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June 29, 2005

Mr. Philip A. Leone
Director
Joint Legislative Audit and Review Commission
General Assembly Building
Suite 1100, Capitol Square
Richmond, VA 23219

Confidential
via E-mail and USPS

Subject:
Quadrennial Actuarial Audit of VRS

Dear Mr. Leone:

A quadrennial actuarial audit of the valuation of the Virginia Retirement System (VRS) is required by §30-81 of the *Code of Virginia*. The last such audit was prepared for the actuarial valuation of June 30, 2000. Therefore, the statute requires that an actuarial audit be performed for the June 30, 2004 actuarial valuation.

The June 30, 2000 actuarial valuation was performed by Watson Wyatt. The June 30, 2004 actuarial valuation was performed by Gabriel Roeder Smith & Co (GRS). However, during 2002, all of Watson Wyatt's public sector retirement actuarial business was sold to GRS. In addition, the primary actuaries at Watson Wyatt who had been performing the actuarial valuation of VRS became employees of GRS. The actuarial valuations performed after the transfer of the VRS actuarial valuation work to GRS were therefore performed using the same actuarial methods and assumptions and by the same individuals as previous to such transfer.

Effective January 1, 2005, the firm of Palmer & Cay replaced GRS as actuary at VRS. The first valuation to be performed by Palmer & Cay will be the June 30, 2005 actuarial valuation. Since the June 30, 2005 valuation will be performed by different actuaries than the 2004 valuation, and since it is also anticipated that there may be changes in actuarial methods and assumptions for 2005, the Commission determined that there would be more value in performing an actuarial audit on the 2005 valuation than on the 2004 valuation. It is currently intended that a complete actuarial audit will be done for the June 30, 2005 actuarial valuation. However, the statute still requires a review of the 2004 actuarial valuation.

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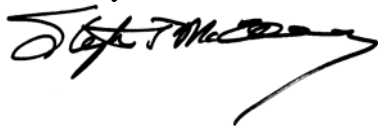
The purpose of this letter is to report on the results of our review of the 2004 actuarial valuation. Since this valuation was performed using the same actuarial methods and assumptions as in 2000, and by the same individuals, our review was limited to a comparison of the 2004 valuation to the 2000 valuation to determine whether or not we believed that our audit findings and conclusions from the audit of the 2000 valuation were still applicable.

Our overall conclusion after an audit of the June 30, 2000 actuarial valuation was that the work was reasonable and performed in accordance with generally accepted actuarial principles and practices and was performed by fully qualified actuaries. We are pleased to report that this conclusion is still applicable for the June 30, 2004 actuarial valuation.

As part of our audit of the June 30, 2000 actuarial valuation of VRS, we made a number of comments and suggestions regarding actuarial methods, assumptions and disclosures. However, the issues that we raised were not sufficiently material to affect our overall favorable conclusion. These comments are generally still applicable for the June 30, 2004 actuarial valuation and will be addressed during the audit of the 2005 actuarial valuation.

We would be pleased to provide additional information as required or to answer any questions from the Commission.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen T. McElhaney", written over a vertical red line.

Stephen T. McElhaney, F.S.A.