disability benefits. The System is responsible for the administration of the program and the payment of long-term disability benefits. Sick leave and short-term disability benefits are paid to eligible employees by their employers.

During FY 2008, the System collected \$78.4 million in VSDP contributions from participating employers and provided long-term disability benefits of \$31.2 million to eligible members. This is an increase over the \$65.7 million in contributions collected and a slight decrease from the \$33.3 million in benefits paid in FY 2007. Contribution increases reflect growth in covered payrolls and an increase in the contribution rate. In addition, the System received \$21.1 million from Aetna, representing a transfer of the reserve balance and interest from the fully insured VSDP Long-Term Care Plan administered by Aetna. Beginning in December 2007, the System took over the administration of this benefit. The increase in benefits reflects growth in the number of members receiving long-term disability benefits, the amount of these benefits and the operating costs of the program. The Disability Insurance Trust Fund reserve had net assets held in trust for benefits of \$313.5 million at June 30, 2008 and investment income, including net securities lending income, of minus \$16.8 million during the fiscal year. The reserve balances at June 30, 2007 and June 30, 2006 were \$263.6 million and \$191.9 million, respectively.

ACTUARIAL VALUATIONS AND FUNDING

The System’s actuarial firm performs actuarial valuations of other employee benefit plans, including the Group Life Insurance Program, the Retiree Health Insurance Credit Program and the Virginia Sickness and Disability Program, at least every two years to determine funding requirements. The funding policy provides for periodic employer contributions at actuarially determined rates that

will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of all basic benefits when due.

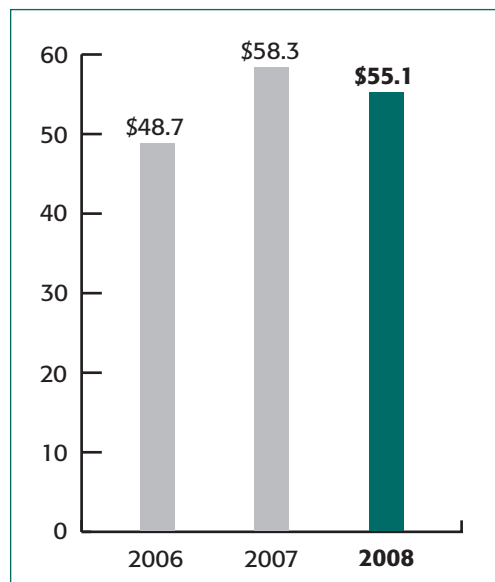
The latest valuations of these plans, performed as of June 30, 2007 by the VRS consulting actuary, Wachovia Retirement Services, indicated that the ratio of assets accumulated by the plans to their total actuarial accrued liabilities for benefits was 56.7% for the Group Life Insurance Fund, 10.9% for the Retiree Health Insurance Credit Fund and 58.5% for the Disability Insurance Trust Fund. Funding progress for these plans is presented in the Required Supplemental Schedule of Funding Progress – Other Post-Employment Benefit Plans.

Request for Information

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

System Net Assets at June 30

(EXPRESSED IN BILLIONS)



Virginia Retirement System Statement of Plan Net Assets – Defined Benefit Pension Trust Funds and Other Employee Benefit Trust Funds

AS OF JUNE 30, 2008 AND 2007
(EXPRESSED IN THOUSANDS)

	Pension Trust Funds				
	Virginia Retirement System	State Police Officers' Retirement System	Virginia Law Officers' Retirement System	Judicial Retirement System	Total Pension Trust Funds
Assets:					
Cash (Note 6)	\$ 119,681	\$ 1,512	\$ 2,020	\$ 872	\$ 124,085
Receivables:					
Contributions	160,514	1,126	3,278	1,060	165,978
Interest and Dividends	158,819	1,958	2,617	1,130	164,524
Receivable for Security Transactions	2,846,342	35,093	46,896	20,253	2,948,584
Other Receivables	35,463	414	553	239	36,669
Total Receivables	3,201,138	38,591	53,344	22,682	3,315,755
Investments (Note 6):					
Bonds and Mortgage Securities	14,967,663	184,541	246,602	106,504	15,505,310
Stocks	17,765,139	219,033	292,692	126,409	18,403,273
Fixed Income Commingled Funds	1,780,602	21,954	29,337	12,669	1,844,562
Index and Pooled Funds	11,209,711	138,208	184,687	79,764	11,612,370
Real Estate	2,689,877	33,164	44,317	19,140	2,786,498
Private Equity	4,158,853	51,276	68,520	29,593	4,308,242
Short-Term Investments	443,047	5,462	7,299	3,153	458,961
Total Investments	53,014,892	653,638	873,454	377,232	54,919,216
Collateral on Loaned Securities	3,216,975	39,663	53,002	22,891	3,332,531
Property, Plant, Furniture and Equipment (Note 7)	6,798	–	–	–	6,798
Total Assets	59,559,484	733,404	981,820	423,677	61,698,385
Liabilities:					
Retirement Benefits Payable	187,472	3,074	3,507	2,367	196,420
Refunds Payable	5,315	–	166	–	5,481
Accounts Payable and Accrued Expenses	61,736	735	983	424	63,878
Compensated Absences Payable	1,709	–	–	–	1,709
Insurance Premiums and Claims Payable	–	–	–	–	–
Payable for Security Transactions	4,303,128	53,055	70,897	30,619	4,457,699
Other Payables	33,652	395	528	228	34,803
Obligations under Security Lending Program	3,222,995	39,736	53,099	22,933	3,338,763
Total Liabilities	7,816,007	96,995	129,180	56,571	8,098,753
Net Assets Held in Trust for Benefits (Note 5)					
(See Required Supplemental Schedule of Funding Progress)	\$51,743,477	\$ 636,409	\$ 852,640	\$ 367,106	\$53,599,632

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

Other Employee Benefit Trust Funds				Totals	
Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Total Other Employee Benefit Trust Funds	2008	2007
\$ 2,276	\$ 593	\$ 733	\$ 3,602	\$ 127,687	\$ 75,760
11,671	10,225	3,291	25,187	191,165	178,591
2,948	768	949	4,665	169,189	180,291
52,844	13,756	17,008	83,608	3,032,192	3,282,492
624	173	3,501	4,298	40,967	38,670
68,087	24,922	24,749	117,758	3,433,513	3,680,044
277,882	72,336	89,438	439,656	15,944,966	14,914,076
329,818	85,856	106,154	521,828	18,925,101	24,176,918
33,058	8,605	10,640	52,303	1,896,865	1,248,250
208,114	54,175	66,982	329,271	11,941,641	12,656,822
49,939	13,000	16,073	79,012	2,865,510	2,583,818
77,211	20,099	24,851	122,161	4,430,403	3,682,446
8,225	2,141	2,647	13,013	471,974	620,767
984,247	256,212	316,785	1,557,244	56,476,460	59,883,097
59,725	15,547	19,223	94,495	3,427,026	5,740,418
-	-	-	-	6,798	6,434
1,114,335	297,274	361,490	1,773,099	63,471,484	69,385,753
-	-	-	-	196,420	56,348
59	7	12	78	5,559	9,713
1,107	9,108	2,795	13,010	76,888	54,970
-	-	-	-	1,709	1,620
35,701	-	-	35,701	35,701	32,678
79,890	20,796	25,713	126,399	4,584,098	5,147,488
595	155	191	941	35,744	1,795
59,837	15,574	19,258	94,669	3,433,432	5,740,418
177,189	45,640	47,969	270,798	8,369,551	11,045,030
\$ 937,146	\$ 251,634	\$ 313,521	\$ 1,502,301	\$55,101,933	\$58,340,723

Virginia Retirement System Statement of Changes in Plan Net Assets – Defined Benefit Pension Trust Funds and Other Employee Benefit Trust Funds

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(EXPRESSED IN THOUSANDS)

	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:					
Members	\$ 24,843	\$ 149	\$ 291	\$ 21	\$ 25,304
Member Contributions Paid by Employers	716,797	5,061	17,723	2,945	742,526
Employers	1,280,773	21,008	56,025	22,532	1,380,338
Total Contributions	2,022,413	26,218	74,039	25,498	2,148,168
Investment Income:					
Net Appreciation/(Depreciation) in Fair Value of Investments	(3,624,885)	(45,176)	(59,939)	(26,138)	(3,756,138)
Interest, Dividends and Other Investment Income	1,199,138	14,945	19,829	8,647	1,242,559
Total Investment Income Before Investment Expenses	(2,425,747)	(30,231)	(40,110)	(17,491)	(2,513,579)
Investment Expenses	(265,591)	(3,310)	(4,392)	(1,915)	(275,208)
Net Investment Income	(2,691,338)	(33,541)	(44,502)	(19,406)	(2,788,787)
Security Lending Income:					
Gross Income	179,349	2,235	2,966	1,293	185,843
Less Borrower Rebates and Agent Fees	(165,369)	(2,061)	(2,734)	(1,192)	(171,356)
Net Security Lending Income	13,980	174	232	101	14,487
Miscellaneous Revenue	290	-	-	-	290
Transfers In	-	20	274	-	294
Total Additions	(654,655)	(7,129)	30,043	6,193	(625,548)
Deductions:					
Retirement Benefits	2,427,543	39,382	40,805	28,538	2,536,268
Refunds of Member Contributions	97,574	730	4,586	45	102,935
Insurance Premiums and Claims	-	-	-	-	-
Retiree Health Insurance Credit Reimbursements	-	-	-	-	-
Disability Insurance Premiums and Benefits	-	-	-	-	-
Administrative Expenses	24,677	299	378	168	25,522
Other Expenses	4	-	-	-	4
Transfers Out	294	-	-	-	294
Total Deductions	2,550,092	40,411	45,769	28,751	2,665,023
Net Increase (Decrease)	(3,204,747)	(47,540)	(15,726)	(22,558)	(3,290,571)
Net Assets Held in Trust for Benefits - Beginning of Year	54,948,224	683,949	868,366	389,664	56,890,203
Net Assets Held in Trust for Benefits - End of Year	\$ 51,743,477	\$ 636,409	\$ 852,640	\$ 367,106	\$53,599,632

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

Other Employee Benefit Trust Funds				Totals	
Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Total Other Employee Benefit Trust Funds	2008	2007
\$ 95,261	\$ -	\$ -	\$ 95,261	\$ 120,565	\$ 132,359
-	-	-	-	742,526	703,860
63,562	148,908	78,360	290,830	1,671,168	1,436,020
<u>158,823</u>	<u>148,908</u>	<u>78,360</u>	<u>386,091</u>	<u>2,534,259</u>	<u>2,272,239</u>
(68,506)	(16,861)	(22,744)	(108,111)	(3,864,249)	8,804,038
<u>22,663</u>	<u>5,578</u>	<u>7,525</u>	<u>35,766</u>	<u>1,278,325</u>	<u>1,421,972</u>
(45,843)	(11,283)	(15,219)	(72,345)	(2,585,924)	10,226,010
(5,020)	(1,235)	(1,667)	(7,922)	(283,130)	(253,317)
<u>(50,863)</u>	<u>(12,518)</u>	<u>(16,886)</u>	<u>(80,267)</u>	<u>(2,869,054)</u>	<u>9,972,693</u>
3,390	834	1,126	5,350	191,193	276,095
(3,125)	(770)	(1,038)	(4,933)	(176,289)	(260,285)
<u>265</u>	<u>64</u>	<u>88</u>	<u>417</u>	<u>14,904</u>	<u>15,810</u>
-	-	21,070	21,070	21,360	338
-	-	-	-	294	171
<u>108,225</u>	<u>136,454</u>	<u>82,632</u>	<u>327,311</u>	<u>(298,237)</u>	<u>12,261,251</u>
-	-	-	-	2,536,268	2,313,489
-	-	-	-	102,935	95,765
132,093	-	-	132,093	132,093	118,627
-	103,762	-	103,762	103,762	80,447
-	-	31,211	31,211	31,211	33,282
686	436	1,486	2,608	28,130	26,211
628	5,228	-	5,856	5,860	550
-	-	-	-	294	171
<u>133,407</u>	<u>109,426</u>	<u>32,697</u>	<u>275,530</u>	<u>2,940,553</u>	<u>2,668,542</u>
(25,182)	27,028	49,935	51,781	(3,238,790)	9,592,709
<u>962,328</u>	<u>224,606</u>	<u>263,586</u>	<u>1,450,520</u>	<u>58,340,723</u>	<u>48,748,014</u>
<u>\$ 937,146</u>	<u>\$ 251,634</u>	<u>\$ 313,521</u>	<u>\$ 1,502,301</u>	<u>\$55,101,933</u>	<u>\$58,340,723</u>

Notes to Financial Statements

JUNE 30, 2008 AND 2007

1. Summary of Significant Accounting Policies

A. FINANCIAL REPORTING ENTITY

The Virginia Retirement System (the System) is an independent agency of the Commonwealth of Virginia. The System administers defined benefit pension plans, other employee benefit plans and other funds established by the Commonwealth and is included in the basic financial statements of the Commonwealth of Virginia. As required by generally accepted accounting principles (GAAP), 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)

Other Employee Benefit Plans

Group Life Insurance Fund
Retiree Health Insurance Credit Fund
Disability Insurance Trust Fund (also known as the Virginia Sickness and Disability Program)

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 its members and beneficiaries.

B. ADMINISTRATION

The Board of Trustees is responsible for the general administration and operation of the defined benefit pension plans, other employee benefit plans and other funds. 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. The Board of Trustees appoints a director to serve as the chief administrative officer of the System and a chief investment officer to direct, manage and administer the investment of the System's funds. Full power to invest and reinvest the assets of the defined benefit pension plans, other employee benefit plans and other funds is vested in the Board. The Board of Trustees has appointed 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 Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund are administered in accordance with Title 51.1, Chapter 5; Title 51.1, Chapter 14; and Title 51.1, Chapter 11, respectively, of the *Code of Virginia* (1950), as amended.

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

In addition, the Board of Trustees has oversight responsibility, but little administrative involvement and no investment responsibility, for the following: the Commonwealth's 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 public institutions of higher education and certain employees of public school divisions and teaching hospitals; the Commonwealth Health Research Fund, which provides financial support for human health research on behalf of 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. Because the Board of Trustees neither owns the assets nor has custody of 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.

C. BASIS OF ACCOUNTING

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

D. INVESTMENTS

1. Investment Valuation

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

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers; or internal calculations are applied, if feasible. As a last resort, the master custodian will contact investment managers for a price. 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 used by the master custodian provide daily prices for equity securities; corporate, government and mortgage-backed fixed income securities; private placement securities; futures and options on futures; open-ended funds; and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations (CMOs), adjustable rate mortgages (ARMs) and asset-backed securities are priced either daily, weekly or twice a month and at month end. Municipal fixed income securities and options on U.S. Treasury/GNMA securities are priced at month end.

2. Investment Transactions and Income

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

E. PROPERTY, PLANT, FURNITURE AND EQUIPMENT

Capital assets are recorded at cost at the time of acquisition and are reported net of accumulated depreciation. The System capitalizes all property, plant and equipment that have a cost or value greater than \$5,000. Depreciation is computed on the straight-line basis over the estimated useful life of the property, ranging from five to 40 years.

F. 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 program 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. If the member is vested, unused sick leave 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. The accrued liability for unused vacation, sick leave or disability credits reflected in the accompanying statements at June 30, 2008 and 2007 was computed using salary rates in effect at those times and represents vacation and sick leave earned up to the allowable ceilings as well as unused, converted disability credits.

G. ADMINISTRATIVE EXPENSES AND BUDGET

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

H. 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 Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund. Distribution of investment income is based on the respective equity of each trust fund in the common investment pool.

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

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

Distribution of VRS Employers at June 30, 2008 and 2007

	2008	2007
Cities and Towns	157	156
Counties	93	93
School Boards *	144	145
Special Authorities	188	183
State Agencies	239	237
Total Employers	821	814

* Of the 144 school boards, 133 also provide coverage for nonprofessional employees and are treated as political subdivisions by the System.

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.

All full-time, salaried permanent employees of VRS-participating employers are automatically covered under VRS, SPORS, VaLORS or JRS with these exceptions: (1) certain full-time faculty and administrative staff of public colleges and universities; and (2) eligible classified employees of the state's two public teaching hospitals. These employees have the option to elect not to participate in VRS. Benefit provisions and all other requirements are established by Title 51.1 of the *Code of Virginia* (1950), as amended.

Membership Figures at June 30, 2008 and 2007

	2008				2008	2007
	VRS	SPORS	VaLORS	JRS	Total	Total
Retirees and Beneficiaries						
Receiving Benefits	133,119	1,036	1,814	425	136,394	130,500
Terminated Members Entitled to Benefits but Not Yet Receiving Them	<u>32,729</u>	<u>66</u>	<u>349</u>	<u>9</u>	<u>33,153</u>	<u>32,492</u>
Total	<u>165,848</u>	<u>1,102</u>	<u>2,163</u>	<u>434</u>	<u>169,547</u>	<u>162,992</u>
Active Plan Participants:						
Vested	214,927	1,419	5,800	356	222,502	220,322
Non-vested	<u>118,231</u>	<u>421</u>	<u>4,530</u>	<u>53</u>	<u>123,235</u>	<u>118,893</u>
Total	<u>333,158</u>	<u>1,840</u>	<u>10,330</u>	<u>409</u>	<u>345,737</u>	<u>339,215</u>

Benefits vest for all plans after five years of service credit. Members are eligible for an unreduced retirement benefit at age 65 if they have five years of service credit (age 60 for hazardous duty employees of participating political subdivisions) or age 50 with at least 30 years of service credit if elected by the employer (age 50 with at least 25 years of service credit for hazardous duty employees of participating political subdivisions). Members may retire with a reduced benefit at age 50 if they have at least 10 years of service credit or age 55 (age 50 for hazardous duty employees of participating political subdivisions) if they have at least five years of service credit.

Annual retirement benefits are payable monthly for life in an amount equal to 1.70% of eligible members' average final compensation (AFC) for each year of service credit. AFC is the average of the member's 36 consecutive months of highest creditable compensation. The benefit for members of SPORS and VRS-covered sheriffs is calculated using a 1.85% multiplier. Political subdivisions providing enhanced benefits may elect the 1.85% multiplier for other hazardous duty employees. Otherwise, these members' benefits are calculated using the 1.70% multiplier. Members of SPORS and local

hazardous duty employees receiving enhanced benefits also are eligible for a hazardous duty supplement, paid monthly until they reach full Social Security retirement age.

Members of VaLORS hired before July 1, 2001 were allowed to make a one-time election to increase the multiplier from 1.70% to 2.0% instead of receiving a monthly hazardous duty supplement. VaLORS members who elected to retain the 1.70% multiplier are eligible for the supplement until age 65. Members of VaLORS hired after June 30, 2001 have their benefit computed using the 2.0% multiplier and are not eligible for the supplement. Members of JRS receive weighted years of service credit 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 5.0% per year, are granted in the second year of retirement and in every year thereafter. Benefits for all vested members are actuarially reduced if they retire before becoming eligible for an unreduced retirement benefit, provided they meet age requirements for a reduced retirement benefit.

As required by Title 51.1 of the *Code of Virginia* (1950), as amended, members contribute 5.00% of their annual compensation to the defined benefit plans. Employers may assume the 5.00% member contribution. If a member leaves covered employment, the accumulated contributions plus earned interest may be refunded to the member. 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 Fund was established on July 1, 1960 for state employees, teachers and employees of political subdivisions participating in VRS; state police officers; other state law enforcement and correctional officers; judges; and other qualifying employees. The program provides natural death coverage equal to a member's annual compensation rounded to the next highest \$1,000 and then doubled. Accidental death coverage is double the natural death benefit. The program also provides coverage for accidental dismemberment and blindness, a safety belt benefit, a repatriation benefit, a felonious assault benefit and an accelerated death benefit for members with terminal conditions. Approximately 361,906 members were covered under the program at June 30, 2008.

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. Employers may assume employees' contributions.

An Optional Group Life Insurance Fund was established on November 1, 1995 for members covered under the basic group life program as a supplement to that plan. Members may purchase optional life insurance coverage for themselves as well as their spouses and/or dependent children. The optional program provides natural death coverage equal to one, two, three or four times the member's annual compensation rounded to the next highest \$1,000, up to a maximum of \$600,000. Spouse coverage is available for up to one-half of the member's optional insurance amount. Minor children who are at least 15 days old can be insured for \$10,000, \$20,000 or \$30,000, depending on the option chosen by the member. An additional accidental death and dismemberment benefit is payable for death or bodily injuries. Approximately 63,734 members were covered under this program at June 30, 2008.

Optional group life insurance coverage ends for members when they retire or terminate their employment, or when their basic coverage ends. Members who retire on disability may continue their optional coverage until age 65, provided they continue to pay the required insurance premiums. Spouse coverage terminates should a couple divorce or when the member leaves employment. Children's coverage ends with the termination of the member's coverage or when the child marries or turns 21 years of age (25 years of age for full-time college students).

Employers of members who elect optional life insurance coverage deduct the premiums from the members' paychecks, as required by Title 51.1 of the *Code of Virginia* (1950), as amended. Premiums are based on the member's age and are approved by the Board of Trustees. Because optional life insurance is an insured product, the carrier bills each employer directly, and the employer makes the contribution payments to the carrier. Any differences and adjustments are settled between the employer and the carrier.

C. VIRGINIA SICKNESS AND DISABILITY PROGRAM

The Disability Insurance Trust Fund, also known as the Virginia Sickness and Disability Program (VSDP), was established on January 1, 1999 to provide income protection in the event of a disability for eligible state employees hired on or after January 1, 1999. State agencies are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute to the cost of providing long-term disability benefits and administering the program.

VSDP benefits include sick, family and personal leave and short-term and long-term disability benefits. After a seven-calendar day waiting period following the first day of disability, eligible employees receive short-term disability benefits equal to 60% to 100% of their compensation depending on their months of state service. After 125 workdays of short-term disability, eligible employees receive long-term disability benefits equal to 60% of their compensation. Long-term disability benefits continue until members return to work, reach age 65 (age 60 for state police officers and other state law enforcement and correctional officers) or die.

Full-time permanent, salaried state employees, including state police officers and other Virginia law and correctional officers, are automatically enrolled in the VSDP. Part-time permanent, salaried state employees who work at least 20 hours a week and accrue leave also are automatically enrolled. Teaching, administrative and research faculty of the state's public colleges and universities who elect VRS as their retirement plan must make an irrevocable election to participate in either the VSDP or the institution's disability program. If there is no institution program, the faculty member is covered under the VSDP.

Eligible state employees, state police officers and other state law and correctional officers employed before January 1, 1999 had the option to elect to participate in the VSDP or remain under the Commonwealth's existing sick leave program and retain their eligibility for disability retirement benefits under VRS and SPORS. New members of VaLORS have been automatically enrolled in the VSDP since October 1, 1999 when VaLORS was created. Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits. Approximately 74,956 members were covered under the program at June 30, 2008.

VSDP Long-Term Care Plan

In December 2007, VRS took over management of the VSDP Long-Term Care Plan as a self-funded program. The plan helps participants with the cost of services such as nursing home care, assisted living care and in-home care.



3. Retirement Plans

A. CONTRIBUTIONS

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 System's actuary, Wachovia Retirement Services, computed the amount of contributions to be provided by state agency employers, state police and other Virginia law employers, each participating political subdivision employer and state judicial employers. The contribution rates for FY 2008 and FY 2007 were based on the actuary's valuation as of June 30, 2005. In addition, the actuary computed a separate contribution requirement for the teacher cost-sharing pool for each year using the same valuation date noted above.

Contributions totaling \$2,148,168,000 and \$1,943,770,000 for the fiscal years ended June 30, 2008 and 2007, respectively, were made by employers and members in accordance with statutory requirements. These contributions covered employers' normal costs and amortization of unfunded actuarial accrued liabilities.

Total employer contributions were \$1,380,338,000 for FY 2008. Included in these contributions were \$580,000 from school boards for payments toward early retirement program costs and \$4,590,000 from state agencies for payments toward Workforce Transition Act (WTA) costs. Included in the member contributions of \$25,304,000 were \$23,076,000 paid for the purchase of previously refunded service and other qualifying service.

Employer contributions to the VRS cost-sharing pool for teachers represented 10.30% of covered payrolls. Employer contributions to VRS by the state for state employees represented 6.15% of covered payroll. Each political subdivision's contributions ranged from zero (0.00%) to 25.96% of covered payrolls. Employer contributions to SPORS by the state represented 20.76%; employer contributions to VaLORS by the state represented 15.86%; and employer contributions to JRS by the state represented 38.01% of covered payrolls. These rates represented an increase from the employer contribution rates used in FY 2007, which were

Contributions for the Years Ending June 30, 2008 and 2007

(EXPRESSED IN THOUSANDS)

	2008				2008	2007
	VRS	SPORS	VaLORS	JRS	Total	Total
Employer Contributions	\$ 1,280,773	\$ 21,008	\$ 56,025	\$ 22,532	\$ 1,380,338	\$ 1,209,745
Member Contributions						
Paid by Employers	716,797	5,061	17,723	2,945	742,526	703,860
Member Contributions	24,843	149	291	21	25,304	30,165
Total Contributions	\$ 2,022,413	\$ 26,218	\$ 74,039	\$ 25,498	\$ 2,148,168	\$ 1,943,770

9.20% for teachers, 5.74% for state employees, 16.71% for employees in SPORS, 14.96% for employees in VaLORS and 36.47% for employees in JRS. For FY 2007, employer contributions for political subdivisions ranged from zero (0.00%) to 25.96%. Member contributions for both years represented 5.00% of covered payrolls. Employer and member contributions are required by Title 51.1 of the *Code of Virginia* (1950), as amended.

B. FUNDED STATUS AND FUNDING PROGRESS – PENSION PLANS

The Government Accounting Standards Board (GASB) issued Statement No. 50, Pension Disclosures – An Amendment to GASB Statements No. 25 and No. 27, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEBs). The statement became effective beginning with the fiscal year ended June 30, 2008.

In addition to determining contribution requirements, the actuarial computations present an estimate of the discounted present value of the prospective accrued liability contributions that employers will have to pay 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 members, and the income earned by investing the funds, will be sufficient to pay all benefits to current members in the future and to annuitants and their designated beneficiaries.

The most recent actuarial valuation prepared for the pension plans is as of June 30, 2007. Below is selected information from that valuation report. Further information on this actuarial valuation is included in the Actuarial Section.

Schedule of Funding Progress – Pension Plans as of June 30, 2007

(DOLLARS IN MILLIONS)

	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
VRS	\$ 47,815	\$ 58,116	\$ 10,301	82.3%	\$ 13,834	74.5%
SPORS	595	806	211	73.8%	101	209.4%
VaLORS	766	1,166	400	65.7%	341	117.2%
JRS	340	442	102	76.9%	58	177.3%

Schedule of Actuarial Methods and Significant Assumptions – Pension Plans

	VRS	SPORS	VALORS	JRS
Valuation Date	June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2007
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent, Closed	Level Percent, Closed	Level Percent, Closed	Level Percent, Closed
Payroll Growth Rate:				
State Employees	3.00%	3.00%	3.00%	3.00%
Teachers	3.00%	N/A	N/A	N/A
Political Subdivision Employees	2.50%	N/A	N/A	N/A
Remaining Amortization Period	20 Years	20 Years	20 Years	20 Years
Asset Valuation Method	5-Year, Smoothed Market	5-Year, Smoothed Market	5-Year, Smoothed Market	5-Year, Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return *	7.50%	7.50%	7.50%	7.50%
Projected Salary Increase: *				
State Employees	3.75% to 5.60%	3.50% to 4.75%	3.50% to 4.75%	3.50%
Teachers	3.75% to 6.20%	N/A	N/A	N/A
Political Subdivision – Non-Hazardous Duty Employees	3.75% to 5.60%	N/A	N/A	N/A
Political Subdivision – Hazardous Duty Employees	3.50% to 4.75%	N/A	N/A	N/A

* Includes inflation at 2.50%.

The schedules of funding progress, presented as required supplementary information following the Notes to Financial Statements, present multi-year trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability (AAL) for benefits. Additional information as of the latest actuarial valuation is shown above.

4. Other Post-Employment Benefits (OPEBs)

The Government Accounting Standards Board (GASB) issued Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which requires additional reporting and disclosures for other post-employment benefit (OPEB) plans. The statement became effective for VRS-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the following OPEBs were determined through an actuarial valuation performed as of June 30, 2007 by Wachovia Retirement Services, and are presented in the Required Supplemental Schedule of Funding Progress – Other Post-Employment Benefit Plans.

A. LIFE INSURANCE BENEFITS

Employees who retire or terminate from service after age 50 with at least 10 years of service credit or age 55 with at least five years of service credit (age 50 for vested state police officers, other state law enforcement and correctional officers and hazardous duty employees of participating political subdivisions), or who retire because of disability, are entitled to post-employment group life insurance benefits. At retirement or termination, accidental death benefits cease. Natural death coverage reduces at a rate equal to 25% on January 1 of the first full calendar year following retirement or termination and on January 1 of each year thereafter, until it reaches 25% of its original value. These group life insurance benefit provisions and requirements are established by Title 51.1 of the *Code of Virginia* (1950), as amended. There were approximately 128,502 retirees in the program in FY 2008.

