SECURITIES AND EXCHANGE COMMISSION

FORM 497

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VANGUARD VARIABLE INSURANCE FUND
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Business Address
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VALLEY FORGE PA 19482
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PLACE
STAMP
HERE

(LOGO OF THE VANGUARD GROUP APPEARS HERE)
P.O. BOX 2600
VALLEY FORGE, PA 19482-2600

I understand that a "Statement of Additional Information" about the Vanguard Variable Annuity Plan contract has been filed with the Securities and Exchange Commission. Please send me a free copy of the "Statement." I have printed my name and address below.

Name ____

Address ____

____

City _____________________ State _____________________ ZIP _____________________

PSAI-st
1191

A Member of The Vanguard Group

(ART)

PROSPECTUS--JANUARY 4, 1994

INVESTMENT OBJECTIVES AND POLICIES

Vanguard Variable Insurance Fund (the "Fund") is an open-end diversified investment company. The Fund is intended exclusively as an investment vehicle for variable annuity or variable life insurance contracts offered by the separate accounts of various insurance companies. The Fund offers six distinct Portfolios.

The MONEY MARKET PORTFOLIO seeks to provide current income and a stable net asset value of $1.00 per share by investing in high-quality money market instruments. ALTHOUGH THE

MONEY MARKET PORTFOLIO INVESTS IN HIGH QUALITY INSTRUMENTS, AN INVESTMENT IN THE PORTFOLIO IS NEITHER INSURED NOR GUARANTEED BY THE U.S. GOVERNMENT AND THERE CAN BE NO ASSURANCE THAT THE PORTFOLIO WILL BE ABLE TO MAINTAIN A STABLE NET ASSET VALUE OF $1.00 PER SHARE. The HIGH-GRADE BOND PORTFOLIO seeks to duplicate the total return of publicly-traded, investment grade fixed income securities as represented by a broad investment grade bond index. The BALANCED PORTFOLIO seeks to provide capital growth and a reasonable level of current income by investing in a diversified portfolio of common stocks and bonds. The objective of the EQUITY INCOME PORTFOLIO is to provide a high level of current income by investing principally in dividend-paying equity securities. The EQUITY INDEX PORTFOLIO seeks to parallel the investment results of the Standard & Poor's 500 Composite Stock Price Index by investing in common stocks included in the Index. The GROWTH PORTFOLIO seeks to provide long-term capital appreciation by investing in equity securities of companies based in the United States. There is no assurance that a Portfolio will achieve its objective.

OPENING AN ACCOUNT

Shares of the Portfolios are sold exclusively to separate accounts of insurance companies that offer variable annuity or variable life insurance contracts. To open an account and purchase shares of a Portfolio, please see the prospectus for the insurance company separate account governing the variable annuity or variable life insurance contract.

ABOUT THIS PROSPECTUS

This Prospectus sets forth concisely the information you should know about the Fund. It should be retained for future reference. You should read this Prospectus in conjunction with the prospectus describing the related insurance company separate account. A "Statement of Additional Information" containing additional information about the Fund has been filed with the Securities and Exchange Commission. Such Statement is dated January 4, 1994, and has been incorporated by reference into this Prospectus. A copy may be obtained without charge by writing to the Fund or by calling the insurance company sponsoring the variable life insurance or variable annuity contract.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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HIGHLIGHTS

INVESTMENT OBJECTIVES AND POLICIES

Vanguard Variable Insurance Fund, (the "Fund") is an open-end diversified investment company. The Fund is intended exclusively as an investment vehicle for variable annuity or variable life insurance contracts offered by the separate accounts of various insurance companies.

The Fund offers six Portfolios -- a money market portfolio, a bond portfolio, a balanced portfolio,. an equity index portfolio, an equity income portfolio and a growth portfolio -- each with distinct investment objectives and policies.

MONEY MARKET PORTFOLIO -- seeks to provide a current income and a stable net asset value of $1.00 per share. The Portfolio invests primarily in high-quality money market instruments issued by financial institutions, nonfinancial corporations, and the U.S. Government, as well as repurchase agreements collateralized by such securities.

HIGH-GRADE BOND PORTFOLIO -- seeks to parallel the investment results (income plus capital change) of publicly-traded investment grade fixed income securities in the aggregate by attempting to duplicate the investment performance of a broad investment grade bond index. The Portfolio invests primarily in a diversified portfolio of U.S. Government and corporate bonds and mortgage-backed securities.

BALANCED PORTFOLIO -- seeks to provide capital growth and a reasonable level of current income by investing in a diversified portfolio of common stocks and bonds.

EQUITY INCOME PORTFOLIO -- seeks to provide a high level of current income by investing principally in dividend-paying equity securities.

EQUITY INDEX PORTFOLIO -- seeks to parallel the investment results of the Standard & Poor's 500 Composite Stock Price Index (the "S&P 500"). The Portfolio invests primarily in common stocks included in the S&P 500.

GROWTH PORTFOLIO -- seeks to provide long-term capital appreciation by investing primarily in equity securities of seasoned U.S. companies with above-average prospects for growth.

There is no assurance that a Portfolio will achieve its stated objective.

INVESTMENT RISKS

The MONEY MARKET PORTFOLIO is exposed primarily to credit risk, the possibility that an issuer of securities will fail to make timely payments of interest or principal to the Portfolio. The Money Market Portfolio seeks to minimize such risk by investing in top-rated money market instruments.

The HIGH-GRADE BOND PORTFOLIO is subject primarily to interest rate and credit risk. The Portfolio, like the Lehman Brothers Aggregate Bond Index (the "Lehman Bond Index") it seeks to match, is expected to maintain an average weighted maturity generally in excess of nine years. As a result, interest rate risk -- i.e., the potential for a decline in the market value of the Portfolio's fixed income securities due to rising interest rates -- may range from moderate to high. Credit risk, however, should be nominal, since the Portfolio invests primarily in highly rated bonds and mortgage-backed securities.

The BALANCED PORTFOLIO, with its mix of both stocks and bonds, is expected to exhibit less volatility than a portfolio consisting entirely of common stocks.

The EQUITY INCOME, EQUITY INDEX AND GROWTH PORTFOLIOS are exposed to stock market risk, the possibility that stock prices will decline over short or even extended periods. The U.S. stock market tends to be cyclical, with periods

	when stock prices generally rise and periods when stock prices generally decline. PAGE 10
THE VANGUARD GROUP	The Fund is a member of The Vanguard Group of Investment Companies, a group of 32 investment companies with 77 distinct portfolios and total assets in excess of $120 billion. The Vanguard Group, Inc. ("Vanguard"), a subsidiary jointly owned by the Vanguard Funds, provides all corporate management, administrative, distribution, and shareholder accounting services on an at-cost basis to the Funds in the Group. PAGE 18
FUND EXPENSES	The Fund incurs annual operating expenses which include Management, Advisory and Distribution expenses. For more information please see the section entitled "Management of the Fund" in this Prospectus and the "Fee Table" section of the Contract's Prospectus. PAGE 18
INVESTMENT ADVISERS	The Money Market and High-Grade Bond Portfolios receive investment advisory services on an at-cost basis from Vanguard's Fixed Income Group. Vanguard's Core Management Group serves as investment adviser to the Equity Index Portfolio. Wellington Management Company, Newell Associates and Lincoln Capital Management Company, serve as independent investment advisers to the Balanced, Equity Income and Growth Portfolios, respectively. PAGE 19
DIVIDENDS AND CAPITAL GAINS	Both the Money Market and High-Grade Bond Portfolios declare dividends daily based on ordinary income and distribute dividends monthly. The Balanced, Equity Income and Equity Index Portfolios distribute dividends based on ordinary income quarterly while the Growth Portfolio distributes dividends annually. Any capital gains distributions in the High-Grade Bond, Balanced, Equity Income, Equity Index and Growth Portfolios are made annually. PAGE 22
TAXES	The tax consequences of your investment in the Fund depend upon the specific provisions of your variable life insurance or annuity contract. For more information, see the prospectus for that contract. PAGE 22
PURCHASING AND SELLING SHARES	You cannot purchase shares of the Fund directly, but only through a variable life insurance or variable annuity contract offered through an insurance company separate account. Please refer to the prospectus of the insurance company separate account for information on how to purchase and redeem shares. PAGE 24

FINANCIAL The following financial highlights information for a share

HIGHLIGHTS outstanding throughout each period presented, have been audited by Price Waterhouse, independent accountants, whose report thereon was unqualified. This information should be read in conjunction with the Fund's financial statements and notes thereto, which are incorporated by reference in the Statement of Additional Information and in this Prospectus, and which appear, along with the report of Price Waterhouse, in the Fund's 1993 Annual Report to Shareholders.

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	MONEY MARKET PORTFOLIO			HIGH-GRADE BOND PORTFOLIO		
	YEAR ENDED SEPT. 30, 1993	1992	MAY 2+ TO SEPT. 30, 1991	YEAR ENDED SEPT. 30, 1993	1992	APRIL 29+ TO SEPT. 30, 1991
<S>	<C>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD....	$ 1.00	$ 1.00	$1.00	$10.64	$10.24	$10.00
INVESTMENT OPERATIONS						
Net Investment Income..	.030	.040	.023	.636	.705	.299
Net Realized and Unrealized Gain (Loss) on Investments........	--	--	--	.349	.427	.240
TOTAL FROM INVESTMENT OPERATIONS...........	.030	.040	.023	.985	1.132	.539
DISTRIBUTIONS						
Dividends from Net Investment Income.....	(.030)	(.040)	(.023)	(.636)	(.705)	(.299)
Distributions from Realized Capital Gains.................	--	--	--	(.049)	(.027)	--
TOTAL DISTRIBUTIONS....	(.030)	(.040)	(.023)	(.685)	(.732)	(.299)
NET ASSET VALUE, END OF PERIOD.................	$ 1.00	$ 1.00	$1.00	$10.94	$10.64	$10.24
TOTAL RETURN...........	3.05%	4.11%	2.35%**	9.64%	11.47%	5.48%**
RATIOS/SUPPLEMENTAL DATA						
Net Assets, End of Period (Millions)......	$ 114	$ 71	$ 27	$ 85	$ 52	$ 16
Ratio of Expenses to Average Net Assets.....	.29%	.33%	.34%*	.29%	.32%	.40%*
Ratio of Net Investment						

Income to Average Net Assets.................	3.00%	3.90%	5.50%*	5.92%	6.66%	6.89%*
Portfolio Turnover Rate.	N/A	N/A	N/A	73%	31%	9%

</TABLE>

* Annualized.
** Not Annualized.
\+ Commencement of Operations.

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	BALANCED PORTFOLIO			EQUITY INDEX PORTFOLIO		
	YEAR ENDED SEPT. 30, 1993	1992	MAY 23+ TO SEPT. 30, 1991	YEAR ENDED SEPT. 30, 1993	1992	APRIL 29+ TO SEPT. 30, 1991
<S>	<C>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD....	$10.83	$10.25	$10.00	$11.32	$10.45	$10.00
INVESTMENT OPERATIONS						
Net Investment Income..	.67	.51	.19	.34	.26	.08
Net Realized and Unrealized Gain (Loss) on Investments........	.80	.52	.06	1.07	.85	.37
TOTAL FROM INVESTMENT OPERATIONS............	1.47	1.03	.25	1.41	1.11	.45
DISTRIBUTIONS						
Dividends from Net Investment Income.......	(.69)	(.45)	--	(.34)	(.24)	--
Distributions from Realized Capital Gains..	(.03)	--	--	(.02)	--	--
TOTAL DISTRIBUTIONS....	(.72)	(.45)	--	(.36)	(.24)	--
NET ASSET VALUE, END OF PERIOD.................	$11.58	$10.83	$10.25	$12.37	$11.32	$10.45
TOTAL RETURN............	14.10%	10.29%	2.50%**	12.68%	10.74%	4.50%**
RATIOS/SUPPLEMENTAL DATA						
Net Assets, End of Period (Millions)........	$ 191	$ 76	$ 13	$ 165	$ 85	$ 24

Ratio of Expenses to Average Net Assets.....	.39%	.42%	.51%*	.29%	.32%	.45%*
Ratio of Net Investment Income to Average Net Assets................	4.45%	4.77%	5.24%*	2.63%	2.84%	3.22%*
Portfolio Turnover Rate.	41%	15%	3%	16%	1%	5%

</TABLE>

* Annualized.
** Not Annualized.
\+ Commencement of Operations.

<TABLE>
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<S>	EQUITY INCOME PORTFOLIO JUNE 7+ TO SEPT. 30, 1993 <C>	GROWTH PORTFOLIO JUNE 7+ TO SEPT. 30, 1993 <C>
NET ASSET VALUE, BEGINNING OF PERIOD..................	$10.00	$10.00
INVESTMENT OPERATIONS		
Net Investment Income................................	.14	.04
Net Realized and Unrealized Gain (Loss) on Investments..	.54	.22
TOTAL FROM INVESTMENT OPERATIONS.....................	.68	.26
DISTRIBUTIONS		
Dividends from Net Investment Income.................	(.11)	--
Distributions from Realized Capital Gains............	--	--
TOTAL DISTRIBUTIONS..................................	(.11)	--
NET ASSET VALUE, END OF PERIOD........................	$10.57	$10.26
TOTAL RETURN...	6.81%**	2.60%**
RATIOS/SUPPLEMENTAL DATA		
Net Assets, End of Period (Millions).................	$ 50	$ 36
Ratio of Expenses to Average Net Assets...............	.39%*	.43%*
Ratio of Net Investment Income to Average Net Assets...	4.30%*	1.63%*
Portfolio Turnover Rate..............................	2%	10%

</TABLE>

* Annualized.
** Not Annualized.
\+ Commencement of Operations.

YIELD AND TOTAL RETURN

From time to time, a Portfolio of the Fund may advertise its yield and total return. Both yield and total return figures are based on historical earnings and are not intended to indicate future performance. The "total return" of a Portfolio refers to the average annual compounded rates of return over one-, five-, and ten-year periods or for the life of the Portfolio (as stated in the advertisement) that would equate an initial amount invested at the beginning of a stated period to the ending redeemable value of the investment, assuming the reinvestment of all dividend and capital gains distributions.

