

Virginia Retirement System

Joint Legislative Audit and Review Commission

July 9, 2007

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VRS Board of Trustees
Chairman

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VRS Overview

- VRS is the 26th largest public or private pension system in the U.S.
- There are more than 581,000 members, retirees and beneficiaries.
- Assets total \$55.1 billion as of 3/31/07.

VRS Board Retreat

Retreat: October 11 -12

Location: Norfolk

Agenda Items Include:

- JLARC
- Nancy Everett – President and CEO GM Asset Management
- VRS Top Performing Managers – Private Equity, Real Estate, Global Investments

VRS Presentation Agenda

VRS Investments Presented By:

Charles Grant

Chief Investment Officer

VRS Administration Presented By:

Bob Schultze

Director

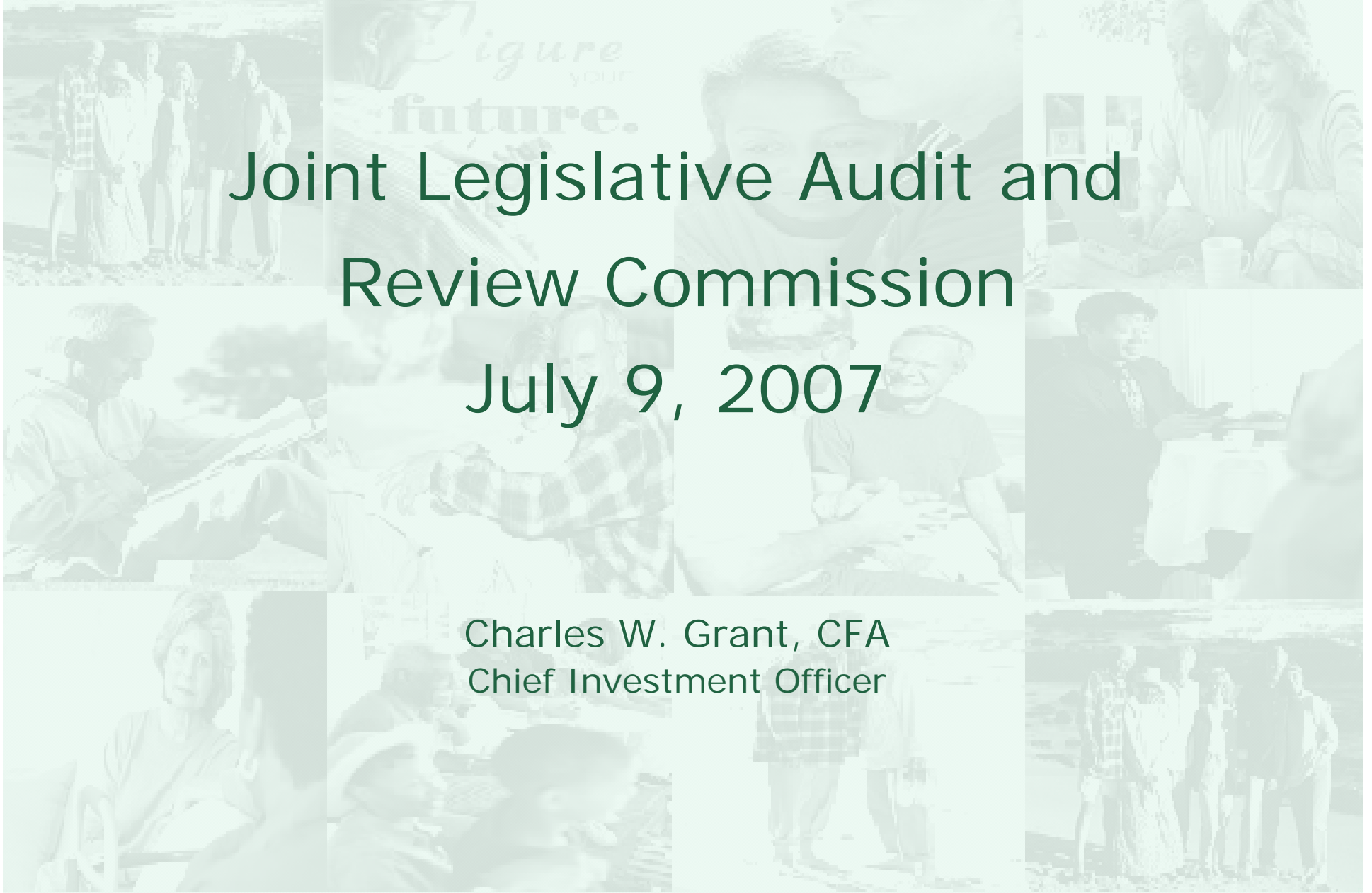
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Chief Investment Officer

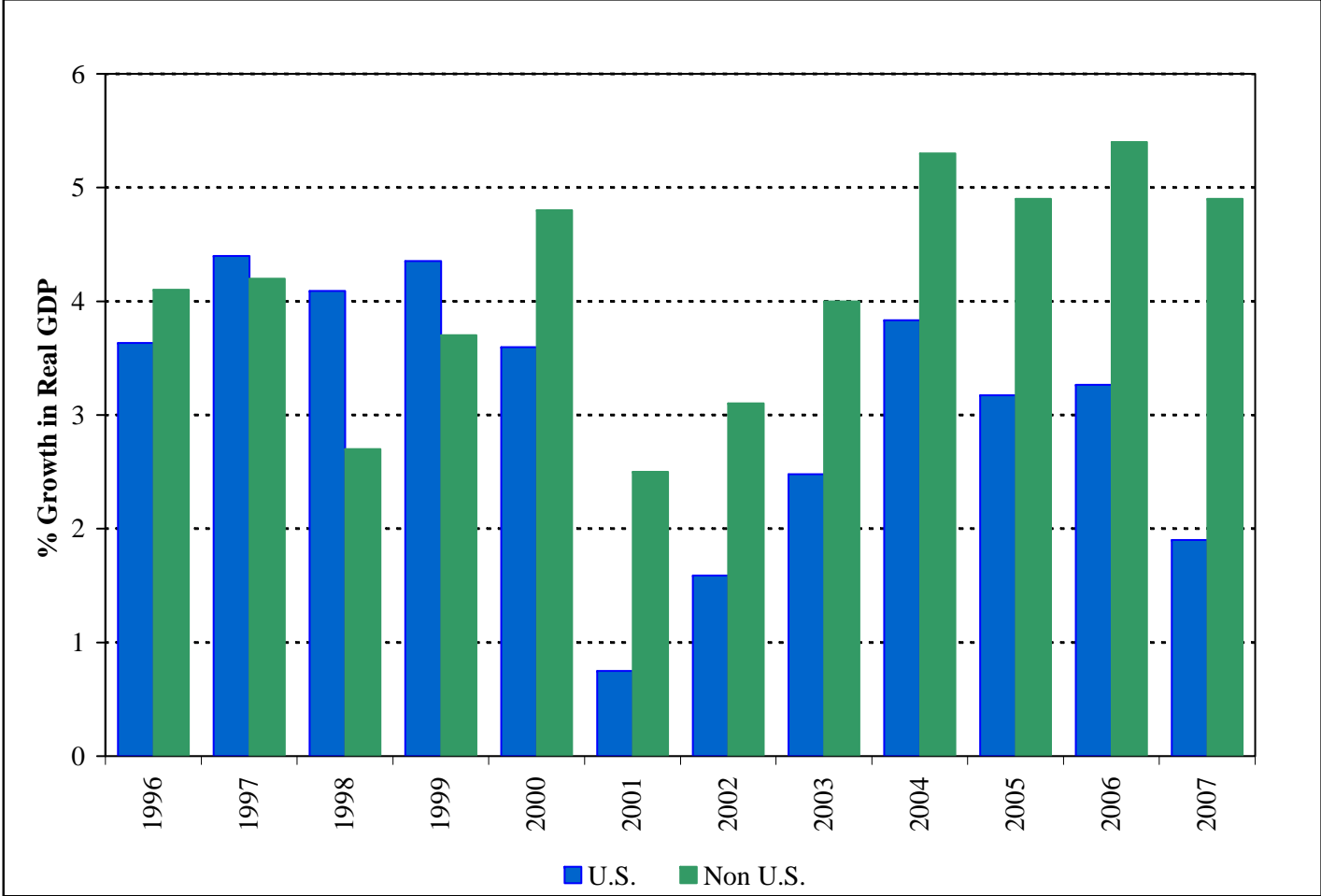
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VRS Investment Review