Since 1960, when the Group Life Insurance Program was established, a portion of the premium contributions collected during members' active careers has been placed in an Advance Premium Deposit Reserve. This reserve was established to pre-fund death benefits to members after retirement. Employers providing life insurance benefits are part of a cost-sharing pool. Therefore, separate measurements of assets and actuarial accrued liabilities are not made for individual employers participating in the program.

B. RETIREE HEALTH INSURANCE CREDIT PROGRAM

The Retiree Health Insurance Credit Fund was established on January 1, 1990 to provide benefits for retired state employees, state police officers, other state law enforcement and correctional officers and judges who have at least 15 years of service credit under the retirement plans. The program provides a credit reimbursement of \$4 per month per year of service credit against the monthly health insurance premiums of eligible retirees. A similar program was established on July 1, 1993 to provide a health insurance credit for retired teachers and employees of participating political subdivisions with at least 15 years of service credit under the retirement plans. Retired teachers are eligible for a monthly credit of \$4 per month per year of service credit. Local government retirees may receive a credit of \$1.50 per month per year of service credit with a maximum monthly credit of \$45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 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 80,115 retired members were covered under the program at June 30, 2008.

C. VIRGINIA SICKNESS AND DISABILITY PROGRAM

The Commonwealth of Virginia provides OPEB disability insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. There were approximately 2,353 former members receiving benefits from the program during FY 2008. Note 2C provides information regarding eligibility requirements and benefit provisions.

are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the Notes to Financial Statements, present multi-year trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability (AAL) for benefits.

D. FUNDED STATUS AND FUNDING PROGRESS – OPEB PLANS

The most recent actuarial valuation prepared for the OPEB plans is as of June 30, 2007. Below is selected information from that valuation report.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the use of the benefit. Actuarially determined amounts are subject to revision as actual results

The accompanying schedules of employer contributions present information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Schedule of Funding Progress – Other Post-Employment Benefit Plans as of June 30, 2007

(DOLLARS IN MILLIONS)

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Group Life Insurance Fund	\$ 880	\$ 1,552	\$ 672	56.7%	\$ 14,822	4.5%
Retiree Health Insurance Credit Fund	198	1,814	1,616	10.9%	10,571	15.3%
Disability Insurance Trust Fund	264	451	187	58.5%	3,909	4.8%

Schedule of Actuarial Methods and Significant Assumptions – Other Post-Employment Benefit Plans

	Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund
Valuation Date	June 30, 2007	June 30, 2007	June 30, 2007
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit
Amortization Method	Level Percent, Open	Level Percent, Open	Level Percent, Open
Payroll Growth Rate:			
State Employees	3.00%	3.00%	3.00%
Teachers	3.00%	3.00%	N/A
Political Subdivision Employees	3.00%	3.00%	N/A
State Police/VA Law Officers	3.00%	3.00%	3.00%
Judges	3.00%	3.00%	N/A
Remaining Amortization Period	29 Years	29 Years	29 Years
Asset Valuation Method	5-Year, Smoothed Market	5-Year, Smoothed Market	Market Value
Actuarial Assumptions:			
Investment Rate of Return *	7.50%	7.50%	7.50%
Projected Salary Increase: *			
State Employees	3.75% to 5.60%	N/A	3.75% to 5.60%
Teachers	3.75% to 6.20%	N/A	N/A
Political Subdivision – Non-Hazardous Duty Employees	3.75% to 5.60%	N/A	N/A
Political Subdivision – Hazardous Duty Employees	3.50% to 4.75%	N/A	N/A
State Police/VA Law Officers	3.50% to 4.75%	N/A	3.50% to 4.75%
Judges	3.50%	N/A	N/A

* Includes inflation at 2.50%.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation is shown above.

5. Reserve Accounts

The reserve account balances available for benefits at June 30, 2008 and 2007 are presented in the table shown below. 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 as follows:

- Member and employer contributions and investment income fund the member and employer reserves. Each member has a member contribution account that accumulates member contributions plus annual interest of 4.0%. Each employer has a retirement allowance account that accumulates employer contributions; transfers of investment income, less administrative expenses, incurred in operating the retirement plans; and transfers of member contributions and interest upon a member's retirement. Benefit payments are charged to employers' retirement allowance accounts.
- The Advance Premium Deposit Reserve accumulates a portion of insurance premium contributions collected during a member's active career and their investment earnings, and is charged for death benefits paid and expenses incurred in operating the Group Life Insurance Program.
- Employer contributions and investment income fund the Retiree Health Insurance Credit Reserve. It is charged for credit reimbursements applied to the monthly health insurance premiums of eligible retired members and for expenses incurred in operating the Retiree Health Insurance Credit Program.

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

Reserve Balances Available for Benefits at June 30, 2008 and 2007

(EXPRESSED IN THOUSANDS)

	2008	2007
Virginia Retirement System		
Member Reserve	\$ 9,307,336	\$ 8,838,174
Employer Reserve	42,436,141	46,110,050
Total VRS	51,743,477	54,948,224
State Police Officers' Retirement System		
Member Reserve	71,495	70,778
Employer Reserve	564,914	613,171
Total SPORS	636,409	683,949
Virginia Law Officers' Retirement System		
Member Reserve	184,973	174,221
Employer Reserve	667,667	694,145
Total VaLORS	852,640	868,366
Judicial Retirement System		
Member Reserve	33,766	33,528
Employer Reserve	333,340	356,136
Total JRS	367,106	389,664
Group Life Insurance		
Advance Premium Deposit Reserve	937,146	962,328
Retiree Health Insurance Credit Reserve	251,634	224,606
Virginia Sickness and Disability Program		
Disability Insurance Trust Fund	313,521	263,586
Total Pension and Other Employee Benefit Reserve	\$ 55,101,933	\$ 58,340,723

6. Deposits and Investments

The Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, requires disclosures related to deposits, authorized investments and investment risk. Required investment risk disclosures address interest rate risk; credit risk, to include custodial credit risk and concentrations of credit risk; and foreign currency risk. The statement also requires disclosures of custodial credit risk and foreign currency risk for depository accounts.

Deposits at June 30, 2008 and 2007

(EXPRESSED IN THOUSANDS)

	2008 Carrying Amount	2007 Carrying Amount
Treasurer of Virginia Master Custodian	\$ 125,119 <u>2,568</u>	\$ 23,137 <u>52,623</u>
Total Deposits	\$ 127,687	\$ 75,760

A. DEPOSITS

As shown above, deposits of the System maintained by the Treasurer of Virginia at June 30, 2008 and 2007 were entirely insured under the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the *Code of Virginia* (1950), as amended, which provides for an assessable multiple financial institution collateral pool. Deposits with the System's master custodian, Mellon Trust, were entirely insured by federal depository insurance coverage.

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

Investment value and earnings of the investment pool are proportionally allocated among the System's trust funds on the basis of each fund's equity interest in the common investment pool. An Investment Summary is included in the Investment Section of this report. As of June 30, 2008 and 2007, the equity interests of each fund were as follows:

Equity Interests at June 30, 2008 and 2007

Fund	2008	2007
Virginia Retirement System	93.87%	94.15%
State Police Officers' Retirement System	1.16%	1.17%
Virginia Law Officers' Retirement System	1.54%	1.49%
Judicial Retirement System	0.67%	0.67%
Group Life Insurance Fund	1.74%	1.69%
Retiree Health Insurance Credit Fund	0.46%	0.38%
Disability Insurance Trust Fund	0.56%	0.45%
Total	100.00%	100.00%

Effective Duration of Debt Securities by Investment Type as of June 30, 2008

(DOLLARS IN THOUSANDS)

Investment Type	Market Value June 30, 2008	Weighted Avg. Effective Duration (Years)
U.S. Government Agencies	\$ 1,727,195	5.49
Municipal Securities	3,575,141	4.10
Asset-Backed Securities	98,740	10.74
Collateralized Mortgage Obligations	1,041,522	0.32
Commercial Mortgages	822,986	2.28
Corporate and Other Bonds	514,094	4.59
Fixed-Income Commingled Funds	6,602,367	3.06
Cash and Cash Equivalents	1,896,865	5.19
	1,045,044	0.07
Total	<u>\$17,323,954</u>	3.46

2. Interest Rate Risk

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

Assets Then and Now



The Virginia Supplemental Retirement System pension plans held plan assets of approximately \$116.6 million at the end of fiscal year 1959. At June 30, 2008, pension plan assets exceeded \$53.6 billion, and total assets were \$55.1 billion.

Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities as of June 30, 2008

(EXPRESSED IN THOUSANDS)

Credit Rating Level	Agencies	Municipal Securities	Asset-Backed Securities	Collateralized Mortgage Obligations	Commercial Mortgages	Corporate and Other Bonds	Fixed-Income Commingled Funds	Cash and Cash Equivalents
U.S. Government, Short-Term and Not-Rated Debt:								
U.S. Government Agencies	\$3,536,551	\$ 15,113	\$ —	\$ 231,434	\$ —	\$ 3,797	\$ —	\$ —
AAAm	—	—	—	—	—	—	—	241,275
P-1	—	—	—	—	—	128,599	—	—
VMIG1	—	—	—	—	—	483	—	—
VMIG2	—	—	—	—	—	5,520	—	—
Not Rated	—	2,666	28,369	204,071	170,862	1,654,988	2,906	193,721
Long-Term Debt:								
Aaa	—	80,563	861,765	376,022	321,603	527,979	648,020	1,955
Aa1	—	—	22,380	6,460	6,916	276,162	—	—
Aa2	38,590	—	12,218	—	8,760	310,169	—	—
Aa3	—	398	34,507	2,192	—	496,923	—	—
A-	—	—	—	—	—	—	80,661	—
A1	—	—	8,654	—	500	435,734	45,725	608,093
A2	—	—	13,013	—	661	326,559	79,373	—
A3	—	—	12,215	—	4,792	334,300	—	—
Baa1	—	—	11,977	—	—	439,692	520,217	—
Baa2	—	—	3,299	—	—	546,511	—	—
Baa3	—	—	10,192	555	—	282,587	216,859	—
Ba1	—	—	1,091	—	—	103,218	—	—
Ba2	—	—	5,021	—	—	120,964	—	—
Ba3	—	—	—	—	—	244,013	—	—
B1	—	—	10,128	—	—	132,119	—	—
B2	—	—	4,402	492	—	71,016	39,336	—
B3	—	—	147	1,760	—	87,093	222,302	—
Caa1	—	—	389	—	—	46,771	41,466	—
Caa2	—	—	246	—	—	18,805	—	—
Caa3	—	—	92	—	—	8,045	—	—
C	—	—	1,417	—	—	320	—	—
Total	<u>\$3,575,141</u>	<u>\$ 98,740</u>	<u>\$1,041,522</u>	<u>\$ 822,986</u>	<u>\$ 514,094</u>	<u>\$6,602,367</u>	<u>\$1,896,865</u>	<u>\$1,045,044</u>

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

3. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. As of June 30, 2008, the System's fixed income assets that are not government guaranteed represented 90% of the fixed income assets.

The System's policy for credit risk is based on the concept of a risk budget rather than specific limitations related to the rating of an individual security. The System's risk budget is allocated among the different investment strategies. The table on the previous page summarizes the System's fixed income portfolio exposure levels and credit qualities.

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

- Concentration of Credit Risk. This is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. The System's investment guidelines for each specific portfolio limits investments in any corporate entity to no more than 5% of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5% or more of plan net assets available for benefits.
- Custodial Credit Risk. This is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The System's market value of securities that were uninsured and held by a counterparty at June 30, 2008 and 2007 consisted of the following:

Custodial Credit Risk at June 30, 2008 and 2007

	(EXPRESSED IN THOUSANDS)	
	2008	2007
U.S. Government and Agency Mortgage Securities	\$ 185,723	\$ 138,245
Corporate and Other Bonds	6,595	3,552
Held by Broker-Dealers Under Securities Lending Program:		
U.S. Government and Agency Mortgage Securities	163,062	356,075
Corporate and Other Bonds	3,011	-
Common and Preferred Stocks	1,319,794	130,328
Total	\$1,678,185	\$ 628,200

4. Foreign Currency Risk

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

Currency Exposures by Asset Class as of June 30, 2008

(EXPRESSED IN THOUSANDS)

Currency	Cash and Cash Equivalents	Equity	Corporate Bonds	Private Equity	Real Estate	International Funds	Total
U.S. Dollar	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,208,574	\$ 4,208,574
Euro Currency Unit	44,614	1,436,255	(22,366)	843,105	31,788	-	2,333,396
British Pound Sterling	11,443	654,698	(30,063)	11,320	39,485	-	686,883
Hong Kong Dollar	6,383	447,903	-	-	56,531	-	510,817
Canadian Dollar	14,224	430,794	(857)	-	1,028	-	445,189
New Taiwan Dollar	14,699	356,931	-	-	-	-	371,630
Norwegian Krone	5,015	351,438	5,144	-	-	-	361,597
Japanese Yen	40,030	215,648	31,653	-	54,645	-	341,976
Brazil Real	5,177	315,478	2,393	-	1,741	-	324,789
Swiss Franc	24,159	274,286	-	-	772	-	299,217
Australian Dollar	25,712	197,637	294	-	29,323	-	252,966
Indian Rupee	6,306	216,036	-	-	-	-	222,342
South Korean Won	752	205,892	-	-	-	-	206,644
Mexican New Peso	81	166,770	-	-	-	-	166,851
South African Comm Rand	20,837	87,934	-	-	-	-	108,771
Swedish Krona	1,399	83,475	-	11,612	2,767	-	99,253
New Turkish Lira	29	71,649	-	-	-	-	71,678
Polish Zloty	368	66,906	-	-	-	-	67,274
Malaysian Ringgit	973	54,918	9,280	-	-	-	65,171
Thailand Baht	188	64,478	-	-	-	-	64,666
Egyptian Pound	1	60,715	-	-	-	-	60,716
Indonesian Rupian	69	47,831	-	-	-	-	47,900
Danish Krone	2,534	41,530	-	-	-	-	44,064
Argentina Peso	-	39,527	-	-	-	-	39,527
Russian Ruble (New)	16	29,914	-	-	-	-	29,930
Colombian Peso	-	23,871	-	-	-	-	23,871
Israeli Shekel	3,127	18,977	-	-	-	-	22,104
Singapore Dollar	3,273	(259)	-	-	14,825	-	17,839
Chinese Yuan Renminbi	-	10,554	-	-	-	-	10,554
Turkish Lira	7,189	-	-	-	-	-	7,189
Pakistan Rupee	-	5,228	-	-	-	-	5,228
Omani Rial	99	3,620	-	-	-	-	3,719
Peruvian Nuevo Sol	-	2,063	-	-	-	-	2,063
Romanian Leu	3	-	-	-	-	-	3
Philippines Peso	331	(17,311)	-	-	-	-	(16,980)
Hungarian Forint	1,067	(20,060)	-	-	-	-	(18,993)
Chilean Peso	-	(28,888)	-	-	-	-	(28,888)
Czech Koruna	123	(31,525)	-	-	-	-	(31,402)
New Zealand Dollar	1,857	(96,984)	(7,066)	-	-	-	(102,193)
Total	\$ 242,078	\$ 5,787,929	\$ (11,588)	\$ 866,037	\$ 232,905	\$ 4,208,574	\$11,325,935

5. Securities Lending

Under authorization of the Board, the System lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities or an irrevocable letter-of-credit issued by a major bank and have a market value equal to at least 102% of the market value for domestic securities and 105% for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent and related distributions and if the collateral is inadequate to replace the securities lent. All securities loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 42 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. All securities are marked to market daily and carried at market value.

The market value of securities on loan at June 30, 2008 and 2007 was \$5,026,739,000 and \$6,329,913,000, respectively. The June 30, 2008 and 2007 balances were composed of U.S. government and agency securities of \$1,321,524,000 and \$2,604,362,000, respectively; corporate and other bonds of \$217,999,000 and \$409,177,000, respectively; and common and preferred stocks of \$3,487,216,000 and \$3,316,374,000, respectively.

The value of collateral (cash and non-cash) at June 30, 2008 and 2007 was \$5,329,015,000 and \$6,530,930,000, respectively. Securities on loan are included with investments on the statement of net assets. The invested cash collateral is included in the statement of net assets as an asset and corresponding liability.

6. Accounts Receivable/Accounts Payable for Security Transactions

In addition to unsettled purchases and sales, accounts receivable and accounts payable for security transactions at June 30, 2008 and 2007, respectively, include (1) receivables for deposits with brokers for securities sold short of \$1,299,708,000 and \$1,969,530,000; and (2) payables for securities sold short and not covered with market values of \$1,189,940,000 and \$1,960,937,000, respectively.

7. Derivative Financial Instruments

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

The System is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements. 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 from adverse changes in market prices, interest rates and foreign exchange rates that may result in a decrease in the market value of a financial investment and/or an increase in its funding cost.

In addition to risk exposure from directly held derivative financial instruments, the System may have indirect exposure to risk through its ownership interests in commingled investment funds that use, hold or write derivative financial instruments. Indirect exposure also may 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 \$156,211,000 at June 30, 2008 and \$98,034,000 at June 30, 2007.

8. Forward, Futures and Option Contracts

Forward contracts are contracts to purchase or sell. 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 an initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily, in cash, with the exchanges. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. In contrast, forward contracts traded over-the-counter are generally negotiated between two counterparties. They are subject to credit risks resulting from nonperformance of one of the counterparties and to market risks resulting from adverse fluctuations in market prices, interest rates and foreign exchange rates.

Options may be either exchange-traded or negotiated directly between two counterparties over-the-counter. Options grant the holder the right, but not the obligation, to purchase 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. This premium 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 expires worthless and the premium is recorded as a loss. A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the System receives a premium at the outset. This premium is reflected as a liability on the financial statements and 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 exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates. At June 30, 2008, the System had purchased S&P, Russell Index, Treasury bonds and notes and global indices futures and options with a notional value of \$8,382,747,000, and sold Treasury bonds and notes and global indices futures and options with a notional value of \$588,717,000. At June 30, 2007, the notional values of the balances purchased and sold were \$7,564,225,000 and \$678,124,000, respectively. At June 30, 2008, the System had pledged as collateral U.S. Treasury and U.S. Government Agency securities with a total market value of \$192,318,000 as the margin requirement for futures contracts. At June 30, 2007, the market value of the pledged securities was \$1,018,385,000.

9. Foreign Exchange Contracts

Foreign exchange contracts include forward, futures and options contracts. They 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 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, 2008, the System had sold foreign currency contracts with a notional value of \$7,513,138,000 and had purchased foreign currency contracts with a notional value of \$7,509,004,000. At June 30, 2007, the notional values of the foreign currency contracts sold and purchased were \$9,498,313,000 and \$9,460,292,000, respectively.

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 those 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.

10. Swap Agreements

Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indices. During FY 2008, the System entered into interest rate and total return swaps with

a total notional value of \$1,225,106,000. For FY 2007, the total notional value was \$1,772,046,000. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the System generally requires collateral on any material gains from these transactions.

7. Property, Plant, Furniture and Equipment for the Year Ending June 30, 2008

(EXPRESSED IN THOUSANDS)

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Non-Depreciable Capital Assets: Land	\$ 1,368	\$ -	\$ -	\$ 1,368
Total Non-Depreciable Capital Assets	1,368	-	-	1,368
Depreciable Capital Assets:				
Building	4,632	-	-	4,632
Furniture and Equipment	5,446	-	1,138	4,308
Total Depreciable Capital Assets	10,078	-	1,138	8,940
Less Accumulated Depreciation:				
Building	1,041	117	-	1,158
Furniture and Equipment	3,971	-	1,619	2,352
Total Accumulated Depreciation	5,012	117	1,619	3,510
Total Depreciable Capital Assets – Net	5,066	(117)	(481)	5,430
Total Capital Assets – Net	\$ 6,434	\$ (117)	\$ (481)	\$ 6,798

Depreciation expense amounted to \$468,000 and \$457,000 in 2008 and 2007, respectively.

8. Operating Leases

The System has commitments under various operating leases for equipment and office space for some staff. In general, the leases are for a three-year term. In most cases, the System expects that in the normal course of business, these leases will be replaced by similar leases. Total rental expense for the year ended June 30, 2008 was \$2,152,000. The System has, as of June 30, 2008, the following total future minimum rental payments due under the above leases:

Operating Leases-Future Payments at June 30, 2008

(EXPRESSED IN THOUSANDS)

Year	Amount
2009	\$ 1,208
2010	1,024
2011	798
2012	738
2013	756
2014-2017	<u>2,935</u>
Total Future Minimum Rental Payments	<u>\$ 7,459</u>

9. Defined Benefit Pension Plan

A. 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). The Commonwealth, not the System, has overall responsibility for contributions to this plan and other employee benefit plans.

B. OTHER INFORMATION

Note 2A provides information regarding types of employees covered, benefit provisions, employee eligibility requirements (including eligibility requirements for vesting) and the authority under which benefit provisions and employer/member obligations to contribute are established. 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 Note 3B.

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, 2008.

10. Other Employee Benefit Programs

A. LIFE INSURANCE BENEFITS

The Commonwealth of Virginia participates in the System-administered Group Life Insurance Program, which provides post-employment life insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. There were approximately 103,426 state employees and 50,657 state retirees in the program during FY 2008. Note 2B provides information regarding eligibility requirements and benefit provisions as well as contribution requirements for active members. Note 4A provides information for retired and terminated members.

The System's contribution requirement for its employees for the fiscal year ended June 30, 2008 was 1.00% of covered payroll. For FY 2007, the contribution rate was 1.13% of covered payroll. The System's contribution requirements for its employees for the fiscal years ended June 30, 2008 and 2007 were \$172,000 and \$178,000, respectively.

B. RETIREE HEALTH INSURANCE CREDIT

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 credit. The monthly credit is \$4 per year of service credit. There is no limit on the amount of the monthly credit for state employees. Approximately 32,885 state retirees were receiving the health insurance credit at June 30, 2008. Note 4B contains information regarding eligibility requirements, benefit provisions and contribution requirements.

For the fiscal year ended June 30, 2008, state agencies were required to contribute to the program at the statutory rate of 1.20% of covered payroll. This is an increase from the rate of 1.07% established for FY 2007. The System's contribution requirements for its employees for the fiscal years ended June 30, 2008 and 2007 were \$207,000 and \$165,000, respectively.

C. VIRGINIA SICKNESS AND DISABILITY PROGRAM

At June 30, 2008, approximately 74,956 members were enrolled in the Virginia Sickness and Disability Program (VSDP). For the fiscal year ended June 30, 2008, state agencies were required to contribute to the program at the statutory rate of 2.00% of payroll for state employees, state police officers and other state law enforcement and correctional officers. This was an increase from the rate of 1.78% established for FY 2007. The System's contribution requirements for its employees for the fiscal years ended June 30, 2008 and 2007 were \$345,000 and \$276,000, respectively. Note 2C provides information regarding eligibility requirements and benefit provisions for active members. Note 4C provides information for retired and terminated members.

11. Litigation

The System, its Board of Trustees, officers and employees are defendants in claims and lawsuits that are either pending, in progress or have been settled since June 30, 2008. The Attorney General and outside counsel have reviewed the status of these claims and lawsuits and the System's potential liability arising from them. Based on their review, it is the opinion of management that such liability, if any, would have no material adverse effect on the System's financial condition.

12. Risk Management

To cover its exposure to various risks of loss, the System, as an independent agency of the Commonwealth of Virginia, participates in the Commonwealth's self-insurance programs for state employee health care and risk management. The latter program includes property, general (tort) liability, medical malpractice and automobile plans. The System's employees are covered by the Commonwealth's Workers' Compensation program administered by the Department of Human Resource Management. In addition, the System is self-insured for fiduciary liability and director's and officer's liability under a program administered by the Commonwealth's Division of Risk Management. There were no claims in excess of coverage and no reductions in coverage during FY 2008 and the three preceding fiscal years.

13. Commitments

The System extends investment commitments in the normal course of business. At June 30, 2008 and 2007, these commitments amounted to \$4,599,706,000 and \$4,268,619,000, respectively.

14. Statutory Contribution Adjustment

For FY 2007 and FY 2008, contributions due or required were based on the June 30, 2005 actuarial valuation, which used a 21-year funding period for the UAAL. The General Assembly revised the VRS actuary's assumptions from the June 30, 2005 actuarial valuation by extending the funding period for these groups from 21 years to 30 years. As a result, the rate for teachers was reduced from 11.18% to 9.20%, and the rate for state employees was reduced from 7.33% to 5.74%. Additionally, the rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 19.82%, 17.39% and 40.07% to 16.71%, 14.96% and 36.47%, respectively.

For FY 2008, the General Assembly again funded less than the rate determined by the actuary, but did increase the amounts for all employer groups. The FY 2008 rate for teachers was increased from 9.20% to 10.30%, and the rate for state employees was increased from 5.74% to 6.15%. Additionally, the rates for SPORS, VaLORS and JRS were increased from the FY 2007 levels of 16.71%, 14.96% and 36.47% to 17.89%, 15.86% and 38.01%, respectively. The rate for SPORS was further increased by 2.87% to 20.76% to reflect additional funding for the increase in the benefit formula multiplier from 1.70% to 1.85%, effective July 1, 2007.

15. Subsequent Event

Subsequent to June 30, 2008, equity markets have experienced significant declines. The System's management estimates that the market value of the trust funds has declined from \$55.1 billion as of June 30, 2008 to approximately \$43.0 billion as of October 31, 2008. This has been due primarily to a decline in the market value of the investments in the VRS portfolio. The amount of assets and reserves required to meet future obligations is based, in part, on estimated or expected long-term investment returns. Management expects that the recent decline in market value will have an impact on future funding requirements.

Required Supplemental Schedule of Funding Progress – Pension Plans

(DOLLARS IN MILLIONS)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
VIRGINIA RETIREMENT SYSTEM (VRS)						
2007	\$ 47,815	\$ 58,116	\$ 10,301	\$ 82.3%	\$ 13,834	\$ 74.5%
2006	42,669	52,822	10,153	80.8%	13,002	78.1%
2005 *	40,372	49,628	9,256	81.3%	12,212	75.8%
2004	39,691	43,958	4,267	90.3%	11,510	37.1%
2003	39,243	40,698	1,455	96.4%	10,885	13.4%
2002	38,957	38,265	(692)	101.8%	10,669	(6.5%)
2001	37,968	35,384	(2,584)	107.3%	10,145	(25.5%)
2000 *	34,392	32,643	(1,749)	105.4%	9,529	(18.4%)
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%
STATE POLICE OFFICERS' RETIREMENT SYSTEM (SPORS)						
2007	\$ 595	\$ 806	\$ 211	73.8%	\$ 101	209.4%
2006	539	730	191	73.8%	94	204.1%
2005 *	514	673	159	76.4%	91	174.8%
2004	510	656	146	77.8%	82	178.0%
2003	509	616	107	82.6%	79	135.4%
2002	508	595	87	85.4%	81	107.4%
2001	495	557	62	88.9%	83	74.7%
2000 *	441	513	72	86.0%	81	88.9%
1999	377	463	86	81.4%	77	111.7%
1998	322	425	103	75.8%	65	158.5%
VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM (VaLORS)						
2007	\$ 766	\$ 1,166	\$ 400	65.7%	\$ 341	117.2%
2006	656	1,096	440	59.9%	321	137.0%
2005 *	575	980	405	58.7%	307	132.0%
2004	509	927	418	54.9%	298	140.3%
2003	458	854	396	53.6%	292	135.6%
2002	418	806	388	51.9%	306	126.8%
2001	393	628	235	62.6%	320	73.4%
2000 **	307	680	373	45.1%	315	118.4%
JUDICIAL RETIREMENT SYSTEM (JRS)						
2007	\$ 340	\$ 442	\$ 102	76.9%	\$ 58	177.3%
2006	302	424	122	71.3%	54	224.1%
2005 *	288	402	114	71.5%	52	220.7%
2004	285	366	81	78.0%	48	168.8%
2003	282	348	66	81.1%	48	137.5%
2002	281	352	71	79.8%	48	147.9%
2001	277	342	65	80.9%	47	138.3%
2000 *	245	330	85	74.2%	45	188.9%
1999	210	302	92	69.5%	42	219.0%
1998	180	274	94	65.7%	39	241.0%

* 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 – Pension Plans

(DOLLARS IN THOUSANDS)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
VIRGINIA RETIREMENT SYSTEM (VRS)				
2008 *	\$ 1,378,993	92.58%	\$ 1,276,645	100.00%
2007 *	1,299,606	85.89%	1,116,217	100.00%
2006 *	864,245	89.51%	773,553	100.00%
2005 *	810,944	85.26%	691,415	100.00%
2004 *	469,200	91.66%	430,064	100.00%
2003 *	450,766	67.61%	304,784	100.00%
2002 *	459,613	79.68%	366,239	100.00%
2001 *	630,458	99.99%	630,370	100.00%
2000 *	785,376	93.24%	732,273	100.00%
1999 *	738,051	85.64%	632,084	100.00%
STATE POLICE OFFICERS' RETIREMENT SYSTEM (SPORS)				
2008 *	\$ 22,941	91.49%	\$ 20,989	100.00%
2007 *	19,402	84.31%	16,358	100.00%
2006 *	23,132	65.96%	15,258	100.00%
2005 *	21,946	65.96%	14,475	100.00%
2004 *	20,187	51.16%	10,328	100.00%
2003 *	19,866	44.20%	8,781	100.00%
2002 *	20,190	50.00%	10,095	100.00%
2001	20,420	100.00%	20,420	100.00%
2000 *	17,684	85.07%	15,044	100.00%
1999 *	16,088	69.87%	11,241	100.00%
VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM (VaLORS)				
2008 *	\$ 61,325	91.20%	\$ 55,929	100.00%
2007 *	56,190	86.03%	48,338	100.00%
2006 *	77,414	67.96%	52,611	100.00%
2005 *	74,301	67.96%	50,495	100.00%
2004 *	72,752	55.80%	40,596	100.00%
2003 *	72,699	48.00%	34,895	100.00%
2002 *	77,417	32.30%	25,006	100.00%
2001	51,072	100.00%	51,072	100.00%
2000 **	16,216	84.81%	13,753	100.00%
JUDICIAL RETIREMENT SYSTEM (JRS)				
2008 *	\$ 23,599	94.86%	\$ 22,386	100.00%
2007 *	22,557	91.02%	20,530	100.00%
2006 *	23,871	67.89%	16,206	100.00%
2005 *	22,490	67.89%	15,269	100.00%
2004 *	21,341	71.18%	15,190	100.00%
2003 *	21,110	64.44%	13,604	100.00%
2002 *	21,282	50.00%	10,641	100.00%
2001	20,822	100.00%	20,822	100.00%
2000 *	15,075	99.07%	14,935	100.00%
1999 *	14,118	91.64%	12,938	100.00%

* Contributions made by employers during the fiscal years ended June 30, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007 and 2008 were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet the statutory requirements.

