

In this issue

- Plan Contribution Limits Higher in 2012
- The Saver's Tax Credit
- Go Green, Go Paperless
- Qualifying for a Plan Distribution
- Unforeseeable Emergency Withdrawal Appeal Process
- Participant Focus Groups Provide Feedback
- Plan Web Site Tip
- Understanding How to Evaluate Fund Performance
- Expand Your Planning and Investing Skills in the New Year

COMMONWEALTH OF VIRGINIA DEFINED CONTRIBUTION PLANS

Plan Contribution Limits Higher in 2012

The Internal Revenue Service (IRS) increased the maximum amounts participants may contribute to the 457 Deferred Compensation Plan in 2012.

Annual Limit for those under age 50	\$17,000
Limit including Age 50+ Catch-Up	\$22,500
Limit including Standard Catch-Up	Up to \$34,000

Participants age 50 or older by December 31, 2012, are eligible for the **Age 50+ Catch-Up** that allows contribution of an additional \$5,500 in 2012 for a total annual contribution of \$22,500.

Participants who did not contribute the maximum amount in previous years may be eligible to use the **Standard Catch-Up** and contribute up to twice the regular annual deferral limit or the regular deferral limit plus their available catch-up credit, whichever is less, during the three consecutive years prior to reaching the normal retirement age selected. Normal retirement age must be earlier than age 70½.

For VRS Plan 1 members (hired before July 1, 2010), the earliest normal retirement age that may be selected is the age of eligibility for an unreduced retirement benefit. For those covered by an Optional Retirement (ORP) Plan 1, the earliest normal retirement age is 65.

For VRS and ORP Plan 2 members (hired on or after July 1, 2010), normal retirement age can be as early as the age of qualification for unreduced Social Security retirement with at least five years of service. Those covered by a VRS defined benefit plan may select a normal retirement age as early as the age at which their age plus service equals 90.

Wage employees participating in the 457 Plan may use the Standard Catch-Up and select a normal retirement age as early as age 62 but not later than the year they reach age 70½.

Participants may not use the Standard Catch-Up in the year designated as the normal retirement age.

To use the Standard Catch-Up option, complete the *Normal Retirement Age Election Form*, *Standard Catch-Up Credit Worksheet* and *Payroll Authorization Form-Standard Catch-Up*. To obtain the Standard Catch-Up forms and instructions, go to www.varetire.org, select **457 Deferred Compensation Plan** under the **Defined Contribution Plans** tab, then **Forms** or call the Plan Information Line toll-free at **1-VRS-DC-PLAN1** (1-877-327-5261).

For assistance completing the forms, call the Plan Information Line toll-free at **1-VRS-DC-PLAN1** (1-877-327-5261), option 2 to speak with a Virginia registered representative. ●

You cannot use the Age 50+ and Standard Catch-Up options in the same calendar year.

If you are a salaried employee eligible to receive a cash match from your employer, the amount your employer contributes to your Cash Match Plan does not count against the contribution limits that apply to the 457 Plan.

The Saver's Tax Credit

You may be eligible to claim a tax credit on your 2011 and 2012 federal tax returns for up to half of the first \$2,000 you save in the 457 Plan each year if your adjusted gross income does not exceed these limits. For more information, go to www.irs.gov or contact your tax adviser. ●

	Tax Year 2011	Tax Year 2012
Single, married filing separately, or qualifying widow(er)	\$28,250	\$28,750
Head of household	\$42,375	\$43,125
Married filing jointly	\$56,500	\$57,500

Go Green, Go Paperless

Sign up to receive electronic versions of your statements and other account documents automatically in your Plan Web site online account mailbox. Go to www.varetire.org and select your Plan under the **Defined Contribution Plans** tab. Log into your account, select **My Profile**, then **Mail Delivery Preferences**. ●



1-VRS-DC-PLAN1 (1-877-327-5261)
www.varetire.org

Qualifying for a Plan Distribution

Internal Revenue Service (IRS) rules specify when and how you can take money out of your Plan account(s) because the contributions made to the VRS Defined Contribution Plans are tax deferred.

Generally, you cannot take money out of the Plan(s) until you terminate employment with the employer that offers the Plan(s). The IRS refers to this as a "break in service." A break in service is defined as one full calendar month during which you receive no compensation or active member benefits from your employer. A break in service does not include summer breaks, periods of leave without pay, educational leave, sick leave and periods of time during which you normally would not be at work.