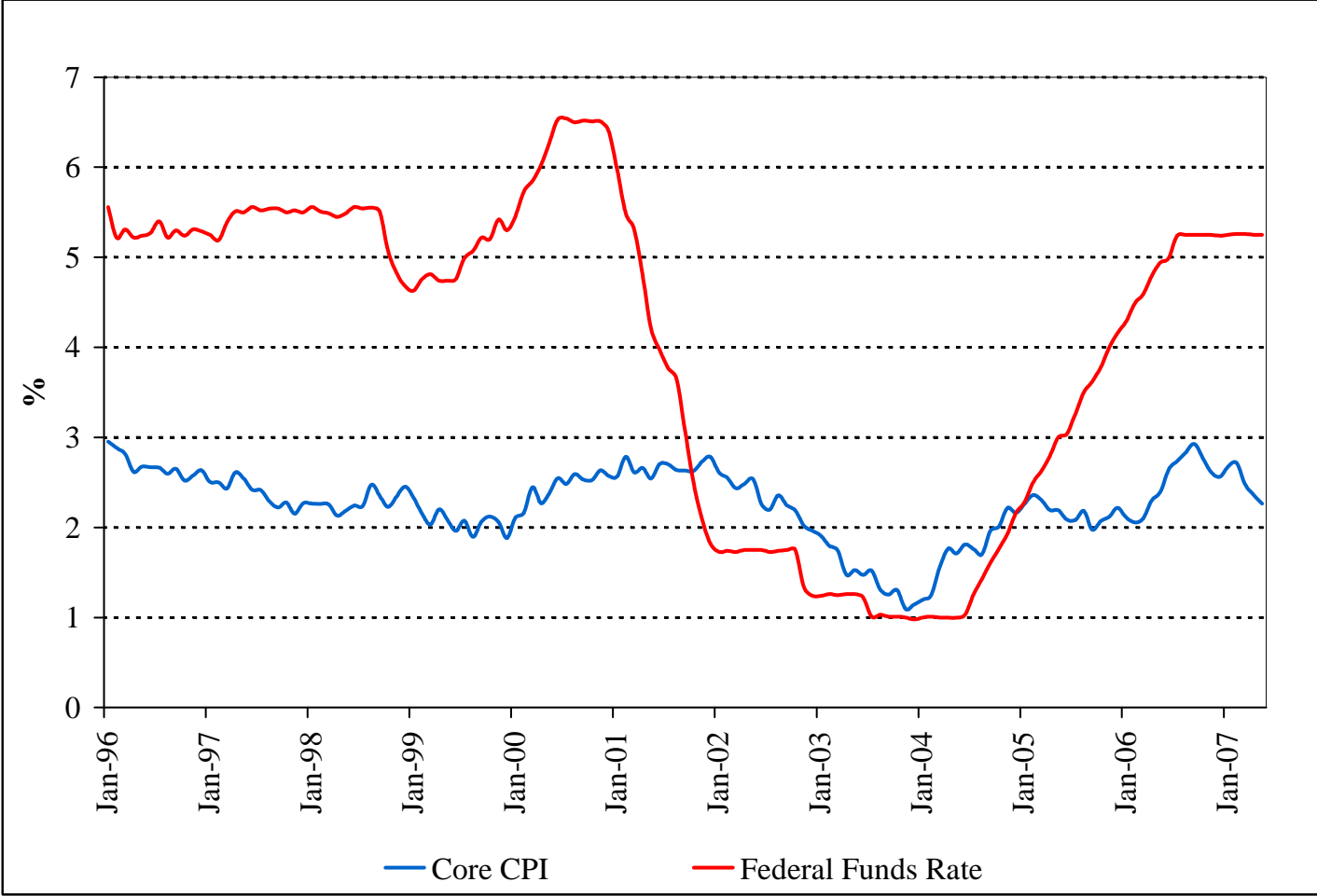
- Market Conditions
- Performance
- Asset Allocation
- Cash Flow Projection
- Special Projects
- Outlook