** The VaLORS program went into effect on October 1, 1999.

Required Supplemental Schedule of Funding Progress – Other Post-Employment Benefit Plans

(DOLLARS IN MILLIONS)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
GROUP LIFE INSURANCE FUND						
2007	\$ 880	\$ 1,552	\$ 672	56.7%	\$ 14,822	4.5%
2006 *	751	1,436	685	52.3%	13,923	4.9%
RETIREE HEALTH INSURANCE CREDIT FUND						
2007	\$ 198	\$ 1,814	\$ 1,616	10.9%	\$ 10,571	15.3%
2006 *	175	1,316	1,141	13.3%	9,965	11.4%
DISABILITY INSURANCE TRUST FUND						
2007	\$ 264	\$ 451	\$ 187	58.5%	\$ 3,909	4.8%
2006 *	192	423	231	45.4%	3,716	6.2%

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

Required Supplemental Schedule of Employer Contributions – Other Post-Employment Benefit Plans

(DOLLARS IN THOUSANDS)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
GROUP LIFE INSURANCE FUND				
2008 *	\$ 158,740	100.00%	\$ 158,740	100.00%
RETIREE HEALTH INSURANCE CREDIT FUND				
2008 *	\$ 147,524	100.00%	\$ 147,524	100.00%
DISABILITY INSURANCE TRUST FUND				
2008 *	\$ 97,975	80.00%	\$ 78,380	100.00%

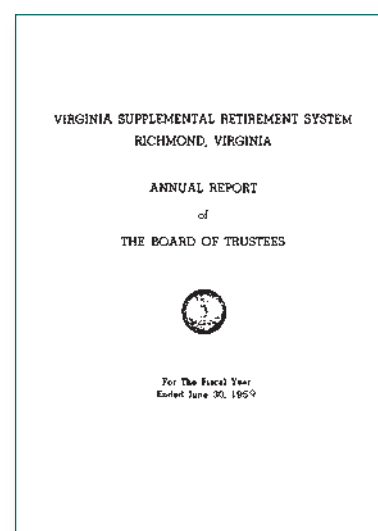
* 2008 was the first fiscal year in which contribution requirements were computed using the required parameters of GASB 43. Employer contributions were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet the statutory requirements.

Schedule of Administrative Expenses for the Years Ended June 30, 2008 and 2007

(EXPRESSED IN THOUSANDS)

	2008	2007
Personal Services:		
Salaries and Wages	\$ 20,952	\$ 17,407
Per Diem Services	246	365
Retirement Contributions	2,010	1,734
Social Security	1,356	1,166
Group Life and Medical Insurance	2,705	2,484
Compensated Absences	266	386
Total Personal Services	27,535	23,542
Professional Services:		
Data Processing	5,248	4,564
Actuarial and Consulting	1,377	916
Legal	404	565
Medical	457	141
Management Services	427	702
Personnel Development Services	93	131
Total Professional Services	8,006	7,019
Communication Services:		
Media	28	33
Printing	940	959
Postal and Delivery	696	544
Telecommunications	526	554
Total Communication Services	2,190	2,090
Rentals:		
Business Equipment	854	904
Office Space	1,298	1,000
Total Rentals	2,152	1,904
Other Services and Charges:		
Skilled and Clerical Services	97	127
Depreciation	468	457
Dues and Memberships	87	124
Building Expense	573	341
Equipment	446	1,318
Insurance	28	28
Repairs and Maintenance	11	4
Supplies and Materials	148	138
Travel and Transportation	550	455
Miscellaneous	188	102
Total Other Services and Charges	2,596	3,094
Total Administrative Expenses (GAAP Basis)	42,479	37,649
Adjustments Necessary to Convert Administrative Expenses on the GAAP Basis to the Budgetary Basis at Year End (Net)	186	(1,411)
Administrative Expenses (Budgetary Basis)	\$ 42,665	\$ 36,238
Administrative Expenses Appropriated	\$ 53,130	\$ 43,018
Distribution of Administrative Expenses:		
Total Administrative Expenses (GAAP Basis)	\$ 42,479	\$ 37,649
Less In-House Investment Management	(14,349)	(11,438)
Net Administrative Expenses	\$ 28,130	\$ 26,211

Benefits and Refunds in 1959



The Virginia Supplemental Retirement System paid more than \$3.2 million in retirement benefits and more than \$1.3 million in refunds during fiscal year 1959. Benefits exceeded \$2.5 billion and refunds exceeded \$102.9 million during fiscal year 2008.

Schedule of Professional and Consulting Services for the Year Ended June 30, 2008

(EXPRESSED IN THOUSANDS)

Actuarial, Legal and Oversight Services:		
Joint Legislative Audit Review Commission	Oversight Responsibilities	\$ 282.2
Cavanaugh MacDonald Consulting, LLC	Actuarial Services and Benefits Consulting	327.5
Wachovia Securities	Actuarial Services and Benefits Consulting	304.2
Troutman Sanders, LLP	Legal Services	141.2
Williams Mullins	Legal Services	23.8
Total Actuarial, Legal and Oversight Services		\$ 1,078.9
Consulting Services:		
Advantage 2000	Social Security Advocacy and Disability Tracking	226.2
Baskervill	Space Planning	5.7
Computer Aid, Inc.	IT Contractor	122.3
Computer Telephone Technologies	Telephony Contractor	32.2
CorVel Corporation	Physician Referral for Disability Cases	37.9
Ennis Krupp & Associates, Inc.	Investment Compensation Study	60.0
R. Louis Harrison, PC	Fact Finding Hearing Officer for Disability Cases	10.6
Hewitt Associates	Retirement Benefits Planning Tool	45.9
McLagan Partners, Inc.	Investment Compensation Study	1.1
Medical Board	Medical Examiners	104.4
Mellon Global Securities	Investment Consulting Services	76.0
Milliman, Inc.	Long-Term Care Plan Consulting	412.1
North Highland	Business Continuity Plan Consulting	60.6
Northrup Gruman	Risk Management/BPR Consulting	178.8
Property & Portfolio Research, Inc.	Investment Consulting Services	153.5
Social Security Disability Consultants	Social Security Advocacy and Disability Tracking	21.4
Southeastern Institute of Research, Inc.	Customer Research and Surveys	53.4
Strategic Economic Decisions, Inc.	Economic Advisory Services	10.0
Townsend Group	Investment Consulting Services	145.0
Vector Consultants	IT Contractor	140.8
WySTAR Global Retirement Solutions	VolSAP Participant Recordkeeping	11.8
Total Consulting Services		\$ 1,909.7
Total Professional and Consulting Services		\$ 2,988.6

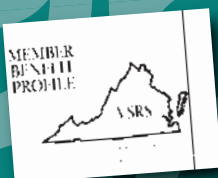
Schedule of Investment Expenses for the Year Ended June 30, 2008

(EXPRESSED IN THOUSANDS)

Management Fees:		
Domestic Managers	\$ 32,072	
Non-U.S. Equity Managers	30,055	
Global Equity Managers	22,718	
Fixed Income Managers	9,464	
Credit Strategies Managers	21,953	
Real Estate Managers	31,825	
Alternative Investment Managers	67,713	
Hedge Fund Managers	43,280	\$ 259,080
Performance Fees		3,422
Total Management and Performance Fees		\$ 262,502
Miscellaneous Fees and Expenses:		
Custodial Fees	\$ 5,230	
Legal Fees	258	
Other Fees and Expenses	791	\$ 6,279
In-House Investment Management		14,349
Total Investment Expenses		\$ 283,130

Investment Section

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Investment Summary



Lifetime Benefit Security and Operations Innovations – 1960 - 1989

The 1960s, '70s and '80s were a time of increased security for members while active as well as retired. Benefit initiatives included the Group Life Insurance Program, death-in-service and death-in-the-line-of-duty benefits, cost-of-living adjustments (COLAs) for retirees and the health insurance credit for state retirees.

By the end of this period, members could become eligible for unreduced retirement at age 55 with at least 30 years of service and reduced retirement at age 55 with five to 10 years of service. Public employees over age 60 also could no longer be excluded from membership. And, by the end of the '80s, state employees could begin saving for retirement through a new deferred compensation plan.

It also was in the '70s and '80s that VSRS introduced automation to its operations. Innovations included automated data processing, computerized records management, computerized central accounting and, eventually, a new Retirement Information Management System, providing state-of-the-art processing and record-keeping.

Meanwhile, the agency focused on enhancing communications with members. A new Information Division provided member counseling and field services, introduced a new handbook and newsletter and issued the first annual benefit statements for members.

By 1989, more than 239,000 public employees were covered under VSRS. The system paid benefits worth approximately \$347.8 million in FY 1989 to nearly 56,000 retirees and had a fund balance of approximately \$8.7 billion.



Chief Investment Officer's Letter



Charles W. Grant, CFA, Chief Investment Officer

P.O. Box 2500, 1200 East Main Street
Richmond, Virginia 23218-2500

Toll Free: 1-888-VARETIR (827-3847); TDD: (804) 344-3190

November 20, 2008

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

After four years of exceptional performance, the VRS investment portfolio declined by 4.4% during the fiscal year ending June 30, 2008. This performance primarily reflects temporary market value changes in assets that are expected to perform well over the long term.

On a relative basis, the portfolio exceeded policy benchmarks established by the Board of Trustees by a significant margin. The following table shows annualized total fund performance for various timeframes along with intermediate and long-term policy benchmarks:

	PERIODS ENDING JUNE 30, 2008			
	1 Year	3 Years	5 Years	10 Years
Total Fund	-4.4%	8.9%	11.3%	6.9%
Intermediate Benchmark	-5.3%	7.9%	10.4%	6.1%
Long-Term Benchmark	-6.7%	4.7%	7.2%	4.5%

Economic growth slowed markedly over the last year. The collapse in housing and dislocation in the credit markets have led to a systemic retrenchment of consumer confidence and corporate profits, along with a significant increase in market volatility. At the same time, inflation pressures have risen and government fiscal positions have deteriorated, creating significant challenges for policymakers.

Most risk assets were challenged in this environment. The fund's public equity investments, which make up approximately 55% of the portfolio, declined 10.4% during the fiscal year. Credit strategies, which we view as substitutes for public equity and represent approximately 7.3% of the fund, returned - 4.7% for the year.

On the positive side, the fund continued to benefit from exceptional performance in the private equity program, which returned 15.5% (time-weighted basis) and represents approximately 8.1% of the fund. Fixed income investments returned 6.3% and represent 20% of the portfolio. Commercial real estate investments, which make up approximately 7.4% of the portfolio, returned 4.1% last year, with gains in private real estate more than offsetting weakness in the public real estate securities.

We expect economic growth to remain below long-term potential until the significant imbalances in the housing and financial markets are corrected, and this is not likely to occur quickly. Investors are forward-looking and sentiment is likely to turn up before the underlying fundamentals; nonetheless, it is difficult to say when market conditions will improve.

We remain confident in the global economy's long-term growth prospects and in the fund's ability to generate annualized returns of 7% to 8% over a long investment horizon. Importantly, the fund is in a very strong liquidity position, and the portfolio generates significant cash flow from dividends, interest payments and private investment distributions. Given our long investment horizon and excellent liquidity position, the fund is well positioned to take advantage of attractive investment opportunities that present themselves during this period of market dislocation.

VRS is fortunate to have a talented investment team that is committed to excellence and an outstanding Investment Advisory Committee that provides valuable input to the staff and the Board. I thank them for their good work.

I also want to thank the Board of Trustees for their guidance, support and confidence in the investment team as we continue to seek out good risk-adjusted returns for the fund.

Respectfully submitted,



Charles W. Grant, CFA
Chief Investment Officer

Investment Value in 1970

VIRGINIA SUPPLEMENTAL RETIREMENT SYSTEM SUMMARY OF INVESTMENTS YEAR ENDED JUNE 30, 1970				
	Virginia Supplemental Retirement System	State Police Officers' Retirement System		Total
Bonds (net)	\$ 480,608,470	\$ 8,096,504	\$	488,704,974
Common stock (cost)	53,311,622	637,104		53,948,726
Preferred stock (cost)	1,957,565	11,889		1,969,454
Net investments	\$ 535,877,657	\$ 8,745,497	\$	544,623,154

The value of investments of the VSRS pension plans at June 30, 1970 was approximately \$544.6 million. The value of VRS pension investments at June 30, 2008 exceeded \$54.9 billion.

Investment Account

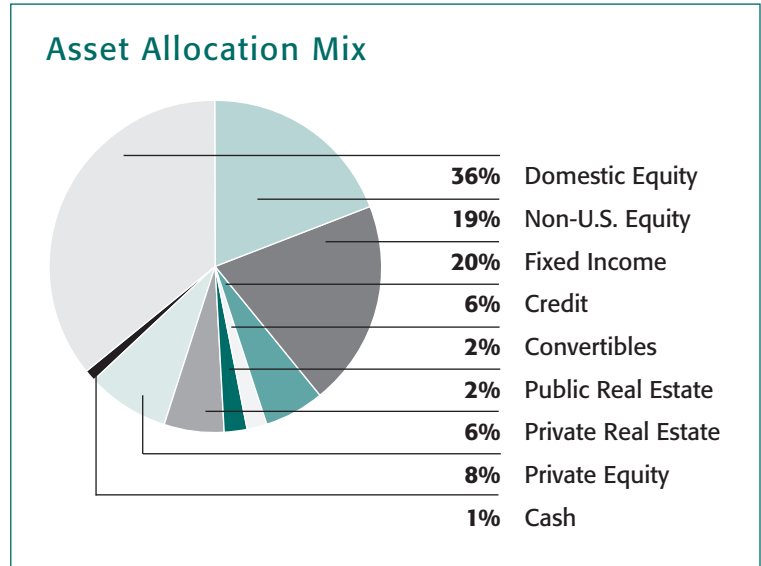
The VRS Board of Trustees has fiduciary responsibility to invest the fund solely in the interest of the beneficiaries of the System. As established by the *Code of Virginia*, “the Board shall invest the assets of the Retirement System with the care, skill, prudence, and due diligence that a prudent person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

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

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

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

The asset allocation mix of the VRS fund as of June 30, 2008 is shown on the next page.



Investment Performance Summary

ANNUALIZED DATA FOR PERIOD ENDING JUNE 30, 2008

	1 Year	3 Years	5 Years
1. Total Fund			
VRS	-4.4%	8.9%	11.3%
Total Fund Intermediate Benchmark	-5.3%	7.9%	10.4%
2. Total Public Equity			
VRS	-10.4%	8.7%	12.4%
Custom Benchmark	-10.8%	8.3%	11.8%
3. Total Fixed Income			
VRS	6.3%	3.8%	3.9%
Custom Benchmark	7.8%	4.3%	4.0%
4. Total Credit Strategies			
VRS	-4.7%	4.5%	N/A
Custom Benchmark	-3.5%	5.0%	N/A
5. Total Real Estate			
VRS	4.1%	16.8%	17.5%
Custom Benchmark	6.5%	15.4%	16.2%
6. Total Private Equity			
VRS	15.5%	25.2%	25.0%
Custom Benchmark	-3.6%	8.6%	14.6%

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

Portfolio Highlights

Public Equity

The market value of the total Public Equity Program as of June 30, 2008 was \$30.5 billion, representing approximately 55% of the total fund. Approximately 65% was invested in Domestic Equity and 35% in International Equity. Seven percent was invested in passive strategies, and 23% was managed internally. The objective of the portfolio is to exceed the return of the Custom Benchmark over three- and five-year periods, net of all costs. At fiscal year end, the Custom Benchmark was comprised of 64% Russell 3000 and 36% of the S&P/Citigroup BMI Global (excluding U.S.).

The Total Public Equity Program outperformed the Custom Benchmark during the fiscal year by 0.4%. During the year, the Russell 3000 was down 12.7%, and the BMI Global (excluding U.S.) was down 7.2%. Emerging Markets significantly outperformed U.S. indices, whereas non-U.S. small-capitalization indices underperformed U.S. indices. Concerns over slowing

economic growth and the state of the credit market were the primary contributors to the equity markets' weak performance.

The Total Public Equity Program is dominated by traditional, long-only strategies (86.7% of program, or \$26.4 billion). The program also employs traditional long-short strategies (4.9% of program, or \$1.5 billion) and equity-oriented hedge fund strategies (8.4% of program, or \$2.6 billion).

The Non-U.S. Equity Program utilizes a non-U.S. equity benchmark with un-hedged currency exposure. In an attempt to capitalize on currency market inefficiencies, staff utilizes risk-controlled active currency strategies that take long and short currency positions based on their fundamental attractiveness. The notional value of these strategies was \$5.0 billion as of June 30, 2008.

Total Public Equity Program Benchmarks

Benchmark Category	VRS Return	Benchmark Return	VRS Weight	Benchmark Weight
Russell 1000	-12.4%	-12.4%	33.7%	34.0%
Russell 2000	-16.9%	-16.2%	3.2%	3.0%
Russell 3000	0.1%	-12.7%	8.4%	8.4%
Russell Special Small Cap	-8.5%	-11.6%	2.0%	2.0%
S&P 500	-17.1%	-13.1%	9.0%	9.0%
S&P/Citigroup PMI World	-11.7%	-10.0%	17.6%	17.6%
S&P/Citigroup PMI Emerging	8.1%	9.6%	8.0%	4.7%
S&P/Citigroup EMI World (ex US)	-12.9%	-14.5%	5.8%	4.4%
S&P/Citigroup PMI World (ex US)	-8.4%	-8.1%	12.3%	16.9%
Total Program	-10.4%	-10.8%	100.0%	100.0%

One-year weights and returns ending June 30, 2008.

Hedge Funds are part of Russell 3000.

Total VRS Equity portfolio remained fairly close to the Custom Benchmark Sectors and Region weights.

Custom Benchmark Sectors and Regions

Sectors	VRS	Strategic Benchmark	Regions	VRS	Strategic Benchmark
Consumer Discretionary	9.3%	8.8%	North America	65.8%	66.7%
Consumer Staples	7.8%	8.4%	Europe/Middle East/Africa	20.2%	19.6%
Energy	15.2%	14.3%	Asia Pacific	11.0%	11.9%
Financials	17.1%	17.9%	Latin and South America	3.0%	1.8%
Health Care	8.8%	9.5%		<u>100.0%</u>	<u>100.0%</u>
Industrials	10.8%	11.9%			
Information Technology	13.1%	13.0%			
Materials	8.6%	7.5%			
Telecommunication Services	4.9%	4.0%			
Utilities	4.4%	4.7%			
	<u>100.0%</u>	<u>100.0%</u>			

Based on Barra's classification of sectors and regions

The top 10 holdings in the Total Public Equity Program comprised 9.5% of the program at fiscal year end. In comparison to last year, four companies fell from the list. Conocophillips, Procter & Gamble, Wal-Mart Stores and Johnson & Johnson replaced Citigroup Incorporated, Bank of America Corporation, J.P. Morgan Chase & Company and Altria Group Incorporated.

Public Equity: Top 10 Exposures

Company	Market Value	Shares
Exxon Mobil Corporation	\$ 562,106,769	6,378,155
Chevron Corporation	318,573,827	3,213,697
Microsoft Corporation	303,442,069	11,030,246
Conocophillips	298,938,053	3,167,052
General Electric	268,036,035	10,042,564
AT&T Incorporated	253,842,989	7,534,669
Procter & Gamble	251,772,728	4,140,318
Wal-Mart Stores, Inc.	237,796,876	4,231,261
Pfizer Incorporated	210,688,778	12,060,033
Johnson & Johnson	197,275,488	3,066,141

VRS maintains a complete list of portfolio holdings.

Fixed Income

VRS invests a portion of its portfolio in fixed income investments in order to reduce total fund volatility, produce income and provide for some protection in the event of a deflationary environment. At year end, approximately \$11.2 billion was invested in fixed income assets, representing 20% of the VRS portfolio. Of this amount, approximately 58% was invested actively using outside managers, and 42% was invested in a more “risk-controlled” style (75% of this style is managed internally).

The objective of the entire program is to maximize the return (net of all costs) relative to the Citigroup

Broad Investment Grade Index, while staying in compliance with risk limits. The fixed income program return was 6.26% for the fiscal year.

The yield curve steepened dramatically over the last fiscal year as the FOMC aggressively lowered rates in response to the credit crisis and other significant events in the market. During the fiscal year, two-year rates decreased by 224 basis points to 2.62%, and ten-year rates decreased by 106 basis points to 3.97%. Spreads were significantly wider in all investment grade asset classes as investors migrated to U.S. treasury securities.

Fixed Income: Top 10 Holdings By Market Value

AS OF JUNE 30, 2008

Par	Security Description	Market Value
\$ 345,150,000	FNMA 5.50% 30-Year MBS	\$ 340,747,357
288,100,000	FNMA 5.00% 30-Year MBS	275,756,836
88,600,000	FNMA 5.50% 15-Year MBS	89,379,898
67,250,000	Chase CR Card Var Rate 3-Year ABS	67,407,888
59,200,000	FNMA 6.00% 30-Year MBS	59,959,218
41,290,000	U.S. Treasury Notes 7.875% due 02/15/2021	57,473,981
56,900,000	FNMA 5.00% 15-Year MBS	56,463,865
54,300,000	FNMA 6.50% 30-Year MBS	56,115,338
50,000,000	GE Dealer Floorplan Var Rate 3-Year ABS	49,550,861
50,067,291	VHDA 6.00% 30-Year MBS	49,205,133

VRS maintains a complete list of portfolio holdings.

Fixed Income Portfolio

AS OF JUNE 30, 2008

Sector Allocation	
Sector	% Portfolio
Treasury	12.0%
Agency	5.0%
Corporate	29.0%
Mortgage	40.0%
Asset Backed	1.0%
CMBS	5.0%
Foreign	0.0%
Other	8.0%
Total	100.0%

Credit Quality Breakdown	
Rating	% Portfolio
Government	16.1%
AAA	58.1%
AA	6.0%
A	6.9%
BBB	7.8%
BB	1.1%
B	0.5%
Below B	0.3%
NR	3.2%
Total	100.0%

Short-Term Investments

Generally, VRS desires to remain fully invested at all times and seeks to minimize its holdings of cash investments. Temporary cash balances are invested in short-term money market instruments with the goal of maintaining high credit quality and liquidity. The return on such investments approximates the return on the 30-day London Interbank Offered Rate (LIBOR), which averaged 4.05% over the last year.

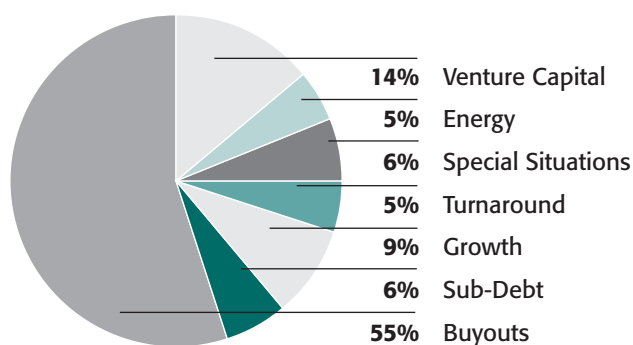
Private Equity

VRS invests in private equity in order to achieve returns greater than those available in the public equity markets. Specifically, the program seeks to outperform the Russell 3000 Index by 2.5% per year. Program returns are calculated on both a time-weighted basis and a dollar-weighted or internal rate-of-return basis. On a time-weighted basis, the program return for FY 2008 was 15.5%. On a dollar-weighted or internal rate-of-return (IRR) basis, the private equity program returned 15.6% as of March 31, 2008. Both return metrics significantly outperformed the public equity market. The private equity program was unable to add a fifth consecutive year of returns exceeding 20%, as the credit crisis reduced the availability of debt, which limited the ability of private equity managers to liquidate investments.

As of June 30, 2008, the carrying value of the program was approximately \$4.5 billion. The vast majority of the program is invested in limited partnerships. Sectors in which the program invests include leveraged buyouts, venture capital, growth, sub-debt, turnaround, energy and special situations. The Private Equity Program's market value by sub-class was as follows:

Private Equity Program

AS OF MARCH 31, 2008



Real Estate

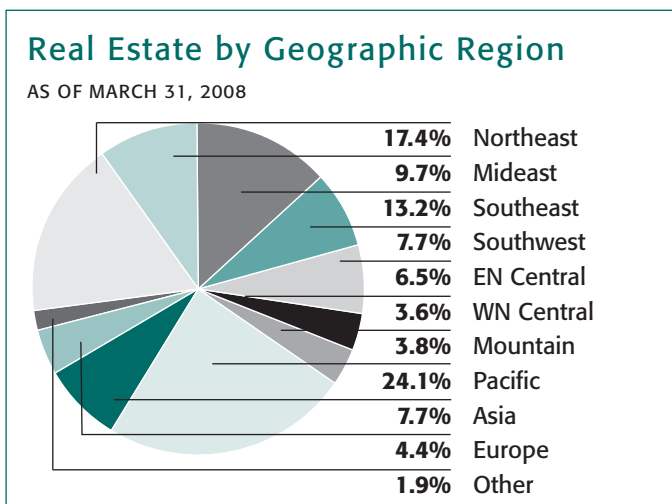
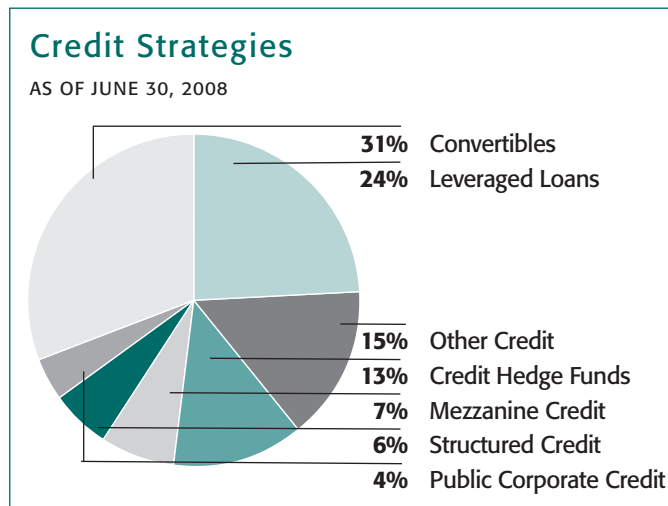
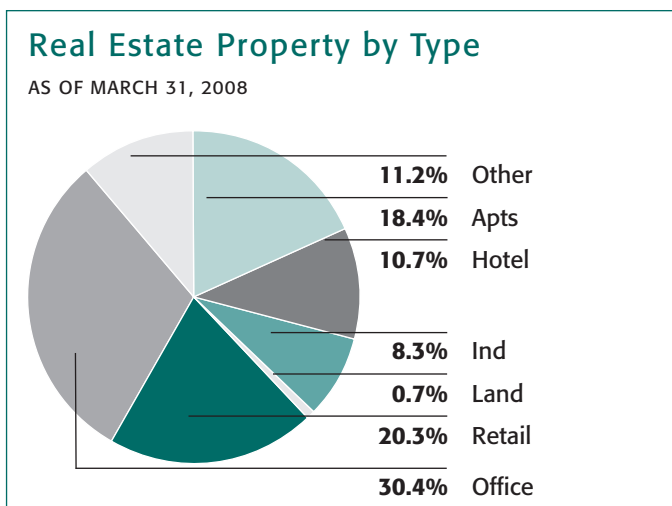
A portion of the portfolio is invested in real estate to help diversify the total fund by providing exposure to an asset class that has a low correlation with the public markets. Real estate produced a 4.1% return for the fiscal year, underperforming its benchmark by 2.4%. A REIT market correction resulted in a -17.1% return in VRS' REIT portfolio, while the private asset portion of the portfolio delivered a 10.4% return.