The "30-day yield" of a Portfolio is calculated by dividing net investment income per share earned during a 30-day period by the net asset value per share on the last day of the period. Net investment income includes interest and dividend income earned on the Portfolio's securities; it is net of all expenses and all recurring and nonrecurring charges that have been applied to all shareholder accounts. The yield calculation assumes that net investment income earned over 30 days is compounded monthly for six months and then annualized. Methods used to calculate advertised yields are standardized for all stock and bond mutual funds. However, these methods differ from the accounting methods used by a Portfolio to maintain its books and records, and so the advertised 30-day yield may not fully reflect the income paid to your own account or the yield reported in the Portfolio's reports to shareholders.

The Money Market Portfolio's "seven-day" or "current" yield reflects the income earned by a hypothetical account in the Portfolio during a seven-day period, expressed as an annual percentage rate. The Portfolio's "effective yield" assumes that the income over the seven-day period is reinvested weekly, resulting in a slightly higher stated yield through compounding.

YIELDS AND TOTAL RETURNS QUOTED FOR THE PORTFOLIOS INCLUDE THE EFFECT OF DEDUCTING THE PORTFOLIOS' EXPENSES, BUT MAY NOT INCLUDE CHARGES AND EXPENSES ATTRIBUTABLE TO ANY PARTICULAR INSURANCE PRODUCT. SINCE YOU CAN ONLY PURCHASE SHARES OF THE PORTFOLIOS THROUGH A VARIABLE ANNUITY OR VARIABLE LIFE CONTRACT, YOU SHOULD CAREFULLY REVIEW THE PROSPECTUS OF THE INSURANCE PRODUCT YOU HAVE CHOSEN FOR INFORMATION ON RELEVANT CHARGES AND EXPENSES. EXCLUDING THESE CHARGES FROM QUOTATIONS OF THE PORTFOLIOS' PERFORMANCE HAS THE EFFECT OF INCREASING THE PERFORMANCE QUOTED. YOU SHOULD BEAR IN MIND THE EFFECT OF THESE CHARGES WHEN COMPARING THE PORTFOLIOS' PERFORMANCE TO THOSE OF OTHER MUTUAL FUNDS. PLEASE REVIEW CAREFULLY THE YIELD AND TOTAL RETURN FIGURES FOR THE PARTIC-

ULAR INSURANCE PRODUCT WHICH ACCOMPANY THE YIELDS AND TOTAL RETURNS QUOTED FOR THE PORTFOLIOS.

INVESTMENT OBJECTIVES	The Fund is intended exclusively as an investment vehicle for variable annuity or variable life insurance contracts offered by various insurance companies.
THE FUND OFFERS SIX DISTINCT PORTFOLIOS	The Fund offers six distinct Portfolios -- a money market portfolio, a bond portfolio, a balanced portfolio, an equity index portfolio, an equity income portfolio and a growth portfolio:
	The MONEY MARKET PORTFOLIO seeks to provide a current income consistent with the preservation of capital and liquidity. The Portfolio also seeks to maintain a stable net asset value of $1.00 per share.

The HIGH-GRADE BOND PORTFOLIO seeks to duplicate the total return of publicly-traded investment grade fixed income securities in the aggregate by attempting to duplicate the investment performance of a broad investment grade bond index.

The BALANCED PORTFOLIO seeks to provide capital growth and a reasonable level of current income.

THE EQUITY INCOME PORTFOLIO seeks to provide a high level of current income.

The EQUITY INDEX PORTFOLIO seeks to parallel the investment results of the Standard & Poor's 500 Composite Stock Price Index (the "S&P 500").

THE GROWTH PORTFOLIO seeks to provide long-term capital appreciation.

There is no assurance that a Portfolio will achieve its stated objective.

INVESTMENT POLICIES	The six Portfolios of the Fund follow distinct investment policies. The Portfolio's are managed without regard to tax ramifications.
THE MONEY MARKET PORTFOLIO INVESTS IN HIGH-QUALITY MONEY MARKET	The MONEY MARKET PORTFOLIO invests in the following high-quality money market obligations issued by financial institutions, nonfinancial corporations, and the U.S. Government, its agencies, and instrumentalities:

SECURITIES

(1) Negotiable certificates of deposit and bankers' acceptances of U.S. banks having total assets in excess of $1 billion.

(2) Commercial paper (including variable amount master demand notes) rated Prime-1 by Moody's Investors Service, Inc. ("Moody's") or A-1 by Standard and Poor's Corporation ("Standard and Poor's") or, if unrated, issued by a corporation having an outstanding debt issue rated Aa3 or better by Moody's or AA- or better by Standard and Poor's.

(3) Short-term corporate obligations rated Aa3 or better by Moody's or AA- or better by Standard and Poor's.

(4) Short-term Eurodollar and Yankee bank obligations. Eurodollar bank obligations are dollar-denominated certificates of deposit or time deposits issued outside the U.S. capital markets by foreign branches of U.S. banks or by foreign banks; Yankee bank obligations are dollar-denominated obligations issued in the U.S. capital markets by foreign banks.

(5) U.S. Treasury obligations including bills, notes, bonds, and other debt obligations issued by the U.S. Treasury. These securities are backed by the full faith and credit of the U.S. Government.

(6) Securities issued or guaranteed by agencies and instrumentalities of the U.S. Government. These include securities issued by the Federal Home Loan Banks, Federal Land Bank, Farmers Home Administration, Farm Credit Banks, Federal Intermediate Credit Bank, Federal National Mortgage Association, Federal Financing Bank, the Tennessee Valley Authority, and others. Such "agency" securities may not be backed by the full faith and credit of the U.S. Government.

(7) Repurchase agreements that are collateralized by the securities listed in (1), (5), and (6) above.

In addition, up to 10% of the Money Market Portfolio's assets may be invested in "restricted" money market securities that are not freely marketable or that are subject to restrictions on disposition under the Securities Act of 1933.

The Money Market Portfolio will only invest in securities that mature in 13 months or less and will maintain an average weighted maturity of 90 days or less.

THE HIGH-GRADE BOND PORTFOLIO INVESTS IN GOVERNMENT AND CORPORATE BONDS

The HIGH-GRADE BOND PORTFOLIO will invest in a statistically selected sample of fixed income and mortgage-backed securities included in the Lehman Brothers Aggregate Bond Index (the "Lehman Bond Index"). The Portfolio will invest 80% or more of its assets in securities included in the Lehman Bond Index, including not less than 65% of its assets in U.S. Government or corporate bonds.

The Portfolio encompasses three major classes of investment grade fixed income securities in the United States: U.S. Treasury and agency securities, corporate debt obligations, and mortgage-backed securities. As of November 30, 1993, these three classes represented the following proportions of the Portfolio's total market value:

<TABLE>

<S>	<C>
U.S. Treasury and agency securities	36%
Corporate debt obligations	35%
Mortgage-backed securities	29%

</TABLE>

Since 1980, the effective average weighted maturity of the Portfolio has ranged from a high of 11.2 years to a low of 8.8 years; it was 8.9 years on November 30, 1993.

THE BALANCED PORTFOLIO INVESTS IN BOTH STOCKS AND BONDS

The BALANCED PORTFOLIO invests in a diversified portfolio of both common stocks and bonds. Under normal circumstances, it is expected that common stocks will represent 60% to 70% of the Portfolio's total assets. The Portfolio's common stocks are held for the purpose of providing reasonable dividend income and long-term growth of capital and income.

The remaining 30% to 40% of the Portfolio's assets will be invested in high-quality fixed income securities. These securities include investment grade corporate bonds (those rated a minimum of Baa by Moody's or BBB by Standard & Poor's) as well as securities issued by the U.S. Government, its agencies and instrumentalities, including Government National Mortgage Association (GNMA) mortgage pass-through certificates. The Portfolio may also hold short-term fixed income securities of the type authorized for the Money Market Portfolio as cash reserves.

The amount invested in stocks, bonds and cash reserves may be varied from time to time, depending upon the assessment of business, economic and market conditions by the Portfolio's adviser, Wellington Management Company. The Portfolio reserves the right to hold equity, fixed income and cash securities in whatever proportions deemed desirable at any given time for defensive purposes.

The Balanced Portfolio may also invest up to 10% of its assets in foreign securities, and may invest in stock and bond index futures and options to a limited extent. The Portfolio

is also authorized to invest in preferred stocks, although it does not presently intend to do so.

THE EQUITY INDEX PORTFOLIO INVESTS IN S&P 500 STOCKS

The EQUITY INDEX PORTFOLIO expects to invest in all 500 stocks in the Standard & Poor's 500 Composite Stock Price Index ("S&P 500 Index") in approximately the same proportions as they are represented in the Index. The 500 stocks in the S&P 500 Index are selected by Standard & Poor's Corporation to be included in the Index. The 500 securities, most of which trade on the New York Stock Exchange, represent approximately 75% of the market value of all U.S. common stocks.

THE EQUITY INCOME PORTFOLIO INVESTS IN STOCKS

Under normal circumstances, the EQUITY INCOME PORTFOLIO will invest at least 80% of its assets in income-producing equity securities, including dividend-paying common stocks and securities which are convertible into common stocks. The Portfolio intends to invest in securities which generate relatively high levels of dividend income and have the potential for capital appreciation. These generally include common stocks of established, high-quality U.S. corporations. In addition, the Portfolio will seek to diversify its investments over a carefully selected list of securities in order to moderate the risks inherent in equity investments.

The EQUITY INCOME PORTFOLIO will invest in a company's securities following a fundamental analysis of the issuing company. An important part of this analysis will be the examination of the company's ability to maintain its dividend. Over time, dividend income has proven to be an important component of total return. For example, during the ten-year period ended September 1993, reinvested dividend income accounted for approximately 27% of the total return of the S&P 500 Index. Also, dividend income tends to be a more stable source of total return than capital appreciation. While the price of a company's common stock can be significantly affected by market fluctuations and other short-term factors, its dividend level usually has greater stability. For this reason, securities which pay a high level of dividend income are generally less volatile in price than securities which pay a low level of dividend income.

Although the Portfolio intends to invest primarily in equity securities, it may invest up to 20% of its assets in certain cash investments and investment grade fixed income securities (those rated BBB or better by Standard & Poor's

Corporation or Baa or better by Moody's Investors Service). See "Implementation of Policies" for a description of these and other investment practices of the Fund.

THE GROWTH PORTFOLIO INVESTS IN STOCKS

The GROWTH PORTFOLIO invests primarily in equity securities of seasoned U.S. companies with above-average prospects for growth. In selecting securities for the Portfolio, Lincoln Capital Management, adviser to the Portfolio, emphasizes common stocks of high quality, established growth companies. Such companies tend to have exceptional growth records, strong market positions, reasonable financial strength, and relatively low sensitivity to changing economic conditions. The adviser seeks to identify common stocks that sell at attractive valuations and companies that have the best prospects for continued above-average growth.

TWO PORTFOLIOS USE A "PASSIVE" INVESTMENT APPROACH

The HIGH-GRADE BOND and EQUITY INDEX PORTFOLIOS are not managed according to traditional methods of "active" investment management, which involve the buying and selling of securities based upon economic, financial and market analyses and investment judgment. Instead, these Portfolios, utilizing a "passive" or "indexing" investment approach, attempt to provide investment results that parallel their respective indexes through statistical procedures. These statistical techniques are expected to enable the Portfolios to track their benchmark indexes, while minimizing brokerage, custodial and accounting costs.

For the High-Grade Bond and Equity Index Portfolios, the ability to parallel the investment results of an index depends upon the Portfolio's total assets. In the initial phases of the Fund, when a Portfolio's assets are still at a low level, a Portfolio's investment performance may diverge significantly from that of its benchmark index. Once the Portfolio has reached a substantial asset size, however, the correlation between the performance of a Portfolio and its benchmark index is expected to be 0.95 or higher. (A correlation of 1.00 would indicate perfect correlation, which would be achieved when the net asset value of a Portfolio, including the value of its dividend and capital gains distributions, increases or decreases in exact proportion to changes in an index.) A correlation of 0.95 or higher is expected to be achieved when the Portfolios exceeds $100 million in assets.

The High-Grade Bond and Equity Index Portfolios may invest in the same money market instruments authorized for the Money Market Portfolio, although cash or cash equivalents are normally expected to represent less than 1% of each Portfolio's assets. These two Portfolios may also invest up to 20% of their assets in futures contracts and options in order to invest uncommitted cash balances, to maintain liquidity to meet shareholder redemptions, or to minimize trading costs.

However, in keeping with their "passive" investment strategy, the two Portfolios will not invest in cash reserves, futures contracts, or options transactions as part of a temporary defensive strategy -- e.g., increasing a Portfolio's cash position--in order to protect against stock or bond market declines. The Portfolios intend to remain fully invested, to the extent practicable, in a pool of securities with investment characteristics similar to those of their respective indexes.

See "Implementation of Policies" for a further description of these and other investment practices of the Fund.

The investment policies of the Fund are not fundamental and so may be changed by the Board of Trustees without shareholder approval. However, shareholders would be notified prior to a material change.

INVESTMENT RISKS

The six Portfolios differ substantially in terms of investment risks.

CREDIT RISK FOR THE MONEY MARKET PORTFOLIO SHOULD BE VERY LOW

The MONEY MARKET PORTFOLIO is subject primarily to credit risk, the possibility that an issuer of securities will be unable to make timely payments of interest and principal to the Portfolio. Because the Portfolio invests in obligations of private financial and nonfinancial corporations, credit risk is higher than for a money market fund investing in securities of the U.S. Government. However, relative to the fixed income market generally,

the quality of the bank and corporate obligations held by the Money Market Portfolio is high, and so credit risk should be very low.

THE HIGH-GRADE BOND PORTFOLIO IS SUBJECT TO INTEREST RATE, PREPAYMENT, AND CREDIT RISKS

As a mutual fund investing in U.S. Government and corporate bonds and mortgage-backed securities, the HIGH-GRADE BOND PORTFOLIO is exposed to interest rate, prepayment, and credit risks.

INTEREST RATE RISK is the potential for a decline in the value of fixed income securities due to rising interest rates. In general, bond prices vary inversely with interest rates. If interest rates rise, bond prices generally decline; if interest rates fall, bond prices generally rise. In addition, for a given change in interest rates, longer-maturity bonds fluctuate more in price (gaining or losing more in value) than shorter-maturity bonds.