Healthy Global Growth

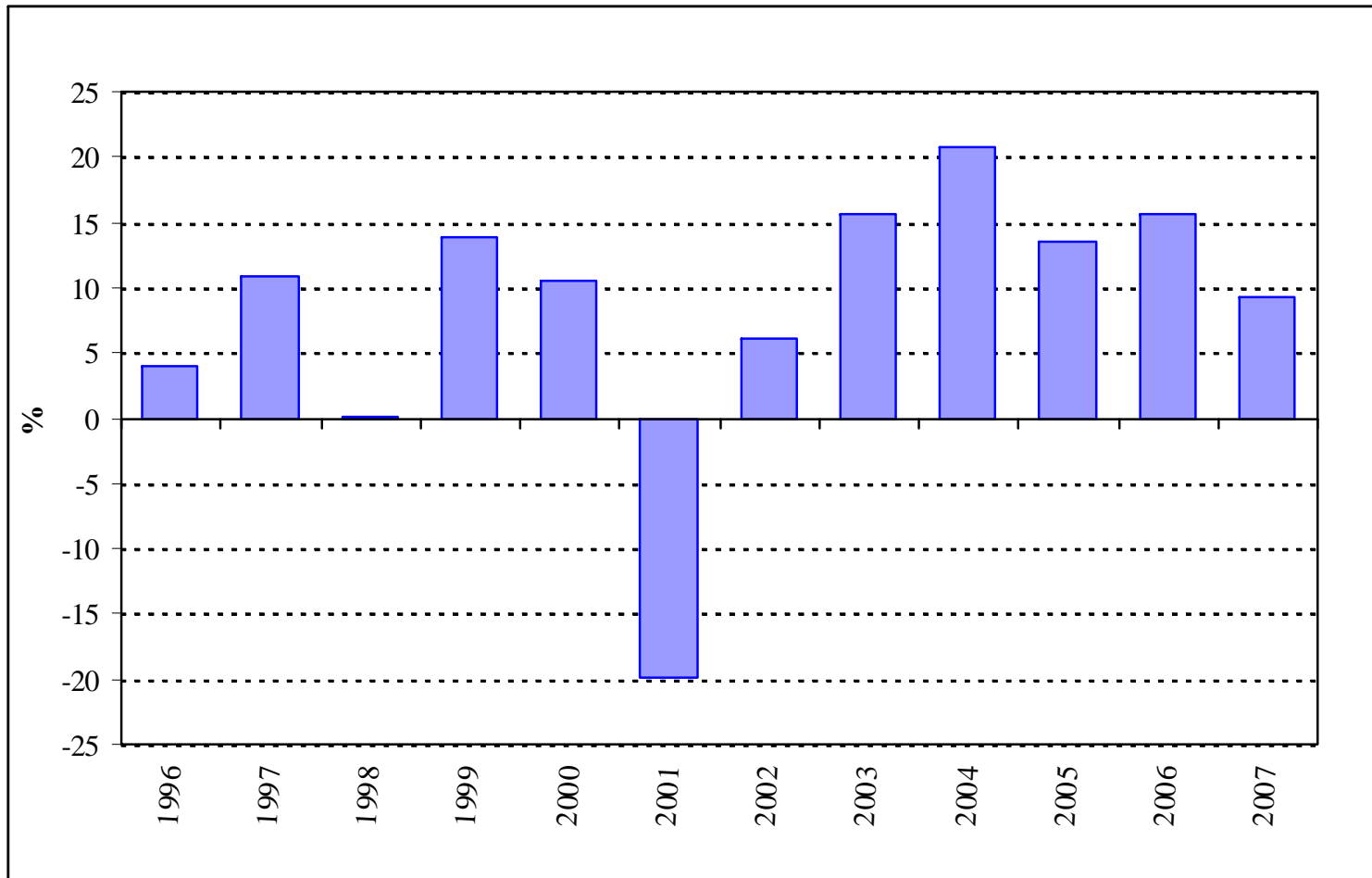


Note: 2007 is YTD annualized

Higher Inflation and Interest Rates

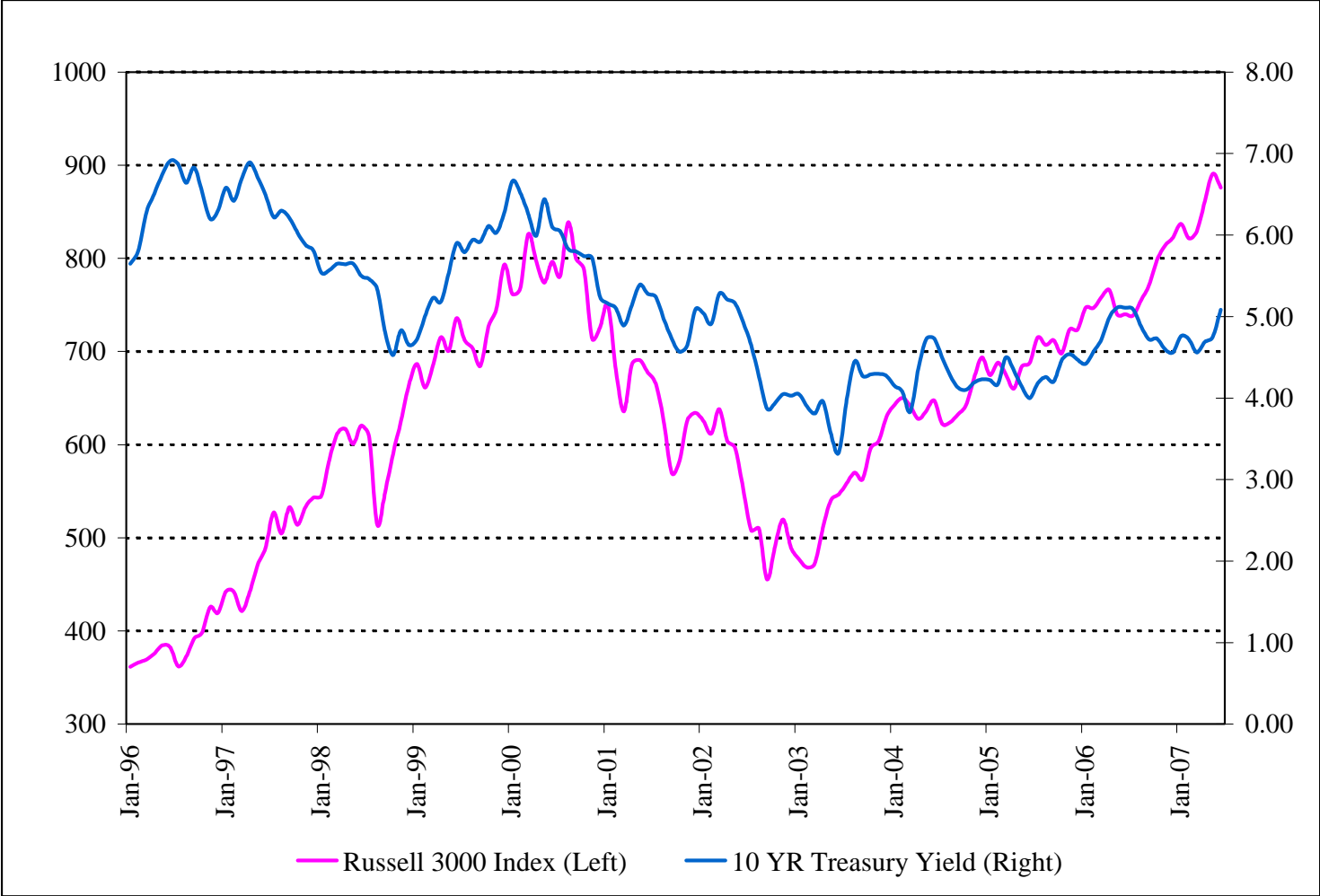


Strong Corporate Earnings - S&P 500



Note: 2007 represents Q1 only

Stock and Bond Markets



Note: Data through 6/27/07

Investment Performance One Year Ending 3/31/07

Asset Class	3/31/07 Balance (\$millions)	% Total Fund	Total Return (%)	Benchmark (%)	Difference (%)
Public Equity	35,647	64.7	14.10	14.25	(0.16)
Fixed Income	10,976	19.9	6.73	6.59	0.14
Credit Strategies	2,187	4.0	9.25	10.97	(1.72)
Real Estate	2,733	5.0	23.50	20.92	2.58
Private Equity	3,339	6.1	29.89	18.22	11.67
Total Fund	55,105		13.55	12.98	0.57

Balances reflect adjustments for derivative positions, pending transactions, and cash balances

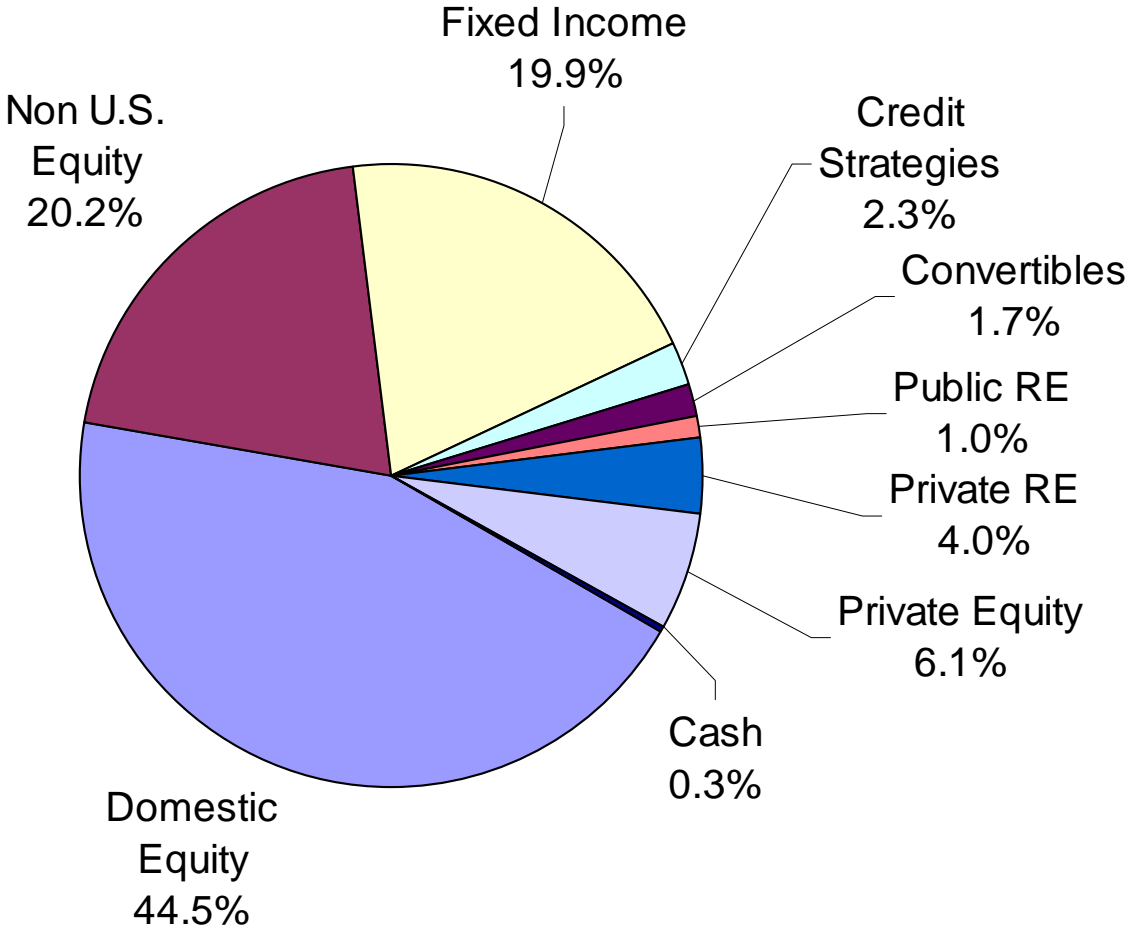
Total Fund Performance Ending 3/31/07

	VRS (%)	Benchmark (%)	Difference (%)	Value Added (\$millions)
1 Yr	13.55	12.98	.57	294.2
3 Yr	12.92	11.94	.98	1,332.8
5 Yr	10.43	9.78	.65	1,394.2
10 Yr	9.79	9.22	.57	2,462.8

Performance is net of fees

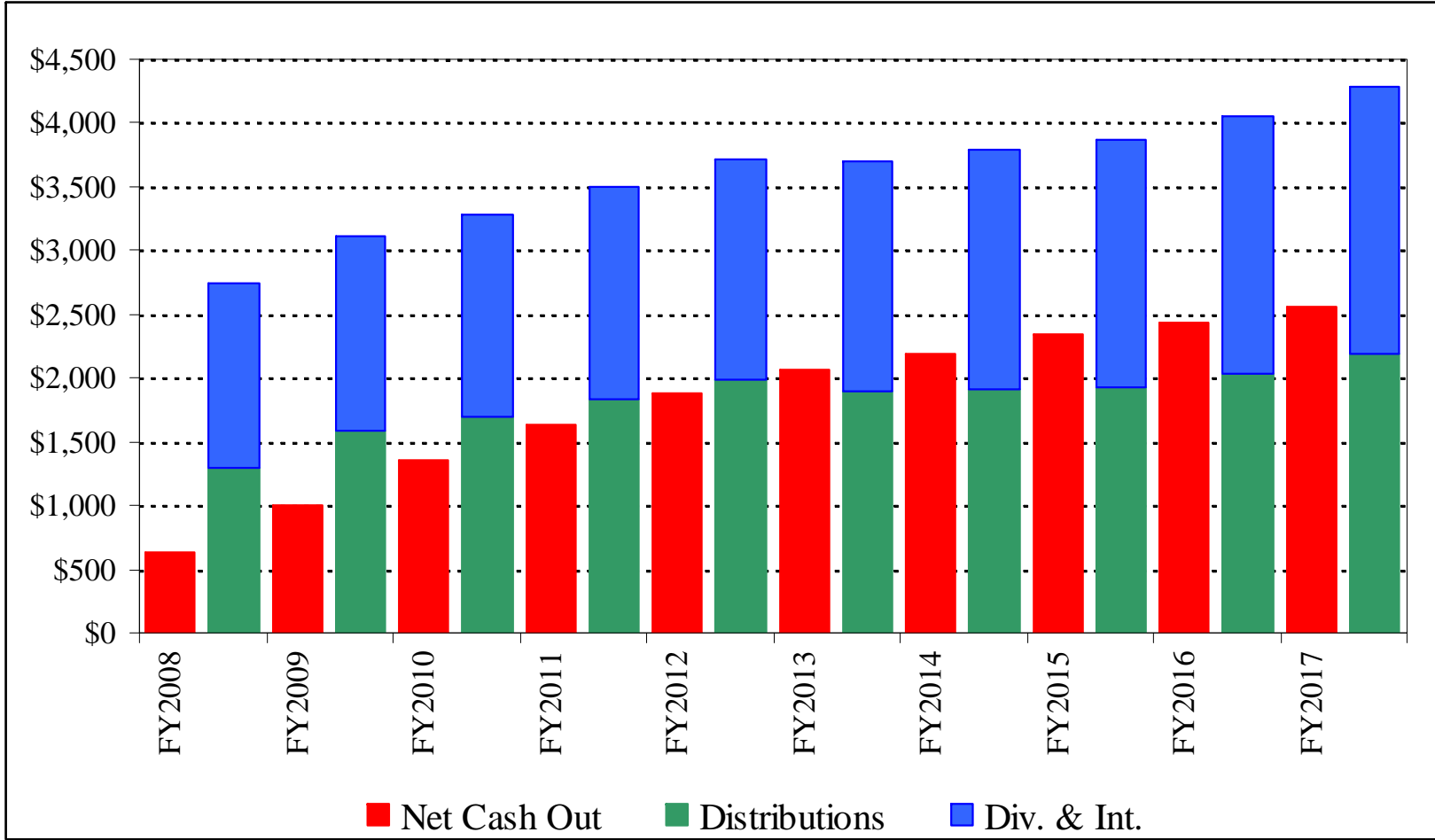
Value Added is estimated based on average values