Over the course of the year, the percentage of the total fund represented by the real estate portfolio increased from 5.1% to 7.4% due primarily to new investments in REITs, commercial real estate debt and core real estate. At fiscal year end, the portfolio was composed of approximately 22% REITs and 78% private accounts. Portfolio leverage as a percentage of total real estate assets was 39% as of June 30, 2008.

Credit Strategies

VRS allocates a portion of the portfolio to credit-related investments. These are primarily debt instruments that are intended to provide diversification benefits, higher levels of income and lower volatility as compared to domestic equities. Over the course of the fiscal year, the program returned -4.7%, while the program's custom benchmark had returns of -3.5%.

Weakness in housing markets, which became evident near the end of fiscal year 2007, led to broader stress across credit markets during fiscal year 2008. This stress created an environment where investors demanded higher returns as compensation for holding credit-related investments. The ensuing adjustments in risk premiums, in turn, caused prices to fall and led to the loss in the program.



MORE INFORMATION

VRS maintains a complete list of portfolio holdings. Address requests to the Investment Compliance Officer, Virginia Retirement System, P.O. Box 2500, Richmond, VA 23218-2500.

VRS Money Managers

The diversified investment structure as of June 30, 2008 is reflected in the following tables, which list VRS managers by investment program and style.

Public Equity Money Managers

External	Style Description
Acadian Asset Management	U.S. Large, Non-U.S. Small & Emerging Markets
AllianceBernstein	Global
Aronson + Johnson + Ortiz	U.S. Small
Arrowstreet Capital	Global
Ashmore Investment Management	Emerging Markets
BlackRock	Non-U.S. Small
Barclays Global Investors	U.S. Large & Active Currency
First Quadrant	Active Currency
Grantham, Mayo and Van Otterloo & Company	Non-U.S. Small
J.P. Morgan Investment Management	U.S. Large
Lee Overlay Partners	Active Currency
LSV Asset Management	Non-U.S. Small
Relational Investors	U.S. Large
Russell Investment Group	U.S. Large
Select Equity Group	U.S. Small
Shamrock Capital Advisors	U.S. Small
State Street Global Advisors	Non-U.S. Large
Symphony Asset Management	U.S. Large
T. Rowe Price	Emerging Markets & Global
The Boston Company	Emerging Markets
TimesSquare Capital Management	U.S. Small
Wellington Management	Global
Internal	Style Description
Afton	U.S. Small
Madison	U.S. Large
Potomac Core	U.S. Large
Russell 2000 Synthetic	U.S. Small
York	U.S. Large
Hedge Funds – Top 10 Managers	Style Description
Blue Ridge, LP	Equity Long/Short
Ironbound Partners Overseas, Ltd.	Equity Long/Short
New Mountain Capital	Equity Long/Short
TPG-Axon Partners (Overshore), Ltd.	Equity Long/Short
ValueAct Capital International	Equity Long/Short
Glenhill Capital Overseas	Equity Long/Short
Lansdowne Partners Limited	Equity Long/Short
Buckingham Capital Management, Inc.	Equity Long/Short
Eminence Capital	Equity Long/Short
Elliott International	Multi-Strategy

Fixed Income Managers

External	Style Description
Agincourt	Core/External Active
BlackRock	Core/External Active
Prudential	Core/External Active
Smith Breeden	Core/External Active
Wellington	Core/External Active
Western Asset Management	Core/External Active
Bridgewater	Pure Alpha/External Active
State Street Global Advisors	External Passive
VRS Internal	Internal Risk Controlled

Private Equity – Top 10 Managers

	Style Description
Hellman and Friedman	Buyout
Welsh, Carson, Anderson and Stowe	Buyout and Sub-Debt
Summit Partners	Growth and Sub-Debt
Apax International	Buyout
Madison Dearborn	Buyout
Nordic Capital International	Buyout
Texas Pacific Group	Buyout
TA Associates	Growth and Sub-Debt
Angelo Gordon	Buyout and Turnaround
First Reserve	Energy

Credit Strategy Managers

	Style Description
Anchorage Advisors, LLC	Long Short Credit and Opportunity Fund
Babson Capital	Mezzanine Credit
BlackRock Kelso Capital	Bank Loans and Mezzanine Credit
Hyperion Brookfield Asset Management	Structured Credit
King Street Capital Management LLC	Opportunity Fund
Oaktree Capital Management	Mezzanine Credit and Convertibles
Pacific Investment Management	Bank Loans
Post Advisory Group	High Yield Credit and Bank Loans
Prudential	High Yield Credit and Mezzanine Credit
Stone Harbor Investment Partners	Public High Yield Credit
Solus Alternative Asset Management LP	Opportunity Fund
Seix Advisors	Public High Yield Credit
Western Asset Management	Bank Loans
Zazove Associates	Convertibles

Real Estate Managers

Public Real Estate Securities	Style Description
Morgan Stanley	REIT Portfolio
Internal - Monroe	REIT Portfolio
Urdang Securities Management, Inc.	REIT Portfolio
Wellington Management Company, LLP	REIT Portfolio
Private Real Estate	Style Description
Angelo Gordon & Co.	Core
ING Clarion Capital	Core
JP Morgan Asset Management	Core
Morgan Stanley	Core
Security Capital Research & Management, Inc.	Core
TA Associates Realty	Core
AvalonBay Communities, Inc.	Enhanced Core
CIM Group	Enhanced Core
Guggenheim Partners	Enhanced Core
Koll Bren Schreiber	Enhanced Core
Liquid Realty Partners	Enhanced Core
ProLogis	Enhanced Core
Prudential Real Estate Investors	Enhanced Core
AMB Investment Management, Inc.	Opportunistic
Blackstone Real Estate Partners	Opportunistic
Capmark Investments	Opportunistic
Colonnade Properties	Opportunistic
Hines	Opportunistic
JER Partners	Opportunistic
Koll Bren Schreiber	Opportunistic
Lazard Frères Real Estate Investors	Opportunistic
Morgan Stanley	Opportunistic
Oaktree Capital Management	Opportunistic
Penwood Real Estate Investment Management, Inc.	Opportunistic

Public Equity Commissions

JULY 1, 2007 THROUGH JUNE 30, 2008

Broker	Commission	Broker	Commission
ITG Inc., New York	\$ 4,578,196	SG Securities, Hong Kong	\$ 208,941
Credit Suisse, New York	1,608,755	MacQuarie Securities Ltd., Hong Kong	205,932
Goldman Sachs & Co., New York	1,489,275	Instinet Europe Ltd., London	205,088
Morgan Stanley & Co., Inc., New York	1,027,497	Merrill Lynch International London Equities	202,239
Merrill Lynch Pierce Fenner Smith, Inc., New York	746,788	Credit Suisse (Europe), London	200,073
UBS Securities LLC, Stamford	658,922	SG Securities Ltd., London	186,655
Deutsche Bank Securities, Inc., New York	657,051	Caylon Securities, New York	175,526
Citigroup Global Markets Ltd., London	646,208	ABN AMRO Securities LLC, New York	167,828
Citigroup Global Markets, Inc., New York	622,146	Instinet Corp., New York	167,031
Lehman Bros., Inc., New York	543,598	SG Americas Securities LLC, New York	162,120
UBS Equities, London	529,696	Goldman Sachs International, London	158,005
Bear Stearns & Co., Inc., New York	522,581	Pershing Securities Ltd., London	156,666
Merrill Lynch Pierce Fenner, Wilmington	445,572	India Infoline Ltd., Mumbai	152,287
Banc of America Securities LLC, Charlotte	416,227	Nomura Securities International, Inc., New York	151,242
Citigroup Global Markets/Salomon, New York	392,936	Union Bank Switzerland Securities, London	148,932
Lehman Bros. International, London	382,698	Jefferies & Co., Inc., New York	147,170
State Street Bank & Trust Co., London	350,986	Credit Lyonnais Securities, Singapore	128,629
J. P. Morgan Securities, Inc., New York	317,296	National Financial Services Corp., New York	127,563
Deutsche Bank International EQ, London	301,442	ABN AMRO Bank NV, London	118,225
J. P. Morgan Securities Ltd., London	294,121	Liquidnet Inc., Brooklyn	109,810
UBS Warburg Asia Ltd., Hong Kong	280,308	Lehman Bros. Securities Asia Ltd., Hong Kong	108,260
Instinet Corp., New York	271,216	Bernstein Sanford & Co., New York	106,074
Merrill Lynch Gilts Ltd., London	264,927	Bear Stearns Securities Corp., Brooklyn	105,294
Pershing LLC, Jersey City	216,233	G-Trade Services Ltd., Hamilton	102,948
Morgan Stanley & Co., London	210,807	Credit Lyonnais Securities, Mumbai	102,052
		Other Brokers	5,054,838
		Total FY 2008	\$ 26,634,910

Schedule of Investment Management Fees and Expenses for the Year Ended June 30, 2008

(EXPRESSED IN THOUSANDS)

	Assets Under Management *	Management Fees and Expenses
External Management:		
Domestic Managers	\$ 7,908,748	\$ 36,888
Non-U.S. Equity Managers	7,856,677	21,914
Global Equity Managers	5,269,993	22,718
Fixed Income Managers	14,760,148	9,477
Credit Strategies Managers	3,081,684	25,828
Real Estate Managers	2,865,510	34,685
Private Equity Managers	4,430,403	67,713
Hedge Fund Managers	3,208,206	43,279
Internal Management	6,623,117	14,349
Miscellaneous Fees and Expenses:		
Custodian Fees	—	5,230
Legal Fees	—	258
Other Fees and Expenses	—	791
Total	\$ 56,004,486	\$ 283,130

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

Investment Summary

In accordance with Section 51.1-124.31 of the *Code of Virginia* (1950), as amended, the Board of Trustees has pooled substantially all assets of the Virginia Retirement System, the State Police Officers' Retirement System, the Virginia Law Officers' Retirement System, the Judicial Retirement System, the Group Life Insurance Fund, the Retiree Health Insurance Credit Fund and the Disability Insurance Trust Fund into a common investment pool. The common investment pool of the pension trust funds and other trust funds held the following composition of investments at June 30, 2008 and 2007:

(EXPRESSED IN THOUSANDS)

	2008 Fair Value	Percent of Total Value	2007 Fair Value	Percent of Total Value
Bonds and Mortgage Securities:				
U. S. Government and Agencies	\$ 2,309,199	4.09%	\$ 3,107,820	5.19%
Mortgage Securities	4,763,028	8.43%	5,199,395	8.68%
Corporate and Other Bonds	8,872,739	15.71%	6,606,861	11.03%
Total Bonds and Mortgage Securities	<u>15,944,966</u>	<u>28.23%</u>	<u>14,914,076</u>	<u>24.90%</u>
Common and Preferred Stocks	<u>18,925,101</u>	<u>33.51%</u>	<u>24,176,918</u>	<u>40.38%</u>
Index and Pooled Funds:				
Equity Index and Pooled Funds	11,941,641	21.14%	12,656,822	21.14%
Fixed Income Commingled Funds	1,896,865	3.36%	1,248,250	2.08%
Total Index and Pooled funds	<u>13,838,506</u>	<u>24.50%</u>	<u>13,905,072</u>	<u>23.22%</u>
Real Estate – Private Real Estate	<u>2,865,510</u>	<u>5.07%</u>	<u>2,583,818</u>	<u>4.31%</u>
Private Equity	<u>4,430,403</u>	<u>7.85%</u>	<u>3,682,446</u>	<u>6.15%</u>
Short-Term Investments:				
Treasurer of Virginia -				
LGIP Investment Pool	241,275	0.43%	147,817	0.25%
TBC Pooled Employee Trust Fund	1,955	0.00%	394,867	0.66%
Foreign Currencies	228,744	0.41%	78,083	0.13%
Total Short-Term Investments	<u>471,974</u>	<u>0.84%</u>	<u>620,767</u>	<u>1.04%</u>
Total Investments	<u>\$ 56,476,460</u>	<u>100.00%</u>	<u>\$ 59,883,097</u>	<u>100.00%</u>

Actuarial Section

Actuary's Certification Letter
Solvency Test
Schedule of Active Member Valuation Data
Schedule of Retiree and Beneficiary Valuation Data
Analysis of Actuarial Gains and Losses
Analysis of Changes in Allowances for Retirees and Beneficiaries
Summary of Actuarial Assumptions and Methods
Summary of Benefit Plan Provisions
Summary of Plan Changes



Era of Independence and Customer Service Innovations – 1990s

The federal Tax Reform Act of 1986 eliminated the coordination of local and state benefits with Social Security in recognition of retirees' increasing need for a pension and Social Security, along with personal savings, to provide sufficient retirement income. Thus, in 1990, the Virginia General Assembly enacted legislation to change the Virginia Supplemental Retirement System back to the Virginia Retirement System (VRS). Ensuing constitutional amendments created VRS as an independent state agency and segregated the VRS fund from all other funds of the Commonwealth.

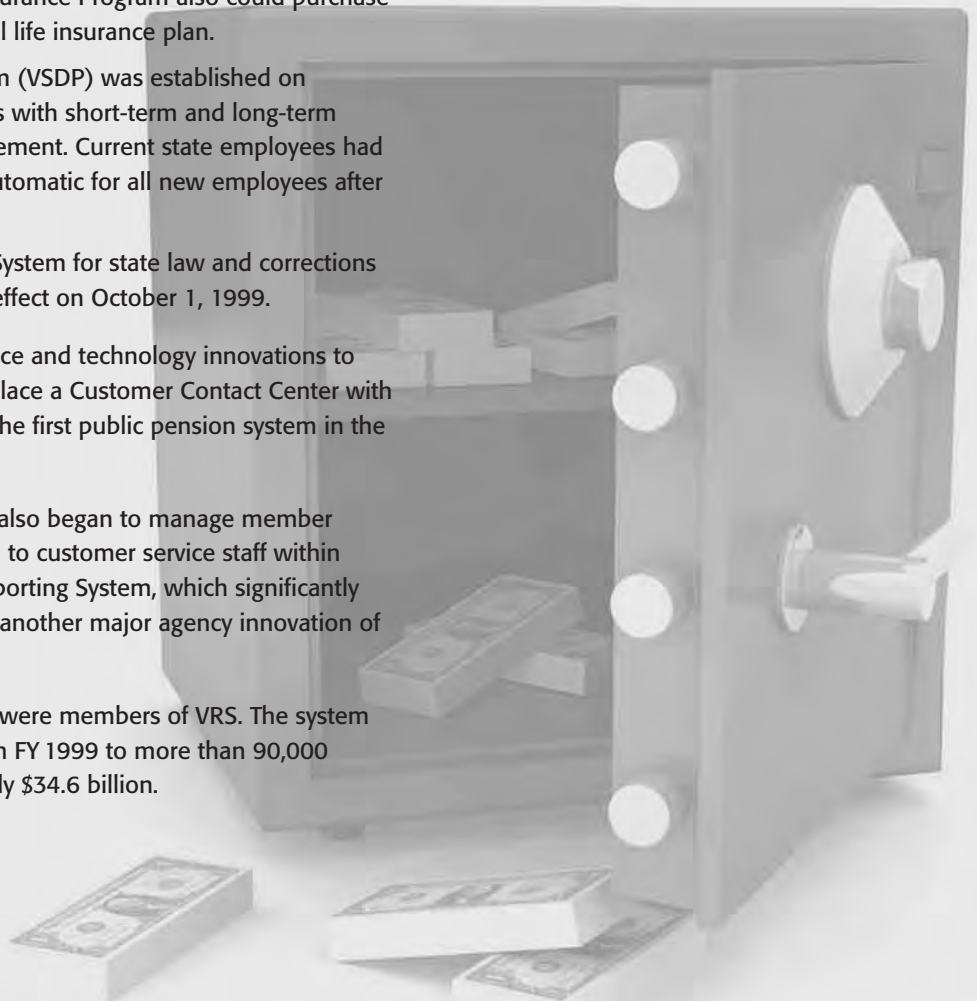
Along with constitutional changes, legislative changes would dramatically increase demand for benefits processing and customer services:

- The Retiree Health Insurance Credit Program was enacted in 1990 for state retirees. In 1993, retired teachers and political subdivision retirees became eligible for the health insurance credit.
- In 1990, retirement benefits became subject to state income taxes, and the value of group life insurance over \$50,000 became subject to FICA taxes.
- The Workforce Transition Act was passed in 1995 to provide severance and enhanced retirement benefits for state employees facing involuntary layoff. Members covered under the Group Life Insurance Program also could purchase additional coverage through a new optional life insurance plan.
- The Virginia Sickness and Disability Program (VSDP) was established on January 1, 1999 to provide state employees with short-term and long-term disability benefits in place of disability retirement. Current state employees had the option to join VSDP; enrollment was automatic for all new employees after January 1.
- And, the Virginia Law Officers' Retirement System for state law and corrections officers, other than state police, went into effect on October 1, 1999.

The agency once again turned to customer service and technology innovations to meet increased customer demand. VRS put in place a Customer Contact Center with state-of-the-art telephone equipment and was the first public pension system in the nation to establish a Web site.

With advanced imaging technology, the agency also began to manage member documents electronically, delivering information to customer service staff within seconds. Implementing the Virginia Pension Reporting System, which significantly reduced manual retiree payroll processing, was another major agency innovation of the 1990s.

By 1999, more than 286,000 public employees were members of VRS. The system paid benefits worth approximately \$1.1 billion in FY 1999 to more than 90,000 retirees and had a fund balance of approximately \$34.6 billion.



Actuary Letter

Wachovia Bank, N.A.
Wachovia Retirement Services
VA9412
9020 Stony Point Parkway, Suite 200
Richmond, VA 23235

Tel 804 267-3100
Fax 804 330-1386



WACHOVIA

July 7, 2008

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

June 30, 2007 Actuarial Valuation Report

Dear Members of the Board:

We are pleased to present the actuarial valuation results for the following retirement plans of the Virginia Retirement System (VRS):

- VRS (state employees, teachers, employees of participating political subdivisions)
- State Police Officers' Retirement System (SPORS)
- Virginia Law Officers' Retirement System (VaLORS)
- Judicial Retirement System (JRS)

We certify the information contained in this report is accurate and fairly presents the actuarial status of the retirement plans as of June 30, 2007. The valuation reflects the benefits in effect on the valuation date and was prepared on the basis of the data submitted by the VRS.

Participant Data and Assets

The individual data for members of the system as of the valuation date was reported to the actuary by the VRS. While we did not verify the individual records, we did perform tests for internal consistency and reasonableness in relation to the data submitted for the prior year's valuation.

The balance of current assets in the trust fund taken into account for the valuation was based on statements prepared for us by the VRS staff. We did not perform any type of audit on the plan assets.

Actuarial Assumptions and Methods

The actuarial cost method utilized is the entry age normal cost method. This method is an acceptable method for determining the annual required contribution in accordance with GASB statements 25 and 27. For the purpose of determining contribution rates, the excess (shortfall) between expected and actual investment income is recognized over a five-year period, with the restriction that the actuarial asset value cannot be less than 80% or more than 120% of market value.

Legislative Changes

The State Police Officers' Retirement System has changed its benefit multiplier from 1.70% to 1.85% of pay. There were no other legislative changes during the fiscal year ending June 30, 2007 that had a financial impact on the retirement plans.

Actuarial Schedules

The following schedules (or updates to them) were prepared by VRS from information provided by us during the 2007 actuarial valuation and supplemental information provided by us. We have reviewed them for inclusion in the 2008 Comprehensive Annual Financial Report.

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

Actuarial Certification

To the best of our knowledge, this report is complete and accurate. All costs and liabilities have been determined in conformity with generally accepted actuarial principles and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, we believe the assumptions used are individually reasonable and represent the best estimate of anticipated experience under the VRS. The undersigned are available to answer questions regarding this report.

Respectfully submitted,

Wachovia Retirement Services



Daniel L. Homan, EA, MAAA
Senior Consultant



Kathleen M. Potter, FSA, EA, MAAA
Senior Consultant

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)							
2007	\$ 8,154,046	\$ 23,339,386	\$ 23,623,041	\$ 47,815,450	100.00%	100.00%	56.39%
2006	6,988,172	23,055,815	22,777,916	42,668,752	100.00%	100.00%	55.43%
2005	6,555,402	21,140,882	21,932,204	40,372,648	100.00%	100.00%	57.80%
2004	6,139,908	18,971,864	18,846,578	39,691,562	100.00%	100.00%	77.36%
2003	5,703,557	17,223,070	17,770,944	39,242,624	100.00%	100.00%	91.81%
2002	5,285,338	15,878,494	17,101,328	38,957,256	100.00%	100.00%	104.05%
2001	4,847,656	14,411,943	16,119,211	37,967,820	100.00%	100.00%	116.06%
2000	4,639,007	12,652,663	15,350,685	34,392,303	100.00%	100.00%	111.40%
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%
STATE POLICE OFFICERS' RETIREMENT SYSTEM (SPORS)							
2007	\$ 70,796	\$ 408,085	\$ 327,147	\$ 594,985	100.00%	100.00%	35.49%
2006	66,055	378,636	285,236	538,646	100.00%	100.00%	32.94%
2005	62,917	337,017	273,239	514,330	100.00%	100.00%	41.87%
2004	61,529	310,306	284,509	510,604	100.00%	100.00%	48.77%
2003	59,097	277,282	279,243	508,576	100.00%	100.00%	61.67%
2002	57,152	253,687	283,797	507,889	100.00%	100.00%	69.43%
2001	54,507	215,658	286,463	494,952	100.00%	100.00%	78.47%
2000	50,044	199,822	262,761	440,903	100.00%	100.00%	72.70%
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%
VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM (VaLORS)**							
2007	\$ 169,393	\$ 458,383	\$ 538,203	\$ 766,243	100.00%	100.00%	25.73%
2006	156,310	412,767	527,291	656,668	100.00%	100.00%	16.61%
2005	148,890	330,502	500,705	575,327	100.00%	100.00%	19.16%
2004	143,836	246,872	536,424	508,561	100.00%	100.00%	21.97%
2003	135,144	195,554	523,138	457,615	100.00%	100.00%	24.26%
2002	127,975	110,426	567,716	418,518	100.00%	100.00%	31.73%
2001	111,143	5,639	510,857	392,815	100.00%	100.00%	54.03%
2000	108,538	27,356	543,943	307,301	100.00%	100.00%	31.51%
JUDICIAL RETIREMENT SYSTEM (JRS)							
2007	\$ 38,675	\$ 242,825	\$ 160,998	\$ 340,200	100.00%	100.00%	36.46%
2006	34,756	240,005	149,637	302,734	100.00%	100.00%	18.69%
2005	32,143	229,942	140,216	287,825	100.00%	100.00%	18.36%
2004	30,176	211,228	124,171	285,178	100.00%	100.00%	35.25%
2003	28,766	198,005	121,265	282,326	100.00%	100.00%	45.81%
2002	28,089	186,886	137,029	281,056	100.00%	100.00%	48.22%
2001	23,595	176,142	142,095	276,542	100.00%	100.00%	54.05%
2000	24,079	191,146	115,127	244,721	100.00%	100.00%	25.62%
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%

* Employer-financed portion.

** The Virginia Law Officers' Retirement System went into effect October 1, 1999.

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

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

Actuarial Assumptions and Methods	1998/1999	2000/2001	2002/2003/2004	2005/2006/2007
Valuation Interest Rate	8.0%	8.0%	8.0%	7.5%
Salary Scale Inflation Factor	4.0%	3.0%	3.0%	2.5%
Change in Decremental Assumptions	No	Yes	No	Yes
Value of Ancillary Benefits Included	Yes	Yes	Yes	Yes
Value of Post-Retirement Adjustments to Date Included	Yes	Yes	Yes	Yes
Assets Valued at	Modified Market	Modified Market	Modified Market	Modified Market

Schedule of Active Member Valuation Data

Valuation Date (June 30)	Active Members				
	Number	Annual Payrolls (000s)	Average Annual Pay	Annualized % Increase in Average Pay	Number of Employers
VIRGINIA RETIREMENT SYSTEM (VRS)					
2007	326,218	\$ 13,834,022	\$ 42,407	4.4%	578
2006	320,065	13,001,551	40,622	4.1%	575
2005	312,981	12,212,145	39,019	3.5%	571
2004	305,388	11,509,902	37,689	4.1%	565
2003	300,612	10,884,629	36,208	1.1%	559
2002	297,921	10,668,980	35,811	2.9%	551
2001	291,621	10,145,212	34,789	3.9%	551
2000	284,486	9,528,666	33,494	4.7%	545
1999	285,596	9,138,060	31,996	2.7%	532
1998	277,223	8,638,414	31,161	6.2%	519
STATE POLICE OFFICERS' RETIREMENT SYSTEM (SPORS)					
2007	1,890	\$ 100,785	\$ 53,325	2.1%	1
2006	1,795	93,742	52,224	4.1%	1
2005	1,811	90,865	50,174	7.3%	1
2004	1,755	82,100	46,781	2.2%	1
2003	1,727	79,020	45,756	(1.3%)	1
2002	1,740	80,680	46,368	(1.5%)	1
2001	1,771	83,339	47,058	2.7%	1
2000	1,768	80,977	45,801	5.3%	1
1999	1,761	76,628	43,514	11.9%	1
1998	1,682	65,427	38,898	4.7%	1
VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM (VaLORS)*					
2007	10,213	\$ 341,035	\$ 33,392	3.1%	1
2006	9,904	320,869	32,398	3.8%	1
2005	9,819	306,574	31,222	2.0%	1
2004	9,746	298,313	30,609	1.0%	1
2003	9,626	291,801	30,314	(0.6%)	1
2002	10,036	306,024	30,493	(0.7%)	1
2001	10,434	320,254	30,693	2.7%	1
2000	10,542	315,158	29,895	0.0%	1
JUDICIAL RETIREMENT SYSTEM (JRS)					
2007	424	\$ 57,687	\$ 136,054	4.0%	1
2006	415	54,289	130,818	4.4%	1
2005	414	51,874	125,300	5.1%	1
2004	405	48,271	119,188	2.2%	1
2003	408	47,568	116,588	0.0%	1
2002	408	47,568	116,588	0.0%	1
2001	404	47,125	116,646	2.5%	1
2000	399	45,394	113,769	6.7%	1
1999	390	41,590	106,641	3.8%	1
1998	383	39,332	102,695	8.5%	1

* The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

Schedule of Retiree and Beneficiary Valuation Data

Valuation Date (June 30)	Retirees and Beneficiaries				
	Retirees and Beneficiaries Added/Removed*	Total Retirees and Beneficiaries	Annual Allowances (000)s	Annualized % Increase in Annual Allowances	Average Annual Allowances
VIRGINIA RETIREMENT SYSTEM (VRS)					
2007	9,475/3,774	127,487	\$ 2,183,553	10.7%	\$ 17,128
2006	8,949/3,834	121,786	1,972,394	8.7%	16,196
2005	9,151/4,250	116,671	1,814,791	8.3%	15,555
2004	7,913/2,561	111,770	1,676,175	9.0%	14,997
2003	7,920/3,554	106,418	1,537,902	11.8%	14,452
2002	7,451/3,496	102,052	1,375,777	6.7%	13,481
2001	7,962/3,337	98,097	1,289,657	12.1%	13,147
2000	7,932/3,685	93,472	1,150,213	8.6%	12,305
1999		89,225	1,059,602	16.4%**	11,786
1998		88,500	896,409	3.4%	10,129
STATE POLICE OFFICERS' RETIREMENT SYSTEM (SPORS)					
2007	52/18	991	\$ 33,375	6.3%	\$ 33,678
2006	57/23	957	31,394	7.6%	32,805
2005	70/9	923	29,186	10.7%	31,620
2004	56/4	862	26,361	11.1%	30,581
2003	63/25	810	23,737	18.2%	29,305
2002	72/12	772	20,077	7.1%	26,006
2001	26/11	712	18,748	8.0%	26,331
2000	38/8	697	17,362	9.9%	24,910
1999		667	15,793	23.2%**	23,678
1998		668	12,844	15.1%	19,227
VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM (VaLORS)***					
2007	253/16	1,618	\$ 37,574	18.0%	\$ 23,222
2006	209/34	1,381	31,849	16.7%	23,062
2005	248/12	1,206	27,286	33.6%	22,625
2004	207/2	970	20,423	27.8%	21,055
2003	245/10	765	15,982	72.7%	20,892
2002	251/18	527	9,252	324.2%	17,556
2001	197/13	294	2,181	198.8%	7,418
2000	124/14	110	730	0.0%	6,636
JUDICIAL RETIREMENT SYSTEM (JRS)					
2007	24/19	404	\$ 26,013	4.4%	\$ 64,390
2006	25/21	399	24,905	4.9%	62,420
2005	25/17	395	23,736	8.9%	60,092
2004	33/21	387	21,789	6.4%	56,302
2003	35/26	375	20,488	8.3%	54,635
2002	14/17	366	18,918	1.2%	51,689
2001	21/16	369	18,699	7.6%	50,675
2000	21/9	364	17,373	4.3%	47,728
1999		352	16,659	11.1%**	47,327
1998		347	14,787	4.1%	42,615

* Number of retirees and beneficiaries added and removed is unavailable prior to FY 2000.