For example, if you leave employment during the month of January, February would be your break in service. VRS would approve your distribution request by the second week in March and ING, the record keeper, would issue your payment a few days later.

After you retire, you may intend to return to work with your former employer or another employer that offers the Plan(s) in which you participate. If you wish to receive a distribution, you must submit the request for distribution during your break in service and have it processed prior to returning to employment.

There are a few types of distributions from the 457 Deferred Compensation Plan that do not require a break in service:

1. Balances of \$5,000 or less may be distributed to participants who have not made contributions to the Plan for the last 24 months.
2. 457 Plan money may be withdrawn to pay for approved VRS service credit.
3. Unforeseeable hardship withdrawals may be allowed if a participant meets the requirements for this type of distribution.
4. The contributions of participants who were automatically enrolled may be withdrawn if done within 90 days of the first automatic contribution posting to the participant's account.

Optional Retirement Plan for Political Appointees (ORPPA) participants may use their balance to purchase VRS service credit if, upon leaving the ORPPA position, they continue employment with the Commonwealth in a position not eligible for the ORPPA. ●

Unforeseeable Emergency Withdrawal Appeal Process

The Virginia Deferred Compensation Plan allows withdrawals in the event of an unforeseeable emergency based on strict Internal Revenue Service (IRS) regulations as defined in Section 457 of the Internal Revenue Code (IRC).



Each request for an unforeseeable emergency distribution is initially approved or denied by ING based on documentation provided by the participant describing the nature of the unforeseeable emergency and providing proof there are no other resources available to cover the emergency. If ING denies a distribution request, the denial letter to the participant contains instructions on how to appeal. The appeal must be submitted to VRS within thirty days of receiving notification of the denial and include any additional documentation participants can offer to show they are in a hardship situation.

The decision to grant or deny an unforeseeable emergency withdrawal appeal must be based on sufficient evidence indicating the emergency is extraordinary and unforeseeable and that there are no other resources available to cover the emergency. Each appeal is reviewed to determine if anything was missed on the initial review and to see if VRS can allow the distribution based on any additional information provided by the participant. ●

Participant Focus Groups Provide Feedback

The Virginia Retirement System (VRS) is evaluating the DC Plans investment program with the objective of improving fund offerings and participant investment communications.

To support this effort, VRS partnered with Virginia Commonwealth University's (VCU) Performance Management Group to hold participant focus groups in Richmond, Roanoke, Fairfax and Norfolk during 2011. The groups were segmented by participants' years of service as follows: 0-9 years of service; 10-19 years of service; and 20+ years of service including retirees. Participants were randomly invited to participate.



Below are summary highlights of the focus group discussions:

- A wide variation exists in how participants make investment decisions. Some are very unsure about their investment ability and are overwhelmed by the information and available options. These participants make their investment selections with great trepidation. Some participants make investment decisions based on various criteria they consider important and still others consult with external financial advisors or other people whose opinions they trust.
- Participants are generally satisfied with the investment options offered through the plans but some additional options were suggested for VRS to consider. Most of these options were focused on very specific investment strategies, and are under consideration.
- The Web site is good but could be improved, particularly in the area of password resets. Participants expressed that the Web site provided valuable information and convenient access to their account information.

- A wide range of opinions was expressed relative to communications. Some believe the information provided is too voluminous and complex and should be simplified, others think the information is adequate and still others want more detailed information. Participants suggested the use of graphs, pie charts and other visual representations of performance and asset allocations would be very useful. Participants were receptive to the use of video clips and interactive tools on the Web site as a means of communication.
- Participants suggested that VRS should proactively market the Deferred Compensation Plan. They see this program as a valuable benefit and every effort should be made to ensure employees are fully aware of this plan.

If you did not participate in a focus group and have suggestions for improvements, please send an e-mail to Kelly Hiers, Plan Manager, at Kelly.Hiers@us.ing.com. VRS expects to make any necessary changes during the third quarter of 2012. Updates regarding this project will be provided in upcoming issues of the *Focus* newsletter and posted on the Plans' Web site at www.varetire.org under the **Defined Contribution Plans** tab. ●

Plan Web Site Tip

FOURTH IN A SERIES

Your Plan Web site at www.varetire.org offers a convenient way to access information and manage your account. Here is a tip to help you master the basics and avoid delays.