Asset Allocation as of 3/31/07



Total Fund: \$55.1 billion

Cash Flow Projection – 10 Years



Special Projects/Initiatives

- Strengthened Research Department
- Formed dedicated Investments IT Department
- Significantly reduced consulting fees
- Improved cash management
- Renegotiated custody contract
- Enhanced FOIA exemption

- Weak housing suppressing growth
- Corporate profits will slow
- Market volatility may increase
- Inflation will be sticky
- Monetary policy will be effective
- Long-term returns will be more moderate

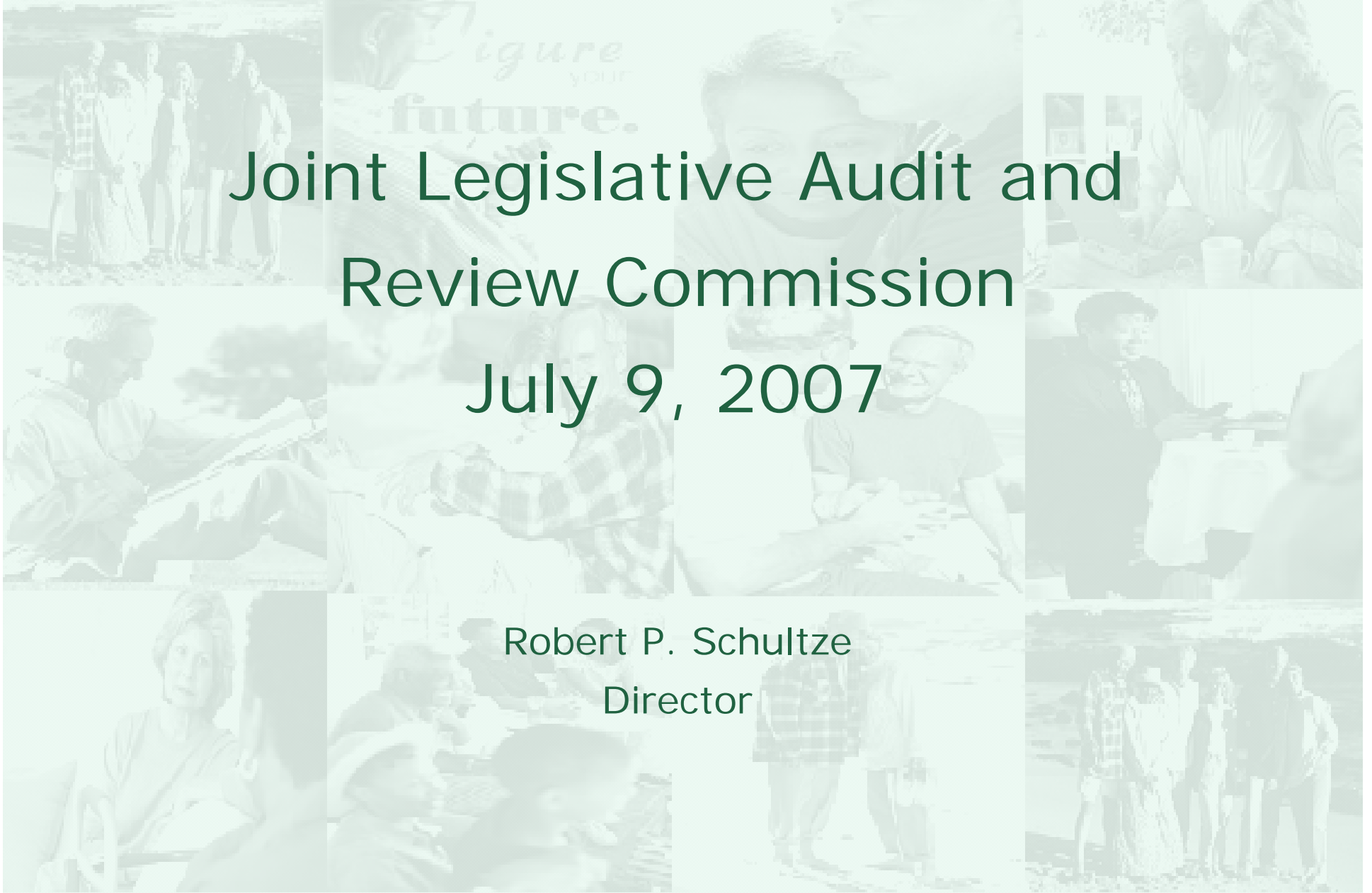
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Robert P. Schultze
Director

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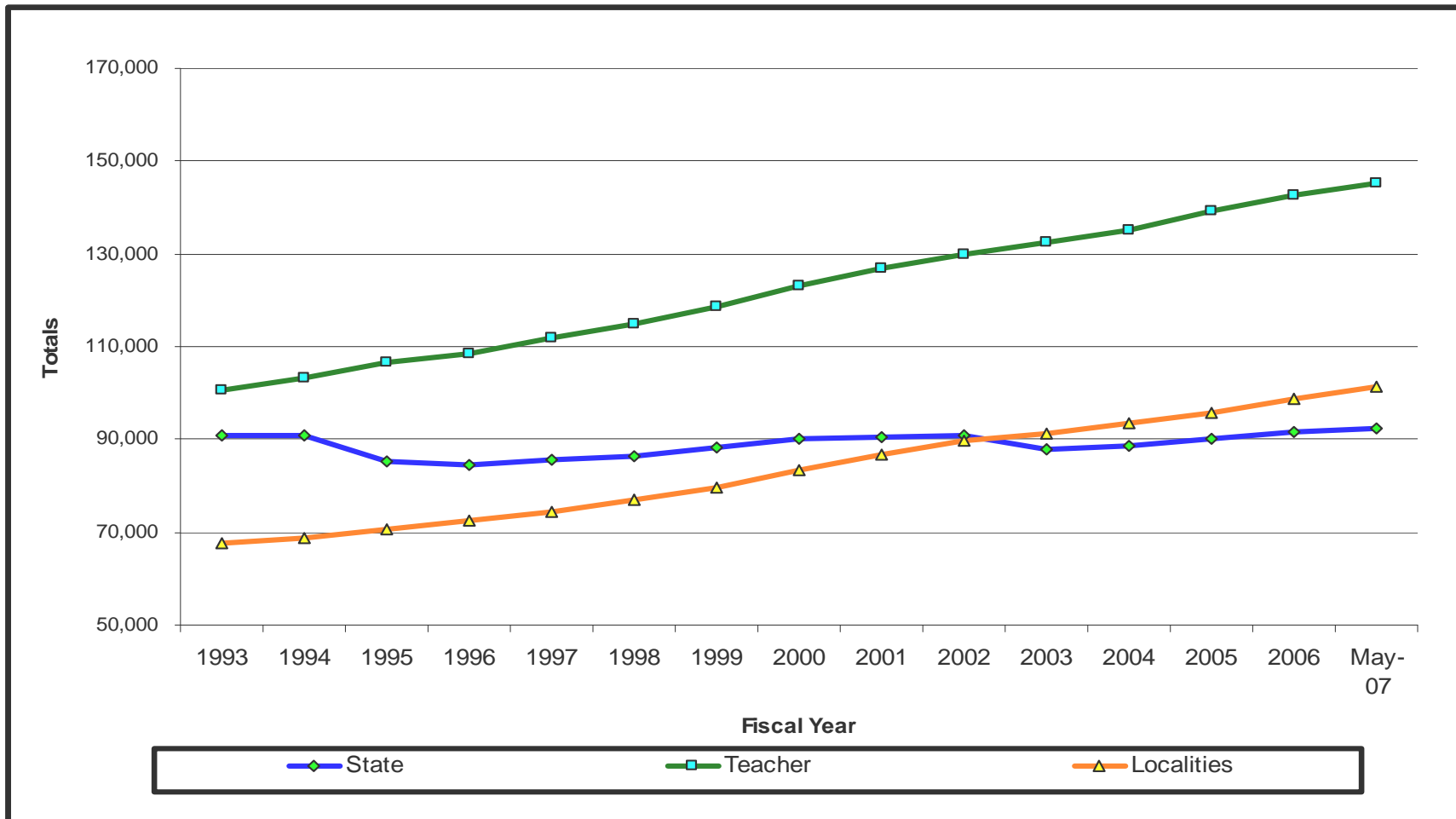