** 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.

*** The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

Analysis of Actuarial Gains and Losses for the Year Ended June 30, 2007

(EXPRESSED IN THOUSANDS)

	VRS	SPORS	VaLORS	JRS	Total
A. Calculation of Expected Unfunded Actuarial Accrued Liability (UAAL)					
1. UAAL as of June 30, 2006	\$ 10,515,245	\$ 191,281	\$ 439,700	\$ 121,664	\$ 11,267,890
2. Normal Cost for Previous Year	1,223,481	12,282	42,666	16,287	1,294,716
3. Actual Contributions during the Year	(1,834,047)	(21,465)	(64,822)	(23,436)	(1,943,770)
4. Interest at Previous Year's Rate of 7.50%:					
a. On UAAL	788,643	14,346	32,978	9,125	845,092
b. On Normal Cost	91,761	921	3,200	1,222	97,104
c. On Contributions	(68,777)	(805)	(2,431)	(879)	(72,892)
d. Total	811,627	14,462	33,747	9,468	869,304
5. Expected UAAL as of June 30, 2007 (A1 + A2 + A3 + A4)	10,716,306	196,560	451,291	123,983	11,488,140
6. Actual UAAL as of June 30, 2007	10,301,023	211,043	399,736	102,298	11,014,100
7. Total Gain/(Loss) (A5 - A6)	415,283	(14,483)	51,555	21,685	474,040
B. Calculation of Asset Gain/(Loss)					
1. Actual Value of Assets (AVA) as of June 30, 2006	42,668,752	538,646	656,668	302,734	44,166,800
2. Contributions during the Year	1,834,047	21,465	64,822	23,436	1,943,770
3. Benefit Payments during the Year	(2,309,062)	(35,088)	(39,848)	(25,252)	(2,409,250)
4. Interest at Previous Year's Rate of 7.50%:					
a. On AVA at Beginning of Year	3,200,156	40,398	49,250	22,705	3,312,509
b. On Contributions	68,777	805	2,431	879	72,892
c. On Benefit Payments	(86,590)	(1,316)	(1,494)	(947)	(90,347)
d. Total	3,182,343	39,887	50,187	22,637	3,295,054
5. Expected AVA as of June 30, 2007 (B1 + B2 + B3 + B4)	45,376,080	564,910	731,829	323,555	46,996,374
6. Actual AVA as of June 30, 2007	47,815,450	594,985	766,243	340,200	49,516,878
7. Total Gain/(Loss) on Assets (B6 - B5)	2,439,370	30,075	34,414	16,645	2,520,504
C. Calculation of Liability Gain/(Loss)					
1. Gain/(Loss) due to Changes in Actuarial Assumptions	(7,126)	(26,996)	-	-	(34,122)
2. Gain/(Loss) due to Plan Amendments	-	-	-	-	-
3. Liability Experience Gain/(Loss) (A7 - B7 - C1 - C2)	\$ (2,016,961)	\$ (17,562)	\$ 17,141	\$ 5,040	\$ (2,012,342)

Analysis of Changes in Allowances for Retirees and Beneficiaries

(EXPRESSED IN THOUSANDS)

Valuation Date (June 30)	Beginning Annual Allowance	Additions**	Reductions	Ending Annual Allowance
VIRGINIA RETIREMENT SYSTEM (VRS)				
2007	\$ 1,972,394	\$ 277,466	\$ 66,307	\$ 2,183,553
2006	1,814,791	190,775	33,172	1,972,394
2005	1,676,175	187,247	48,631	1,814,791
2004*	1,537,902	167,577	29,304	1,676,175
STATE POLICE OFFICERS' RETIREMENT SYSTEM (SPORS)				
2007	\$ 31,394	\$ 3,292	\$ 1,311	\$ 33,375
2006	29,186	2,378	170	31,394
2005	26,361	3,035	210	29,186
2004*	23,737	2,717	93	26,361
VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM (VaLORS)				
2007	\$ 31,849	\$ 7,118	\$ 1,393	\$ 37,574
2006	27,286	4,692	129	31,849
2005	20,423	7,541	678	27,286
2004*	15,982	4,554	113	20,423
JUDICIAL RETIREMENT SYSTEM (JRS)				
2007	\$ 24,905	\$ 2,831	\$ 1,723	\$ 26,013
2006	23,736	1,983	814	24,905
2005	21,789	2,017	70	23,736
2004*	20,488	1,387	86	21,789

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

** Additions to the Annual Allowance include added retirees and the annual cost-of-living adjustment (COLA) provided to current retirees and beneficiaries.

Summary of Actuarial Assumptions and Methods

The VRS Board of Trustees adopted the following actuarial assumptions and methods on May 19, 2005 on the recommendation of its actuary. These assumptions were based on an analysis of plan experience for the five-year period of July 1, 1999 through June 30, 2004. These assumptions were used for the June 30, 2005, June 30, 2006 and June 30, 2007 actuarial valuations.

INVESTMENT RETURN RATE

7.50% per annum, compounded annually, composed of an assumed 2.50% inflation rate and a 5.00% real rate of return. Benefits are assumed to increase by 2.50% annually due to the 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 with a one-year set back in age for males and females in all employer groups.

Post-Retirement

1994 Group Annuity Mortality Table for males and females with a one-year set back in age for male and female state employees and employees of political subdivisions not receiving enhanced hazardous duty benefits; a three-year set back in age for male and female teachers; and a one-year set back in age for male and female judges.

1994 Group Annuity Mortality Table for males and females with a four-year set back in age for state police officers, employees of political subdivisions in hazardous duty positions receiving enhanced benefits and other Virginia law enforcement and correctional officers.

Post-Disablement

70% of PBGC Disabled Mortality Table 5a for males; 90% of PBGC Disabled Mortality Table 6a for females.

Retirement Rates

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

State Employees and Employees of Political Subdivisions not Receiving Enhanced Hazardous Duty Benefits

RETIREMENT PER 100 MEMBERS				
Age	Retirement with Less Than 30 Years of Service		Retirement with 30 or More Years of Service	
	Male	Female	Male	Female
50	3.0	3.0	10.0	10.0
55	5.0	5.0	10.0	10.0
59	5.0	5.0	10.0	10.0
60	5.0	7.5	15.0	15.0
61	10.0	10.0	20.0	20.0
62	15.0	15.0	30.0	30.0
64	15.0	20.0	25.0	20.0
65	—	—	35.0	45.0
67	—	—	30.0	30.0
70	—	—	100.0	100.0

Teachers

RETIREMENT PER 100 MEMBERS				
Age	Retirement with Less Than 30 Years of Service		Retirement with 30 or More Years of Service	
	Male	Female	Male	Female
50	2.0	2.0	20.0	20.0
55	5.0	5.0	22.5	25.0
59	7.0	8.0	22.5	30.0
60	10.0	10.0	25.0	30.0
61	10.0	10.0	25.0	25.0
62	20.0	20.0	40.0	40.0
64	15.0	15.0	30.0	30.0
65	—	—	40.0	40.0
67	—	—	30.0	30.0
70	—	—	100.0	100.0

State Police Officers, Employees of Political Subdivisions in Hazardous Duty Positions Receiving Enhanced Benefits and Virginia Law Officers

RETIREMENT PER 100 MEMBERS		
Age	Reduced Retirement	Unreduced Retirement
50	10.0	20.0
55	10.0	20.0
59	12.0	35.0
60	—	100.0

Judicial Retirement System

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

Disability Rates

As shown below for selected ages.

State Employees and Employees of Political Subdivisions not Receiving Enhanced Hazardous Duty Benefits

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

DISABILITIES PER 100 MEMBERS		
Age	Male	Female
20	0.030	0.014
30	0.140	0.054
40	0.270	0.122
50	0.510	0.459
60	1.500	1.350

Teachers

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

DISABILITIES PER 100 MEMBERS		
Age	Male	Female
20	—	—
30	0.013	0.008
40	0.026	0.046
50	0.149	0.163
60	0.422	0.442

State Police Officers, Employees of Political Subdivisions in Hazardous Duty Positions Receiving Enhanced Benefits and Virginia Law Officers

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

DISABILITIES PER 100 MEMBERS		
Age	Rate	
20	—	
30	0.028	
40	0.210	
50	0.675	
60	—	

Judicial Retirement System

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

DISABILITIES PER 100 MEMBERS		
Age	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 years of service credit. Sample rates for selected ages and years of service are shown below for causes other than death, disability or retirement.

State Employees and Employees of Political Subdivisions not Receiving Enhanced Hazardous Duty Benefits

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL

Age	Years of Service – Males					Years of Service – Females				
	1	3	6	9	10+	1	3	6	9	10+
25	0.1883	0.1346	0.0810	0.0498	0.0483	0.2309	0.1755	0.1388	0.0753	0.0586
35	0.1490	0.1064	0.0787	0.0498	0.0368	0.1708	0.1336	0.1002	0.0668	0.0432
45	0.1143	0.0762	0.0642	0.0407	0.0214	0.1315	0.0953	0.0718	0.0490	0.0240
55	0.0975	0.0596	0.0399	0.0260	0.0134	0.1155	0.0734	0.0476	0.0279	0.0121

Teachers

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL

Age	Years of Service – Males					Years of Service – Females				
	1	3	6	9	10+	1	3	6	9	10+
25	0.1758	0.1234	0.0565	0.0384	0.0804	0.1413	0.1316	0.0953	0.1114	0.1241
35	0.1585	0.0989	0.0567	0.0381	0.0350	0.1416	0.1165	0.0836	0.0618	0.0439
45	0.1391	0.0782	0.0480	0.0312	0.0146	0.1161	0.0793	0.0561	0.0365	0.0176
55	0.1419	0.0726	0.0322	0.0187	0.0093	0.1161	0.0665	0.0385	0.0246	0.0090

State Police Officers, Employees of Political Subdivisions in Hazardous Duty Positions Receiving Enhanced Benefits and Virginia Law Officers

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL

Age	Years of Service – Males					Years of Service – Females				
	1	3	6	9	10+	1	3	6	9	10+
25	0.0854	0.0803	0.0728	0.0299	0.0360	0.1332	0.1047	0.1023	0.0543	0.0438
35	0.0936	0.0773	0.0515	0.0323	0.0248	0.1437	0.0996	0.0671	0.0599	0.0608
45	0.1022	0.0722	0.0438	0.0293	0.0141	0.1172	0.0984	0.0770	0.0639	0.0591
55	0.1149	0.0719	0.0417	0.0224	0.0098	0.0573	0.1023	0.1289	0.0671	0.0411

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

The sample salary increase rates are shown below.

State Employees and Employees of Political Subdivisions not Receiving Enhanced Hazardous Duty Benefits

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

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

Teachers

Inflation rate of 2.50% 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	2.45%	6.20%
3	2.35%	6.10%
6	1.95%	5.70%
9	1.85%	5.60%
11	1.35%	5.10%
15	1.15%	4.90%
19	0.95%	4.70%
20 or more	—	3.75%

Salary Increase Rates, continued

State Police Officers, Employees of Political Subdivisions in Hazardous Duty Positions Receiving Enhanced Benefits and Virginia Law Officers

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

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

Judicial Retirement System

Salary increase rates are 3.50%.

Active Membership Growth



The number of active VRS members at the end of the 1980s was slightly more than 239,000. Currently, active members number more than 345,000.

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

Payroll Growth Rate

State employees, teachers, state police officers, Virginia law officers and judges: 3.00% based on a zero population growth assumption. Political subdivision employees: 2.50% based on a zero population growth assumption.

Funding Period

State employees, teachers, political subdivision employees, state police officers, Virginia law officers and judges: 20 years closed amortization, computed as a level percent of payroll.

Cost-of-Living Adjustment

2.50% per year compounded annually for the basic benefit. The temporary supplement for state police officers, employees of political subdivisions in hazardous duty positions receiving enhanced benefits and Virginia law officers is assumed to increase at the inflation rate (2.50% per year compounded annually).

Summary of Benefit Plan 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 other 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 enforcement officers and correctional officers, other than state police 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 assessment 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 officers and Virginia law officers receive credit of one month of service for each month a contribution is made on their behalf to VRS, SPORS and VaLORS. 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 also may purchase credit for eligible prior service, such as time spent in the military. The rate is 5% of current creditable compensation or AFC within three years of eligibility and based on actuarial cost after three years, times number of months to be purchased. Special rules and limits govern the purchase of prior service.

Average Final Compensation

The average of the member's highest 36 consecutive 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. Members of SPORS and VaLORS may retire under normal retirement on or after age 60 with five years of service credit.

ANNUAL BENEFIT

For members of VRS, 1.70% of average final compensation (AFC), times years of service. For members of SPORS and VRS-covered sheriffs, 1.85% of AFC, times years of service. Political subdivisions providing enhanced benefits may elect the 1.85% multiplier for other hazardous duty employees. Members of VaLORS hired before July 1, 2001 were allowed to make a one-time election to have their benefit based on 2.00% of AFC instead of receiving a supplement. VaLORS members hired on or after July 1, 2001 have their benefit based on 2.00% of AFC with no supplement. For members of JRS, 1.70% of AFC, times years of weighted service, not to exceed 78% of AFC.

SUPPLEMENT

Members of SPORS and employees of political subdivisions in hazardous duty positions receiving enhanced benefits 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 from the date of retirement to their Social Security normal retirement age. This supplement is adjusted biennially based on increases in Social Security benefits during the interim period. Electing members of VaLORS hired before July 1, 2001 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 from the date of retirement to age 65.

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.

Early Retirement

ELIGIBILITY

Members of VRS may retire early after reaching age 50 with credit for 10 years of service, or age 55 with credit for five years of service. Members of SPORS and VaLORS and employees of political subdivisions in hazardous duty positions receiving enhanced benefits 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 VRS member 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 employees of political subdivisions in hazardous duty positions receiving enhanced benefits, and 30 years of service and at least age 60 for members of JRS). For members of VRS and JRS at least age 55 (at least age 50 for members of SPORS and VaLORS and employees of political subdivisions in hazardous duty positions receiving enhanced benefits), 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 and employees of political subdivisions in hazardous duty positions receiving enhanced benefits). For VRS members younger than age 55 at retirement, the reduction factor determined as though the member were 55 is further reduced by multiplying it by a second factor, to reflect a 0.6% reduction for each month retirement precedes age 55.

Supplement

ELIGIBILITY

Members of SPORS and employees of political subdivisions in hazardous duty positions receiving enhanced benefits 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 their Social Security normal retirement age. This supplement is adjusted biennially based on increases in Social Security benefits during the interim period. Electing members of VaLORS hired before July 1, 2001 with 20 or more years of service in a hazardous position or with a hire date prior to July 1, 1974 receive an additional monthly allowance payable from the date of retirement to age 65.

PAYMENT FORM

Same as for Normal Retirement.

Disability Retirement

ELIGIBILITY

VRS teacher and political subdivision members and JRS members are eligible from the first day of employment. VRS state employees, SPORS and VaLORS members hired prior to January 1, 1999 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 five or more years of service credit receive the greater of (1) the minimum guaranteed benefit, which is 50% of AFC (66 2/3% if work-related disability) if the member does not qualify for primary Social Security and 33 1/3% of AFC (50% if work-related disability) if the member qualifies for primary Social Security; or (2) 1.70% of AFC, times service credit. The work-related benefit is reduced by Worker's 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 upon recovery or reemployment. Disability benefits are 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 variable and 100% survivor options also are permitted for disability retirement. A refund of the member's contribution account is paid for work-related disability.

VIRGINIA SICKNESS AND DISABILITY PROGRAM (VSDP)

VRS state employees and SPORS and VaLORS members hired before January 1, 1999 had the option to elect VSDP coverage in lieu of disability retirement benefits. Coverage is automatic for those hired since January 1, 1999. VSDP participants receive a deferred service retirement benefit payable at age 65 (age 60 for SPORS and VaLORS members) computed like the normal retirement benefit. For this calculation, a member's creditable service includes the disability period; AFC is 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 is determined as if the member were active.

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 and employees of political subdivisions in hazardous duty positions receiving enhanced benefits).

PAYMENT FORM

Same as for Normal Retirement.

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 retirement benefits otherwise due.

BENEFIT

A member who takes a refund receives a lump-sum payment of his or 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 a member is active or inactive, not retired.

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 or parent 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 and employees of political subdivisions in hazardous duty positions receiving enhanced benefits), the member is assumed to be age 55 (age 50 for members of SPORS and VaLORS and employees of political subdivisions in hazardous duty positions receiving enhanced benefits) for benefit calculation purposes. A beneficiary may elect to receive a refund of the member's contributions plus interest in lieu 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 33 1/3% of AFC if the survivor qualifies for Social Security survivor benefits. This benefit is reduced by Worker's Compensation. The named beneficiary receives a refund of the member's contributions and interest.

Optional Forms of Payment

Optional forms of payment are 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

For the member, the benefit is more than the 100% survivor option. Upon the member's death, a designated percentage of the benefit continues to the contingent annuitant.

ADVANCE PENSION OPTION

Allows an advance on future benefits. The member receives the higher payments in the early years of retirement and smaller payments (on an actuarially equivalent basis) at a future date the member specifies.

PARTIAL LUMP-SUM OPTION

This option allows the member with active service beyond the normal retirement date to elect a lump-sum payment equal to the sum of 12, 24 or 36 payments of the standard monthly life annuity. The member's monthly benefit will be actuarially reduced to reflect the lump-sum payment. The member may elect to receive the reduced monthly annuity with the basic or survivor options.

COST-OF-LIVING ADJUSTMENTS

Members qualify for cost-of-living adjustments (COLAs) on July 1 of the second calendar year after retirement. Automatic COLAs are calculated as the first 3.0% of the Consumer Price Index increase plus half of each percentage increase from 3.0% to 7.0%. COLAs are capped at 5.0%.

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 months of service purchased.
2. VRS may enter into an agreement with any political subdivision of the Commonwealth of Virginia that 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 0.6% 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 two and one-half times service.
5. Effective July 1, 1998, a health insurance credit of \$1.50 per month per year of service (up to 30 years) is provided to covered teachers who retire with at least 15 years of service. At local option, an additional credit of \$1 per month per year of service (up to 30 years) can be provided.

1998 Valuation

1. Effective January 1, 1999, the retirement benefit became 1.70% of AFC times years of service. The 3.00% benefit adjustment was eliminated for future retirees. A 2.00% ad hoc benefit increase was provided for all retirees and beneficiaries receiving benefits as of December 31, 1998.
2. The Virginia Sickness and Disability Program (VSDP) went into effect on January 1, 1999. New members since that date are automatically covered by this program and thus will only receive a deferred retirement benefit from VRS. Members joining before 1999 were allowed to make a one-time irrevocable election to join this program. (Applied to state employees and state police officers.)
3. Effective July 1, 1999, state employees, teachers and employees of participating political subdivisions that had not elected out of this benefit may retire with an unreduced benefit if they are at least age 50 and have earned at least 30 years of service.

1999 Valuation

1. 100% Joint and Survivor Option is payable in the case of a death of a member who dies while in active service.
2. 100% Joint and Survivor Option is payable for disability retirement.

2000 Valuation

1. The Virginia Law Officers' Retirement System went into effect on October 1, 1999.
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.

2001 Valuation

1. Members of SPORS had their temporary supplement starting at retirement extended from age 65 to their Social Security retirement age.
2. Members of VaLORS had their benefit multiplier changed from 1.70% to 2.00% of average final compensation with no temporary supplement for all new hires and rehires after July 1, 2001 as well as for current participants who made an election to change formulas.
3. The Partial Lump Sum Option was added as an optional form of payment. This option provides the retiring member with a lump-sum payment equal to the sum of either 12, 24 or 36 payments of the standard monthly life annuity. The member's monthly annuity is actuarially reduced to reflect the lump-sum payment.

2002 Valuation

No actuarially material changes were made in the plan provisions.

2003 Valuation

No actuarially material changes were made in the plan provisions. Listed below are two minor changes of note:

1. School superintendents with five years of service can purchase an additional 10 years of out-of-state service. The superintendent must not be eligible for an out-of-state benefit.
2. The leveling option was restored as an optional form of payment. Benefits may be leveled to age 62 or older, and the benefits cannot reduce more than 50% of the basic benefit. Any COLAs are calculated on the basic benefit amount.

2004 Valuation

No actuarially material changes were made in the plan provisions.

2005 Valuation

1. No actuarially material changes were made in the plan provisions.
2. On May 19, 2005, the VRS Board of Trustees adopted the recommended economic and demographic assumptions proposed by the actuary as a result of the June 2004 actuarial experience study.

2006 Valuation

No actuarially material changes were made in the plan provisions.

2007 Valuation

The retirement multiplier for members of SPORS and VRS-covered sheriffs changed from 1.70% to 1.85% effective July 1, 2008.

Statistical Section



Pension Trust Funds:

- Analysis of Changes and Growth in Plan Net Assets
- Pension Trust Funds Additions Versus Deductions
- Virginia Retirement System Pension Trust Fund – Analysis of Changes and Growth in Plan Net Assets
- State Police Officers' Retirement System Pension Trust Fund – Analysis of Changes and Growth in Plan Net Assets
- Virginia Law Officers' Retirement System Pension Trust Fund – Analysis of Changes and Growth in Plan Net Assets
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VRS-Participating Employers

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

- Statement of Changes in Accumulation Plan Assets
- Operational Overview
- Deferred Compensation Plan Assets
- Contributions to the Deferred Compensation Plan
- Distributions from the Deferred Compensation Plan
- New Enrollments in the Deferred Compensation Plan
- Active and Inactive Deferred Compensation Plan Participants
- Total Participant Accounts in Each Fund Option
- Accumulation Plan Assets
- Description of Funds
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Setting the Stage for Modernization – 2008

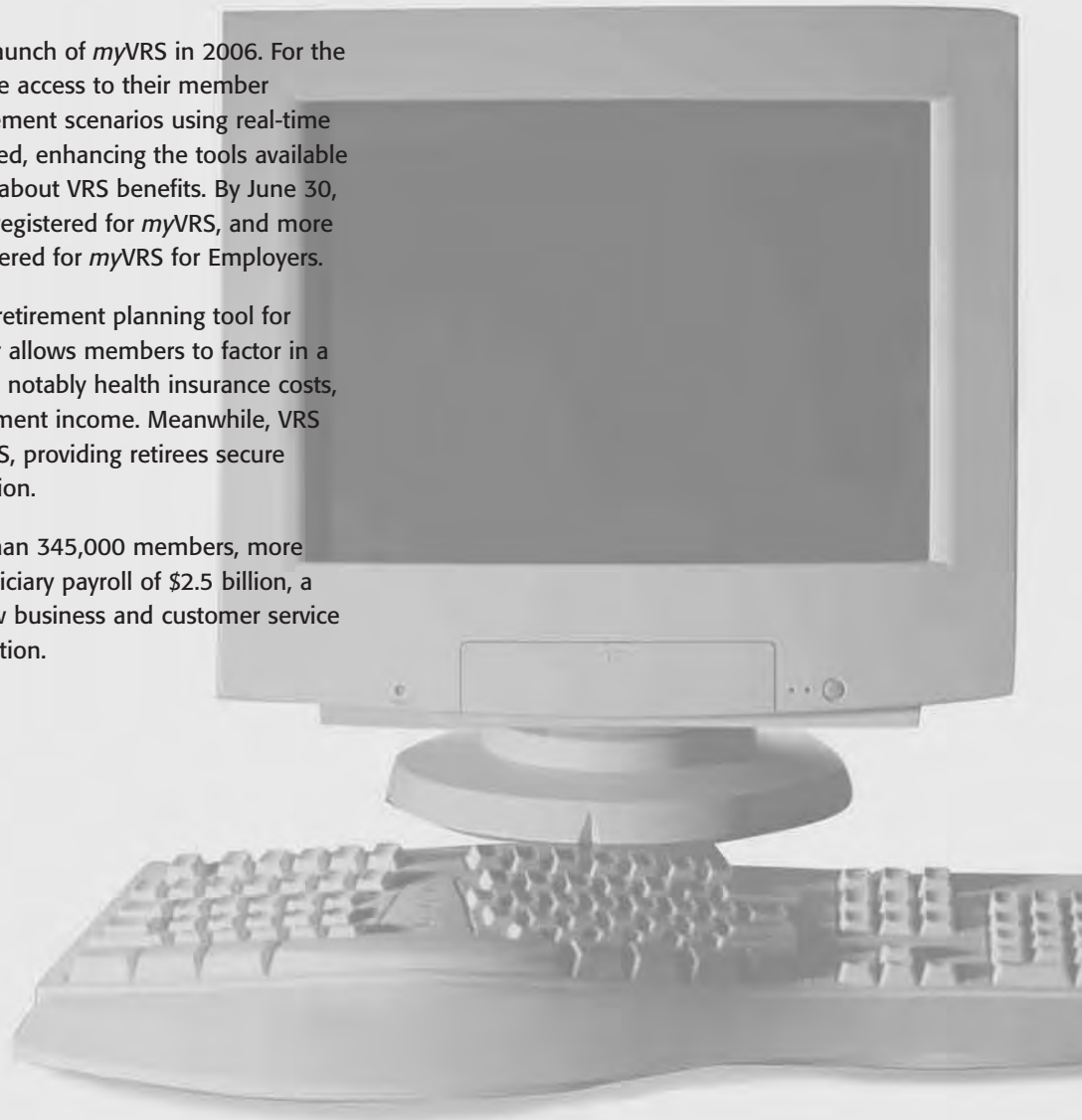
At the beginning of the 21st century, faced with aging baby boomers and anticipating the dramatic shift in technology-enabled customer services, VRS began to move toward a complete modernization of its business model. Between 1999 and 2008, the number of members grew by 20.6%; the number of retirees grew even faster, by 51.1%.

Currently, VRS is organized around products and services, requiring members and retirees to access benefit information and services through numerous touch points, including different VRS personnel, employers and third-party administrators. In 2006, the Board of Trustees approved a long-range modernization program that will organize the agency around a single view of the customer with “no wrong door” to benefits and services for customers. Members and retirees also will be able to interact with VRS through their preferred channel, whether in-person, by telephone or through Web-based self-services.

The first step toward this vision was the launch of *myVRS* in 2006. For the first time, VRS members had secure online access to their member information and the ability to create retirement scenarios using real-time data. *myVRS* for Employers quickly followed, enhancing the tools available to employers to counsel their employees about VRS benefits. By June 30, 2008, more than 85,000 members were registered for *myVRS*, and more than 1,000 employer contacts were registered for *myVRS* for Employers.

In 2008, VRS launched a comprehensive retirement planning tool for members. The *myVRS* Retirement Planner allows members to factor in a number of income sources and expenses, notably health insurance costs, to create an estimate of their initial retirement income. Meanwhile, VRS staff worked on a retiree version of *myVRS*, providing retirees secure online access to their retirement information.

VRS closes its first 100 years with more than 345,000 members, more than 136,000 retirees, a retiree and beneficiary payroll of \$2.5 billion, a fund balance of \$55.1 billion – and a new business and customer service vision to launch its next century of innovation.