The Lehman Bond Index and the High-Grade Bond Portfolio are expected to maintain an intermediate-term average weighted maturity, and may therefore be subject to a moderate to high level of interest rate risk. The following chart illustrates the potentially high level of interest rate risk of the Lehman Bond Index and the Portfolio by summarizing the effect of rising and falling interest rates on a single 10-year bond yielding 9%:

<TABLE>
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PERCENTAGE POINT CHANGE IN INTEREST RATES	CHANGE IN PRINCIPAL VALUE OF 10-YEAR BOND	
	RISING RATES	FALLING RATES
<S>	<C>	<C>
1% Change	- 6.2%	+ 6.8%
2% Change	-12.0	+14.2
3% Change	-17.2	+22.3

</TABLE>

This chart is intended to provide you with general guidelines for determining the degree of interest rate risk to which the Portfolio may be exposed.

Because of its holdings of mortgage-backed securities, the High-Grade Bond Portfolio will also be subject to MORTGAGE PREPAYMENT RISK to a limited extent. Prepayment risk is the possibility that, during periods of declining interest rates, the principal invested in high-yielding mortgage-backed securities will be repaid earlier than scheduled. As a result, the Portfolio will be forced to reinvest the unanticipated payments at generally lower rates.

Prepayment risk has three important effects. First, when mortgage prepayments are reinvested at lower rates, the income from the Portfolio's mortgage-backed securities will decline. Second, when interest rates fall and prepayments increase, mortgage-backed securities will not enjoy as large a gain in market value as ordinary bonds do. Third, when interest rates rise and mortgage prepayments decrease, mortgage-backed securities may decline in market value more than ordinary bonds. To compensate for these risks, mortgage-backed securities generally offer higher yields than bonds of comparable quality and maturity.

CREDIT RISK for the High-Grade Bond Portfolio is expected to be low, in part reflecting the high quality of the securities included in the Lehman Bond Index. A large proportion of securities in the Index are AAA-rated U.S. Government bonds or Government-guaranteed mortgage-backed securities. It is anticipated that the average credit quality of the Portfolio will be equivalent to a rating of at least AAA from Standard & Poor's or Aaa from Moody's.

However, to a limited extent, the High-Grade Bond Portfolio will be exposed to event risk -- i.e., the possibility that corporate fixed income securities held by the Portfolio may decline substantially in credit quality and market value due to a corporate merger, leveraged buyout, takeover or similar event. While event risk may be high for certain corporate securities held by the Portfolio, event risk for the Portfolio in the aggregate should be low because of the Portfolio's diversified holdings and the small percentage of the Portfolio's assets likely to be invested in corporate obligations.

THE BALANCED PORTFOLIO IS EXPOSED TO THE RISKS OF STOCKS AND BONDS AND MANAGER RISK

As a mutual fund investing in both stocks and bonds, the BALANCED PORTFOLIO is subject to both stock market and interest rate (bond) risk. Fluctuating stock prices are expected to have a significant effect on the Portfolio's share price, as the Portfolio invests 60% to 70% of its assets in common stocks. Bond price fluctuations will have a correspondingly smaller influence. In the past, the stock and bond markets have, from time to time, fluctuated independently of one another. As a result, with its mix of stocks and bonds, the Balanced Portfolio is likely to entail less investment risk -- and a potentially lower return -- than a portfolio investing exclusively in common stocks.

The investment adviser of the Balanced Portfolio manages the Portfolio according to the traditional methods of "active" investment management, which involves the buying and selling of securities based upon economic, financial and market analysis and investment judgement. Manager risk refers to the possibility that the Portfolio's investment adviser may fail to execute the Portfolio's investment strategy effectively. As a result, the Portfolio may fail to achieve its stated objective.

THE EQUITY INCOME, EQUITY INDEX AND GROWTH

The EQUITY INCOME, EQUITY INDEX AND GROWTH PORTFOLIOs are subject to stock market risk -- i.e., the possibility that common stock prices will decline over short or even extended periods. The U.S. stock market tends to be cyclical, with

PORTFOLIOS ARE SUBJECT TO STOCK MARKET RISK

periods when stock prices generally rise and periods when stock prices generally decline.

To illustrate the volatility of stock prices, the following table sets forth the extremes for stock market returns as well as the average return for the period from 1926 to 1992, as measured by the S&P 500 Index:

AVERAGE ANNUAL U.S. STOCK MARKET RETURNS (1926-1992) OVER VARIOUS TIME HORIZONS

<TABLE>
<CAPTION>

	1 YEAR	5 YEARS	10 YEARS	20 YEARS
<S>	<C>	<C>	<C>	<C>
Best	+53.9%	+23.9%	+20.1%	+16.9%
Worst	-43.3	-12.5	- 0.9	+ 3.1
Average	+12.2	+10.1	+10.4	+10.4

</TABLE>

As shown, from 1926 to 1992, common stocks, as measured by the S&P 500 Index, have provided an average annual total return (capital appreciation plus dividend income) of +12.2%. While this average return can be used as a guide for setting reasonable expectations for future stock market returns, it may not be useful for forecasting future returns in any particular period, as stock market returns are quite volatile from year to year.

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WHO SHOULD INVEST

INVESTORS SEEKING A DIVERSIFIED INVESTMENT PROGRAM FOR VARIABLE INSURANCE OR ANNUITY CONTRACTS

The Portfolios of the Fund are intended exclusively as investment vehicles for variable annuity and variable life insurance contracts offered by the separate accounts of various insurance companies. Such contracts may provide certain tax benefits, as outlined in the accompanying prospectus for the insurance company's variable life insurance or variable annuity policy.

The Money Market Portfolio is appropriate for investors who desire maximum principal stability with current income. The High-Grade Bond Portfolio is designed for investors who are seeking a higher level of income than generally provided by the Money Market Portfolio, and who are willing to accept short-term price fluctuations in the value of their investment. The Balanced Portfolio is designed for investors who are seeking the potential capital appreciation provided by common stocks, but who also wish to counterbalance the inherent risks of common stocks with an investment in fixed income securities. The Equity Income Portfolio is designed for investors who are seeking a high level of current income and the potential for long-term capital appreciation with lower investment risk and volatility than is normally available from common stock portfolios. The Equity Index and Growth Portfolios are intended for investors who are seeking the potentially higher returns of common stocks and who can tolerate sudden, often substantial, fluctuations in the value of their investment. In general, there can be no assurance that a Portfolio will achieve its stated objective.

The Fund is intended to be a long-term investment vehicle and is not designed to provide investors with a means of speculating on short-term market movements. Investors who engage in excessive account activity generate additional costs which are borne by all of the Fund's shareholders. In order to minimize such costs, the Fund has adopted the following policies. The Fund reserves the right to reject any purchase request (including exchange purchases from other Vanguard portfolios) that is reasonably deemed to be disruptive to efficient portfolio management. Additionally, the Fund has adopted exchange privilege limitations in order to prevent excessive use of the exchange privilege afforded shareholders. Exchange activity generally will not be deemed excessive if limited to TWO SUBSTANTIVE EXCHANGE REDEMPTIONS (AT LEAST 30 DAYS APART) from a Portfolio during any calendar year. These limitations do not apply to exchanges from Vanguard's money market portfolio. Finally, the Fund reserves the right to suspend the offering of its shares.

An investment in a single Portfolio of the Fund should not be considered a complete investment program. Most investors should maintain diversified holdings with different risk characteristics--including common stocks, bonds, and money market instruments.

IMPLEMENTATION OF POLICIES

Each Portfolio follows a number of additional investment practices in pursuit of its investment objective.

EACH PORTFOLIO MAY INVEST IN REPURCHASE AGREEMENTS

The six Portfolios of the Fund may invest in repurchase agreements according to the restrictions and limitations set forth previously in "Investment Policies." A repurchase agreement is a means of investing monies for a short period. In a repurchase agreement, a seller--a U.S. commercial bank or recognized U.S. securities dealer -- sells securities to a Portfolio and agrees to repurchase the securities at the Portfolio's cost plus interest within a specified period (normally one day). In these transactions, the securities purchased by the Portfolio will have a total value equal to or in excess of the value of the repurchase agreement and will be held by the Fund's custodian bank until repurchased.

The use of repurchase agreements involves certain risks. For example, if the seller of the agreement defaults on its obligation to repurchase the underlying securities at a time when the value of these securities has declined, the Portfolio may incur a loss upon disposition of them. If the seller of the agreement becomes insolvent and subject to liquidation or reorganization under the bankruptcy code or other laws, a bankruptcy court may determine that the underlying securities are collateral not within the control of the Portfolio and therefore subject to sale by the trustee in bankruptcy. Finally, it is possible that the Portfolio may not be able to substantiate its interest in the underlying securities. While the Fund's management acknowledges these risks, it is expected that they can be controlled through stringent security selection and careful monitoring.

THE MONEY MARKET PORTFOLIO MAY INVEST IN EURODOLLAR OR YANKEE OBLIGATIONS

Eurodollar bank obligations are dollar-denominated certificates of deposit or time deposits issued outside the U.S. capital markets by the foreign branches of U.S. banks and by foreign banks; Yankee bank obligations are dollar-denominated obligations issued in the U.S. capital markets by foreign banks.

Eurodollar and Yankee obligations are subject to the same risks that pertain to domestic issues, notably credit risk, market risk, and liquidity risk. Additionally, Eurodollar (and, to a limited extent, Yankee) obligations are subject to certain sovereign risks. One such risk is the possibility that a foreign government might prevent dollar-denominated funds from flowing across its borders. Other risks include: adverse political and economic developments in a foreign country; the extent and quality of government regulation of financial markets and institutions; the imposition of foreign withholding taxes; and expropriation or nationalization of foreign issuers. However, Eurodollar and Yankee obligations will undergo the same credit analysis as domestic issues in which the Money Market Portfolio invests, and foreign issuers will be required to meet the same tests of financial strength as the domestic issuers approved for the Money Market Portfolio.

THE HIGH-GRADE BOND PORTFOLIO INVESTS IN BONDS AND MORTGAGE SECURITIES

The High-Grade Bond Portfolio will invest 80% or more of its assets in securities included in the Lehman Bond Index. The Lehman Bond Index measures the total investment return (capital change plus income) provided by a universe of fixed income securities, weighted by the market value outstanding of each security. As of November 30, 1993, over 6,000 issues (including bonds, notes, debentures and mortgage issues) were included in the Lehman Bond Index, representing more than $4.2 trillion in market value. The securities included in the Lehman Bond Index generally meet the following criteria, as defined by Lehman Brothers: an effective maturity of not less than one year; an outstanding market value of at least $100 million; and investment-grade quality (i.e., rated a minimum of Baa by Moody's or BBB by Standard & Poor's).

THE HIGH-GRADE BOND PORTFOLIO USES A "SAMPLING" TECHNIQUE

The High-Grade Bond Portfolio will not invest in all of the individual issues that comprise the Lehman Bond Index because of the large number of securities (approximately 6,000) involved. Instead, the Portfolio will hold a representative sample of the securities in the Index. Securities will be chosen for the Portfolio so that the Portfolio's fundamental characteristics are similar to those of the Lehman Bond Index.

Over time, as the Portfolio's assets increase, the Portfolio will seek to hold securities which reflect the weighting of the three major classes in the Index -- U.S. Treasury and agency securities, corporate debt, and mortgage-backed securities. For example, if U.S. Treasury and agency securities represent 60% of the Index, then approximately 60% of the Portfolio's assets will also be invested in such securities. As the Portfolio grows, these classes will be further delineated along the lines of sector, term to maturity, coupon, and credit rating. For example, within the corporate debt class, all long-term, low coupon AA-rated utility bonds might be represented in the Portfolio by one or two individual utility securities.

THE HIGH-GRADE BOND PORTFOLIO MAY INVEST IN MORTGAGE-BACKED SECURITIES

As part of its effort to duplicate the investment performance of the Lehman Bond Index, the High-Grade Bond Portfolio will invest in mortgage-backed securities. Mortgage-backed securities represent an interest in an underlying pool of mortgages. Unlike ordinary fixed income securities, which generally pay a fixed rate of interest and return principal upon maturity, mortgage-backed securities repay both interest income and principal as part of their periodic payments. Because the mortgages underlying mortgage-backed certificates can be prepaid at any time by homeowners or corporate borrowers, mortgage-backed securities give rise to certain unique "prepayment" risks. See "Investment Risks."

The High-Grade Bond Portfolio may purchase mortgage-backed securities issued by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation

(FHLMC), the Federal National Mortgage Association (FNMA), and the Federal Housing Authority (FHA). GNMA securities are guaranteed by the U.S. Government as to the timely payment of principal and interest; securities from other government-sponsored entities are generally not secured by an explicit pledge of the U.S. Government. The Portfolio may also invest in conventional mortgage securities, which are packaged by private corporations and are not guaranteed by the U.S. Government, to the extent that these securities are represented in the index.

Mortgage securities that are guaranteed by the U.S. Government are guaranteed only as to the timely payment of principal and interest. The market value of such securities is not guaranteed and may fluctuate. See "Investment Risks."

THE EQUITY INDEX PORTFOLIO INVESTS IN ALL 500 S&P STOCKS

The Equity Index Portfolio attempts to duplicate the investment results of the S&P 500 Index by holding all 500 stocks in approximately the same proportions as they are represented in the S&P 500 Index. This indexing technique is known as "complete replication."

Each stock in the S&P 500 Index is weighted by its market value. Because of the market-value weighting, the 50 largest companies in the S&P 500 Index currently account for approximately 50% of the Index. Typically, companies included in the S&P 500 Index are the largest and most dominant firms in their respective industries. As of December, 1993, the five largest companies in the Index were General Electric (2.7%), Exxon Corporation (2.4%), AT&T (2.2%), Wal-Mart (1.8%), and Coca Cola (1.7%). The largest industry categories were international oil companies (7.2%), telephone companies (6.0%), electric power (4.8%), electrical equipment (3.8%), and diversified health care companies (3.6%).

The Equity Index Portfolio is not sponsored, endorsed, sold, or promoted by Standard & Poor's. Standard & Poor's makes no representation or warranty, implied or express, to the purchasers of the Portfolio or any member of the public regarding the advisability of investing in index funds or the ability of the S&P 500 Index to track general stock market performance. Standard & Poor's does not guarantee the accuracy and/or the completeness of the S&P 500 Index or any data included therein.

Standard & Poor's makes no warranty, express or implied, as to the results to be obtained by the Portfolio, owners of the Portfolio, any person or any entity from the use of the S&P 500 Index or any data included therein. Standard &

Poor's makes no express or implied warranties and hereby expressly disclaims all such warranties of merchantability or fitness for a particular purpose for use with respect to the S&P 500 Index or any data included therein. Standard & Poor's only relationship to the Portfolio is the licensing of the Standard & Poor's marks and the S&P 500 Index, which is determined, composed and calculated by Standard & Poor's without regard to the Equity Index Portfolio.