VRS Total Membership

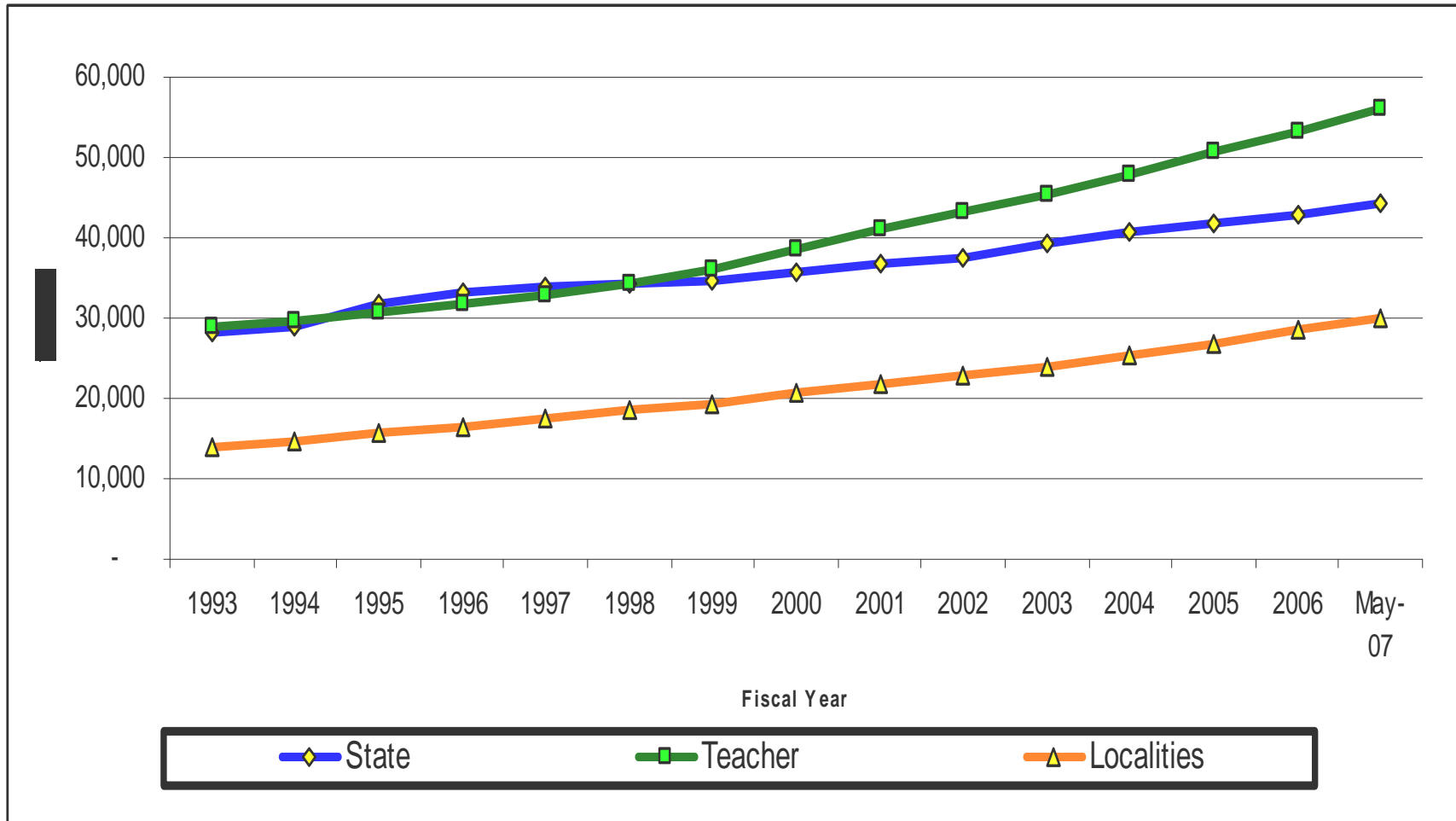
(May 31, 2007)

Teachers	145,434
Political Subdivisions	101,538
State Employees	80,218
State Police Officers' Retirement System (SPORS)	1,888
Judicial Retirement System (JRS)	423
Virginia Law Officers' Retirement System (VaLORS)	9,946
Total	339,447
Retirees/Beneficiaries	130,281
Inactive/Deferred Members	112,191
VRS Overall Impact	581,919

VRS Members



VRS Retirees



Funding VRS Retirement Benefits

Benefits are funded by:

- Investment earnings – pay over 70% of all benefit costs.
- Employer contributions – set every two years, based on actuarial analysis and demographics.
- Employee contributions – established in statute at 5% of salary; most employers pay on behalf of employee.

Separate Valuations & Rates

- Teacher Plan, State Employee Plan and Local Government plans separately rated.
- Each plan is rated according to its demographics and benefit design.
- Assets and liabilities are segregated by plan.
- Assets are pooled only for investment purposes.

Actuarial Valuation

- VRS conducted valuation FY 2006
 - Provide snapshot of system as of 6/30/06
 - Calculate actuarial gains and losses for year
 - Determine employer contribution rates/funded status
 - Project future contribution rates
- Valuation addressed recommendations proposed by JLARC and complied with generally accepted practices.
- Valuation of all Other Post Employment Benefits (OPEB) funds using GASB 45
 - Group life, Health Insurance Credit, VSDP

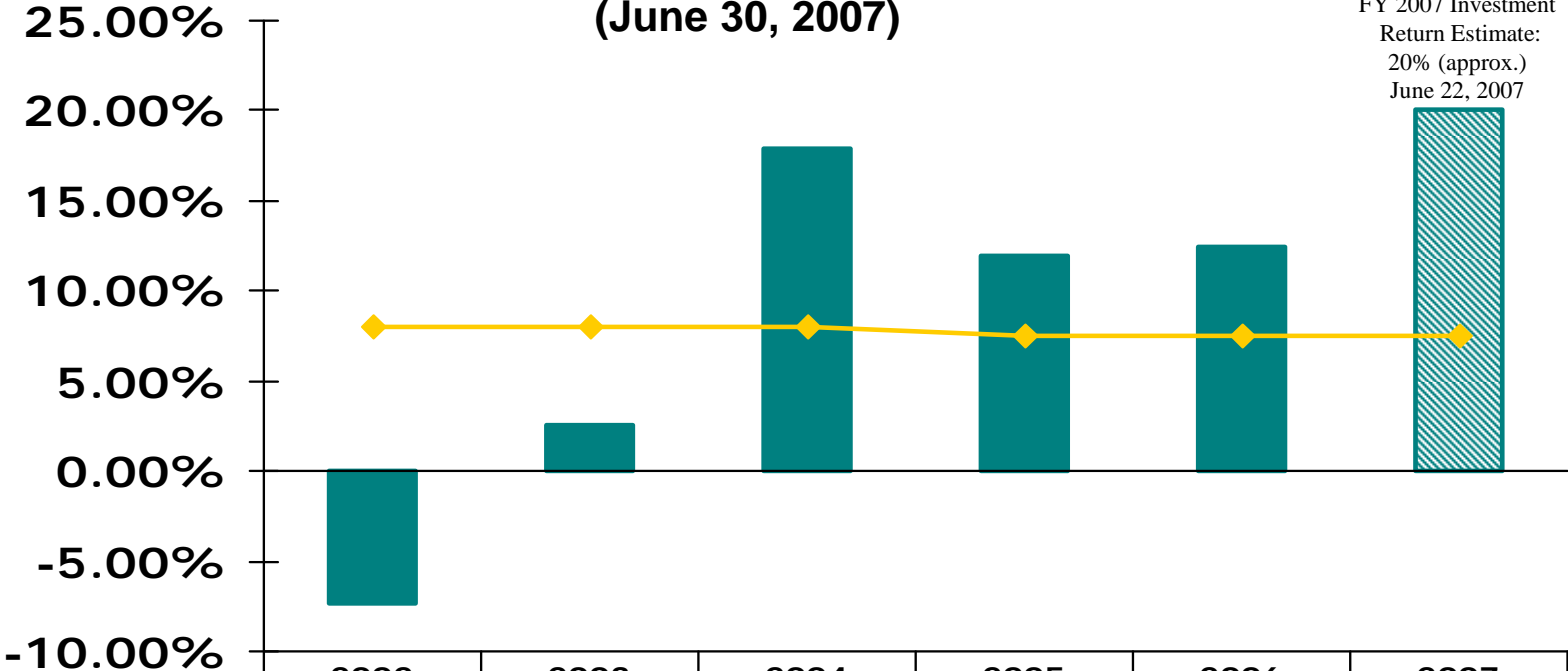
New Actuarial Valuations as of June 30, 2007

