

COMMONWEALTH OF VIRGINIA **DEFINED CONTRIBUTION PLANS**

457 Plan Automatic Enrollment Benefits New State Employees

Through January 2010, more than 6,700 new and rehired salaried state employees have been enrolled in the 457 Deferred Compensation Plan since January 2008 when automatic enrollment went into effect. An additional 2,500 new employees self enrolled rather than waiting to be automatically enrolled. Approximately 6% of employees eligible to be automatically enrolled opted out of Plan participation.

With automatic enrollment, there's no paperwork or decision about how much or where to invest. As soon as you start your job, you are notified that \$20 per pay date will be contributed to your Plan account unless you opt out within 90 days. Your contributions are automatically invested in the Plan's Balanced Growth Fund, a pre-mixed portfolio of stock and bond index funds.

By enrolling in the Plan right away, you can start to take advantage of compounding which means the money you invest starts working for you sooner. Compounding can have a significant impact on the growth potential of your Plan account.

If you hold off on joining the 457 Plan until "tomorrow," you lose out on the benefit of compound earnings. As this chart illustrates, waiting even one year can make a difference in the potential income available at retirement.

Delaying your participation for 10 or 20 years would force you to contribute much larger amounts to the Plan to try to make up the difference — and even then, you might not catch up.

Compounding can do a lot for even a modest investment such as \$20 per pay date. But if you want to accumulate enough to retire, consider contributing as much as you can afford.

It's simple to adjust your Plan contributions. Using the **Contribution Escalator**, you can elect automated future increases. You can choose the frequency right for your situation: once, quarterly, semi-annually or annually.

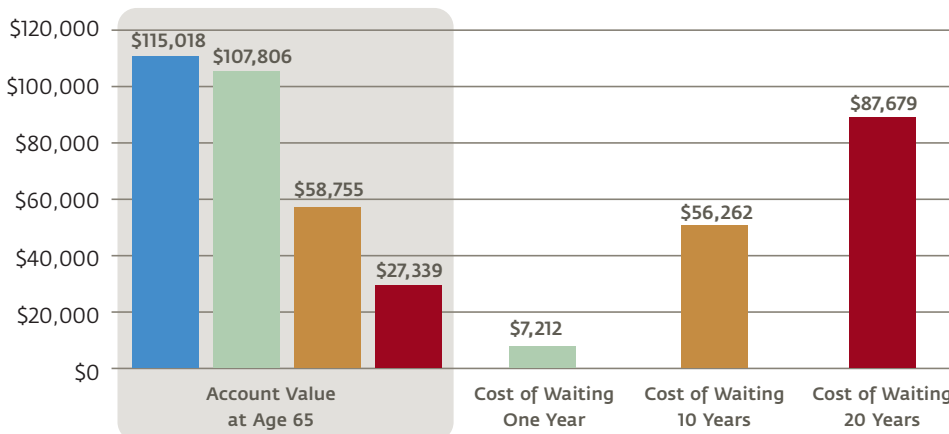
To access the **Contribution Escalator**, go to www.varetire.org. Select **Account Log-In** under the **Defined Contribution Plans** tab and log on to your account. From the site map, select **Manage Contributions**. Or call **1-VRS-DC-PLANI** (1-877-327-5261) to use the Interactive Voice Response (IVR) system (select 1, then 2, then 2) or get help from a Customer Service Associate (select 1, then 0).

Automatic enrollment gets you started, but you also have the flexibility to decide for yourself how much more of your paycheck should go into your Plan account and where to invest your contributions. You should carefully read and review all investment information prior to making investment decisions. ●

The Cost of Waiting

A 25-year-old who joins the Plan immediately accumulates \$7,212 more in account value than someone who waits until age 26 to begin. Delaying participation by 10 or 20 years means giving up thousands of dollars more for retirement.

- Starting at age 25
- Starting at age 26
- Starting at age 35
- Starting at age 45



This hypothetical example assumes \$60 contributions made at the beginning of each month, a 6% effective annual interest rate compounded monthly, no withdrawals and retirement at age 65. For illustrative purposes only to show how the number of years invested in the Plan could affect participant account values. Not intended as a guarantee of past or future performance of any security. Actual rate of return may be more or less than shown and will depend upon a number of different factors, including a participant's choice of investment options. Any fees, expenses or charges that may be associated with the Plan are not considered in this illustration. Plans having these charges would reflect lower net returns.

State Cash Match Is Capped at \$10 Per Pay Date July 1

Funding continues for the employer cash match paid to salaried state employees who contribute to the Commonwealth's 457 Deferred Compensation Plan or to a 403(b) plan sponsored by their employer.