FIVE PORTFOLIOS MAY USE FUTURES CONTRACTS AND OPTIONS

The High-Grade Bond, Balanced, Equity Income, Equity Index and Growth Portfolios may utilize futures contracts and options to a limited extent. Specifically, each Portfolio may enter into futures contracts provided that not more than 5% of its assets are required as a futures contract margin deposit; in addition, a Portfolio may enter into futures contracts and options transactions only to the extent that obligations under such contracts or transactions represent not more than 20% of the Portfolio's assets.

Futures contracts and options may be used for several reasons: to maintain cash reserves while simulating full investment, to facilitate trading, or to reduce transaction costs. While futures contracts and options can be used as leveraged investments, a Portfolio may not use futures contracts or options transactions to leverage its net assets.

FUTURES CONTRACTS AND OPTIONS POSE CERTAIN RISKS

The primary risks associated with the use of futures contracts and options are: (i) imperfect correlation between the change in market value of the stocks held by a Portfolio and the prices of futures contracts and options; and (ii) possible lack of a liquid secondary market for a futures contract and the resulting inability to close a futures position prior to its maturity date. The risk of imperfect correlation will be minimized by investing only in those contracts whose behavior is expected to resemble that of a Portfolio's underlying securities. The risk that a Portfolio will be unable to close out a futures position will be minimized by entering into such transactions on a national exchange with an active and liquid secondary market.

The risk of loss in trading futures contracts in some strategies can be substantial, due both to the low margin deposits required, and the extremely high degree of leverage involved in futures pricing. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss (or gain) to the investor. When investing in futures contracts, a Portfolio will segregate cash or cash equivalents in the amount of the underlying obligation.

FIVE PORTFOLIOS MAY LEND THEIR SECURITIES

The High-Grade Bond, Balanced, Equity Income, Equity Index and Growth Portfolios may lend their investment securities to qualified institutional investors for the purpose of realizing additional income. Loans of securities by a Portfolio will be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its

agencies. The collateral will equal at least 100% of the current market value of the loaned securities. In keeping with statutory restrictions, securities lending will not exceed 33 1/3% of a Portfolio's assets.

PORTFOLIO TURNOVER IS EXPECTED TO BE LOW

Each Portfolio of the Fund retains the right to sell securities irrespective of how long they have been held. Because of their "passive" investment management approach, however, portfolio turnover for the High-Grade Bond and Equity Index Portfolios is expected to be under 50%, a generally lower turnover rate than for most investment companies. A portfolio turnover rate of 50% would occur if one half of a Portfolio's securities were sold within one year. Ordinarily, securities will be sold from the two "passive" Portfolios only to reflect administrative changes in their respective indexes (including mergers or changes in the composition of an index) or to accommodate cash flows out of a Portfolio while maintaining the similarity of the Portfolio to its benchmark index.

Portfolio turnover for the Balanced, Equity Income and Growth Portfolios is not expected to exceed 100%. For the Money Market Portfolio, portfolio turnover should be high due to the short-term maturities of the securities held by the Portfolio.

EACH PORTFOLIO MAY BORROW MONEY

Each Portfolio of the Fund may borrow money from a bank up to a limit of 15% of the market value of its assets, but only for temporary or emergency purposes. A Portfolio would borrow money only to meet redemption requests prior to the settlement of securities already sold or in the process of being sold by the Portfolio. To the extent that a Portfolio borrows money prior to selling securities, the Portfolio may be leveraged; at such times, the Portfolio may appreciate or depreciate in value more rapidly than its benchmark index. A Portfolio will repay any money borrowed in excess of 5% of the market value of its total assets prior to purchasing additional portfolio securities.

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INVESTMENT LIMITATIONS

The Fund has adopted certain limitations on its investment practices. Specifically, each Portfolio of the Fund will not:

THE FUND HAS ADOPTED CERTAIN FUNDAMENTAL LIMITATIONS

(a) purchase more than 10% of the outstanding voting securities of any issuer;

(b) with respect to 75% of a Portfolio's assets, purchase securities of any issuer (except obligations of the U.S. Government and its instrumentalities) if, as a result, more than 5% of the Portfolio's total assets would be invested in the securities of such issuer;

(c) borrow money, except from a bank, and only as a temporary or emergency measure and in no event in excess of 15% of the market value of a Portfolio's assets. Money borrowed in excess of 5% of a Portfolio's total assets will be repaid prior to the purchase of additional portfolio securities;

(d) pledge, mortgage, or hypothecate any of its assets to an extent greater than 5% of the value of its total assets;

(e) invest more than 25% of the value of its total assets in any one industry.

These investment limitations are considered at the time investment securities are purchased. The limitations described here and in the Statement of Additional Information may be changed only with the approval of a majority of the Fund's shareholders.

MANAGEMENT OF THE FUND

VANGUARD ADMINISTERS AND DISTRIBUTES THE FUND

The Fund is a member of The Vanguard Group of Investment Companies, a family of 32 investment companies with 77 distinct portfolios and assets in excess of $120 billion. Through their jointly owned subsidiary, The Vanguard Group, Inc. ("Vanguard"), the Fund and the other Funds in the Group obtain at cost virtually all of their corporate management, administrative, shareholder accounting and distribution services. Vanguard also provides investment advisory services on an at-cost basis to certain Vanguard Funds. As a result of Vanguard's unique corporate structure, the Vanguard Funds have costs substantially lower than those of most competing mutual funds. In 1992, the average expense ratio (annual costs including advisory fees divided by total net assets) for the Vanguard Funds amounted to .31% compared to an average of 1.03% for the mutual fund industry (data provided by Lipper Analytical Services).

The Officers of the Fund manage its day-to-day operations and are responsible to the Fund's Board of Directors. The Directors set broad policies for the Fund and choose its Officers. A list of the Directors and Officers of the Fund and a statement of their present positions and principal occupations during the past five years can be found in the Statement of Additional Information.

Vanguard employs a supporting staff of management and administrative personnel needed to provide the requisite services to the Funds and also furnishes the Funds with necessary office space, furnishings, and equipment. Each Fund pays its share of Vanguard's total expenses, which are allocated among the Funds under methods approved by the Board of Trustees (Directors) of each Fund. In addition, each Fund bears its own direct expenses, such as legal, auditing, and custodial fees.

The charge to the Fund for management and advisory services provided by Vanguard during the fiscal year ended September 30, 1993, was .22%, .21% and .23% of average net assets for the Money Market, High-Grade Bond and Equity Index Portfolios, respectively. The charge to the Balanced, Equity Income and Growth Portfolios for management services provided by Vanguard was .24%, .26% and .21% of average net assets of the Balanced, Equity Income and Growth Portfolios and the charge for investment advisory services provided the Portfolios by Wellington Management Company, Newell Associates and Lincoln Capital Management was .10%, .13% and .22%, respectively of each Portfolio's average net assets. A charge of .07%, .08%, .05% and .06% was also paid by the Money Market, High-Grade Bond, Balanced and Equity Index Portfolios, respectively, to Vanguard for other expenses.

Vanguard also provides distribution and marketing services to the Vanguard Funds. The Funds are available on a no-load basis (i.e., there are no sales commissions or 12b-1 fees). However, each Fund bears its share of the Group's distribution costs.

The charge to the Fund for distribution and marketing services provided by Vanguard during the fiscal year ended September 30, 1993, was .03%, .02%, .02% and .02% of average net assets for the Money Market, High-Grade Bond, Balanced and Equity Index Portfolios, respectively. The distribution and marketing expenses for both the Equity Income and Growth Portfolios were minimal.

The investment objectives and policies of the Fund's Portfolios are similar to those of other Vanguard Funds. The Money Market Portfolio of the Fund is similar to the Prime

Portfolio of Vanguard Money Market Reserves; the High-Grade Bond Portfolio is similar to Vanguard Bond Index Fund; the Balanced Portfolio is similar to Vanguard Wellington Fund; the Equity Index Portfolio is similar to the 500 Portfolio of Vanguard Index Trust; the Equity Income Portfolio is similar to the Vanguard Equity Income Fund and the Growth Portfolio is similar to the Vanguard U.S. Growth Portfolio. Because of differences in the investments held and additional administrative and insurance costs associated with insurance company separate accounts, the Portfolios' investment performance will differ from the performance of the corresponding Vanguard Funds.

Shares of the Fund's Portfolios may be sold to registered separate accounts of insurance companies affiliated or non-affiliated with Vanguard offering variable annuity and variable life products. At present, none of the Portfolios foresees any disadvantages arising out of the fact that each Portfolio offers its shares to separate accounts of various insurance companies to serve as an investment vehicle for their variable separate accounts. However, a material conflict could arise between the interest of the different participating separate accounts. The Fund's Board of Trustees intends to monitor events in order to identify any material irreconcilable conflicts that may possibly arise and to determine which action, if any, should be taken in response to such conflicts of interest. If such conflicts were to occur, one or more insurance companies' separate accounts might be required to withdraw its investments in one or more Portfolios, or shares of another Portfolio may be substituted by the Fund. As a result, a Portfolio might be forced to sell a portion of its securities at a disadvantageous price. In the event of such a material conflict, the affected insurance companies agree to take any necessary steps, including removing its separate account from the Fund if required by law, to resolve the matter.

INVESTMENT ADVISERS

VANGUARD AND THREE INDEPENDENT INVESTMENT ADVISERS MANAGE THE FUND'S INVESTMENTS

Vanguard provides investment advisory services on an at-cost basis to three Portfolios of the Fund: Vanguard's Fixed Income Group provides advisory services to the Money Market and High-Grade Bond Portfolios, and Vanguard's Core Management Group provides advisory services to the Equity Index Portfolio. Wellington Management Company, Newell Associates and Lincoln Capital Management serve as independent investment advisers to the Balanced, Equity Income and Growth Portfolios, respectively.

Vanguard's Fixed Income Group provides investment advisory services to 34 other Vanguard money market and bond portfolios, both taxable and tax-exempt. Total assets under management by the Fixed Income Group were $50.5 billion as of September 30, 1993. The High-Grade Bond Portfolio of the Fund is not actively managed, but is instead administered by the Fixed Income Group using computerized, quantitative techniques. The Fixed Income Group is supervised by the Officers of the Fund. Ian A. MacKinnon, Senior Vice President of Vanguard, has been in charge of the Group since its inception in 1981.

Vanguard's Core Management Group also provides investment advisory services to Vanguard Index Trust, Vanguard International Equity Index Fund, Vanguard Balanced Index Fund and several indexed separate accounts. Total indexed assets under management as of September 30, 1993, were $14.3 billion. The Fund's Equity Index Portfolio is not actively managed, but is instead administered by the Core Management Group using computerized, quantitative techniques. The Group is supervised by the Fund's Officers.

Vanguard's investment management staff is also responsible for the allocation of principal business and portfolio brokerage and the negotiation of commissions. For the Money Market Portfolio, the purchase and sale of investment securities will ordinarily be principal transactions. Portfolio securities will normally be purchased directly from the issuer or from an underwriter or market maker for the securities. There will usually be no brokerage commissions paid by the Money Market Portfolio for such purchases. Purchases from underwriters of securities will include a commission or concession paid by the issuer to the underwriter, and purchases from dealers serving as market makers will include a dealer's mark-up.

In placing portfolio transactions, Vanguard's advisory staff uses its best judgment to choose the broker most capable of providing the brokerage services necessary to obtain the best available price and most favorable execution at the lowest commission rate. The full range and quality of brokerage services available are considered in making these determinations. In selecting broker-dealers to execute securities transactions for the Portfolios, consideration will be given to such factors as: the price of the security; the rate of the commission; the size and difficulty of the order; the reliability, integrity, financial condition, general execution, and operational capabilities of competing broker-dealers; and the brokerage and research services provided to the Fund.

The Fund employs three independent investment advisers. Wellington Management Company ("WMC"), 75 State Street, Boston, MA 02109, serves as investment adviser to the Fund's Balanced Portfolio. Newell Associates ("Newell"), 525 University Avenue, Palo Alto, CA 93401, is adviser to the Equity Income Portfolio. Lincoln Capital Management Company ("Lincoln"), 200 South Wacker Drive, Chicago, IL 60606, serves as the adviser to the Growth Portfolio. Under advisory agreements with the Fund, WMC, Newell and Lincoln manage the investment and reinvestment of the assets of the Balanced, Equity Income and Growth Portfolios, respectively, and continuously review, supervise and administer each Portfolio's investment program. The advisers discharge their responsibilities subject to the control of the Officers and Trustees of the Fund.

WELLINGTON MANAGEMENT COMPANY SERVES AS ADVISER TO THE BALANCED PORTFOLIO

WMC is a professional investment advisory firm that globally provides services to investment companies, institutions, and individuals. Among the clients of WMC are 12 of the 32 investment companies of The Vanguard Group. As of September 30, 1993, WMC held discretionary management authority with respect to approximately $80 billion of assets. WMC and its predecessor organizations have provided advisory services to investment companies since 1933 and to investment counseling clients since 1960.

Vincent Bajakian, Senior Vice President of WMC, serves as portfolio manager of the Balanced Portfolio. Mr. Bajakian is assisted by Paul G. Sullivan, Senior Vice President of WMC. Messrs. Bajakian and Sullivan who have served in this capacity since the Balanced Portfolio's inception, are supported by research and other investment services provided by the professional staff of WMC.

The Fund pays WMC a basic advisory fee at the end of each fiscal quarter, calculated by applying a quarterly rate, based on the following annual percentage rates, to the average month-end net assets of the Balanced Portfolio for the quarter:

<TABLE>
<CAPTION>

NET ASSETS	RATE
<S>	<C>
Up to $500 million	0.10%
Over $500 million	0.05%

</TABLE>

The basic advisory fee may be increased or decreased by applying an adjustment formula based on the investment performance of the Balanced Portfolio relative to the investment record of a "Combined Index," 65% of which shall be comprised of the Standard & Poor's Composite Price Index and 35% of which shall be comprised of the Salomon Brothers High Grade Corporate Bond Index. Under SEC rules, to avoid a situation where the investment performance portion of the advisory fee under the new agreement might unduly benefit the adviser, the investment performance portion of the fee will not be fully operable until the quarter ending March

31, 1994. Effective with the quarter ending March 31, 1994, the basic fee may be increased or decreased under the formula by an amount equal to .015% per annum (.00375% per quarter) of the first $500 million of the average month-end assets of the Fund, and .010% per annum (.0025% per quarter) of the average month-end assets over $500 million. Until such date, the investment performance portion of the fee will be calculated according to certain transition rules. For additional information on the advisory fees paid by the Fund, please see the Statement of Additional Information.