Pension Trust Funds

Analysis of Changes and Growth in Plan Net Assets

FOR THE YEARS ENDED JUNE 30

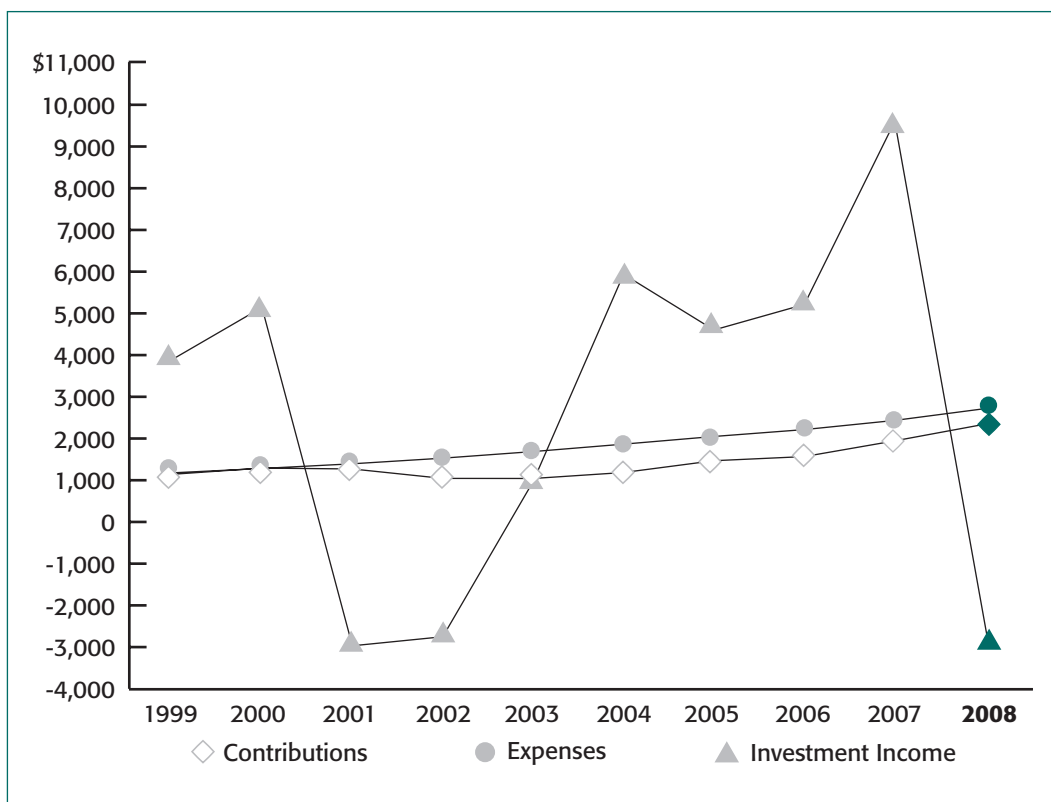
(EXPRESSED IN MILLIONS)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Assets Available										
Beginning of Year	\$ 30,784	\$ 34,634	\$ 39,786	\$ 36,693	\$ 33,456	\$ 33,781	\$ 39,039	\$ 43,060	\$ 47,627	\$ 56,890
Member and Employer Contributions and Other Additions	1,141	1,291	1,270	1,044	1,042	1,185	1,468	1,567	1,944	2,148
Benefit and Administrative Expenses and Transfers	(1,176)	(1,282)	(1,394)	(1,529)	(1,687)	(1,865)	(2,049)	(2,214)	(2,434)	(2,665)
Net Funding	(35)	9	(124)	(485)	(645)	(680)	(581)	(647)	(490)	(517)
Investment Income:										
Interest, Dividends and Other Investment Income	551	705	785	624	569	461	667	823	1,157	983
Net Appreciation (Depreciation) in Fair Value	3,334	4,438	(3,754)	(3,376)	401	5,477	3,935	4,391	8,596	(3,756)
Net Investment Income	3,885	5,143	(2,969)	(2,752)	970	5,938	4,602	5,214	9,753	(2,773)
Net Increase (Decrease)	3,850	5,152	(3,093)	(3,237)	325	5,258	4,021	4,567	9,263	(3,290)
Net Assets Available										
End of Year	\$ 34,634	\$ 39,786	\$ 36,693	\$ 33,456	\$ 33,781	\$ 39,039	\$ 43,060	\$ 47,627	\$ 56,890	\$ 53,600

Pension Trust Funds Additions Versus Deductions

FISCAL YEARS 1999-2008

(EXPRESSED IN MILLIONS)



Virginia Retirement System Pension Trust Fund – Analysis of Changes and Growth in Plan Net Assets

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Assets Available										
Beginning of Year	\$ 30,187	\$33,965	\$ 38,991	\$ 35,620	\$32,448	\$ 32,727	\$37,784	\$41,640	\$ 46,021	\$54,948
Member and Employer Contributions and Other Additions	1,111	1,230	1,155	974	965	1,097	1,366	1,459	1,834	2,022
Benefit and Administrative Expenses and Transfers	(1,143)	(1,247)	(1,618)	(1,478)	(1,621)	(1,791)	(1,963)	(2,121)	(2,333)	(2,550)
Net Funding	(32)	(17)	(463)	(504)	(656)	(694)	(597)	(662)	(499)	(528)
Investment Income:										
Interest, Dividends and Other Investment Income	540	691	768	604	547	446	645	796	1,118	948
Net Appreciation (Depreciation) in Fair Value	3,270	4,352	(3,676)	(3,272)	388	5,305	3,808	4,247	8,308	(3,625)
Net Investment Income	3,810	5,043	(2,908)	(2,668)	935	5,751	4,453	5,043	9,426	(2,677)
Net Increase (Decrease)	3,778	5,026	(3,371)	(3,172)	279	5,057	3,856	4,381	8,927	(3,205)
Net Assets Available										
End of Year	\$ 33,965	\$38,991	\$ 35,620	\$ 32,448	\$ 32,727	\$ 37,784	\$ 41,640	\$ 46,021	\$ 54,948	\$ 51,743

State Police Officers' Retirement System Pension Trust Fund – Analysis of Changes and Growth in Plan Net Assets

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Assets Available										
Beginning of Year	\$ 383	\$ 430	\$ 495	\$ 464	\$ 423	\$ 424	\$ 486	\$ 530	\$ 581	\$ 684
Member and Employer Contributions and Other Additions	15	19	24	15	13	15	19	20	21	26
Benefit and Administrative Expenses and Transfers	(16)	(17)	(18)	(21)	(24)	(27)	(32)	(33)	(35)	(41)
Net Funding	(1)	2	6	(6)	(11)	(12)	(13)	(13)	(14)	(15)
Investment Income:										
Interest, Dividends and Other Investment Income	7	8	10	8	7	6	9	10	14	12
Net Appreciation (Depreciation) in Fair Value	41	55	(47)	(43)	5	68	48	54	103	(45)
Net Investment Income	48	63	(37)	(35)	12	74	57	64	117	(33)
Net Increase (Decrease)	47	65	(31)	(41)	1	62	44	51	103	(48)
Net Assets Available										
End of Year	\$ 430	\$ 495	\$ 464	\$ 423	\$ 424	\$ 486	\$ 530	\$ 581	\$ 684	\$ 636

Virginia Law Officers' Retirement System Pension Trust Fund – Analysis of Changes and Growth in Plan Net Assets

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2000 *	2001	2002	2003	2004	2005	2006	2007	2008
Net Assets Available									
Beginning of Year	\$ –	\$ 25	\$ 350	\$ 350	\$ 395	\$ 498	\$ 593	\$ 700	\$ 868
Member and Employer Contributions and Other Additions	25	331	43	51	56	66	69	64	74
Benefit and Administrative Expenses and Transfers	(1)	(2)	(12)	(19)	(24)	(30)	(34)	(40)	(45)
Net Funding	<u>24</u>	<u>329</u>	<u>31</u>	<u>32</u>	<u>32</u>	<u>36</u>	<u>35</u>	<u>24</u>	<u>29</u>
Investment Income:									
Interest, Dividends and Other Investment Income	–	1	7	8	6	8	11	17	16
Net Appreciation (Depreciation) in Fair Value	1	(5)	(38)	5	65	51	61	127	(60)
Net Investment Income	<u>1</u>	<u>(4)</u>	<u>(31)</u>	<u>13</u>	<u>71</u>	<u>59</u>	<u>72</u>	<u>144</u>	<u>(44)</u>
Net Increase (Decrease)	<u>25</u>	<u>325</u>	<u>–</u>	<u>45</u>	<u>103</u>	<u>95</u>	<u>107</u>	<u>168</u>	<u>(15)</u>
Net Assets Available End of Year	<u>\$ 25</u>	<u>\$ 350</u>	<u>\$ 350</u>	<u>\$ 395</u>	<u>\$ 498</u>	<u>\$ 593</u>	<u>\$ 700</u>	<u>\$ 868</u>	<u>\$ 853</u>

* The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

Judicial Retirement System Pension Trust Fund – Analysis of Changes and Growth in Plan Net Assets

FOR THE YEARS ENDED JUNE 30

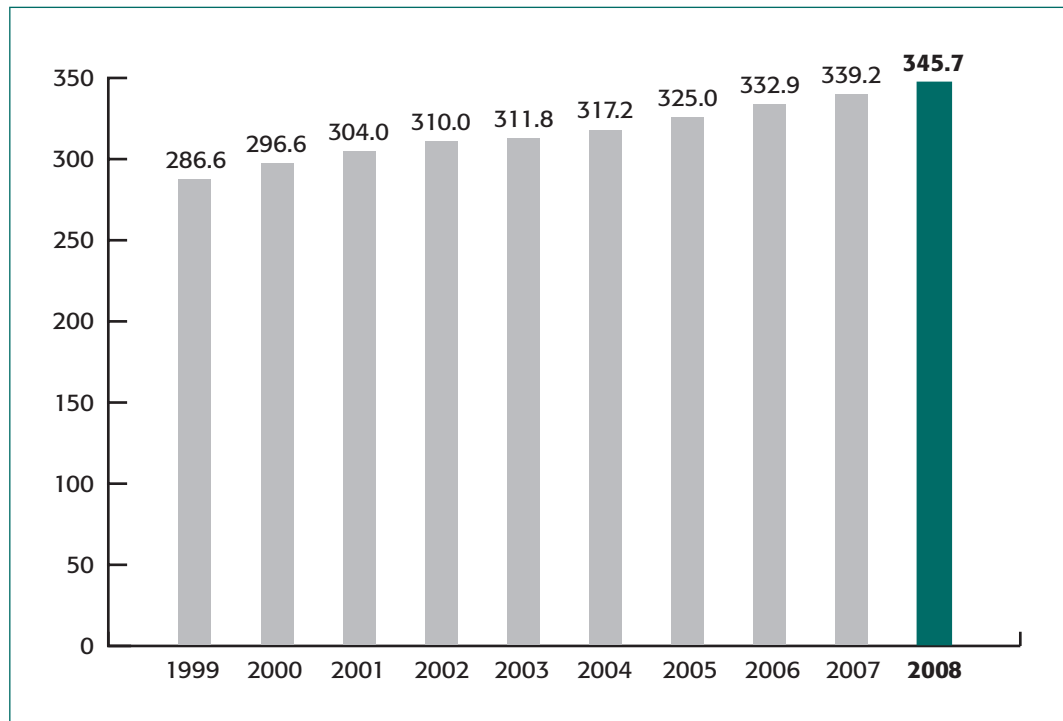
(EXPRESSED IN MILLIONS)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Assets Available										
Beginning of Year	\$ 214	\$ 239	\$ 275	\$ 259	\$ 234	\$ 235	\$ 271	\$ 296	\$ 326	\$ 390
Member and Employer Contributions and Other Additions	15	17	23	13	16	18	18	19	23	25
Benefit and Administrative Expenses and Transfers	(16)	(17)	(18)	(19)	(22)	(23)	(24)	(24)	(25)	(29)
Net Funding	<u>(1)</u>	<u>–</u>	<u>5</u>	<u>(6)</u>	<u>(6)</u>	<u>(5)</u>	<u>(6)</u>	<u>(5)</u>	<u>(2)</u>	<u>(4)</u>
Investment Income:										
Interest, Dividends and Other Investment Income	3	5	5	4	4	3	4	5	8	7
Net Appreciation (Depreciation) in Fair Value	23	31	(26)	(23)	3	38	27	30	58	(26)
Net Investment Income	<u>26</u>	<u>36</u>	<u>(21)</u>	<u>(19)</u>	<u>7</u>	<u>41</u>	<u>31</u>	<u>35</u>	<u>66</u>	<u>(19)</u>
Net Increase (Decrease)	<u>25</u>	<u>36</u>	<u>(16)</u>	<u>(25)</u>	<u>1</u>	<u>36</u>	<u>25</u>	<u>30</u>	<u>64</u>	<u>(23)</u>
Net Assets Available End of Year	<u>\$ 239</u>	<u>\$ 275</u>	<u>\$ 259</u>	<u>\$ 234</u>	<u>\$ 235</u>	<u>\$ 271</u>	<u>\$ 296</u>	<u>\$ 326</u>	<u>\$ 390</u>	<u>\$ 367</u>

Number of Active Members

FISCAL YEARS 1999-2008

(EXPRESSED IN THOUSANDS)



Schedule of Retirement Contributions by System

FISCAL YEARS 1999-2008

(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 Subdivision	Sub-Total				
2008	\$ 409,685	\$ 1,055,498	\$ 557,230	\$ 2,022,413	\$ 26,218	\$ 74,039	\$ 25,498	\$ 2,148,168
2007	377,117	945,243	511,687	1,834,047	21,466	64,820	23,437	1,943,770
2006	303,183	731,929	423,724	1,458,836	20,188	68,688	18,967	1,566,679
2005	295,736	671,152	398,004	1,364,892	19,363	66,079	17,927	1,468,261
2004	292,895	515,750	287,228	1,095,873	15,232	56,292	17,758	1,185,155
2003**	199,217	492,562	270,280	962,059	13,305	50,433	16,038	1,041,835
2002**	234,992	455,488	283,756	974,236	14,974	42,148	13,100	1,044,458
2001	299,079	591,620	264,229	1,154,928	24,632	67,040	23,149	1,269,749
2000	314,044	631,344	284,641	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

* The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

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

Pension Trust Funds Additions by Source

FISCAL YEARS 1999-2008

(EXPRESSED IN THOUSANDS)

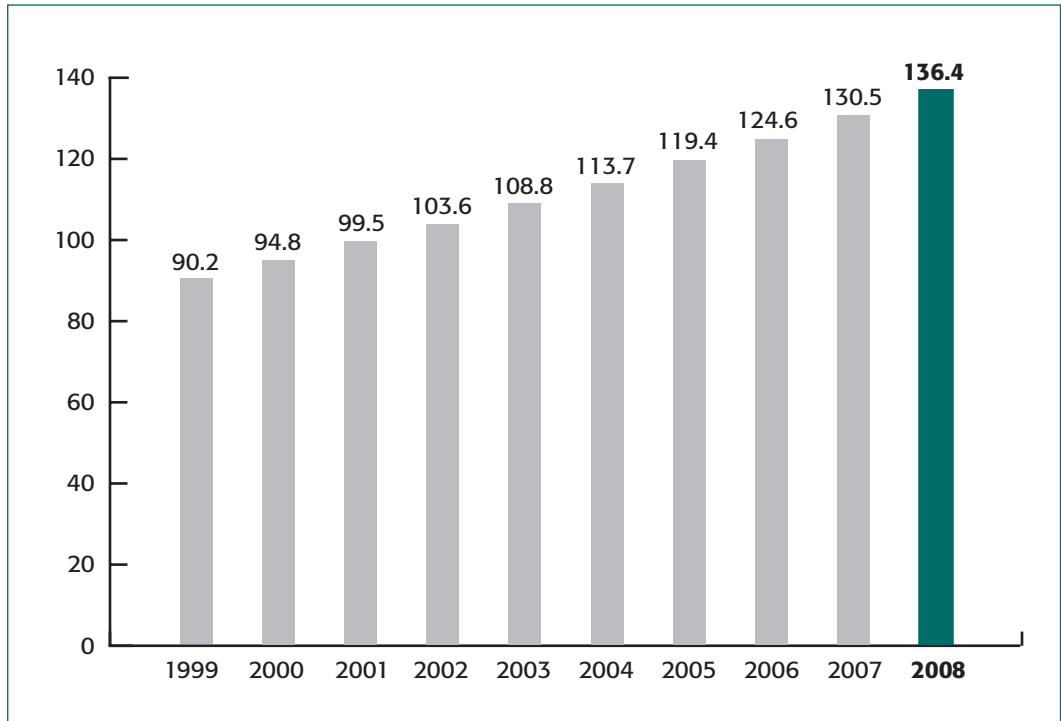
Year Ended June 30	Member Contributions	Employer Contributions		Investment Income (Loss)	Other	Total
		For Members	Employer Share			
VIRGINIA RETIREMENT SYSTEM (VRS)						
2008	\$ 24,843	\$ 716,797	\$ 1,280,773	\$ (2,677,358)	\$ 290	\$ (654,655)
2007	29,489	680,023	1,124,535	9,426,035	338	11,260,420
2006	38,825	638,242	781,769	5,042,575	185	6,501,596
2005	63,503	599,769	701,620	4,453,335	743	5,818,970
2004	85,769	564,020	446,084	5,751,277	908	6,848,058
2003	127,578	499,077	335,404	935,415	2,682	1,900,156
2002	115,979	482,516	375,741	(2,667,982)	286	(1,693,460)
2001	65,810	453,133	635,985	(2,907,769)	381	(1,752,460)
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
STATE POLICE OFFICERS' RETIREMENT SYSTEM (SPORS)						
2008	\$ 149	\$ 5,061	\$ 21,008	\$ (33,367)	\$ 20	\$ (7,129)
2007	213	4,895	16,358	117,501	-	138,967
2006	304	4,627	15,257	63,475	-	83,663
2005	494	4,392	14,477	56,481	-	75,844
2004	790	4,037	10,405	73,977	-	89,209
2003	556	3,972	8,777	11,929	-	25,234
2002	755	4,039	10,180	(34,596)	-	(19,622)
2001	125	4,087	20,420	(37,192)	-	(12,560)
2000	192	3,922	15,056	63,638	-	82,808
1999	179	3,548	11,571	47,974	-	63,272
VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM (VaLORS)						
2008	\$ 291	\$ 17,723	\$ 56,025	\$ (44,270)	\$ 274	\$ (30,043)
2007	371	16,127	48,322	143,664	171	208,655
2006	534	15,492	52,662	71,905	255	140,848
2005	700	14,869	50,510	59,525	230	125,834
2004	880	14,703	40,709	70,668	-	126,960
2003	927	14,559	34,947	13,069	-	63,502
2002	1,007	15,630	25,511	(31,330)	-	10,818
2001	77	15,858	51,105	(4,057)	-	62,983
2000*	33	11,405	13,754	690	-	25,882
JUDICIAL RETIREMENT SYSTEM (JRS)						
2008	\$ 21	\$ 2,945	\$ 22,532	\$ (19,305)	\$ -	\$ 6,193
2007	92	2,815	20,530	65,964	-	89,401
2006	108	2,653	16,206	35,368	-	54,335
2005	159	2,499	15,269	31,379	-	49,306
2004	197	2,371	15,190	40,947	-	58,705
2003	88	2,346	13,604	6,543	-	22,581
2002	73	2,365	10,662	(19,248)	-	(6,148)
2001	4	2,315	20,830	(20,637)	-	2,512
2000	16	2,180	14,935	35,297	-	52,428
1999	6	2,049	12,979	26,569	-	41,603

* The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

Number of Retirees and Beneficiaries

FISCAL YEARS 1999-2008

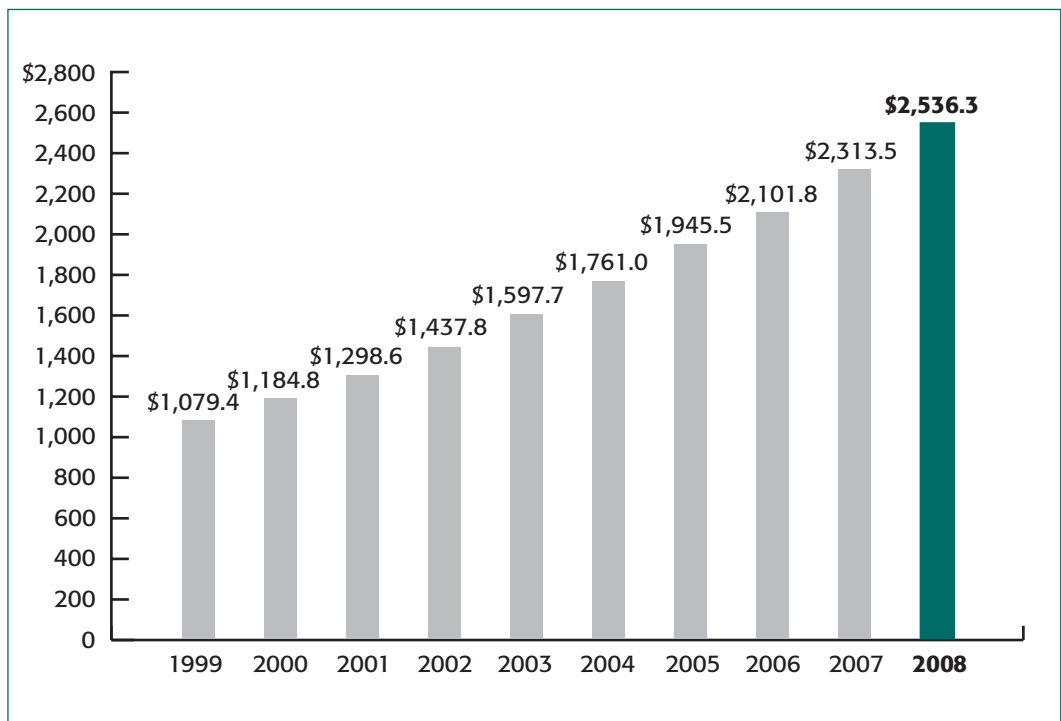
(EXPRESSED IN THOUSANDS)



Retirement Benefits Paid

FISCAL YEARS 1999-2008

(EXPRESSED IN MILLIONS)



Pension Trust Funds Deductions by Type

FISCAL YEARS 1999-2008

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Retirement Benefits	Refunds	Administrative Expenses	Other	Total
VIRGINIA RETIREMENT SYSTEM (VRS)					
2008	\$ 2,427,543	\$ 97,574	\$ 24,677	\$ 298	\$ 2,550,092
2007	2,219,350	89,716	23,686	178	2,332,930
2006	2,015,557	85,804	19,724	258	2,121,343
2005	1,865,776	78,709	18,182	230	1,962,897
2004	1,692,166	80,237	18,119	–	1,790,522
2003	1,537,762	67,473	16,201	–	1,621,436
2002	1,389,815	69,235	15,039	2,449	1,476,538
2001	1,261,348	79,439	14,100	–	1,354,887
2000	1,150,694	83,412	12,613	–	1,246,719
1999	1,047,362	84,797	11,359	–	1,143,518
STATE POLICE OFFICERS' RETIREMENT SYSTEM (SPORS)					
2008	\$ 39,382	\$ 730	\$ 299	\$ –	\$ 40,411
2007	33,867	1,221	301	–	35,389
2006	32,309	596	231	–	33,136
2005	30,487	1,053	203	–	31,743
2004	26,336	731	213	–	27,280
2003	23,594	863	205	–	24,662
2002	20,607	559	185	–	21,351
2001	17,980	289	170	–	18,439
2000	16,946	314	137	–	17,397
1999	16,020	420	141	–	16,581
VIRGINIA LAW OFFICERS' RETIREMENT SYSTEM (VaLORS)					
2008	\$ 40,805	\$ 4,586	\$ 378	\$ –	\$ 45,769
2007	35,019	4,828	365	–	40,212
2006	29,202	4,830	263	–	34,295
2005	25,100	4,927	208	–	30,235
2004	19,784	3,998	196	–	23,978
2003	15,020	3,763	151	–	18,934
2002	8,485	3,657	57	–	12,199
2001	1,511	862	17	–	2,390
2000*	330	149	2	–	481
JUDICIAL RETIREMENT SYSTEM (JRS)					
2008	\$ 28,538	\$ 45	\$ 168	\$ –	\$ 28,751
2007	25,253	–	169	–	25,422
2006	24,717	–	130	–	24,847
2005	24,108	42	113	–	24,263
2004	22,706	–	117	–	22,823
2003	21,359	51	113	–	21,523
2002	18,884	–	104	–	18,988
2001	17,788	32	94	–	17,914
2000	16,872	24	105	–	17,001
1999	16,050	6	79	–	16,135

* The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

Schedule of Retirement Benefits by System

FISCAL YEARS 1999-2008

(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 Subdivision	Sub-Total				
2008	\$ 736,053	\$ 1,245,201	\$ 446,289	\$ 2,427,543	\$ 39,382	\$ 40,805	\$ 28,538	\$ 2,536,268
2007	686,258	1,138,980	394,112	2,219,350	33,867	35,019	25,253	2,313,489
2006	623,571	1,037,509	354,477	2,015,557	32,309	29,202	24,717	2,101,785
2005	589,113	959,268	317,395	1,865,776	30,487	25,100	24,108	1,945,471
2004	552,282	855,113	284,771	1,692,166	26,336	19,784	22,706	1,760,992
2003	503,249	782,652	251,861	1,537,762	23,594	15,020	21,359	1,597,735
2002	454,123	710,538	225,154	1,389,815	20,607	8,485	18,884	1,437,791
2001	421,033	639,760	200,555	1,261,348	17,980	1,511	17,788	1,298,627
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

* The Virginia Law Officers' Retirement System went into effect on October 1, 1999.

Schedule of Retirement Benefits by Type

FISCAL YEARS 1999-2008

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Service Benefits	Disability Benefits	Survivor Benefits	Total
2008	\$ 2,252,981	\$ 263,427	\$ 19,860	\$ 2,536,268
2007	2,045,400	250,212	17,877	2,313,489
2006	1,849,239	236,266	16,280	2,101,785
2005	1,708,147	222,632	14,692	1,945,471
2004	1,537,173	210,385	13,434	1,760,992
2003	1,386,236	199,391	12,108	1,597,735
2002	1,242,235	184,582	10,974	1,437,791
2001	1,121,588	167,931	9,108	1,298,627
2000	1,021,185	155,450	8,207	1,184,842
1999	928,862	143,181	7,389	1,079,432

Schedule of Refunds by Type

FISCAL YEARS 1999-2008

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Separation	Death	Total
2008	\$ 88,732	\$ 14,203	\$ 102,935
2007	88,661	7,104	95,765
2006	79,744	11,486	91,230
2005	76,296	8,435	84,731
2004	73,715	11,251	84,966
2003	64,203	7,947	72,150
2002	65,893	7,558	73,451
2001	73,659	6,963	80,622
2000	77,027	6,872	83,899
1999	78,530	6,693	85,223

Schedule of Retirees and Beneficiaries by Type of Benefit and Option Selected

AS OF JUNE 30, 2008

Amount of Retirement Benefit	Number of Retirees	Type of Retirement								
		Service	Early Retirement Window	50/30 Service Retirement	1991 Fac. Early Retirement Window	Regular Disability	Survivor Payment-Death in Service	Line-of-Duty Disability	Survivor Payment-Death in Line-of-Duty	50/10 Provision
\$ 1 - 200	15,330	13,264	5	-	1	822	559	64	4	611
201 - 400	18,987	14,930	175	-	-	2,318	433	126	13	992
401 - 600	15,745	11,654	403	10	1	2,596	258	237	27	559
601 - 800	12,905	9,183	513	32	1	2,233	177	380	21	365
801 - 1,000	10,846	7,553	663	104	5	1,666	112	416	13	314
1,001 - 1,200	9,130	6,272	637	279	6	1,285	92	303	13	243
1,201 - 1,400	7,622	5,249	580	341	17	943	54	235	7	196
1,401 - 1,600	6,937	4,774	527	457	22	710	45	204	6	192
1,601 - 1,800	6,479	4,475	388	721	34	526	30	150	2	153
1,801 - 2,000	6,931	4,709	293	1,124	35	477	35	155	-	103
Over 2,001	25,482	18,825	574	4,010	151	1,112	127	436	3	244
Totals	136,394	100,888	4,758	7,078	273	14,688	1,922	2,706	109	3,972

Min. Guar. Amount of Retirement Benefit	Option Selected															
	A	B	C	D	E	F	H	K	L	M	N	R	V	X	Y	Z
\$ 1 - 200	12,536	59	523	168	991	3	77	4	-	3	709	8	201	17	26	5
201 - 400	14,933	25	566	337	925	7	874	29	2	26	695	3	451	49	52	13
401 - 600	11,617	29	473	388	900	13	1,208	59	-	57	506	1	347	59	75	13
601 - 800	9,123	19	405	423	866	11	991	52	-	83	403	4	373	43	98	11
801 - 1,000	7,443	6	354	467	855	19	641	36	1	33	352	1	393	47	174	24
1,001 - 1,200	6,053	2	338	437	728	12	433	26	1	28	228	4	468	48	272	52
1,201 - 1,400	5,113	2	267	391	479	21	257	16	1	14	170	3	428	68	316	76
1,401 - 1,600	4,608	1	257	364	340	32	170	5	-	10	150	1	420	80	399	100
1,601 - 1,800	4,372	-	205	337	195	33	91	5	-	4	111	2	410	78	514	122
1,801 - 2,000	4,620	-	166	335	137	31	80	5	-	1	108	3	413	95	777	160
Over 2,001	14,966	1	556	976	220	188	95	11	-	6	431	36	2,503	703	3,946	844
Totals	95,384	144	4,110	4,623	6,636	370	4,917	248	5	265	3,863	66	6,407	1,287	6,649	1,420

A = Basic Benefit
 B = Increased Basic Benefit
 C = 100% Survivor Benefit
 D = Variable Survivor Benefit
 E = Social Security Leveling Benefit
 F = Special Survivor Option
 H = Minimum Guaranteed Disability Basic Benefit
 K = Minimum Guaranteed Disability - Variable Survivor
 L = 100% Survivor - Disability
 M = Special Survivor Option - Disability
 N = Leveling Benefit
 R = Leveling Benefit - Rollover
 V = Survivor Option
 X = Advance Pension Option
 Y = PLOP Basic
 Z = PLOP with Survivor

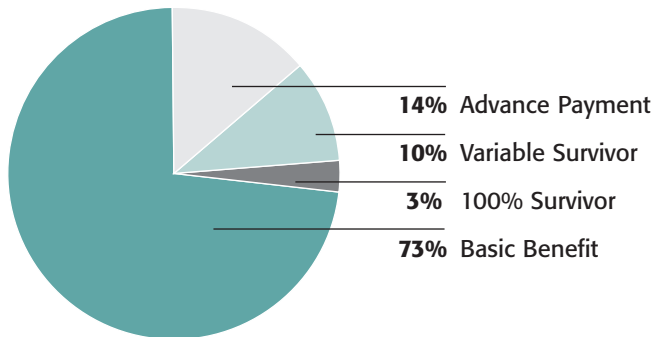
Schedule of Average Benefit Payments

RETIREMENT EFFECTIVE DATE JULY 1, 2004 TO JUNE 30, 2008

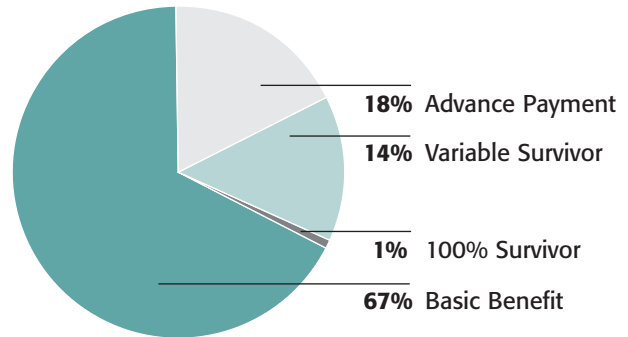
		Years of Credited Service					
		1-10	11-15	16-20	21-25	26-30	Over 30
FY 2008	Average Monthly Benefit	\$ 327.19	\$ 575.47	\$ 861.72	\$ 1,234.89	\$ 2,024.96	\$ 2,610.24
	Number of Active Retirees	994	857	995	1,091	1,615	3,271
FY 2007	Average Monthly Benefit	\$ 314.54	\$ 509.88	\$ 811.90	\$ 1,159.16	\$ 1,917.95	\$ 2,474.52
	Number of Active Retirees	979	880	951	1,043	1,504	3,207
FY 2006	Average Monthly Benefit	\$ 306.43	\$ 496.82	\$ 775.31	\$ 1,131.49	\$ 1,811.18	\$ 2,438.66
	Number of Active Retirees	890	809	960	937	1,569	2,886
FY 2005	Average Monthly Benefit	\$ 316.96	\$ 496.99	\$ 745.37	\$ 1,066.32	\$ 1,773.77	\$ 2,352.01
	Number of Active Retirees	768	784	902	921	1,623	3,342
FY 2004	Average Monthly Benefit	\$ 311.29	\$ 492.98	\$ 716.50	\$ 1,057.30	\$ 1,726.91	\$ 2,396.00
	Number of Active Retirees	694	711	867	851	1,582	2,935

Distribution of Retirees by Payment Option Selected

ALL RETIREES AT JUNE 30, 2008



2008 RETIREES



Retirement Options

Basic Benefit

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

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.