However, for Fiscal Year 2011 (July 1, 2010 through June 30, 2011), the cash match for state employees will be 50% of their contribution to the 457 Plan or a 403(b) plan, if the employer provides one, not to exceed \$10 per pay date. State employees who participate in both Plans receive one cash match.

This change will be effective with the July 1 pay date. It will not affect employees who are automatically enrolled. They will continue to receive a \$10 match on their \$20 automatic contribution.

Beginning with the first pay date in July 2011, the match will return to 50% of the employee's contribution, not to exceed \$20 per pay date.

The change has no impact on non-state agencies that participate in the Virginia Cash Match Plan. Those employers continue with the level of match set by their governing body.

More detail on the 2010 legislative changes will be available after the General Assembly's reconvened session in April when amendments to legislation passed in the regular session were considered. ●



Password Changes to Plan Web Site

VRS continuously looks for ways to improve the security of participants' Defined Contribution Plan accounts.

Participants who previously used the numeric password they established for the Interactive Voice Response (IVR) system will no longer be allowed to use the numeric password to access their Plan accounts via the Plan Web site.

Beginning in the second quarter of 2010, participants who previously established a numeric password through the IVR will need to change their password when accessing their Defined Contribution Plan account on the Plan Web site. The Plan Web site password must be eight to 20 characters long and include **at least**:

- One uppercase letter
- One lowercase letter
- One number

Participants who have already established a Plan Web site password that meets these standards will not be required to change their passwords.

Once their new Plan Web site passwords have been created, participants will use the numeric equivalent of the Plan Web site password to access their accounts through the IVR. Participants should press the number that corresponds to the letter on their phone's keypad. For example, press 2 for B.

Also, beginning in the second quarter, participants will be prompted to establish five security questions to provide alternative access to their accounts, should they forget their passwords. Participants who have already established three questions will only need to provide answers to two additional questions. ●

With 457 Plan Contribution Changes and One-Time Deferrals, Timing is Everything

Because your Plan contributions are tax-deferred until withdrawn, the Internal Revenue Service (IRS) has very specific rules that apply to your contributions.

You may request changes to the amount of your contribution at any time. However, the change can be effective no earlier than the first available pay date in the month following the month in which the change request is received by ING Institutional Plan Services, the Plan recordkeeper. The pay date on which the change occurs will depend on the employer's pay schedule. Also, whether the date on which you request the change is far enough ahead of the date the employer processes payroll will determine whether the change takes place the first pay date of the following month or a later pay date.

If you are leaving employment, you may increase your savings by contributing to the Plan the unused vacation, sick leave and other types of compensation paid to you when you leave employment. One-time deferrals count toward the contribution limits for the year in which they are posted to your account.

While you are still employed and no later than the month prior to the month you would otherwise receive the termination pay, give your employer a signed **457 Plan Payroll Authorization Form – One-Time Deferral** indicating the amount you wish to be contributed to your Plan account. ●

Leaving Employment?

When you leave state employment, you are likely to have questions about your 457 Plan and Cash Match Plan. Here are a few answers to help you with your planning.

Q. I want to save as much as I can for retirement and defer taxes on my unused leave pay. Instead of receiving direct payment for unused vacation and sick leave, may I contribute those amounts to the 457 Plan?

A. Yes. You may contribute to the 457 Plan your unused vacation and sick leave and other compensation paid to you at termination of employment, up to the annual limits set by tax laws. Prior to your last day of employment, and no later than the month prior to the month you would otherwise receive the leave payout, submit a completed **457 Plan Payroll Authorization Form — One-Time Deferral** to your agency payroll office. Termination pay counts toward the contribution limit for the year in which it is paid into your Plan account. If your last day of employment is October 24 or later, you may request that the termination pay be contributed in January of the following year so the contribution limits for that year apply.

In 2010, the maximum annual amount is \$16,500. If you will be age 50 or older by December 31, 2010, you are eligible for the Age 50+ Catch-Up which allows you to contribute an additional \$5,500 in 2010 for a total annual contribution of \$22,000.

If you did not contribute the maximum amount to the Plan in previous years, you may be eligible to use the Standard Catch-Up and contribute up to twice the annual deferral limit or your Catch-Up credit, whichever is less, during the three consecutive years prior to reaching the normal retirement

age you have selected. Under this option, you may be eligible to contribute up to a total of \$33,000 in 2010. If you are interested in using the Standard Catch-Up, download the application in the **Forms** section of the Plan Web site at **www.varetire.org**. For help, call the Plan Information Line toll-free at **1-VRS-DC-PLAN1** (1-877-327-5261) and select 2 to speak with a Virginia registered representative.