During the fiscal year ended September 30, 1993, the total advisory fees paid by the Fund to WMC represented an effective annual rate of .10 of 1% of average net assets of the Balanced Portfolio before a decrease of $2,000 based on performance.

NEWELL ASSOCIATES SERVES AS ADVISER TO THE EQUITY INCOME PORTFOLIO

The principal investment officer of Newell Associates, Roger D. Newell, has managed equity portfolios for more than 25 years, employing an income-oriented equity strategy since 1975. The approach is based upon an analysis of how a stock's yield, relative to the market, varies over time. The Adviser's strategy asserts that relative yield is an excellent guide to relative value. The Adviser is a California corporation in which a controlling interest is owned by its Directors and Officers: Roger D. Newell, Robert A. Huret and Alan E. Rothenberg. Mr. Newell has been responsible for overseeing the implementation of the firms strategy for the Equity Income Portfolio since its inception.

The Fund pays the Adviser an advisory fee at the end of each fiscal quarter, calculated by applying a quarterly rate, based on an annual percentage rate of .10%, to the average month-end net assets of the Equity Income Portfolio for the quarter. During the period June 7, 1993 to September 30, 1993, the total advisory fees paid by the Fund to Newell represented an effective annual rate of .10 of 1% of average net assets of the Equity Income Portfolio.

LINCOLN CAPITAL SERVES AS ADVISER TO THE GROWTH PORTFOLIO

Lincoln, an investment advisory firm founded in 1967, currently provides investment counseling services to a limited number of clients, most of which are institutional clients, such as pension funds. Currently, Lincoln holds discretionary management authority with respect to approximately $25.5 billion in assets.

Lincoln employs a team of investment professionals who each participate in investment strategy formulation and issue selection. Client equity portfolios are highly similar in terms of their stock composition. The individuals responsible for overseeing the implementation of the firm's strategy for the Growth Portfolio, who have served in this capacity since the Portfolio's inception, are J. Parker Hall III, President of Lincoln, and David M. Fowler, Vice President of Lincoln.

The Fund pays Lincoln an advisory fee calculated by applying an annual rate of .15% to the average net assets of the Growth Portfolio. During the period June 7, 1993 to September 30, 1993, the total advisory fees paid by the Fund to Lincoln, represented an effective annual rate of .15 of 1% of average net assets of the Growth Portfolio.

The investment advisory agreements authorize WMC, Newell and Lincoln (with approval of the Fund's Board of Trustees) to select the brokers or dealers that will execute the purchases and sales of portfolio securities for each Portfolio and direct the advisers to use their best efforts to obtain the best available price and most favorable execution with respect to all transactions for the Portfolio. The full range and quality of brokerage services available are considered in making these determinations. The Fund has authorized the advisers to pay higher commissions in recognition of brokerage services felt necessary to the achievement of better execution, provided the advisers believe this to be in the best interests of the Portfolio and the Fund.

The Fund's Board of Trustees may, without the approval of shareholders, provide for: (a) the employment of a new investment adviser pursuant to the terms of a new advisory agreement either as a replacement for an existing adviser or as an additional adviser; (b) a change in the terms of an advisory agreement; and (c) the continued employment of an existing adviser on the same advisory contract terms where a contract has been assigned because of a change in control of the adviser. Any such change will only be made upon not less than 30 days prior written notice to shareholders of the Fund which shall include substantially the information concerning the adviser that would have normally been included in a proxy statement.

DIVIDENDS, CAPITAL GAINS AND TAXES

DIVIDENDS AND CAPITAL GAINS MAY ACCUMULATE FREE OF FEDERAL INCOME TAX

Each Portfolio expects to distribute substantially all of its ordinary income and capital gains each year. Dividends for the Money Market and High-Grade Bond Portfolios are accrued daily and distributed monthly. The Balanced, Equity Index and Equity Income Portfolios will distribute dividends each quarter while the Growth Portfolio distributes dividends annually. Capital gains distributions, if any, from the High-Grade Bond, Balanced, Equity Index, Equity Income and Growth Portfolios will be made annually.

All dividends and capital gains distributions from a Portfolio will be automatically reinvested in additional shares of the Portfolio.

Each Portfolio of the Fund intends to continue to qualify for taxation as a "regulated investment company" under the Internal Revenue Code so that it will not be subject to federal income tax to the extent its income is distributed to its shareholders. In addition, each Portfolio intends to qualify under the Internal Revenue Code with respect to the diversification requirements related to the tax-deferred status of insurance company separate accounts.

Shares of the Portfolios must be purchased through variable life insurance or variable annuity contracts. As a result, it is anticipated that any dividend or capital gains distributions from a Portfolio of the Fund will be exempt from current taxation if left to accumulate within a variable life insurance or variable annuity contract. The Fund is managed without regard to tax ramifications. Withdrawals from such contracts may be subject to ordinary income tax plus a 10% penalty tax if made before age 59 1/2.

The tax status of your investment in the Fund depends upon the features of your variable life insurance or variable annuity contract. For further information, please refer to the prospectus of the insurance company separate account that offers your contract.

THE SHARE PRICE OF EACH PORTFOLIO

Each Portfolio's share price or "net asset value" per share is calculated daily at the close of regular trading of the New York Stock Exchange (generally 4:00 p.m. Eastern time). Each Portfolio determines its net asset value per share by subtracting the Portfolio's liabilities (including accrued expenses and dividends payable) from the total value of the Portfolio's investments and other assets and dividing the result by the total outstanding shares of the Portfolio.

For the purpose of calculating the Money Market Portfolio's net asset value per share, securities are valued by the "amortized cost" method of valuation, which does not take into account unrealized gains or losses. This involves valuing an instrument at its cost and thereafter assuming a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the instrument. While this method provides certainty in valuation, it may result in periods during which value, as determined by amortized cost, is higher or lower than the price the Portfolio would receive if it sold the instrument.

The use of amortized cost and the maintenance of the Money

Market Portfolio's per share net asset value at $1.00 is based on its election to operate under the provisions of Rule 2a-7 under the Investment Company Act of 1940. As a condition of operating under that rule, the Money Market Portfolio must maintain a dollar-weighted average portfolio maturity of 90 days or less, purchase only instruments having remaining maturities of 13 months or less, and invest only in securities that are determined by the Trustees to present minimal credit risks and that are of high quality as determined by any major rating service, or in the case of any instrument not so rated, considered by the Trustees to be of comparable quality.

The Trustees have also agreed to establish procedures reasonably designed, taking into account current market conditions and the Money Market Portfolio's investment objective, to stabilize the net asset value per share as computed for the purposes of sales and redemptions at $1.00. These procedures include periodic review, as the Trustees deem appropriate and at such intervals as are reasonable in light of current market conditions, of the relationship between the amortized cost value per share and a net asset value per share based upon available indications of market value. In such a review, investments for which market quotations are readily available are valued at the most recent bid price or quoted yield equivalent for such securities or for securities of comparable maturity, quality and type as obtained from one or more of the major market makers for the securi-

ties to be valued. Other investments and assets are valued at fair value, as determined in good faith by the Trustees.

For the other Portfolios of the Fund, securities that are listed on a securities exchange are valued at the latest quoted sale prices as of 4:00 p.m. on the day the valuation is made. Price information on listed securities is taken from the exchange where the security is primarily traded. Listed securities not traded on the valuation date for which market quotations are available are valued at the mean between the bid and asked prices. Unlisted securities are valued at the latest bid price.

Securities, particularly bonds and other fixed income securities, may be valued on the basis of prices provided by a pricing service when such prices are believed to reflect the fair market value of such securities. The prices provided by a pricing service may be determined without regard to bid or last sale prices of each security but take into account institutional size transactions in similar groups of securities as well as any developments related to specific securities. Other securities, including restricted securities for which no quotations are readily available, are valued at fair value as determined in good faith by the Board of Trustees.

GENERAL INFORMATION

Vanguard Variable Insurance Fund is a Pennsylvania trust. The Declaration of Trust permits the Trustees to issue an unlimited number of shares of beneficial interest, without par value, from an unlimited number of classes of shares. Currently the Fund is offering six classes of shares (known as "Portfolios").

Shares of each Portfolio when issued are fully paid and non-assessable; participate equally in dividends, distributions and net assets; are entitled to one vote per share; have pro rata liquidation rights; and do not have pre-emptive rights. Also, shares of the Fund have non-cumulative voting rights, meaning that the holders of more than 50% of the shares voting for the election of the Trustees can elect all of the Trustees if they so choose.

Annual meetings of shareholders will not be held except as required by the Investment Company Act of 1940 and other applicable law. An annual meeting will be held to vote on the removal of a Trustee or Trustees of the Fund if requested in writing by the holders of not less than 10% of the outstanding shares of the Fund.

All securities and cash are held by CoreStates Bank, N.A., Philadelphia, PA and State Street Bank and Trust Company, Boston, MA. The Vanguard Group, Inc., Valley Forge, PA, serves as the Fund's Transfer and Dividend Disbursing Agent. Price Waterhouse serves as independent accountants for the Fund and will audit its financial statements annually. The Fund is not involved in any litigation.

SHAREHOLDER GUIDE

SEE THE INSURANCE PROSPECTUS FOR DETAILS

Investors may not purchase shares of the Portfolios directly, but only through variable life insurance and variable annuity contracts offered through the separate accounts of various insurance companies. Refer to the prospectus for the insurance company's separate account for information on how to purchase a variable life insurance or variable annuity contract and how to select specific Portfolios of the Fund as investment options for your contract.

Investments in a Portfolio are credited to an insurance company's separate account once they have been received by Vanguard.

If the Board of Trustees determines that continued offering of shares would be detrimental to the best interests of the Fund's shareholders, the Fund may suspend the offering of shares for a period of time. If the Board of Trustees determines that a specific purchase acceptance would be detrimental to the best interest of the Fund's shareholders, the Fund may reject such a purchase request.

If you wish to redeem monies from the Fund, please refer to the instructions provided in the prospectus for the insurance company's separate account. Shares of a Portfolio may be redeemed on any business day. The redemption price of shares will be at the next-determined net asset value per share. Redemption proceeds will be wired to the insurance company generally on the day following receipt of the redemption request, but no later than seven business days.

The Fund may suspend the redemption right or postpone payment at times when the New York Stock Exchange is closed or under any emergency circumstances as determined by the United States Securities and Exchange Commission.

If the Board of Trustees determines that it would be detrimental to the best interests of the Fund's remaining shareholders to make payment in cash, the Fund may pay redemption proceeds in whole or in part by a distribution in kind of readily marketable securities.

(ART)

THE VANGUARD GROUP
OF INVESTMENT
COMPANIES
Vanguard Financial Center
P.O. Box 2600
Valley Forge, PA 19482

VANGUARD VARIABLE ANNUITY
INVESTOR INFORMATION
1-800-522-5555

VANGUARD VARIABLE
ANNUITY CENTER

1-800-462-2391

(ART)

DECEMBER 30, 1993

PART B

VANGUARD VARIABLE INSURANCE FUND

STATEMENT OF ADDITIONAL INFORMATION

JANUARY 4, 1994

This Statement is not a prospectus, but should be read in conjunction with the Fund's current Prospectus (dated January 4, 1994). To obtain the Prospectus please write to the Fund or contact the insurance company sponsoring the accompanying variable life insurance or variable annuity contract.

<TABLE>
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INVESTMENT OBJECTIVE AND POLICIES

REPURCHASE AGREEMENTS

Each Portfolio of the Fund may invest in repurchase agreements with commercial banks, brokers or dealers to generate income from its excess cash balances. A repurchase agreement is an agreement under which a Portfolio acquires a money market instrument (generally a security issued by the U.S. Government or an agency thereof, a banker's acceptance or a certificate of deposit) from a Federal Reserve member bank with minimum assets of at least $2 billion or a registered securities dealer, subject to resale to the seller at an agreed upon price and date (normally, the next business day). A repurchase agreement may be considered a loan collateralized by securities. The resale price reflects an agreed upon interest rate effective for the period the instrument is held by a

Portfolio and is unrelated to the interest rate on the underlying instrument. In these transactions, the securities acquired by a Portfolio (including accrued interest earned thereon) must have a total value in excess of the value of the repurchase agreement and are held by the Fund's custodian bank until repurchased. In addition, the Fund's Board of Trustees will monitor each Portfolio's repurchase agreement transactions generally and will establish guidelines and standards for review of the creditworthiness of any bank, broker or dealer party to a repurchase agreement with a Portfolio of the Fund. No more than an aggregate of 15% (10% for the Money Market Portfolio) of a Portfolio's assets, at the time of investment, will be invested in repurchase agreements having maturities longer than seven days and securities subject to legal or contractual restrictions on resale, or for which there are no readily available market quotations.

The use of repurchase agreements involves certain risks. For example, if the other party to the agreement defaults on its obligation to repurchase the underlying security at a time when the value of the security has declined, a Portfolio may incur a loss upon disposition of the security. If the other party to the agreement becomes insolvent and subject to liquidation or reorganization under the Bankruptcy Code or other laws, a court may determine that the underlying security is collateral for a loan by the Portfolio not within the control of the Portfolio and therefore the Portfolio may not be able to substantiate its interest in the underlying

security and may be deemed an unsecured creditor of the other party to the agreement. While the Fund's management acknowledges these risks, it is expected that they can be controlled through careful monitoring procedures.