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.

Advance Payment

ADVANCE PENSION OPTION

As an advance on the benefit, the retiree receives a higher benefit in the early years of retirement. The advance is paid from the retirement date until the age specified by the retiree, between age 62 and normal Social Security retirement age, at which point the VRS benefit is permanently reduced.

PARTIAL-LUMP SUM OPTION

This option allows members with active service beyond their normal retirement date to elect a lump-sum payment equal to the sum of 12, 24 or 36 payments of the standard monthly life annuity. The member's monthly benefit is actuarially reduced to reflect the lump-sum payment.

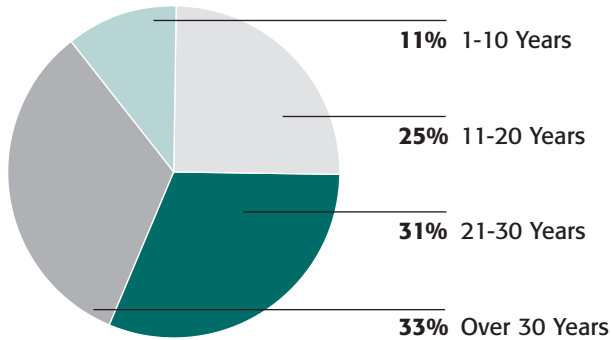
Retirees 1998-2008



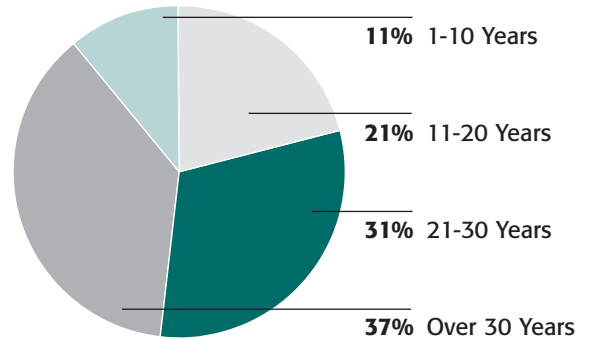
VRS retirees numbered approximately 87,000 at June 30, 1998. By June 30, 2008, the number of retirees had increased to more than 136,000.

Distribution of Retirees by Years of Service

ALL RETIREES AT JUNE 30, 2008

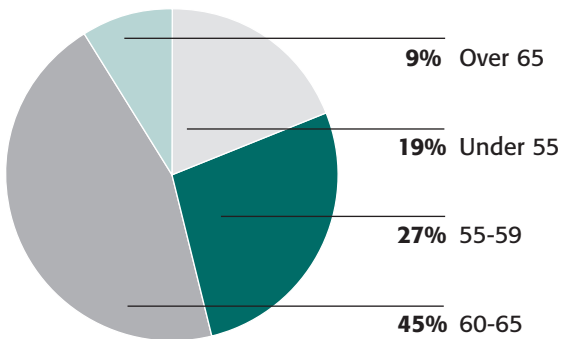


2008 RETIREES

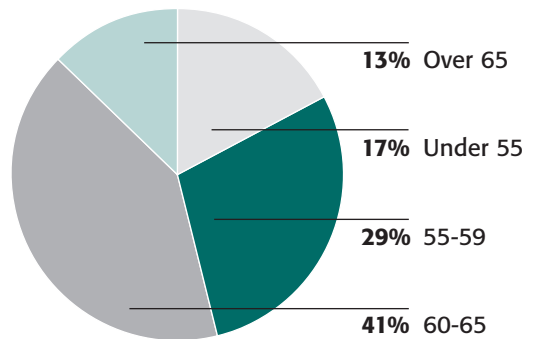


Distribution of Retirees by Age at Retirement

ALL RETIREES AT JUNE 30, 2008

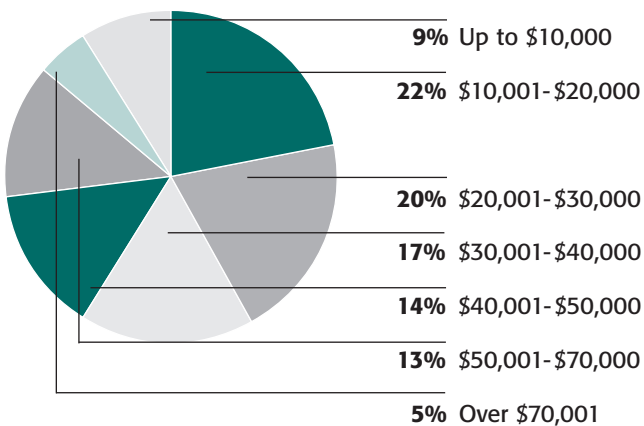


2008 RETIREES

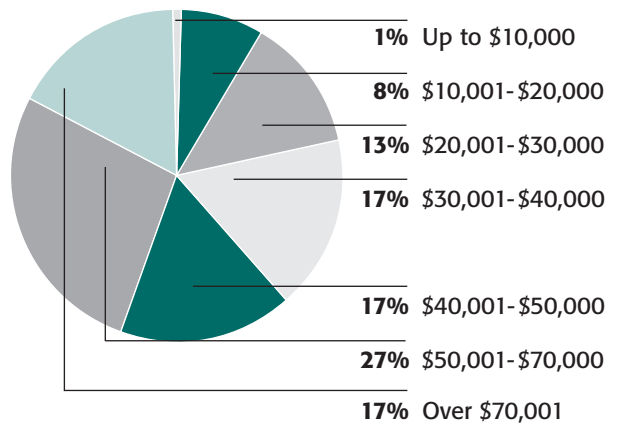


Distribution of Retirees by Average Final Compensation

ALL RETIREES AT JUNE 30, 2008



2008 RETIREES



Other Employee Benefit Trust Funds

Group Life Insurance Fund – Analysis of Changes and Growth in Plan Net Assets

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Assets Available										
Beginning of Year	\$910,299	\$959,501	\$1,015,682	\$938,119	\$838,601	\$751,747	\$778,464	\$771,817	\$751,361	\$962,328
Member and Employer Contributions and Other Additions	22	44	88,624	68,800	44	20	(31)	52	169,824	158,823
Claims and Administrative Expenses	(61,213)	(83,847)	(88,824)	(96,297)	(105,195)	(107,018)	(98,163)	(112,695)	(119,738)	(133,407)
Net Funding	(61,191)	(83,803)	(200)	(27,497)	(105,151)	(106,998)	(98,194)	(112,643)	50,086	25,416
Investment Income:										
Interest, Dividends and Other Investment Income	15,782	19,547	20,442	16,317	10,706	10,366	13,256	14,546	19,078	17,908
Net Appreciation (Depreciation) in Fair Value	94,611	120,437	(97,805)	(88,338)	7,591	123,349	78,291	77,641	141,803	(68,506)
Net Investment Income	110,393	139,984	(77,363)	(72,021)	18,297	133,715	91,547	92,187	160,881	(50,598)
Net Increase (Decrease)	49,202	56,181	(77,563)	(99,518)	(86,854)	26,717	(6,647)	(20,456)	210,967	(25,182)
Net Assets Available										
End of Year	\$959,501	\$1,015,682	\$938,119	\$838,601	\$751,747	\$778,464	\$771,817	\$751,361	\$962,328	\$937,146

Protecting Members
throughout Their Careers



Established in 1960 to provide
financial security for members'
families, the Group Life Insurance
Program now covers more than
361,000 members.

Schedule of Group Life Insurance Fund Additions by Source

FISCAL YEARS 1999-2008

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Contributions				Investment Income (Loss)	Other	Total
	State	Teacher	Political Subdivision	Sub-Total			
2008	\$ 52,503	\$ 60,405	\$ 45,915	\$ 158,823	\$ (50,598)	\$ -	\$ 108,225
2007	51,116	74,442	44,266	169,824	160,881	-	330,705
2006*	(2)	-	54	52	92,187	-	92,239
2005*	1	(33)	1	(31)	91,547	-	91,516
2004*	1	-	19	20	133,715	-	133,735
2003*	5	22	17	44	18,297	-	18,341
2002*	22,919	28,267	17,614	68,800	(72,021)	-	(3,221)
2001	29,703	37,027	21,894	88,624	(77,363)	-	11,261
2000*	1	2	41	44	139,707	277	140,028
1999*	(1)	1	22	22	110,393	-	110,415

* The group life insurance contribution rates for fiscal years 2006, 2005, 2004, 2003, 2000 and 1999 were zero as a result of a statutory premium holiday. Amounts shown are adjustments and contributions for new employers. There was also a premium holiday beginning in April 2002.

Schedule of Group Life Insurance Fund Deductions by Type

FISCAL YEARS 1999-2008

(EXPRESSED IN THOUSANDS)

Year Ended June 30	Group Life Claims			Administrative Expenses	Other	Total
	Active	Retired	Sub-Total			
2008	\$ 55,814	\$ 76,279	\$ 132,093	\$ 686	\$ 628	\$ 133,407
2007	46,322	72,305	118,627	568	543	119,738
2006	43,140	68,350	111,490	716	489	112,695
2005	37,139	59,902	97,041	678	444	98,163
2004	42,290	63,741	106,031	615	372	107,018
2003	44,614	59,661	104,275	644	276	105,195
2002	39,617	56,008	95,625	474	198	96,297
2001	36,899	51,280	88,179	475	170	88,824
2000	34,113	48,912	83,025	626	196	83,847
1999	23,309	36,772	60,081	912	220	61,213

Retiree Health Insurance Credit Fund – Analysis of Changes and Growth in Plan Net Assets

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	1999	2000 *	2001	2002	2003	2004	2005	2006	2007	2008 **
Net Assets Available										
Beginning of Year	\$ 52,633	\$ 65,008	\$ 38,143	\$ 53,980	\$ 76,184	\$ 92,222	\$ 120,895	\$ 146,956	\$ 178,068	\$ 224,606
Employer Contributions and Other Additions	35,261	17,592	73,901	85,209	74,123	78,383	81,995	86,913	92,919	148,908
Reimbursements and Administrative Expenses	(30,575)	(50,780)	(54,975)	(57,925)	(61,350)	(65,292)	(69,474)	(72,819)	(80,803)	(109,426)
Net Funding	4,686	(33,188)	18,926	27,284	12,773	13,091	12,521	14,094	12,116	39,482
Investment Income:										
Interest, Dividends and Other Investment Income	1,100	872	816	1,150	1,910	1,207	1,960	2,685	4,082	4,407
Net Appreciation (Depreciation) in Fair Value	6,589	5,451	(3,905)	(6,230)	1,355	14,375	11,580	14,333	30,340	(16,861)
Net Investment Income	7,689	6,323	(3,089)	(5,080)	3,265	15,582	13,540	17,018	34,422	(12,454)
Net Increase (Decrease)	12,375	(26,865)	15,837	22,204	16,038	28,673	26,061	31,112	46,538	27,028
Net Assets Available										
End of Year	\$ 65,008	\$ 38,143	\$ 53,980	\$ 76,184	\$ 92,222	\$ 120,895	\$ 146,956	\$ 178,068	\$ 224,606	\$ 251,634

* No contributions were paid for state employees during FY 2000. The maximum health insurance credit for state employees increased to \$120 per month and for teachers to \$75 effective July 1, 1999.

** The health insurance credit for teachers was raised to \$4 per month for each year of service with no cap on the benefit. The balance in the Enhanced Retiree Health Insurance Credit Program for teachers was refunded to employers.

Disability Insurance Trust Fund – Analysis of Changes and Growth in Plan Net Assets

FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	1999 *	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Assets Available										
Beginning of Year	\$ –	\$ 8,415	\$ 30,887	\$ 46,137	\$ 57,906	\$ 78,383	\$ 103,322	\$ 144,234	\$ 191,872	\$ 263,586
Employer Contributions and Other Additions	10,091	25,317	27,233	27,850	34,813	35,247	54,505	57,991	65,726	99,430
Disability Insurance Benefits and Administrative Expenses	(2,029)	(5,325)	(9,065)	(12,069)	(17,571)	(24,506)	(26,316)	(27,915)	(34,048)	(32,697)
Net Funding	8,062	19,992	18,168	15,781	17,242	10,741	28,189	30,076	31,678	66,733
Investment Income:										
Interest, Dividends and Other Investment Income	51	342	770	908	1,893	1,101	1,843	2,771	4,749	5,946
Net Appreciation (Depreciation) in Fair Value	302	2,138	(3,688)	(4,920)	1,342	13,097	10,880	14,791	35,287	(22,744)
Net Investment Income	353	2,480	(2,918)	(4,012)	3,235	14,198	12,723	17,562	40,036	(16,798)
Net Increase (Decrease)	8,415	22,472	15,250	11,769	20,477	24,939	40,912	47,638	71,714	49,935
Net Assets Available										
End of Year	\$ 8,415	\$ 30,887	\$ 46,137	\$ 57,906	\$ 78,383	\$ 103,322	\$ 144,234	\$ 191,872	\$ 263,586	\$ 313,521

* The Virginia Sickness and Disability Program went into effect on January 1, 1999

VRS-Participating Employers

More than 800 employers participate in the Virginia Retirement System on behalf of their employees. Employers include state agencies, public colleges and universities, school boards and political subdivisions. The following employers were participating in VRS as of June 30, 2008:

Participating Political Subdivisions: 438

Counties: 93

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

Cities and Towns: 157

City of Alexandria	City of Suffolk	Town of Clifton Forge	Town of Kenbridge
City of Bedford	City of Virginia Beach	Town of Coeburn	Town of Kilmarnock
City of Bristol	City of Waynesboro	Town of Colonial Beach	Town of La Crosse
City of Buena Vista	City of Williamsburg	Town of Courtland	Town of Lawrenceville
City of Chesapeake	City of Winchester	Town of Craigsville	Town of Leesburg
City of Colonial Heights	Town of Abingdon	Town of Crewe	Town of Louisa
City of Covington	Town of Alberta	Town of Culpeper	Town of Luray
City of Danville	Town of Altavista	Town of Dayton	Town of Madison
City of Emporia	Town of Amherst	Town of Dillwyn	Town of Marion
City of Fairfax	Town of Appomattox	Town of Dublin	Town of McKenney
City of Falls Church	Town of Ashland	Town of Dumfries	Town of Middleburg
City of Franklin	Town of Berryville	Town of Edinburg	Town of Middletown
City of Fredericksburg	Town of Big Stone Gap	Town of Elkton	Town of Mineral
City of Galax	Town of Blacksburg	Town of Exmore	Town of Montross
City of Hampton	Town of Blackstone	Town of Floyd	Town of Mt. Jackson
City of Harrisonburg	Town of Bluefield	Town of Front Royal	Town of Narrows
City of Hopewell	Town of Bowling Green	Town of Gate City	Town of New Market
City of Lexington	Town of Boyce	Town of Glasgow	Town of Onancock
City of Lynchburg	Town of Boydton	Town of Gordonsville	Town of Onley
City of Manassas	Town of Boykins	Town of Gretna	Town of Orange
City of Manassas Park	Town of Bridgewater	Town of Grottoes	Town of Parksley
City of Martinsville	Town of Broadway	Town of Grundy	Town of Pearisburg
City of Norfolk	Town of Brodnax	Town of Halifax	Town of Pembroke
City of Norton	Town of Brookneal	Town of Hamilton	Town of Pennington Gap
City of Petersburg	Town of Burkeville	Town of Haysi	Town of Pound
City of Poquoson	Town of Cape Charles	Town of Herndon	Town of Pulaski
City of Portsmouth	Town of Chase City	Town of Hillsville	Town of Purcellville
City of Radford	Town of Chatham	Town of Hurt	Town of Quantico
City of Richmond	Town of Chillhowie	Town of Independence	Town of Remington
City of Roanoke	Town of Chincoteague	Town of Iron Gate	Town of Rich Creek
City of Salem	Town of Christiansburg	Town of Jaratt	Town of Rocky Mount
City of Staunton	Town of Clarksville	Town of Jonesville	Town of Round Hill

Continued

Participating Employers, continued

Cities and Towns, continued

Town of Rural Retreat	Town of Stanley	Town of Urbanna	Town of Waverly
Town of Saltville	Town of Stephens City	Town of Victoria	Town of Weber City
Town of Scottsville	Town of Strasburg	Town of Vienna	Town of West Point
Town of Shenandoah	Town of Stuart	Town of Vinton	Town of Windsor
Town of Smithfield	Town of Tappahannock	Town of Wakefield	Town of Wise
Town of South Boston	Town of Tazewell	Town of Warrenton	Town of Woodstock
Town of South Hill	Town of Timberville	Town of Warsaw	Town of Wytheville
Town of St. Paul			

Authorities, Commissions, Districts, Regional Institutions and Community Services Boards: 188

Accomack-Northampton Planning District Commission	Charlottesville-Albemarle Airport Authority	Giles County Public Service Authority	Middle River Regional Jail Authority
Albemarle County Service Authority	Charlottesville Redevelopment & Housing Authority	Goochland-Powhatan Community Services Board	Monacan Soil & Water Conservation District
Albemarle-Charlottesville Regional Jail	Chesapeake Bay Bridge & Tunnel District	Greensville County Water & Sewer Authority	Montgomery Regional Solid Waste Authority
Alexandria Redevelopment & Housing Authority	Chesapeake Redevelopment & Housing Authority	Greensville-Emporia Department of Social Services	Nelson County Service Authority
Alexandria Sanitation Authority	Chesterfield County Health Center Commission	Halifax Service Authority	New River Resource Authority
Alleghany Highlands Community Services Board	Clinch Valley Soil & Water Conservation District	Hampton-Newport News Community Services Board	New River Soil & Water Conservation District
Amherst County Service Authority	Coeburn-Norton-Wise Regional Water Treatment Authority	Hampton Redevelopment & Housing Authority	New River Valley Community Services Board
Anchor Commission	Colonial Services Board	Hampton Roads Planning District Commission	New River Valley Juvenile Detention Home Commission
Appalachian Juvenile Commission	Colonial Soil & Water Conservation District	Hampton Roads Regional Jail Authority	New River Valley Planning District Commission
Appomattox Regional Library	Commonwealth Regional Council	Hampton Roads Sanitation District	New River Valley Regional Jail
Appomattox River Water Authority	Crater Juvenile Detention Home Commission	Hampton Roads Transit	Norfolk Airport Authority
Augusta County Service Authority	Culpeper Soil & Water Conservation District	Handley Library Board	Norfolk Redevelopment & Housing Authority
Bedford County Public Service Authority	Cumberland Mountain Community Services Board	Harrisonburg-Rockingham Community Services Board	Northern Neck-Essex County Group Home Commission
Bedford Public Library	Cumberland Plateau Regional Housing Authority	Harrisonburg-Rockingham Regional Sewer Authority	Northern Neck Planning District Commission
Big Stone Gap Redevelopment & Housing Authority	Daniel Boone Soil & Water Conservation District	Henricopolis Soil & Water Conservation District	Northern Neck Regional Jail
Big Walker Soil & Water Conservation District	Danville-Pittsylvania Community Services Board	Henry County Public Service Authority	Northern Shenandoah Valley Regional Commission
Blacksburg-Christiansburg-VPI Water Authority	Danville Redevelopment & Housing Authority	Holston River Soil & Water Conservation District	Northern Virginia Health Care Center Commission
Blacksburg-VPI Sanitation Authority	Dinwiddie County Water Authority	Hopewell Redevelopment & Housing Authority	Northern Virginia Juvenile Detention Home
Blue Ridge Behavioral Healthcare	District 19 Community Services Board	Industrial Development Authority of Henrico County	Northwestern Community Services Board
Blue Ridge Juvenile Detention Center	Eastern Shore Community Services Board	Institute for Advanced Learning and Research	Opportunity Inc. of Hampton Roads
Blue Ridge Regional Jail Authority	Eastern Shore Public Library	James City Service Authority	Pamunkey Regional Jail
Bristol Redevelopment & Housing Authority	Eastern Shore Soil & Water Conservation District	John Marshall Soil & Water Conservation District	Peaks of Otter Soil & Water Conservation District
Brunswick Industrial Development Authority	Evergreen Soil & Water Conservation District	Lee County Redevelopment & Housing Authority	Peninsula Airport Commission
Campbell County Utilities & Service Authority	Fauquier County Water & Sanitation Authority	Lee County Public Service Authority	Pepper's Ferry Regional Wastewater Authority
Capital Regional Airport Commission	Ferrum Water & Sewage Authority	Lenwisco Planning District Commission	Peter Francisco Soil & Water Conservation District
Central Rappahannock Regional Library	Fort Monroe Area Development Authority	Lonesome Pine Regional Library	Petersburg Redevelopment & Housing Authority
Central Virginia Community Services Board	Franklin Redevelopment & Housing Authority	Loudoun County Sanitation Authority	Peumansend Creek Regional Jail
Central Virginia Regional Jail	Frederick County Sanitation Authority	Massanuttan Regional Library	Piedmont Community Services Board
Central Virginia Waste Management Authority	Fredericksburg-Stafford Park Authority	Meherrin Regional Library	Piedmont Regional Jail
Charles Pickney Jones Memorial Library		Middle Peninsula-Northern Neck Community Services Board	Piedmont Regional Juvenile Detention Center
		Middle Peninsula Regional Security Center	Pittsylvania County Service Authority

Continued

Participating Employers, continued

Authorities, Commissions, Districts, Regional Institutions and Community Services Boards, continued

Planning District One Behavioral Health Services Board	Riverside Regional Jail Roanoke Higher Education Authority	South Central Wastewater Authority	Tri-County/City Soil & Water Conservation District
Potomac and Rappahannock Transportation Commission	Roanoke River Service Authority	Southeastern Virginia Public Service Authority	Upper Occoquan Sewage Authority
Potomac River Fisheries Commission	Robert E. Lee Soil & Water Conservation District	Southside Community Services Board	Valley Community Services Board
Prince William County Service Authority	Rockbridge Area Community Services Board	Southside Planning District Commission	Virginia Biotechnology Research Park Authority
Prince William Soil & Water Conservation District	Rockbridge Area Social Services Department	Southside Regional Jail	Virginia Coalfield Economic Development Authority
Rappahannock Area Community Services Board	Rockbridge County Public Service Authority	Southside Regional Juvenile Home Commission	Virginia Highlands Airport Commission
Rappahannock Juvenile Center	Rockbridge Regional Library	Southside Regional Library Board	Virginia Peninsula Regional Jail
Rappahannock-Rapidan Community Services Board	Russell County Public Service Authority	Southwest Virginia Regional Jail	Virginia Peninsulas Public Service Authority
Rappahannock-Rapidan Regional Planning District Commission	Russell County Water & Sewage Authority	Spotsylvania-Stafford-Fredericksburg Group Home Commission	Virginia Resources Authority
Rappahannock Regional Jail	Scott County Public Service Authority	Staunton Redevelopment & Housing Authority	Washington County Service Authority
Region Ten Community Services Board	Scott County Redevelopment & Housing Authority	Suffolk Redevelopment & Housing Authority	Waynesboro Redevelopment & Housing Authority
Richmond Metropolitan Authority	Scott County Soil & Water Conservation District	Sussex Service Authority	Western Tidewater Community Services Board
Richmond Redevelopment & Housing Authority	Shenandoah Valley Juvenile Detention Home Commission	Tazewell Soil & Water Conservation District	Western Tidewater Regional Jail
Richmond Regional Planning District Commission	Shenandoah Valley Regional Airport Commission	Thomas Jefferson Planning District Commission	Western Virginia Water Authority
Rivanna Solid Waste Authority	Skyline Soil & Water Conservation District	Thomas Jefferson Soil & Water Conservation District	Wise County Public Service Authority
Rivanna Water & Sewer Authority		Tidewater Regional Group Home Commission	Wise County Redevelopment & Housing Authority
		Tidewater Soil & Water Conservation District	Wythe-Grayson Regional Library
			Wytheville Redevelopment & Housing Authority

Schools: 144

County Schools: 94

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

Participating Employers, continued

City and Town Schools: 39

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

Other Schools: 11

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

* Non-professional employees also covered (133 school boards).

Agencies of the Commonwealth of Virginia: 239

Total VRS-Participating Employers: 821

VRS Employer Ranking at June 30, 2008

Employer	Active Employees	Percentage of Total
1. Fairfax County Schools - Professional Employees	19,438	5.62%
2. Virginia Beach City Schools - Professional Employees	8,436	2.44%
3. Prince William County Schools - Professional Employees	7,511	2.17%
4. Loudoun County Schools - Professional Employees	6,555	1.90%
5. Chesterfield County Schools - Professional Employees	6,265	1.81%
6. City of Virginia Beach	6,001	1.74%
7. University of Virginia - Academic Division	5,524	1.60%
8. Norfolk City Schools - Professional Employees	5,243	1.52%
9. Virginia Polytechnic Institute and State University	4,913	1.42%
10. Henrico County	4,872	1.41%
All Others	<u>270,979</u>	<u>78.37%</u>
Total	<u>345,737</u>	<u>100.00%</u>

Program with Oversight by VRS

Commonwealth of Virginia 457 Deferred Compensation Plan

The Commonwealth's 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 457(b). The purpose of the 457 Plan is to provide participants with a way to save for retirement through deferrals of compensation. Salaried state employees hired or rehired on or after January 1, 2008 are automatically enrolled in the plan. The plan is voluntary for other eligible employees.

Statement of Changes in Accumulation Plan Assets

YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Plan Assets on July 1	\$1,055,424,937	\$ 864,272,511
Contributions	124,491,852	109,320,357
Distributions	(52,543,564)	(45,525,487)
Plan Transfers ¹	682,835	435,354
Third-Party Administrative Fees ²	(2,570,155)	(2,394,850)
Period Earnings	(66,135,611)	129,317,052
Plan Assets on June 30	<u>\$1,059,350,294</u>	<u>\$1,055,424,937</u>

¹ Represents plan transfers from other eligible Section 457(b) plans into the Commonwealth's 457 Plan.

² The current third-party administrator, Great-West Retirement Services, is compensated based on an annual recordkeeping and communication fee of 28 basis points (0.28%) capped at account balances of \$130,000. In addition, administrative costs were incurred by VRS in FY 2008 and FY 2007 of \$617,418 and \$248,940, respectively. These costs are funded by the employers participating in the plan. The increase in VRS costs for FY 2008 is related to the addition of the automatic enrollment feature as well as consulting and other work associated with the development and issuance of a Request for Proposals (RFP) for a third-party program administrator.