Q. I want to keep my retirement money all in one place. May I combine money from other accounts in the 457 Plan or Cash Match Plan?

A. Yes. The 457 Deferred Compensation Plan accepts incoming rollovers of pre-tax money from other 457(b) governmental deferred compensation plans. The Cash Match Plan accepts incoming rollovers from 401(a), 401(k), 403(b) and 457(b) Plans, Traditional IRAs and the Federal Thrift Savings Plan.

If you are eligible to receive a portion of your VRS retirement benefit in a lump sum payment, you may roll the VRS Partial Lump Sum Option Payment (PLOP) into your Cash Match Plan. If you are eligible for the Virginia Cash Match Plan and have an account balance in either the Cash Match Plan or the 457 Deferred Compensation Plan, you are eligible to roll money into the Plans even after you leave employment.

Q. When can I withdraw money from the Plans?

A. Generally, you are not eligible to take a distribution from the Plan until you leave employment with the employer that offers the Plan and satisfy a break in service of at least one month from the time you are last reported to VRS by your employer.

CONTINUED ON PAGE 4

Meet Your Virginia Registered Representative

When you need personal assistance, a Virginia registered representative can explain the investment options within your Plan and the Plan rules. You can stop by the ING Service Center at 919 E. Main Street in Richmond or call **1-VRS-DC-PLAN1** (1-877-327-5261), Monday-Friday, 8:30 a.m. to 5 p.m. (Eastern Time), except for State holidays. Registered representatives can meet with you at your work location. They lead regional education meetings and employee group meetings at locations throughout the Commonwealth of Virginia.

An interview with Kelly Hiers

Plan Manager, Richmond/Central Virginia Representative



Education: FINRA Series 6 and Series 63 licenses. MBA, Charleston Southern University. BA, University of South Carolina, the Moore School of Business.

Helpful experience: Spent several years in Human Resources working with deferred compensation plans for a state agency.

My favorite part of the job? When someone says, "Wow, investing isn't as hard as I thought!" I meet with people one-on-one or in groups. I'm very flexible. Once at 1 a.m., I met with a group of nurses who worked the night shift. Even at that hour, 23 people showed up.

Most participants ask me for basic information about the Plans' investments. Those who are leaving employment want to know, "What now? What are my options?" Often, people are intimidated by investing. That's why many haven't looked at their Plan account in years. I tell them not to feel bad if they don't know what questions to ask. All they need to know is what information they want from me.

I have a nice conversation with participants and spend as much time talking with them as they need. After I explain the Plans' investment options, I can literally see the light bulb going off for participants who tell me, "I never understood that before. Now I feel as if I do." ●



Plan Information Line:
1-VRS-DC-PLAN1 (1-877-327-5261)
Monday – Friday • 8 a.m. to 8 p.m. Eastern Time

Plan Web site:
www.varetire.org. Select your Plan under the **Defined Contribution Plans** tab.

ING Service Center:
919 E. Main Street • Richmond, VA 23219
1-VRS-DC-PLAN1, option 2
Monday – Friday • 8:30 a.m. to 5 p.m. Eastern Time

ING Registered Representatives:
1-VRS-DC-PLAN1, option 2
Kelly Hiers, David Detamore
Mackenzie Moss, Janice Parker

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Leaving Employment?

If you receive Work-Force Transition Act (WTA) benefits, you are eligible to request a distribution unless you become employed by another employer that offers the Plan.

If you reach age 70½ and continue to work for an employer that offers the Plan, you are allowed to take an in-service distribution.

You must begin taking the IRS required minimum distribution from the Plans by April 1st of the year following the year in which you reach age 70½ or quit working with the employer that offers the Plan, whichever is later.

You may take distributions from rollover accounts within the Plans regardless of your employment status.

Q. How are Plan distributions taxed?

A. Distributions are taxed as ordinary income. State and federal income tax are withheld from any distribution amount that is eligible to be rolled over to another Plan but that is paid directly to you.

You may also incur an additional 10% early withdrawal tax on distributions from your Virginia Cash Match Plan or other 401(k) plan account if taken before age 59½. The penalty would not apply if you were age 55 or older when you left covered employment or if you began distributions designed to last for your lifetime or if you were disabled.

There is never a penalty on distributions from the 457 Plan regardless of your age when you take the distribution.

This is general information. Prior to taking a distribution, you should speak to your tax adviser to identify any issues that may be particular to your situation. ●



Quarterly calendar

The New York Stock Exchange is closed:

- Monday, May 31, 2010
- Monday, July 5, 2010

Transactions made on these days will be processed the following business day.