LENDING OF SECURITIES

Each Portfolio of the Fund (except for the Money Market Portfolio) may lend its securities to qualified institutional investors who need to borrow securities in order to complete certain transactions, such as covering short sales, avoiding failures to deliver securities or completing arbitrage operations. By lending its portfolio securities, a Portfolio attempts to increase its net investment income through the receipt of interest on the loan. Any gain or loss in the market price of the securities loaned that might occur during the term of the loan would be for the account of the Portfolio. The Portfolio may lend its portfolio securities to qualified brokers, dealers, banks or other financial institutions, so long as the terms, the structure and the aggregate amount of such loans are not inconsistent with the Investment Company Act of 1940, or the Rules and Regulations or interpretations of the Securities and Exchange Commission (the "Commission") thereunder, which currently require that (a) the borrower pledge and maintain with the Portfolio collateral consisting of cash, a letter of credit issued by a domestic U.S. bank, or securities issued or guaranteed by the United States Government having at all times not less than 100% of the value of the securities loaned, (b) the borrower add to such collateral whenever the price of the securities loaned rises (i.e. the borrower "marks to the market" on a daily basis), (c) the loan be made subject to termination by the Portfolio at any time and (d) the Portfolio receive reasonable interest on the loan (which may include the Portfolio's investing any cash collateral in interest bearing short-term investments), any distribution on the loaned securities and any increase in their market value. Loan arrangements made by a Portfolio will comply with all other applicable regulatory requirements, including the rules of the New York Stock Exchange, which presently require the borrower, after notice, to redeliver the securities within the normal settlement time of five business days. All relevant facts and circumstances, including the creditworthiness of the broker, dealer or institution, will be considered in making decisions with respect to the lending of securities, subject to review by the Fund's Board of Directors.

FUTURES CONTRACTS AND OPTIONS

Each Portfolio of the Fund (except the Money Market Portfolio) may enter into futures contracts, options, and options on futures contracts to maintain cash reserves while remaining fully invested, to facilitate trading or to reduce transactions costs. Futures contracts provide for the future sale by one party and purchase by another party of a specified amount of a specific security at a specified future time and at a specified price. Futures contracts which are standardized as to maturity date and underlying financial instrument are traded on national futures exchanges. Futures exchanges and trading are regulated under the Commodity Exchange Act by the Commodity Futures Trading Commission ("CFTC"), a U.S. Government agency.

Although futures contracts by their terms call for actual delivery or acceptance of the underlying securities, in most cases the contracts are closed out before the settlement date without the making or taking of delivery. Closing out an open futures position is done by taking an opposite position ("buying" a contract which has previously been "sold," or "selling" a contract previously purchased) in an identical contract to terminate the position. Brokerage commissions are incurred when a futures contract is bought or sold.

Futures traders are required to make a good faith margin deposit in cash or government securities with a broker or custodian to initiate and maintain open positions in futures contracts. A margin deposit is intended to assure completion of the contract (delivery or acceptance of the underlying security) if it is not terminated prior to the specified delivery date. Minimal initial margin requirements are established by the futures exchange and may be changed. Brokers may establish deposit requirements which are higher than the exchange minimums. Futures contracts are customarily purchased and sold on margin which may range upward from less than 5% of the value of the contract being traded.

After a futures contract position is opened, the value of the contract is marked to market daily. If the futures contract price changes to the extent that the margin on deposit does not satisfy margin requirements, payment of additional "variation" margin will be required. Conversely, change in the contract value may reduce the required margin, resulting in a repayment of excess margin to the contract holder. Variation margin payments are made to and from the futures broker for as long as the contract remains open. The Fund may earn interest income on its margin deposits.

Traders in futures contracts may be broadly classified as either "hedgers" or "speculators." Hedgers use the futures markets primarily to offset unfavorable changes in the value of securities otherwise held for investment purposes or expected to be acquired by them. Speculators are less inclined to own the securities underlying the futures contracts which they trade, and use futures contracts with the expectation of realizing profits from fluctuations in the prices of underlying securities. The Portfolios of the Fund intend to use futures contracts only for bona fide hedging purposes.

Regulations of the CFTC applicable to the Portfolios of the Fund require that all of its futures transactions constitute bona fide hedging transactions. The Portfolios of the Fund will only sell futures contracts to protect securities they own against price declines or purchase contracts to protect against an increase in the price of securities they intend to purchase. As evidence of this hedging interest, the Portfolios of the Fund expect that approximately 75% of their futures contract purchases will be "completed," that is, equivalent amounts of related securities will have been purchased or are being purchased by the Portfolios upon sale of open futures contracts.

Although techniques other than the sale and purchase of futures contracts could be used to control a Portfolio's exposure to market fluctuations, the use of futures contracts may be a more effective means of hedging this exposure. While a Portfolio will incur commission expenses in both opening and closing out futures positions, these costs are lower than transaction costs incurred in the purchase and sale of the underlying securities.

RESTRICTIONS ON THE USE OF FUTURES CONTRACTS AND OPTIONS

A Portfolio of the Fund will not enter into futures contracts transactions to the extent that, immediately thereafter, the sum of its initial margin deposits on open contracts exceeds 5% of the market value of the Portfolio's total assets. In addition, each Portfolio will not enter into futures contracts to the extent that its outstanding obligations to purchase securities under these contracts would exceed 20% of the Portfolio's total assets. Assets committed to futures contracts or options will be held in a segregated account at the Fund's custodian bank.

RISK FACTORS IN FUTURES TRANSACTIONS

Positions in futures contracts may be closed out only on an exchange which provides a secondary market for such futures. However, there can be no assurance that a liquid secondary market will exist for any particular futures contract at any specific time. Thus, it may not be possible to close a futures position. In the event of adverse price movements, a Portfolio would continue to be required to make daily cash payments to maintain its required margin. In such situations, if a Portfolio has insufficient cash it may have to sell portfolio securities to meet daily margin requirements at a time when it may be disadvantageous to do so. In addition, a Portfolio may be required to make delivery of the instruments underlying future contracts it holds. The inability to close options and futures positions also could have an adverse impact on the ability to effectively hedge it.

The Portfolios will minimize the risk that it will be unable to close out a futures contract by only entering into futures which are traded on national futures exchanges and for which there appears to be a liquid secondary market.

The risk of loss in trading futures contracts in some strategies can be substantial, due both to the low margin deposits required, and the extremely high degree of leverage involved in futures pricing. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss (as well as gain) to the investor. For example, if at the time of purchase, 10% of the value of the futures contract is deposited as margin, a subsequent 10% decrease in the value of the futures contract would result in a total loss of the margin deposit, before any deduction for the transaction costs, if the account were then closed out. A 15% decrease would result in a loss equal to 150% of the original margin deposit if the contract were closed out. Thus, a purchase or sale of a futures contract may result in losses in excess of the amount invested in the contract. However, because the futures strategies of the Portfolios are engaged in only for hedging purposes, the Adviser does not believe that the Portfolios are subject to the risks of loss frequently associated with futures transactions. A Portfolio would presumably have sustained comparable losses if, instead of the futures contract, it had invested in the underlying financial instrument and sold it after the decline.

Utilization of futures transactions by a Portfolio does involve the risk of imperfect or no correlation where the securities underlying futures contracts have different maturities than the portfolio securities being hedged. It is also possible that a Portfolio could both lose money on futures contracts and also experience a decline in value of its portfolio securities. There is also the risk of loss by the fund of margin deposits in the event of bankruptcy of a broker with whom a Portfolio has an open position in a futures contract or related option.

Most futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of future positions and subjecting some futures traders to substantial losses.

FEDERAL TAX TREATMENT OF FUTURES CONTRACTS

Except for transactions a Portfolio has identified as hedging transactions, a Portfolio is required for federal income tax purposes to recognize as income for each taxable year its net unrealized gains and losses on certain futures contracts as of the end of the year as well as those actually realized during the year. In most cases, any gain or loss recognized with respect to a futures contract is considered to be 60% long-term capital gain or loss and 40% short-term capital gain or loss, without regard to the holding period of the contract. Furthermore, sales of futures contracts which are intended to hedge against a change in the value of securities held by a Portfolio may affect the holding period of such securities and, consequently, the nature of the gain or loss on such securities upon disposition.

In order for a Portfolio to continue to qualify for Federal income tax treatment as a regulated investment company, at least 90% of its gross income for a taxable year must be derived from qualifying income; i.e., dividends, interest, income derived from loans of securities, gains from the sale of securities or of foreign currencies or other income derived with respect to the Portfolio's business of investing in securities. In addition, gains realized on the sale or other disposition of securities held for less than three months must be limited to less than 30% of a Portfolio's annual gross income. It is anticipated that any net gain realized from the closing out of futures contracts will be considered gain from the sale of securities and therefore be qualifying income for purposes of the 90% requirement. In order to avoid realizing excessive gains on securities held less than three months, a Portfolio may be required to defer the closing out of futures contracts beyond the time when it would otherwise be advantageous to do so. It is anticipated that unrealized gains on futures contracts, which have been open for less than three months as of the end of a Portfolio's fiscal year and which are recognized for tax purposes, will not be considered gains on sales of securities held less than three months for the purpose of the 30% test.

Each Portfolio of the Fund will distribute to shareholders annually any net capital gains which have been recognized for federal income tax purposes (including unrealized gains at the end of a Portfolio's fiscal year) on futures transactions. Such distributions will be combined with distributions of capital gains realized on a Portfolio's other investments and shareholders will be advised on the nature of the payments.

INVESTMENT LIMITATIONS

The following restrictions and fundamental policies cannot be changed without approval of the holders of a majority of the outstanding shares of the Fund (as defined in the Investment Company Act of 1940). Each Portfolio of the Fund may not under any circumstances:

(1) invest in commodities or purchase real estate; although each Portfolio may purchase securities of companies which deal in real estate or interest therein, and the High-Grade Bond, Equity Index, Equity Income, Growth and Balanced Portfolios may purchase and sell futures contracts and options transactions to the extent provided under "Restrictions on the Use of Futures Contracts and Options";

(2) purchase securities on margin or sell securities short; except that the deposit or payment by a Portfolio of initial or variation margin in order to engage in a futures contract will not be considered the purchase of a security on margin;

(3) lend money to any person except (i) by purchasing bonds, debentures or similar obligations (including repurchase agreements, which are either

publicly distributed or purchased by institutional investors), and (ii) as provided under "Lending of Securities";

(4) purchase more than 10% of the outstanding voting securities of any company;

(5) with respect of 75% of a Portfolio's assets, purchase securities of any issuer (except obligations of the United States Government and its instrumentalities) if, as a result, more than 5% of the Portfolio's total assets would be invested in the securities of such issuer;

(6) borrow money, except from a bank and only as a temporary or emergency measure and in no event in excess of 15% of the market value of a Portfolio's assets. Money borrowed in excess of 5% of a Portfolio's total assets will be repaid prior to the purchase of additional portfolio securities;

(7) pledge, mortgage, or hypothecate any of its assets to an extent greater than 5% of the value of its total assets;

(8) engage in the business of underwriting securities issued by other persons, except to the extent that the Fund may technically be deemed to be an underwriter under the Securities Act of 1933, as amended, in disposing of portfolio securities;

(9) purchase or otherwise acquire any security if, as a result, more than 15% of its net assets would be invested in securities that are illiquid;

(10) invest for the purpose of controlling management of any company;

(11) invest in securities of other investment companies, except as they may be acquired as a part of a merger, consolidation or acquisition of assets or otherwise to the extent permitted by Section 12 of the 1940 Act. The Fund will invest only in investment companies which have investment objectives and investment policies consistent with those of the Fund;

(12) invest more than 25% of the value of its total assets in any one industry; or

(13) invest in put, call, straddle or spread options or in interest in oil, gas or other mineral exploration or development programs, except as set forth in limitation number "1", above.

Notwithstanding these limitations, the Fund may own all or any portion of the securities of, or make loans to, or contribute to the costs or other financial requirements of any company which will be wholly owned by the Fund and one or more other investment companies and is primarily engaged in the business of providing, at-cost, management, administrative, distribution or related services to the Fund and other investment companies. See "Management of the Fund."

The above mentioned investment limitations are considered at the time investment securities are purchased.

PURCHASE OF SHARES

Each Portfolio of the Fund reserves the right in its sole discretion (i) to suspend the offerings of its shares, (ii) to reject purchase orders when in the judgment of management such rejection is in the best interest of the Portfolio, and (iii) to reduce or waive the minimum for initial and subsequent investments for certain fiduciary accounts or under circumstances where certain economies can be achieved in sales of the Portfolio's shares.

REDEMPTION OF SHARES

The Fund may suspend redemption privileges or postpone the date of payment (i) during any period that the New York Stock Exchange is closed, or trading on the Exchange is restricted as determined by the United States Securities and Exchange Commission (the "Commission"), (ii) during any period when an emergency exists as defined by the rules of the Commission as a result of which it is not reasonably practicable for the Fund to dispose of securities owned by it, or fairly to determine the value of its assets, and (iii) for such other periods as the Commission may permit.

The Fund has made an election with the Commission to pay in cash all redemptions requested by any shareholder of record limited in amount during any 90 day period to the lesser of $250,000 or 1% of the net assets of the Fund at the beginning of such period. Such commitment is irrevocable without the prior approval of the Commission. Redemptions in excess of the above limits may be paid in whole or in part, in investment securities or in cash, as the Trustees may deem advisable; however, payment will be made wholly in cash unless the Trustees believe that economic or market conditions exist which would make such a practice detrimental to the best interests of the Fund. If redemptions are paid in investment securities, such securities will be valued as set forth in the Prospectus under "The Share Price of Each Portfolio" and a redeeming shareholder would normally incur brokerage expenses if he converted these securities to cash.

No charge is made by the Fund for redemptions. Any redemption may be more or less than the shareholder's cost depending on the market value of the securities held by the Fund.

CALCULATION OF YIELD (MONEY MARKET PORTFOLIO)

The current yield of the Fund's Money Market Portfolio is calculated daily on a base period return of a hypothetical account having a beginning balance of one share for a particular period of time (generally 7 days). The return is determined by dividing the net change (exclusive of any capital changes) in such account by its average net asset value for the period, and then multiplying it by 365/7 to get the annualized current yield. The calculation of net change reflects the value of additional shares purchased with the dividends by the Portfolio, including dividends on both the original share and on such additional shares. An effective yield, which reflects the effects of compounding and represents an annualization of the current yield with all dividends reinvested, may also be calculated for the Portfolio by adding 1 to the net change, raising the sum to the 365/7 power, and subtracting 1 from the result.

Set forth below is an example, for purposes of illustration only, of the current and effective yield calculations for the Money Market Portfolio for the 7 day base period ending September 30, 1993.

	MONEY MARKET PORTFOLIO 9/30/93
Value of account at beginning of period	$1.00000
Value of same account at end of period*	1.00057
Net Change in account value	$ .00057

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* Exclusive of any capital changes.