Getting locked out of your account

When you want to log into your account, take care to enter the answers to the security questions correctly. If you make errors or answer incorrectly three times, you will be locked out of your account online and on the Interactive Voice Response (IVR) system. This security feature is intended to prevent someone else from accessing your account.

To have your account unlocked, you must call **1-VRS-DC-PLAN1** (1-877-327-5261) and speak with a Customer Service Associate who will unlock and reset your account after verifying that you are the account holder. This will also reset all of your security questions. You will need to create new ones the next time you are online. ●



Understanding How to Evaluate Fund Performance

The Investment Option Performance report enclosed with your quarterly statement provides a convenient way to monitor the performance of your investments and the other options offered under the Plans.

Fund returns are computed in a standard way to show fund performance over a variety of time periods. Benchmark performance and the Virginia Retirement System Investment Portfolio (VRSIP) returns are reported with a one month lag.

To use this information correctly, keep in mind:

- **Measure a fund's performance relative to the market index that is the fund's benchmark.** Some popular benchmarks include the Dow Jones Industrial Average, the S&P 500, the Wilshire 5000, the Russell 2000, the MSCI-EAFE, the Solomon Brothers World Bond Index, the Nasdaq Composite and the S&P 400 Midcap. The Investment Option Performance report lists the appropriate benchmark for each fund and its returns.
- **Compare the fund with its peer group.** To evaluate performance accurately, look at funds that have the same investing style and characteristics. For example, performance of an actively-managed fund that invests in large company stocks is likely to be different from that of a passively-managed (index) fund that copies the holdings in the market index it follows. An actively-managed bond fund should be compared with funds that invest in bonds of similar maturities and credit quality. Funds that invest in international stocks or bonds are different from those that invest in U.S. large companies.
- **You are investing for the long-term goal of retirement.** When evaluating funds, it is important to look at long-term performance. The markets and the economy go through cycles that can last for several years. At times, funds that invest in small company stocks may outperform funds that invest in large company stocks. At other times, the reverse may be true. By spreading your dollars among a variety of investments, you could be affected less by losses in any one investment, and any losses you might incur might be offset by potential gains in another investment.
- **Past performance is no indication of future results.** However, regularly reviewing fund performance information helps you monitor and manage your investments over time. ●

Expand Your Planning and Investing Skills in the New Year

Take advantage of these educational opportunities for learning more about the Commonwealth of Virginia Defined Contribution Plans and how to manage your retirement assets.

Regional Education Meetings

Local registered representatives present information on different topics and answer questions at convenient locations through the Commonwealth. In 2012, the topics will be *First Steps to Financial Security*, *Deferred Compensation and Cash Match Plans Overview*, *Understanding Your Plan Investments* and *Retirement Distribution Strategies*. For details and the schedule, please see the Regional Education Meetings insert enclosed with this issue of *Focus* and your quarterly statement.

VRS Retirement Education Seminars (RES)

These seminars address a variety of financial planning and retirement readiness topics focused on the needs of individuals at various stages of their careers. Industry professionals deliver information, provide insight and answer questions on topics ranging from financial planning strategies to adjusting to retirement.

- **RES 1** addresses planning for retirement, covering the basics of money management, mid- and long-range financial planning, estate planning and legal readiness as well as the psychological and social adjustments required after retirement.
- **RES 2** goes further along the planning timeline, with topics geared toward individuals who are closer to retirement. The seminar explains long-term care insurance, Social Security benefits and Medicare coverage as well as short-term financial strategies such as catch-up provisions and distribution methods.

For more information about the seminars offered currently, visit www.varetire.org and select **Education and Counseling** under the **Member** tab. Later in 2012, the VRS member education program will be enhanced with new e-courses and Webcasts so you can learn online at your convenience. ●



Contact Us

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



Quarterly calendar

Transactions made on these dates when the New York Stock Exchange is closed will be processed the following business day.

- **Monday, February 20, 2012**
- **Friday, April 6, 2012**

This newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact their legal, tax or investment advisers. © 2011 ING. All Rights Reserved.