- Pension Valuations for all employers
 - Basic assumptions unchanged
 - Investment return – 7.50%
 - Inflation – 2.50%
 - Amortization period for Unfunded Accrued Actuarial Liability (UAAL) is 20 years
- Higher investment returns will improve status of all plans

Impact of Actuarial Smoothing

(June 30, 2007)

FY 2007 Investment
Return Estimate:
20% (approx.)
June 22, 2007

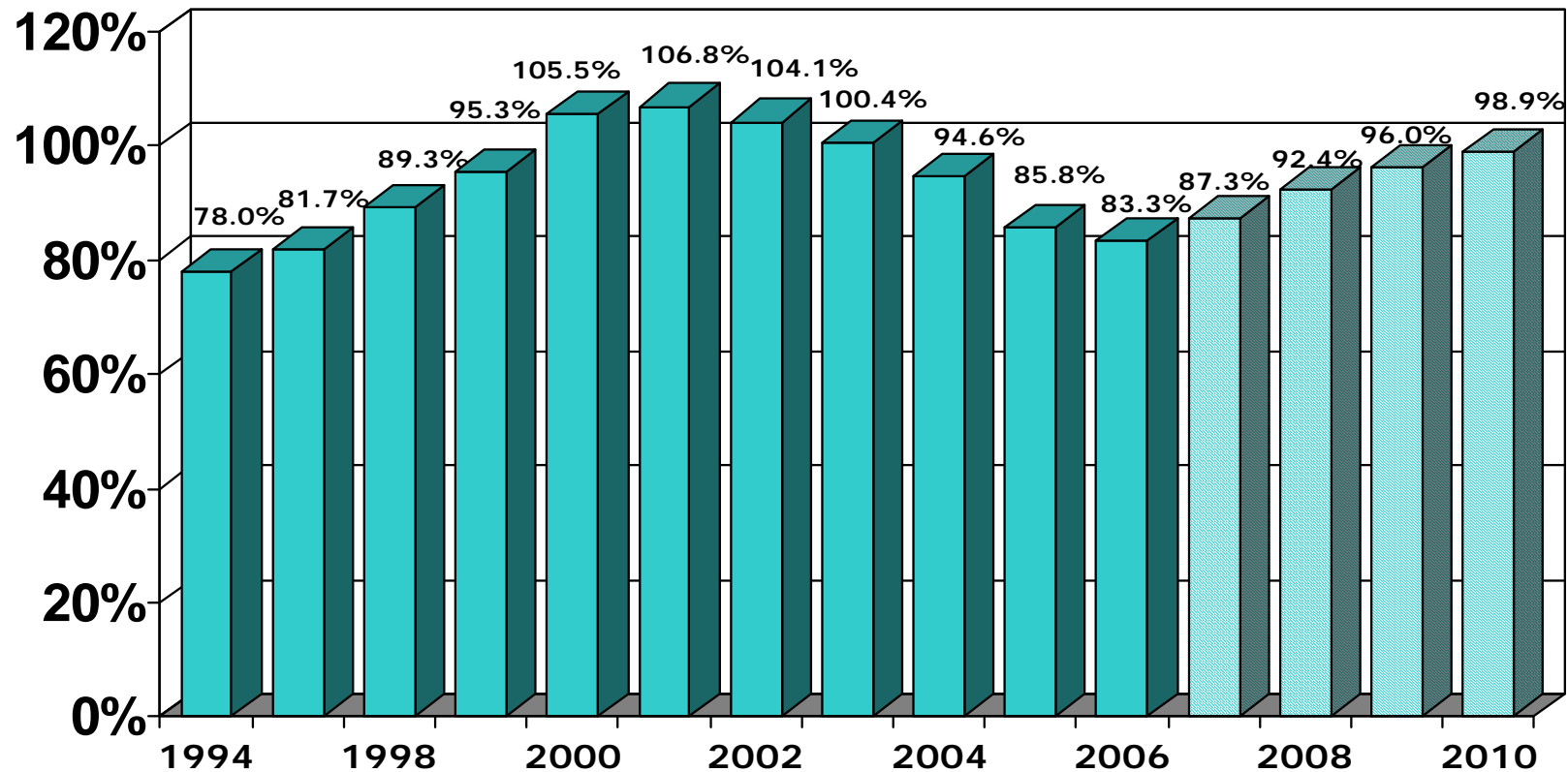


	2002	2003	2004	2005	2006	2007
Investment Return	-7.30%	2.50%	17.90%	12.00%	12.40%	20.00%
Return Assumption	8.00%	8.00%	8.00%	7.50%	7.50%	7.50%
Excess Gain/Loss	-15.30%	-5.5%	9.9%	4.5%	4.9%	12.5%
Smoothing Weight	N/A	100%	80%	60%	40%	20%
Smoothing Impact	N/A	-5.5%	7.9%	2.7%	2.0%	2.5%
Remaining for Future Valuations	N/A	0%	2.1%	1.8%	2.9%	10.0%

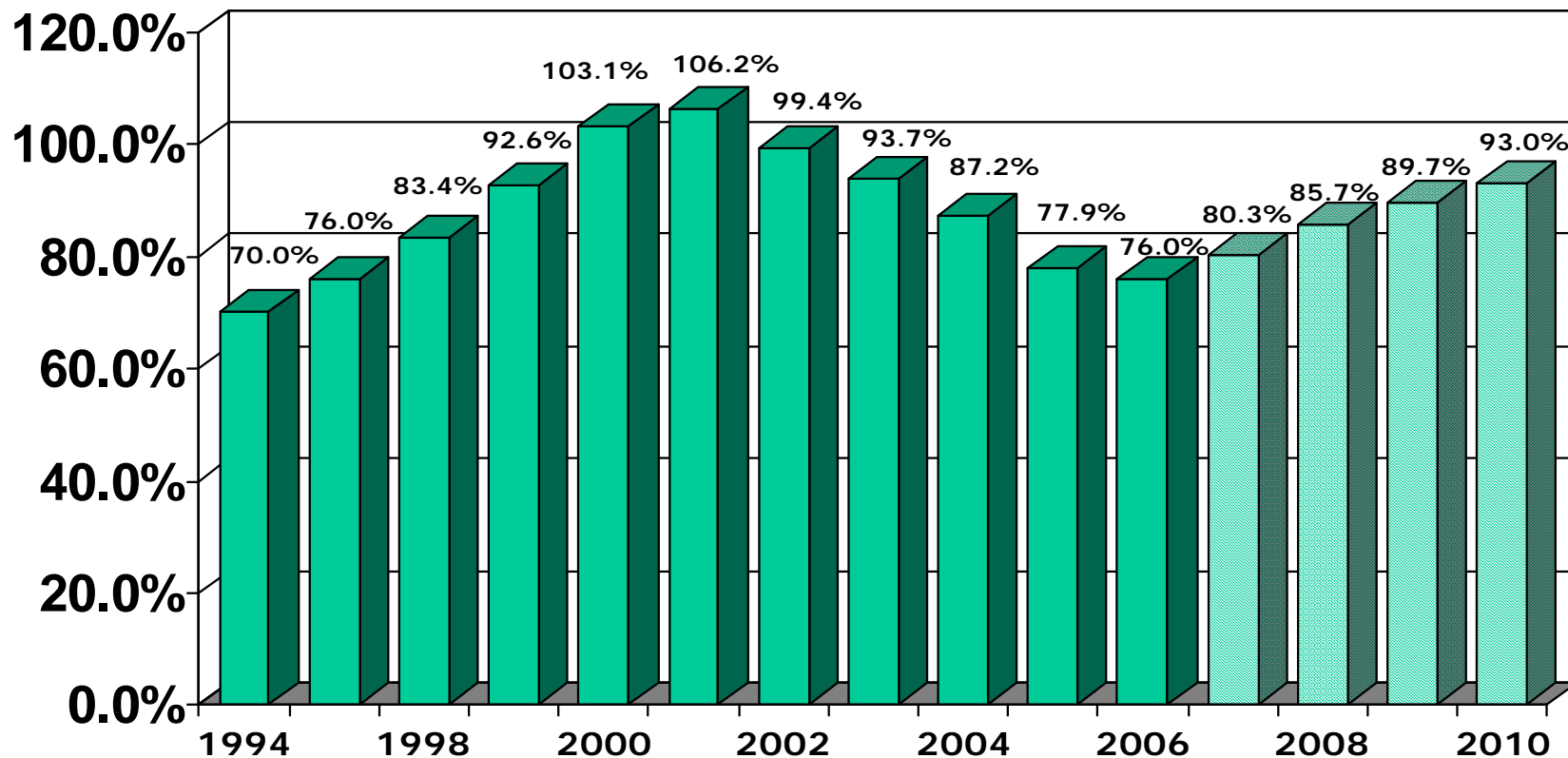
Funded Status

- Compares assets available to pay benefits to present value of future liabilities
- Asset/liability ratio is typical measure
- Percentage of assets available to pay present value of all future liabilities (until the last member of the plan dies)