	MONEY MARKET PORTFOLIO 9/30/93
Annualized Current Net Yield	
(Net Change X 365/7) / average net asset value	2.99%
Effective Yield	
[(Net Change) + 1]/365/7/ -1	3.02%
Average Weighted Maturity of investments	60 days

The net asset value of a share of the Money Market Portfolio is $1.00 and it is not expected to fluctuate. However, the yield of the Portfolio will fluctuate. The annualization of a week's dividend is not a representation by the Portfolio as to what an investment in the Portfolio will actually yield in the future. Actual yields will depend on such variables as investment quality, average maturity, the type of instruments the Portfolio invests in, changes in interest rates on instruments, changes in the expenses of the Portfolio and other factors. Yields are one basis investors may use to analyze the Portfolio and other investment vehicles; however, yields of other investment vehicles may not be comparable because of the factors set forth in the preceeding sentence, differences in the time periods compared, and differences in the methods used in valuing portfolio instruments, computing net asset value and calculating yield.

YIELD AND TOTAL RETURN

The yield of each Portfolio of the Fund for the 30-day period ended September 30, 1993, is set forth below. Yields are calculated daily for each Portfolio. Premiums and discounts on asset-backed securities are not amortized. The Equity Income and Growth Portfolios had no operations during the Period.

High-Grade Bond Portfolio	5.22%
Balanced Portfolio	3.70%
Equity Index Portfolio	2.51%
Equity Income Portfolio	4.13%
Growth Portfolio	1.54%

The average annual total return of each Portfolio of the Fund for one year and the period since inception, is set forth below:

	YEAR ENDED 9/30/93	SINCE INCEPTION
High-Grade Bond Portfolio	9.64%	11.06%*
Balanced Portfolio	14.10%	11.41%*
Equity Index Portfolio	12.68%	11.58%*
Equity Income Portfolio		6.81%*+
Growth Portfolio		2.60%*+

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* Since Inception:
Equity Index Portfolio and High-Grade Bond Portfolio--April 29, 1991
Balanced Portfolio--May 23, 1991
Equity Income Portfolio and Growth Portfolio--June 7, 1993

\+ Not annualized.

Total return is computed by finding the average compounded rates of return over the periods set forth above that would equate an initial amount invested at the beginning of the periods to the ending redeemable value of the investment.

MANAGEMENT OF THE FUND

TRUSTEES AND OFFICERS

The Officers of the Fund manage its day to day operations and are responsible to the Fund's Board of Trustees. The Trustees set broad policies for each of the Fund's Portfolios and choose the Fund's Officers. The following is a list of Trustees and Officers of the Fund and a statement of their present positions and principal occupations during the past five years. The mailing address of the Trustees and Officers of the Fund is Post Office Box 876, Valley Forge, PA 19482.

JOHN C. BOGLE, Chairman, Chief Executive Officer and Trustee *
Chairman, Chief Executive Officer, and Director of The Vanguard Group, Inc. and of each of the investment companies in The Vanguard Group; Director of The Mead Corporation and General Accident Insurance.

JOHN J. BRENNAN, President & Trustee *
President and Director of The Vanguard Group, Inc. and of each of the investment companies in The Vanguard Group.

ROBERT E. CAWTHORN, Trustee,
Chairman and Chief Executive Officer, Rhone-Poulenc Rorer, Inc.; Director of Insurance Response Corp. and Sun Company, Inc.; Trustee, Universal Health Realty Income Trust.

BARBARA BARNES HAUPTFUHRER, Trustee
Director of The Great Atlantic and Pacific Tea Company, Raytheon Company, Knight-Ridder, Inc., Massachusetts Mutual Life Insurance Co., and ALCO Standard Corp.

BRUCE K. MACLAURY, Trustee
President, The Brookings Institution; Director of Dayton Hudson Corporation, American Express Bank, Ltd.

ALFRED M. RANKIN, JR., Trustee
President, Chief Executive Officer and Director of NACCO Industries, Inc.; Director of The BFGoodrich Company. The Standard Products Company and The Reliance Electric Company.

JOHN C. SAWHILL, Trustee
President and Chief Executive Officer, The Nature Conservancy; formerly, Director and Senior Partner, McKinsey & Co.; President, New York University; Director of Pacific Gas and Electric Company and NACCO Industries.

JAMES O. WELCH, JR., Trustee
Retired Chairman of Nabisco Brands, Inc. and retired Vice Chairman and Director of RJR Nabisco; Director of TECO Energy, Inc.

J. LAWRENCE WILSON, Trustee
Chairman and Director of Rohm & Haas Company; Director of Cummins Engine Company and Vanderbilt University; Trustee of the Culver Educational Foundation.

RAYMOND J. KLAPINSKY, Secretary *
Senior Vice President and Secretary of The Vanguard Group, Inc.; Secretary of each of the investment companies in The Vanguard

and The St. Paul Companies, Inc.

BURTON G. MALKIEL, Trustee
Chemical Bank Chairmen's Professor of Economics, Princeton University; Director of Prudential Insurance Co. of America, Amdahl Corporation, Baker Fentress & Co., Jeffrey Co., and The Southern New England Telephone Company; Governor, American Stock Exchange, Inc.

Group.

RICHARD F. HYLAND, Treasurer *
Treasurer of The Vanguard Group, Inc. and of each of the investment companies in The Vanguard Group.

KAREN E. WEST, Controller *
Vice President of The Vanguard Group, Inc.; Controller of each of the investment companies in The Vanguard Group.

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* Officers of the Fund are "interested persons" as defined in the Investment Company Act of 1940.

THE VANGUARD GROUP

Vanguard Variable Insurance Fund is a member of The Vanguard Group of Investment Companies, which consists of 32 investment companies offering 77 distinct investment portfolios.

Through their jointly owned subsidiary, The Vanguard Group, Inc. ("Vanguard"), the Fund and the other Funds in the Group obtain at cost virtually all of their corporate management, administrative and distribution services. Vanguard also provides investment advisory services on an at-cost basis to certain Vanguard Funds.

Vanguard employs a supporting staff of management and administrative personnel needed to provide the requisite services to the Funds and also furnishes the Funds with necessary office space, furnishings and equipment. Each Fund pays its share of Vanguard's total expenses which are allocated among the Funds under methods approved by the Board of Trustees (Directors) of each Fund. In addition, each Fund bears its own direct expenses such as legal, auditing and custodian fees.

The Fund's Officers are also Officers and employees of Vanguard. No Officer or employee owns, or is permitted to own, any securities of any external adviser for the Funds.

The Vanguard Group was established and operates under a Funds' Service Agreement which was approved by the shareholders of each of the Funds. The amounts which each of the Funds have invested are adjusted from time to time in order to maintain the proportionate relationship between each Fund's relative net assets and its contribution to Vanguard's capital. At September 30, 1993, the

Fund had contributed capital of $103,000 to Vanguard (included in other assets) representing .5% of Vanguard's capitalization. The Funds' Service agreement was amended on May 10, 1993 to provide as follows: (a) each Vanguard Fund may invest up to .40% of its current net assets in Vanguard, and (b) there is no other limitation on the amount that each Vanguard Fund may contribute to Vanguards' capitalization.

MANAGEMENT. Corporate management and administrative services include: (1) executive staff; (2) accounting and financial; (3) legal and regulatory; (4) shareholder account maintenance; (5) monitoring and control of custodian relationships; (6) shareholder reporting; and (7) review and evaluation of advisory and other services provided to the Funds by third parties. During the fiscal year ended September 30, 1993, the Fund's allocated share of Vanguard's actual net costs of operation relating to management and administrative services (including transfer agency) totaled approximately $962,000.

DISTRIBUTION. Vanguard provides all distribution and marketing activities for the Funds in the Group. Vanguard Marketing Corporation, a wholly owned subsidiary of The Vanguard Group, Inc., acts as Sales Agent for the shares of the Funds in connection with any sales made directly to investors in the states of Florida, Missouri, New York, Ohio, Texas and such other states as it may be required.

The principal distribution expenses are for advertising, promotional materials and marketing personnel. Distribution services may also include organizing and offering to the public, from time to time, one or more new investment companies which will become members of the Group. The Directors and Officers of Vanguard determine the amount to be spent annually on distribution activities, the manner and amount to be spent on each Fund, and whether to organize new investment companies.

One-half of the distribution expenses of a marketing and promotional nature is allocated among the Funds based upon relative net assets. The remaining one-half of those expenses is allocated among the Funds based upon each Fund's sales for the preceding 24 months relative to the total sales of the Funds as a Group; provided, however, that no Fund's aggregate quarterly rate of contribution for distribution expenses of a marketing and promotional nature shall exceed 125% of average distribution expense rate for the Group, and that no Fund shall incur annual distribution expenses in excess of 20/100 of 1% of its average month-end net assets. During the fiscal year ended September 30, 1993, the Fund paid approximately $92,000 of the Group's distribution and marketing expenses, which represented an effective annual rate of 1/100 of 1% of the Fund's average net assets.

INVESTMENT ADVISORY SERVICES. Vanguard also provides investment advisory services to Vanguard Bond Index Fund, Vanguard Municipal Bond Fund, Vanguard Money Market Reserves, the Short-Term,

Intermediate-Term and Long-Term Corporate Portfolios, Short-, Intermediate- and Long-Term U.S. Treasury and Short-Term Federal Portfolios of Vanguard Fixed Income Securities Fund, Vanguard California Tax-Free Fund, Vanguard New York Insured Tax-Free Fund, Vanguard New Jersey Tax-Free Fund, Vanguard Pennsylvania Tax-Free Fund, Vanguard Ohio Tax-Free Fund, Vanguard Florida Tax-Free Fund, Vanguard Institutional Money Market Portfolio of Vanguard Institutional Portfolios, the 500, Extended Market, Total Stock Market, Growth, Value and Small Capitalization Stock Portfolios of Vanguard Index Trust, Vanguard STAR Fund, Vanguard Balanced Index Fund, Vanguard International Equity Index Fund, and several indexing separate accounts. These services are provided on an at-cost basis from a money management staff employed directly by Vanguard. The compensation and other expenses of this staff are paid by the Funds utilizing these services. During the fiscal year ended September 30, 1993, the Fund paid approximately $42,000 of Vanguard's expenses relating to investment advisory services.

REMUNERATION OF TRUSTEES AND OFFICERS. The Fund pays each Trustee, who is not also an Officer, an annual fee plus travel and other expenses incurred in attending Board meetings. The Fund's Officers and employees are paid by Vanguard which, in turn, is reimbursed by the Fund and each other Fund in the Group, for its proportionate share of Officers' and employees' salaries and retirement benefits.

Under its retirement plan, Vanguard contributes annually an amount equal to 10% of each Officer's annual compensation plus 7% of that part of the officer's compensation during the year, if any, that exceeds the Social Security Taxable Wage Base then in effect. Under its thrift plan, all eligible Officers are permitted to make pre-tax contributions in an amount equal to 4% of total compensation which are matched by Vanguard on a 100% basis. Directors who are not Officers are paid an annual fee based on the number of years of service on the board, up to fifteen years of service, upon retirement. The fee is equal to $1,000 for each year of service and each investment company member of The Vanguard Group contributes a proportionate amount of this fee based on its relative net assets. This fee is paid, subsequent to a Director's retirement, for a period of ten years or until the death of a retired Director.

INVESTMENT ADVISORY SERVICES

The Money Market, High-Grade Bond and Equity Index Portfolios of the Fund receive investment advisory services on an "internalized," at-cost basis from an experienced investment management staff employed directly by Vanguard. The investment management staff is supervised by the senior Officers of the Fund. Vanguard's Fixed Income Group provides advisory services for the Money Market and High-Grade Bond Portfolios and Vanguard's Core Management Group provides advisory services to the Equity Index Portfolio.

Vanguard's investment management staff is also responsible for the allocation of principal business and portfolio brokerage and the negotiation of commissions. For the Money Market Portfolio, the purchase and sale of investment securities will ordinarily be principal transactions. Portfolio securities will normally be purchased directly from the issuer or from an underwriter or market maker for the securities. There will usually be no brokerage commissions paid by the Money Market Portfolio for such purchases. Purchases from underwriters of securities will include a commission or concession paid by the issuer to the underwriter, and purchases from dealers serving as market makers will include a dealer's mark-up.

In placing portfolio transactions, Vanguard's advisory staff uses its best judgment to choose the broker most capable of providing the brokerage services necessary to obtain the best available price and most favorable execution at the lowest commission rate. The full range and quality of brokerage services available are considered in making these determinations. In selecting broker-dealers to execute securities transactions for the Portfolios, consideration will be given to such factors as: the price of the security; the rate of the commission; the size and difficulty of the order; the reliability, integrity, financial condition, general execution, and operational capabilities of competing broker-dealers; and the brokerage and research services provided to the Fund.

The investment policies of each of the Portfolios may lead to frequent changes in investments, particularly in periods of rapidly fluctuating interest rates. A change in securities held by a Portfolio is known as "portfolio turnover" and may involve the payment by the Portfolio of dealer mark-ups, underwriting commissions, and other transaction costs on the sales of securities as well as on the reinvestment of the proceeds in other securities. The annual portfolio turnover rate for the Portfolios is set forth under the heading "Financial Highlights" in the Vanguard Variable Insurance Fund Prospectus. The portfolio turnover rate is not a limiting factor when management deems it desirable to sell or purchase securities. It is impossible to predict whether or not the portfolio turnover rates in future years will vary significantly from the rates in recent years.

THE BALANCED PORTFOLIO INVESTMENT ADVISORY AGREEMENT

The Fund employs Wellington Management Company (WMC) under an investment advisory agreement dated April 29, 1991 to manage the investment and reinvestment of the assets included in the Fund's Balanced Portfolio and to continuously review, supervise and administer the Balanced Portfolio's investment program. WMC discharges its responsibilities subject to the control of the officers and Trustees of the Fund.

The Fund pays WMC a Basic Fee at the end of each fiscal quarter, calculated by applying a quarterly rate, based on the following annual percentage rates, to the Portfolio's average month-end net assets for the quarter:

<TABLE>
<CAPTION>

NET ASSETS	RATE
<S>	<C>
First $500 million	.100%
Over $500 million	.050%

</TABLE>

Effective with the quarter ending March 31, 1994, the Basic Fee, as provided above, shall be increased or decreased by an amount equal to .015% per annum (.00375% per quarter) of the first $500 million of the average month-end assets of the Fund, and .010% per annum (.0025% per quarter) of the average month-end assets over $500 million, if the Fund's investment performance for the thirty-six months preceding the end of the quarter is six percentage points or more above or below, respectively the investment record of a "Combined Index", 65% of which shall be comprised of the Standard & Poor's Composite Price Index (the "Stock Index") and 35% of which shall be comprised of the Salomon Brothers High Grade Corporate Bond Index (the "Bond Index").