Deferred Compensation Plan – Operational Overview

A total of 6,305 employees enrolled in the Commonwealth's 457 Deferred Compensation Plan during the fiscal year ended June 30, 2008. Beginning January 1, 2008, newly hired and rehired salaried state employees were automatically enrolled in the 457 Plan. The 2007 General Assembly passed legislation making enrollment in the plan automatic for salaried state employees unless they actively enroll, contribute to a 403(b) arrangement or opt out of the 457 Plan. Of the new employees enrolled in FY 2008, 426 were auto-enrolled and began contributing between January and June 2008.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) became effective January 1, 2002, allowing increased tax-deferred savings and increased portability of benefits. Contributions to the plan during FY 2008 increased to \$124,491,852 from \$109,320,357 in FY 2007.

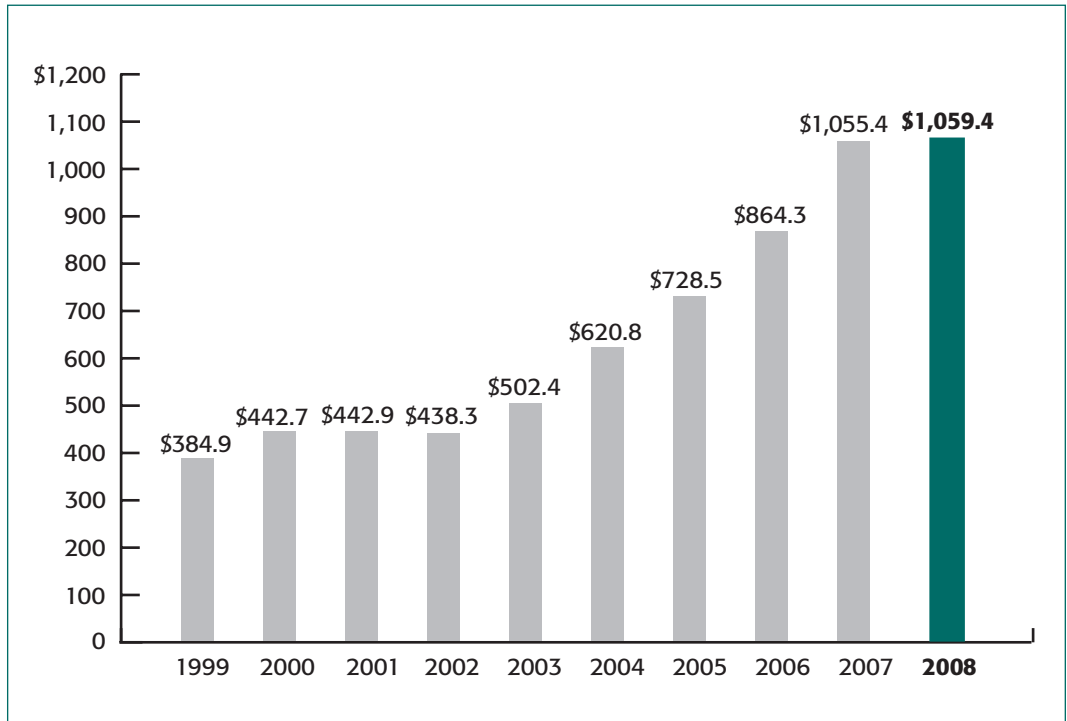
Additionally, EGTRRA made the 457 Plan attractive for employees of colleges and universities by removing the coordination between 457 plans and 403(b) tax-deferred accounts. From the effective date of EGTRRA to June 30, 2008, the number of college and university employee plan accounts increased from 287 in FY 2001 (the baseline year) to 4,361 in FY 2008.

The 2001 legislation also allowed 457 Plan participants to use monies in their accounts to purchase eligible service in their defined benefit plan. During the fiscal year ended June 30, 2008, 120 plan participants used the trustee-to-trustee transfer provision to buy VRS service credit, with \$643,569 transferring from the 457 Plan to the defined benefit plan.

Deferred Compensation Plan Assets

FISCAL YEARS 1999-2008

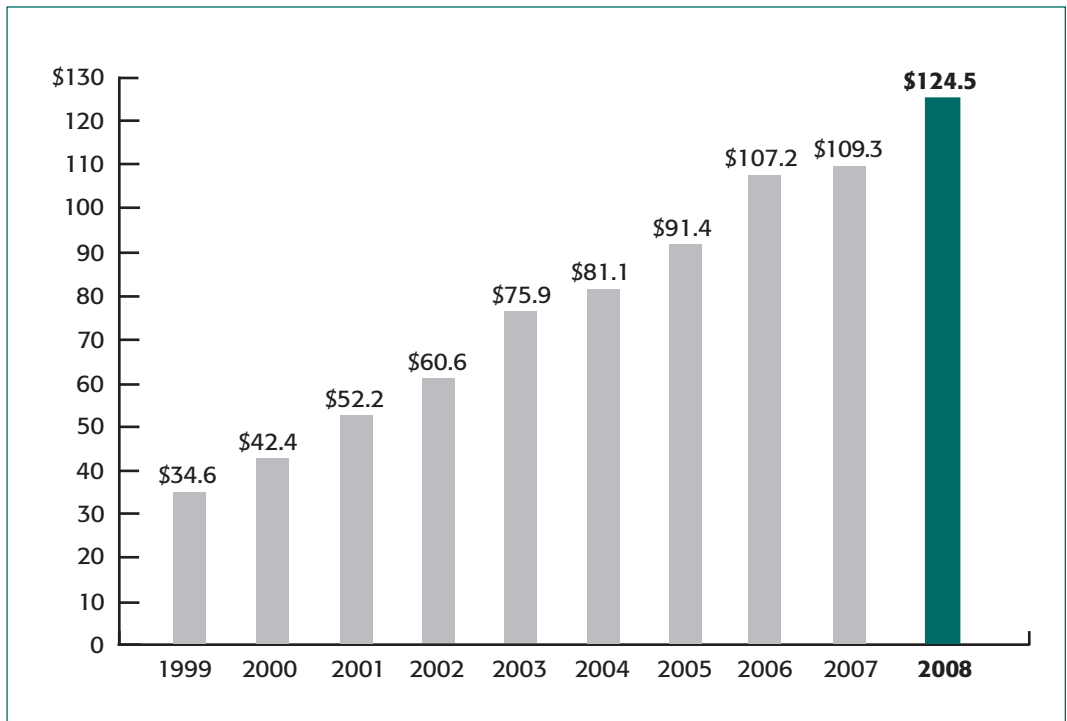
(EXPRESSED IN MILLIONS)



Contributions to the Deferred Compensation Plan

FISCAL YEARS 1999-2008

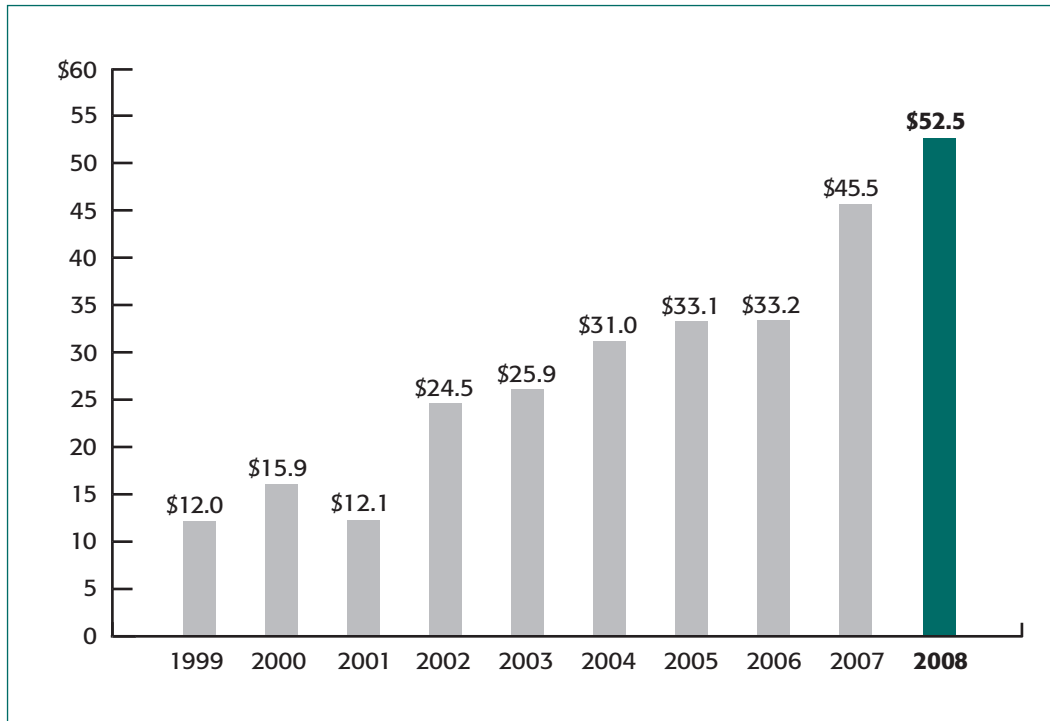
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Distributions from the Deferred Compensation Plan

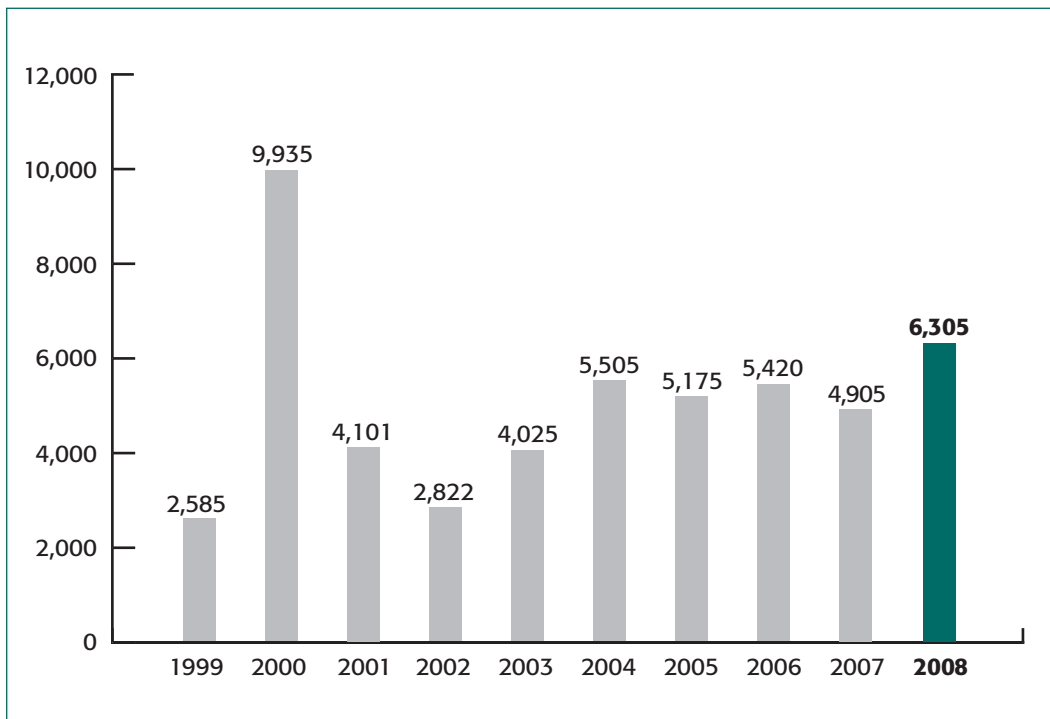
FISCAL YEARS 1999-2008

(EXPRESSED IN MILLIONS)



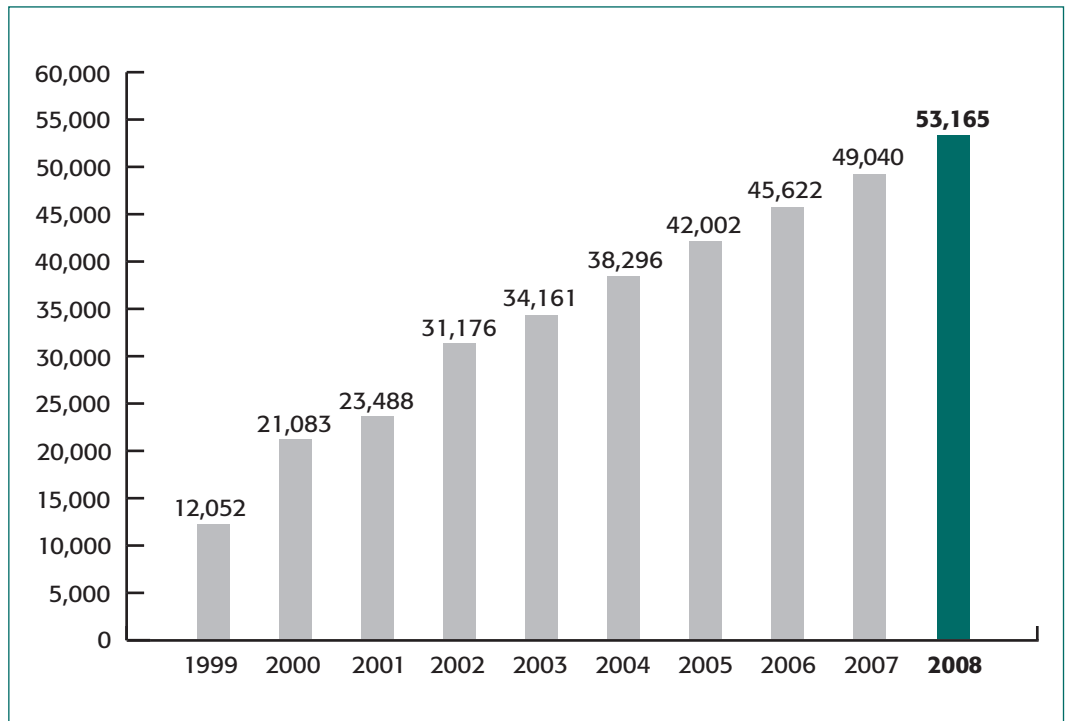
New Enrollments in the Deferred Compensation Plan

FISCAL YEARS 1999-2008



Active and Inactive Deferred Compensation Plan Participants

FISCAL YEARS 1999-2008



Total Participant Accounts in Each Fund Option as of June 30, 2008

Fund Name	Total Participant Accounts *	Fund Name	Total Participant Accounts *
Income & Growth Fund	6,448	International Equity Index Fund	10,520
Balanced Growth Fund	12,147	Real Estate Investment Trust Index Fund	7,785
Long-Term Growth Fund	9,374	Money Market Fund	4,038
Interim Account – VRS Investment Portfolio	16	Active Inflation-Protected Bond Fund	3,053
Bond Index Fund	6,085	Active Bond Fund	4,864
S&P 500 Index Fund	23,674	Active High-Yield Bond Fund	2,230
Russell 1000 Value Index Fund	7,799	Active Global Equity Fund	5,288
Russell 1000 Growth Index Fund	4,777	Stable Value Fund	20,928
Russell 3000 Index Fund	2,215	Self-Directed Brokerage	257
Small/Mid Cap Equity Index Fund	13,045		

* The number of participant accounts will exceed the number of participants since a participant may invest in more than one fund.

Plan Assets

Accumulation Plan Assets represent funds invested among the 18 core investment options and the self-directed brokerage option. The following schedule shows how these investments are distributed among the available options:

Deferred Compensation Accumulation Plan Assets at June 30

	FY 2008	FY 2007
Allocation by Fund Manager:		
Income & Growth Fund	\$ 21,577,392	\$ 17,254,740
Balanced Growth Fund	107,997,735	111,804,977
Long-Term Growth Fund	36,762,991	34,976,826
Interim Account – VRS Investment Portfolio	144,363	–
Bond Index Fund	40,426,492	33,381,479
S&P 500 Index Fund	242,429,444	281,670,190
Russell 1000 Value Index Fund	43,658,212	56,082,530
Russell 1000 Growth Index Fund	21,139,294	15,975,159
Russell 3000 Index Fund	6,898,204	5,988,328
Small/Mid Cap Equity Index Fund	84,392,447	54,266,743
International Equity Index Fund	62,893,226	63,863,761
Real Estate Investment Trust Index Fund	26,935,758	39,766,497
Money Market Fund	23,166,624	14,863,639
Active Inflation-Protected Bond Fund	18,109,498	8,026,222
Active Bond Fund	22,269,990	16,269,839
Active High-Yield Bond Fund	4,540,335	3,992,471
Active Small/Mid Cap Equity Fund	–	48,957,934
Active Global Equity Fund	25,991,602	19,194,218
Stable Value Fund (Galliard)	261,767,580	222,585,805
Self-Directed Brokerage	<u>8,249,107</u>	<u>6,503,579</u>
Total Accumulation Plan Assets	<u>\$ 1,059,350,294</u>	<u>\$ 1,055,424,937</u>

Description of Funds

Tier I: Passively Managed Asset Allocation Funds

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

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

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

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

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

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

Interim Account – VRS Investment Portfolio: Provides a daily valued investment account, using the Long-Term Growth Fund, where contributions and investment transfers are held until invested in the Virginia Retirement System Investment Portfolio (VRSIP). The fund seeks to provide capital growth by investing in a combination of bonds and stocks, which is anticipated to provide long-term total returns that are higher than inflation with the possibility of significant short-term losses.

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

Tier II: Passively Managed Funds

Bond Index Fund: Seeks to track the total return performance of the Lehman Brothers Aggregate Bond Index. This index is comprised of government, corporate, mortgage-backed and asset-backed securities.

Mortgage-Backed Securities – 38.5%
Treasury – 22.1%
Agency – 10.0%
Industrial – 9.2%
Finance – 8.5%
CMBS – 4.9%
Non-Corporates – 3.6%
Utilities – 2.0%
Asset-Backed Securities – 0.7%
Cash & Other – 0.5%

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.

Information Technology – 16.4%
Energy – 16.2%
Financials – 14.2%
Health Care – 11.9%
Industrials – 11.1%
Consumer Staples – 10.8%
Consumer Discretionary – 8.1%
Utilities – 4.0%
Materials – 3.9%
Telecommunications Services – 3.4%

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 – 24.9%
Energy – 18.3%
Health Care – 10.9%
Industrials – 9.5%
Consumer Discretionary – 8.5%
Consumer Staples – 8.0%
Utilities – 6.5%
Telecommunications Services – 5.7%
Materials – 4.3%
Information Technology – 3.4%

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

Information Technology – 28.7%
Industrials – 13.3%
Energy – 13.3%
Health Care – 12.3%
Consumer Staples – 11.4%
Consumer Discretionary – 8.7%
Materials – 4.8%
Financials – 4.3%
Utilities – 2.4%
Telecommunications Services – 0.8%

Russell 3000 Index Fund: Seeks to track the performance of the Russell 3000 Index. This index is comprised of the 3,000 largest stocks in the U.S. Market.

Information Technology – 16.6%
Energy – 15.2%
Financials – 14.5%
Industrials – 11.9%
Health Care – 11.7%
Consumer Staples – 9.3%
Consumer Discretionary – 8.9%
Materials – 4.5%
Utilities – 4.3%
Telecommunications Services – 3.1%

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.

Information Technology – 16.9%
Financials – 16.5%
Industrials – 15.2%
Consumer Discretionary – 12.2%
Energy – 11.0%
Health Care – 10.7%
Materials – 7.2%
Utilities – 5.5%
Consumer Staples – 3.0%
Telecommunications Services – 1.8%

Description of Funds, continued

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 21 countries in Europe and the Pacific Basin.

Financials – 25.5%	Consumer Staples – 8.1%
Industrials – 12.0%	Health Care – 6.8%
Materials – 11.8%	Utilities – 6.3%
Consumer Discretionary – 9.7%	Telecommunications Services – 5.5%
Energy – 9.0%	Information Technology – 5.3%

Real Estate Investment Trust Index Fund: Seeks to track the performance of the Dow Jones Wilshire REIT Index. This index is a market capitalization weighted index of publicly traded REITs whose charter is the equity ownership and operation of commercial real estate.

Retail Malls – 16.6%	Diversified – 6.7%
Apartments – 15.1%	Hotels – 6.1%
Office – 12.9%	Self Storage – 5.5%
Retail Strip Centers – 11.0%	Mixed Industrial/Office – 4.3%
Industrial – 10.8%	Manufactured Homes – 0.5%
Health Care – 10.0%	Factory Outlets – 0.5%

Tier III: Actively Managed Funds

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

CDs, ECDs, TDs, BAs – 39.1%	Floating Rate Agencies – 2.1%
Repurchase Agreements – 27.6%	Other Short-Term Instruments – 1.7%
Floating Rate Corporate Notes – 18.4%	Adjustable Rate ABS – 1.1%
Commercial Paper – 9.9%	Agency – 0.1%

Active Inflation-Protected Bond Fund: Seeks to provide inflation protection and income consistent with investment in inflation-indexed securities and seeks to provide long-term returns, which exceed the performance of the Lehman Brothers U.S. Treasury Inflation Notes Index. This index is a measure of the inflation-indexed sector of the U.S. Bond Market.

U.S. Treasury/Agency – 99.9%
Other – 0.1%

Active Bond Fund: Seeks to provide long-term returns, which exceed the performance of the Lehman Brothers Aggregate Bond Index. This index is comprised of government, corporate, mortgage-backed and asset-backed securities.

Mortgage-Backed Securities – 61.0%	High Yield Credit – 3.0%
Net Cash Equivalents – 22.0%	Non-U.S. Developed – 1.0%
Investment Grade Credit – 16.0%	Municipal/Other – 1.0%
Emerging Markets (\$US) – 5.0%	U.S. Government/Agency – (9.0%)

Active High-Yield Bond Fund: Seeks to provide a high level of current income and provide long-term returns, which exceed the performance of a custom benchmark consisting of 95% Lehman Brothers High-Yield ex-CCC Index and 5% Lehman Brothers 1-3 Year Treasury Index.

Communication – 18.8%	Capital Goods – 5.2%
Utilities – 14.6%	U.S. Treasury/Agency – 4.2%
Consumer, Cyclical – 14.3%	Finance – 3.7%
Basic Industry – 12.2%	Transportation – 2.7%
Consumer, Non-Cyclical – 11.5%	Technology – 1.7%
Energy – 10.9%	Industrial Other – 0.2%

Active Global Equity Fund: Seeks to provide long-term growth of capital with current income and long-term returns, which exceed the performance of the MSCI World Index. This index is a measure of the global developed market.

Europe – 47.4%	Cash & Equivalents – 7.6%
United States – 20.7%	Canada & Latin America – 5.6%
Asia/Pacific Basin – 18.0%	Other – 0.7%

Stable Value Fund: Seeks to provide a safety of principal and a stable credited rate of interest while generating competitive returns over time compared to other conservative investments, such as money market funds or short-term yields available in the fixed-income (bond) market.

JP Morgan Chase Bank Security Backed Contract – 24.8%
State Street Bank & Trust Co. – 24.5%
AIG Financial Products Security Backed Contract – 21.2%
Royal Bank of Canada – 21.2%
Wells Fargo Stable Return Fund – 8.3%

Tier IV: Self-Directed Brokerage Option

The Self-Directed Brokerage Account (SDBA) option offered through Ameritrade Corporate Services, a division of Ameritrade, Inc., allows investors to elect from thousands of mutual funds in addition to the core investment options in Tier I, Tier II and Tier III. The SDBA option is for knowledgeable investors who acknowledge and understand the risks associated with the mutual fund investments contained within this option. Participants cannot invest in individual securities such as stocks, bonds or options. In addition to the annual recordkeeping and communication services fee, there is a plan fee of \$15 per quarter, as well as transaction fees charged by Ameritrade and investment management fees charged by the investment managers.

Investment Option Performance Summary

Below are totals for the period ending June 30, 2008

RETURNS GREATER THAN ONE YEAR ARE ANNUALIZED

Investment Options	1 Year	3 Years	5 Years	Expense Ratio
Tier I: Passively Managed Asset Allocation Funds ¹				
Income & Growth Fund	2.31%	4.68%	5.34%	0.06%
Benchmark (75% Lehman Bros. Aggregate Bond Index, 22% Russell 3000, 3% MSCI EAFE)	2.10%	4.61%	5.33%	
Balanced Growth Fund	-2.63%	5.20%	6.82%	0.06%
Benchmark (50% Lehman Bros. Aggregate Bond Index, 43% Russell 3000, 7% MSCI EAFE)	-2.81%	5.14%	6.82%	
Long-Term Growth Fund	-7.51%	5.64%	8.25%	0.06%
Benchmark (25% Lehman Bros. Aggregate Bond Index, 64% Russell 3000, 11% MSCI EAFE)	-7.62%	5.58%	8.25%	
Interim Account – VRS Investment Portfolio (IAVRSIP)	-7.51%	5.64%	8.25%	0.06%
Benchmark (25% Lehman Bros. Aggregate Bond Index, 64% Russell 3000, 11% MSCI EAFE)	-7.62%	5.58%	8.25%	
Tier II: Passively Managed Funds ^{1,2}				
Bond Index Fund	7.35%	4.16%	3.88%	0.06%
Lehman Bros. Aggregate Bond Index	7.12%	4.09%	3.85%	
S&P 500 Index Fund	-13.11%	4.41%	7.59%	0.02%
S&P 500 Index	-13.12%	4.41%	7.58%	
Russell 1000 Value Index Fund	-18.66%	3.56%	8.92%	0.09%
Russell 1000 Value Index	-18.78%	3.53%	8.92%	
Russell 1000 Growth Index Fund	-5.96%	5.87%	7.24%	0.09%
Russell 1000 Growth Index	-5.96%	5.91%	7.32%	
Russell 3000 Index Fund	-12.68%	4.74%	8.33%	0.08%
Russell 3000 Index	-12.69%	4.73%	8.37%	
Small/Mid Cap Equity Index Fund ³	-11.55%	6.24%	11.84%	0.11%
Russell Small Cap Completeness Index	-11.57%	6.20%	11.86%	
International Equity Index Fund ^{4,5}	-10.52%	12.87%	16.65%	0.14%
MSCI EAFE Index	-10.61%	12.84%	16.67%	
Real Estate Investment Trust Index Fund	-15.11%	4.82%	14.26%	0.20%
Dow Jones Wilshire REIT Index	-15.27%	4.90%	14.52%	

Investment Option Performance Summary, continued

Investment Options	1 Year	3 Years	5 Years	Expense Ratio
Tier III: Actively Managed Funds				
Money Market Fund	4.15%	4.58%	3.37%	0.12%
91-Day Treasury Bill Average	3.08%	4.23%	3.20%	
Active Inflation-Protected Bond Fund	15.56%	5.77%	5.90%	0.08%
Lehman Bros. U.S. Treas. Inflation Notes Index	15.09%	5.59%	5.98%	
Active Bond Fund	10.83%	4.97%	4.70%	0.43%
Lehman Bros. Aggregate Bond Index	7.12%	4.09%	3.85%	
Active High-Yield Bond Fund	-1.72%	3.43%	5.16%	0.13%
Benchmark (95% Lehman Bros. High Yield ex-CCC, 5% Leman Bros. 1-3 Year Treasury Index)	-0.29%	4.56%	6.59%	
Active Global Equity Fund	-4.96%	14.09%	17.49%	0.47%
MSCI World Index	-10.68%	8.88%	11.99%	
Stable Value Fund	5.27%	5.40%	5.29%	
The Stable Value Fund current yield as of June 30, 2008 was 4.95% ⁶				

¹ The VRS Defined Contribution Plans purchase units in various State Street Global Advisors (SSgA) Series Class A or Series Class T collective trust funds in order to provide plan participants with the ability to purchase and redeem units on a daily basis. SSgA Series Class A or Series Class T Funds invest in other SSgA collective trust funds referred to as Base Funds.

² Inception dates shown reflect the inception dates of the Base Funds. Performance returns for the Series Class A Funds have been linked to those Base Funds' returns. The actual performance for the Base Funds has been restated to reflect the plans' investment management fees. Inception dates for the Series Class A Funds commenced as follows:

SSgA Bond Index Series Class A	10/97	SSgA REIT Index Series Class A	5/01
SSgA S&P 500 Index Series Class A	3/96	SSgA Russell Small Cap Completeness Index Series Class A	9/97
SSgA Russell 1000 Value Index Series Class A	3/99	SSgA EAFE Index Series Class A	1/97
SSgA Russell 1000 Growth Index Series Class A	8/99	SSgA Russell 3000 Index Series Class A	6/97

³ Equity securities of companies with relatively small market capitalization may be more volatile than securities of larger, more established companies.

⁴ Foreign investments involve special risks, including currency fluctuations and political developments.

⁵ Inception dates shown reflect the inception dates of the Base Fund. Performance returns for the Series Class T Fund have been linked to the returns of the Series Class A and Base Funds. The actual performance for the Base Fund has been restated to reflect the plans' investment management fees. The inception date of VRS' participation in the Series Class T Fund was April 21, 2003.

⁶ The current yield is provided to help participants make choices concerning their investment options. **There is no guarantee that the fund will earn the projected estimated yield.**





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