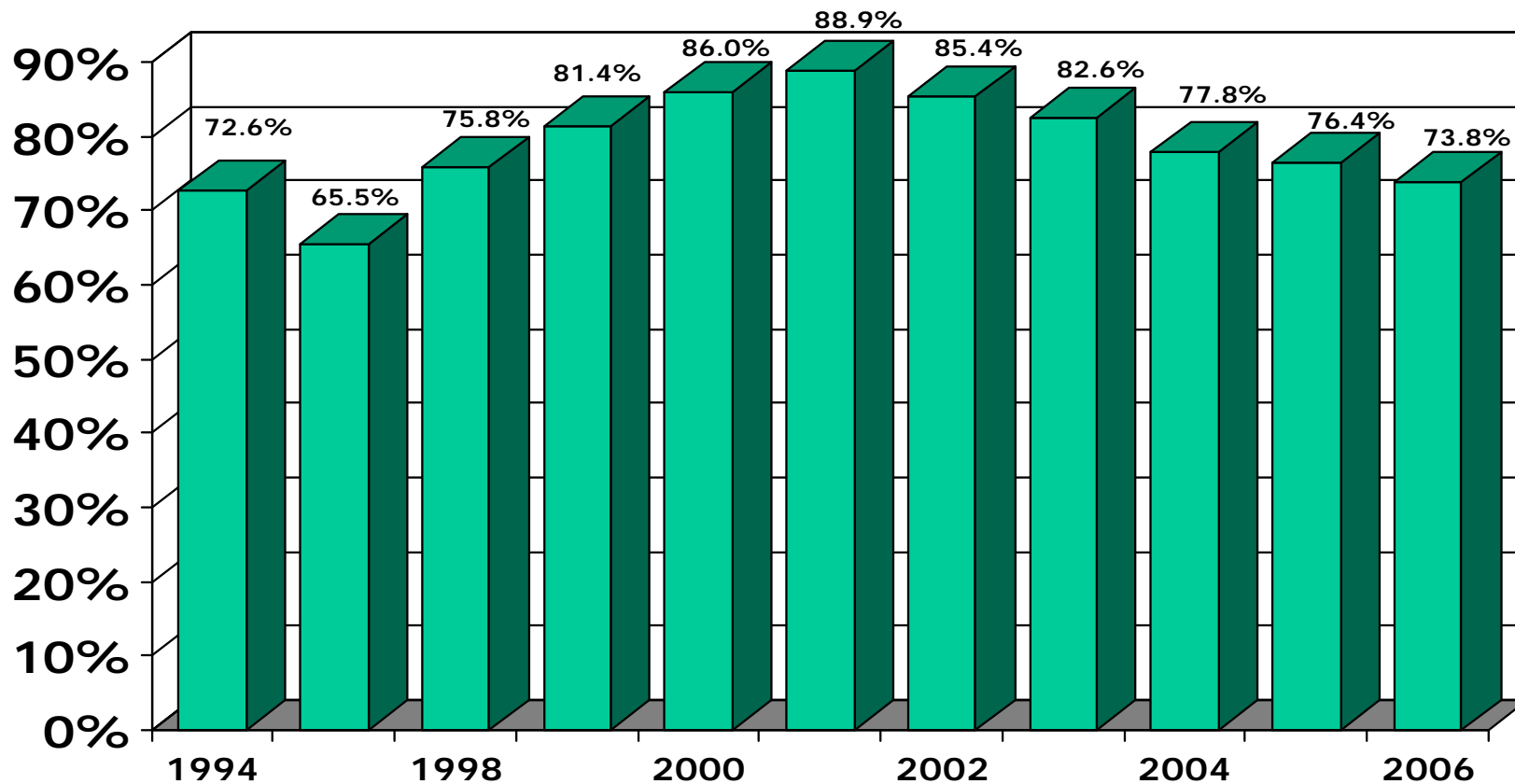
Funded Status: State Employees



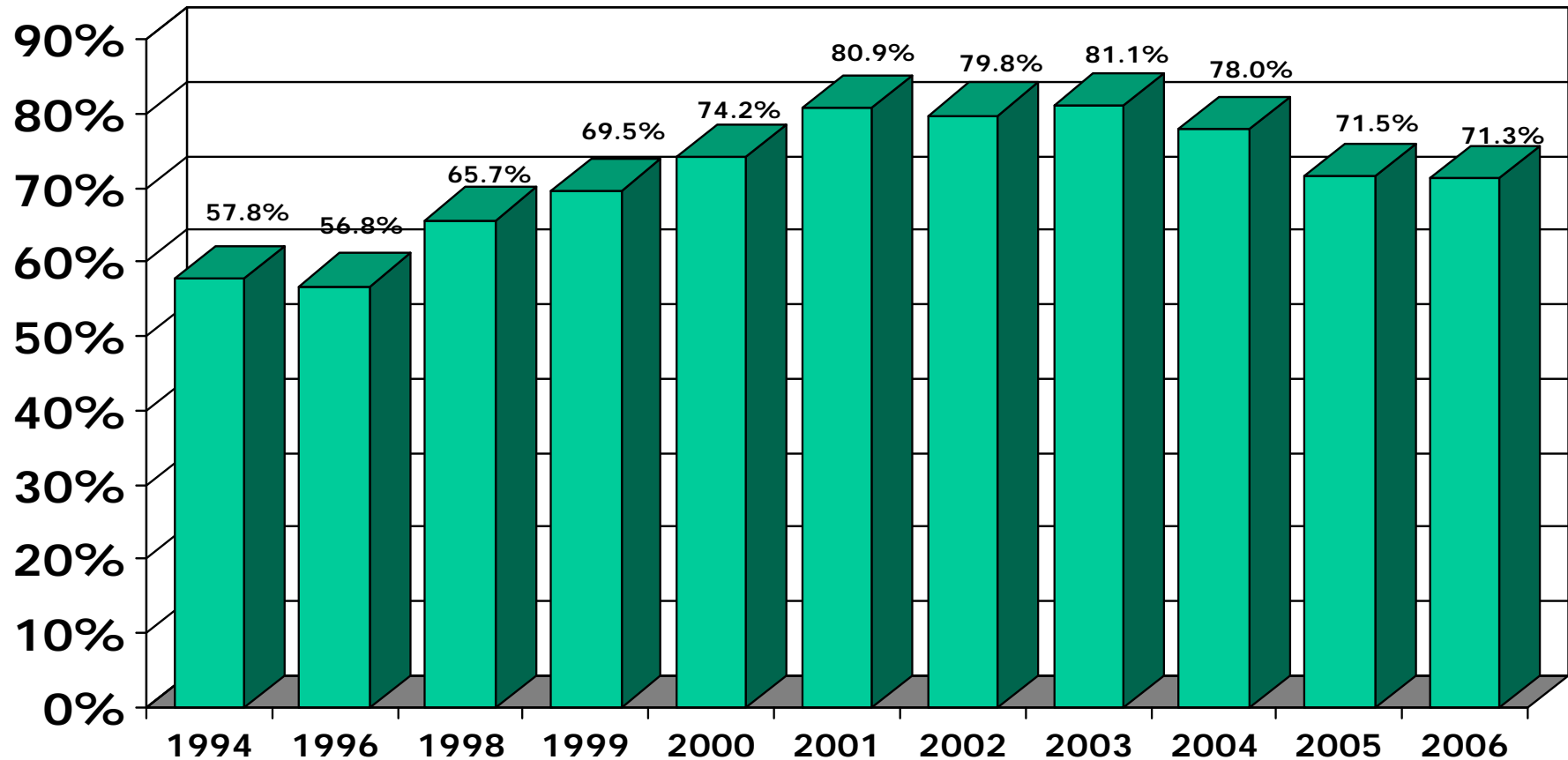
Funded Status: Teachers



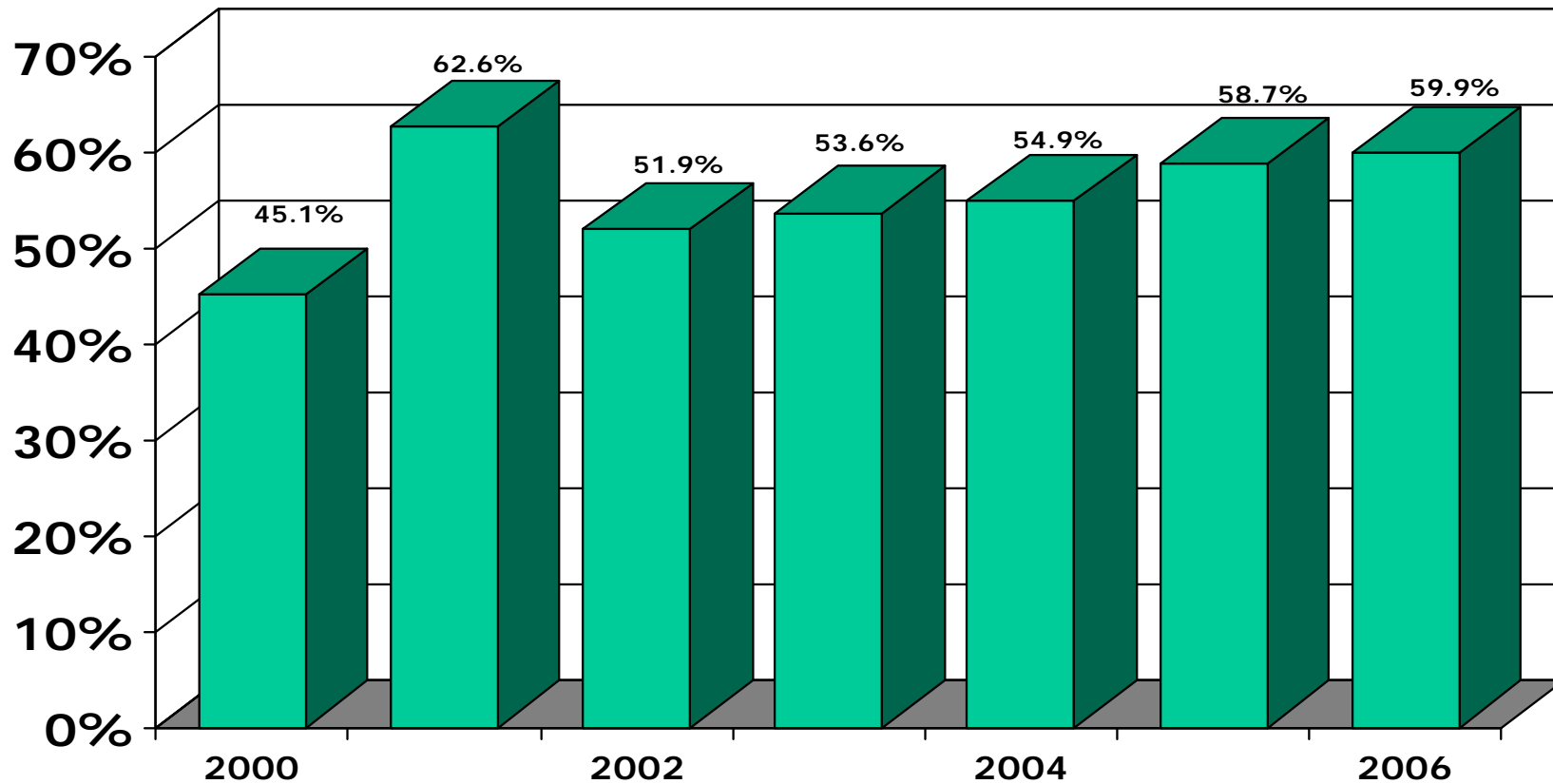
Funded Status: State Police



Funded Status: Judicial



Funded Status: VaLORS



Retirement Employer Contribution Rates and Funded Amount

	VRS Board Certified (6/30/2005 Valuation) *	2007 Funded Rates (Chap. 3)*	2008 Funded Rates (Chap. 847)*	Projected 2008 Employer Contributions* (in millions)
State	7.33%	5.74%	6.15%	\$212.6
Teacher	11.18%	9.20%	10.30%	\$674.3
SPORS	19.82%	16.71%	20.76%	\$20.4
JRS	40.07%	36.74%	38.01%	\$21.4
VaLORS	17.39%	14.96%	15.86%	\$52.1

*Does not include 5% employee picked-up contribution.

Contribution Rates

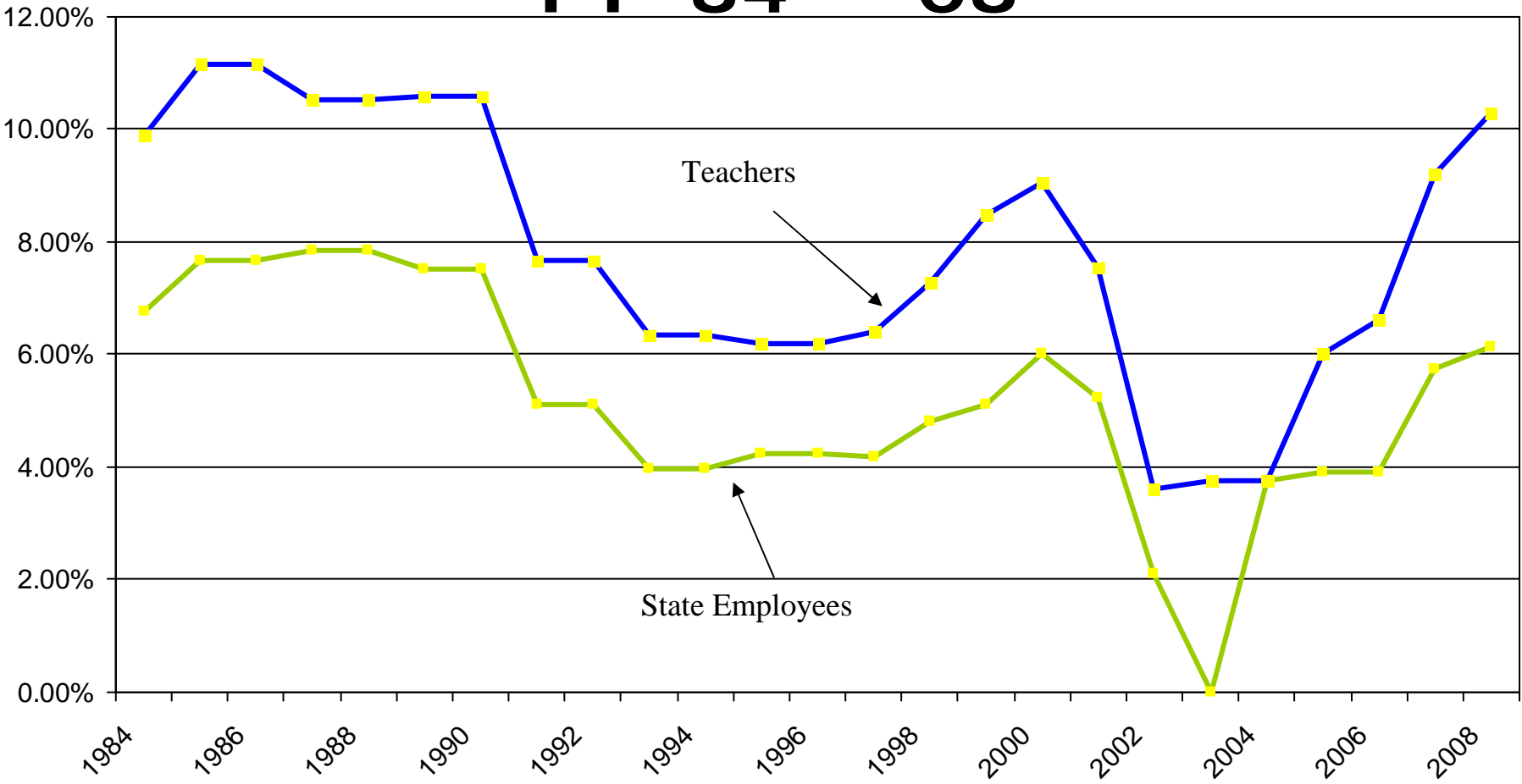
Non-Pension Programs Other Post Employment Benefits (OPEB) Employer Contribution Rates

Board approved rates for non-pension programs that affect pre-funding as required by GASB 43 & 45

	VRS Board Certified (6/30/2006 Valuation)**	2007 Funded Rates (Chap. 3)	2008 Funded Rates (Chap. 847)
Health Insurance Credit (state)	1.20%	1.07%	1.20%
Health Insurance Credit (teacher basic)	0.70%	0.49%	1.16%*
Life Insurance	1.00%	1.13%	1.00%
VSDP	2.90%	1.78%	2.00% ***

Contribution Rates

Teacher, State Contribution Rates FY '84 - '08



VRS Enhancements



Continued work on **myVRS Suite**

- myVRS for members – May 2006
- myVRS for employers – February 2007
- myVRS for retirees – FY 2008

VRS Enhancements



VRS Modernization Program

- Updated technology
- Streamlined processes
- Continued focus on the customer
- RFP ready in July

2007 Legislation

- Automatic enrollment of new state employees in the Deferred Compensation Plan (DCP), effective with new hires as of 1/1/08
- Enrollment in the DCP and Cash Match Plans begins 90 days after employment
 - Deferral amounts: DCP \$20 and \$10 Cash Match Plan
- New employee has 90 days to opt out of the DCP enrollment

2007 Legislation

- Health insurance credit for retired teachers increases to \$4 per year of service credit
- Cap removed
- Effective July 1, 2007; will appear in the August 1, 2007 benefit payment

2007 Legislation

- Multiplier of 1.7% increases to 1.85% for state police officers and VRS-covered sheriffs, effective 7/1/07
- Allows localities to elect to provide enhanced LEOS multiplier (1.85% multiplier), effective 7/1/07
- Requires all cities/counties to provide basic LEOS (1.7% multiplier) to deputy sheriffs, effective 7/1/08

VRS Studies/Analyses

- Self-insuring the long-term care program
- Virginia Sickness & Disability Program (VSDP) Study
- RFP for Actuarial Services
- ORP (Higher Ed. Faculty) Employer Rate Review
- Lend technical assistance in the upcoming JLARC Study



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Thank You!



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