In order to avoid a situation where the investment performance portion of the advisory fee under the new agreement will be based upon a period for which investment results are already known until March 31, 1994, the investment performance portion of the fee shall be calculated in accordance with the transition rules set forth in Investment Company Act Release No. 7113 as follows:

a) For the quarters ending prior to March 31, 1992, the investment performance portion of the advisory fee was not operable. The advisory fee paid by the Fund was the Basic Fee, calculated as described above.

b) Beginning with the quarter ending March 31, 1992: (i) the investment performance portion of the fee shall be computed based upon a comparison of the investment performance of the Fund and that of the Combined Index over the number of months which have elapsed between March 31, 1991 and the end of the quarter when the fee is computed; and (ii) the percentages by which the Fund's investment performance must exceed or fall below the investment record of the Combined Index shall increase proportionately from two percentage points for the twelve months ending March 31, 1992 to six percentage points for thirty-six months ending March 31, 1994.

For the purpose of determining the fee adjustment for investment performance, as described above, the net assets of the Fund shall be averaged over the same period as the investment performance of the Fund and the investment record of the Combined Index are computed. The "investment performance" of the Fund for the

period, expressed as a percentage of the Fund's net asset value per share at the beginning of the period shall be the sum of: (i) the change in the Fund's net asset value per share during such period; (ii) the value of the Fund's cash distributions per share having an ex-dividend date occurring within the period; and (iii) the per share amount of capital gains taxes paid or accrued during such period by the Fund for undistributed realized long-term capital gains.

The "investment record" of the Stock Index for the period, expressed as a percentage of the Stock Index level at the beginning of the period, shall be the sum of (i) the change in the level of the Stock Index during the period and (ii) the value, computed consistently with the Stock Index, of cash distributions having an ex-dividend date occurring within the period made by companies whose securities comprise the Stock Index. The "investment record" of the Bond Index for the period, expressed as a percentage of the Bond Index level at the beginning of such period shall be the sum of (i) the change in the level of the Bond Index during the period and (ii) the value of the interest accrued or paid on the bonds included in the Bond Index, assuming the reinvestment of such interest on a monthly basis. Computation of these two components as the Combined Index shall be made on the basis of 65% in the Stock Index and 35% in the Bond Index at the beginning of each quarter.

In April, 1972, the Securities and Exchange Commission ("SEC") issued Release No. 7113 under the Investment Company Act of 1940 to call attention to directors and investment advisers to certain factors which must be considered in connection with investment company incentive fee arrangements. One of these factors is to "avoid basing significant fee adjustments upon random or insignificant differences" between the investment performance of a fund and that of the particular index with which it is being compared. The Release provides that "preliminary studies (of the SEC staff) indicate that as a "rule of thumb' the performance difference should be at least ± 10 percentage points" annually before the maximum performance adjustment may be made. However, the Release also states that "because of the preliminary nature of these studies, the Commission is not recommending, at this time, that any particular performance difference exist before the maximum fee adjustment may be made." The Release concludes that the directors of a fund "should satisfy themselves that the maximum performance adjustment will be made only for performance differences that can reasonably be considered "significant." The Board of Trustees of Vanguard Variable Insurance Fund has fully considered the SEC Release and believes that the performance adjustments as included in the above mentioned agreement is appropriate, although not within the ± 10 percentage point per year range suggested in the Release. Under the proposed investment advisory agreement between Vanguard Variable Insurance Fund and WMC, the maximum performance adjustment is made at a difference of ± 6 percentage points from the performance of the index over a thirty-six month period, which would effectively be the equivalent of approximately ± 2 percentage points difference per year.

The present agreement continues until April 30, 1994. The agreement is renewable thereafter, for successive one year periods, only if each renewal is specifically approved by a vote of the Fund's Board of Trustees, including the affirmative votes of a majority of the Trustees who are not parties to the contract or "interested persons" (as defined in the Investment Company Act of 1940) of any such party, cast in person at a meeting called for the purpose of considering such approval. In addition, the question of continuance of the agreement may be presented to the shareholders of the Fund, in such event continuance shall be effected only if approved by the affirmative vote of a majority of the outstanding voting securities of the Fund. The agreement is automatically terminated if assigned, and may be terminated without penalty at any time (1) either by vote of the Board of Trustees of the Fund or by vote of its outstanding voting securities on 60 days' written notice to WMC, or (2) by WMC upon 90 days' written notice to the Fund.

Because WMC provides only investment advisory services to the Balanced Portfolio of the Fund and has no control over the Fund's expenses, WMC has not undertaken to guarantee expenses of the Fund. The Officers of the Fund have worked out alternative arrangements with state authorities which do not require an expense guarantee. During the period May 23, 1991 through September 30, 1991, and the fiscal years ended September 30, 1992, and September 30, 1993, the Fund paid investment advisory fees of approximately $2,000, $46,000 and $137,000, respectively, to WMC.

DESCRIPTION OF WMC. WMC is a Massachusetts general partnership of which the following persons are managing partners: Robert W. Doran, Duncan M. McFarland, and John B. Neff.

THE GROWTH PORTFOLIO INVESTMENT ADVISORY AGREEMENT

The Fund entered into an investment advisory agreement with Lincoln Capital Management Company (Lincoln) on June 1, 1993, under which Lincoln manages the investment and reinvestment of the assets included in the Fund's Growth Portfolio and continuously reviews, supervises and administers the Fund's Growth Portfolio. Lincoln will invest or reinvest such assets only in U.S. securities. Lincoln discharges its responsibilities subject to the control of the Officers and Trustees of the Fund. Under this agreement the Fund pays Lincoln an advisory fee at the end of each fiscal quarter, calculated by applying an annual rate of .15% to the Portfolio's average net assets.

The agreement with Lincoln continues until May 31, 1995. The agreement is renewable thereafter, for successive one year periods, only if each renewal is specifically approved by a vote of the Fund's Board of Trustees, including the affirmative votes of a majority of the directors who are not parties to the agreement or "interested persons" (as defined in the Investment Company Act of 1940) of any such party, cast in person at a meeting called for the purpose of considering such approval. In addition, the question of continuance of the agreement may be presented to the shareholders of the Growth Portfolio; in such event continuance shall be effected only if approved by the affirmative vote of a majority of the outstanding voting securities of the Growth Portfolio. The agreement is automatically terminated if assigned, and may be terminated without penalty at any time (1) either by vote of the Board of Trustees or by vote of the outstanding voting securities of the Portfolio on sixty (60) days' written notice to Lincoln, or (2) by Lincoln upon ninety (90) days' written notice to the Fund. During the period June 7, 1993 through September 30, 1993, the Fund paid investment advisory fees of approximately $14,000 to Lincoln.

DESCRIPTION OF LINCOLN

Lincoln is an Illinois corporation in which a controlling interest is held by the following persons: John W. Croghan, Chairman; J. Parker Hall III, President; Kenneth R. Meyer, Executive Vice President; and Timothy H. Ubben, Executive Vice President.

THE EQUITY INCOME PORTFOLIO INVESTMENT ADVISORY AGREEMENT

The Fund employs Newell Associates, 525 University Avenue, Palo Alto, California 94301 ("Newell") under an investment advisory agreement dated as of June 1, 1993, to manage the investment and reinvestment of the assets of the Equity Income Portfolio and to continuously review, supervise and administer the Portfolio's investment program. Newell discharges its responsibilities subject to the control of the officers and Trustees of the Fund.

The Fund pays Newell an advisory fee at the end of each fiscal quarter, calculated by applying a quarterly rate, based on an annual percentage rate of .10%, to the average month-end net assets of the Portfolio for the quarter.

The agreement will continue until May 31, 1995, and will be renewable thereafter for successive one year periods, only if each renewal is specifically approved by a vote of the Fund's Board of Trustees, including the affirmative votes of a majority of the Trustees who are not parties to the contract or "interested persons" (as defined in the Investment Company Act of 1940) of any such party, cast in person at a meeting called for the purpose of considering such approval. In addition, the question of continuance shall be effected only if approved by the affirmative vote of a majority of the outstanding voting securities of the Fund. The agreement is automatically terminated if assigned, and may be terminated without penalty at any time (1) either by vote of the Board of Trustees of the Fund or by vote of its outstanding voting securities on 60 days' written notice to the Adviser, or (2) by the Adviser upon 90 days' written notice to the Fund. During the period June 7,

1993 through September 30, 1993, the Fund paid investment advisory fees of approximately $12,000 to Newell.

DESCRIPTION OF THE ADVISER

Newell is a California corporation of which 90% of its outstanding shares are owned by its directors and officers. The directors of the corporation and the offices they currently hold are: Roger D. Newell, Chairman & President, Robert A. Huret, Vice Chairman and Alan E. Rothenberg, Director. Newell Associates is a General Partner of Relative Yield Associates, a California Limited Partnership.

Pursuant to an order of the Securities and Exchange Commission granting exemptive relief from the Investment Company Act of 1940, the Fund's Board of Directors may, without the approval of shareholders, provide for:

A. The employment of a new investment adviser pursuant to the terms of a new advisory agreement, either as a replacement for an existing adviser or as an additional adviser.

B. A change in the terms of an advisory agreement.

C. The continued employment of an existing adviser on the same advisory contract terms where a contract has been assigned because of a change in control of the adviser.

Any such change will only be made upon not less than 30 days' prior written notice to shareholders, which shall include the information concerning the adviser that would have normally been included in a proxy statement.

PORTFOLIO TRANSACTIONS

The investment advisory agreements authorize WMC, Lincoln and Newell (the "Advisers") (with the approval of the Fund's Board of Trustees) to select the brokers or dealers that will execute the purchases and sales of portfolio securities for the Balanced, Growth and Equity Income Portfolios of the Fund and directs the Advisers to use their best efforts to obtain the best available price and most favorable execution as to all transactions for the Balanced, Growth and Equity Income Portfolios. The Advisers have undertaken to execute each investment transaction at a price and commission which provides the most favorable total cost or proceeds reasonably obtainable under the circumstances.

In placing portfolio transactions for their respective Portfolios, the Advisers will use their best judgment to choose the broker most capable of providing the brokerage services necessary to obtain best available price and most favorable execution. The full range and quality of brokerage services available will be considered in making these determinations. In those instances where it is reasonably determined that more than one broker can offer the brokerage services needed to obtain the best available price and most favorable execution, consideration may be given to those brokers which supply investment research and statistical information and provide other services in addition to execution services to the Balanced, Growth and Equity Income Portfolios of the Fund and/or the Advisers. The Advisers consider such information useful in the performance of its obligations under the agreement but is unable to determine the amount by which such services may reduce its expenses.

The investment advisory agreements also incorporate the concepts of Section 28(e) of the Securities Exchange Act of 1934 by providing that, subject to the approval of the Fund's Board of Trustees, the Advisers may cause the Balanced, Growth and Equity Income Portfolios of the Fund to pay a broker-dealer which furnishes brokerage and research services a higher commission than that which might be charged by another broker-dealer for effecting the same transaction; provided that such commission is deemed reasonable in terms of either that particular transaction or the overall responsibilities of the Advisers to their respective Portfolios and the other Funds in the Group.

Currently, it is the Fund's policy that the Advisers may at times pay higher commissions in recognition of brokerage services felt necessary for the achievement of better execution of certain securities transactions that otherwise might not be available. The Advisers will only pay such higher commissions if they believe this to be in the best interest of the Balanced, Growth and Equity Income Portfolios of the Fund. Some brokers or dealers who may receive such higher commissions in recognition of brokerage services related to execution of securities transactions are also providers of research information to the Advisers and/or the Balanced, Growth and Equity Income Portfolios of the Fund. However, the Advisers have informed the Fund that they will not pay higher commission rates specifically for the purpose of obtaining research services.

Since the Fund does not market its shares through intermediary brokers or dealers, it is not the Fund's practice to allocate brokerage or principal business on the basis of sales of its shares which may be through such firms. However, the Fund may place portfolio orders with qualified broker-dealers who recommend the Fund to other clients, or who act as agent in the purchase of the Fund's shares for their clients, and may, when a number of brokers and dealers can provide comparable best price and execution on a particular transaction, consider the sale of Fund shares by a broker or dealer in selecting among qualified broker-dealers.

Some securities considered for investment by the Balanced, Growth and Equity Income Portfolios of the Fund may also be appropriate for other Funds and/or clients served by the Advisers. If purchase or sale of securities consistent with the investment policies of the Balanced, Growth and Equity Income Portfolios of the Fund and one or more of these other Funds or clients served by the Advisers are considered at or about the same time, transactions in such securities will be allocated among the several Funds and clients in a manner deemed equitable by the Advisers.

During the fiscal year ended September 30, 1993, the Fund paid approximately $202,063 in brokerage commissions.

PERFORMANCE MEASURES

Each of the investment company members of the Vanguard Group, including Vanguard Variable Insurance Fund, may from time to time, use one or more of the following unmanaged indexes for comparative performance purposes.

STANDARD & POOR'S 500 COMPOSITE STOCK PRICE INDEX--is a well diversified list of 500 companies representing the U.S. Stock Market.

WILSHIRE 5000 EQUITY INDEXES--consists of nearly 5,000 common equity securities, covering all stocks in the U.S. for which daily pricing is available.

WILSHIRE 4500 EQUITY INDEX--consists of all stocks in the Wilshire 5000 except for the 500 stocks in the Standard & Poor's 500 Index.

RUSSELL 3000 STOCK INDEX--a diversified portfolio of over 3,000 common stocks accounting for over 90% of the market value of publicly traded stocks in the U.S.

RUSSELL 2000 STOCK INDEX--a subset of approximately 2,000 of the smallest stocks contained in the Russell 3000; a widely used benchmark for small capitalization common stocks.

MORGAN STANLEY CAPITAL INTERNATIONAL EAFE INDEX--is an arithmetic, market value-weighted average of the performance of over 900 securities listed on the stock exchanges of countries in Europe, Australia and the Far East.

GOLDMAN SACHS 100 CONVERTIBLE BOND INDEX--currently includes 67 bonds and 33 preferreds. The original list of names was generated by screening for convertible issues of 100 million or greater in market capitalization. The index is priced monthly.

SALOMON BROTHERS GNMA INDEX--includes pools of mortgages originated by private lenders and guaranteed by the mortgage pools of the Government National Mortgage Association.

SALOMON BROTHERS HIGH GRADE CORPORATE BOND INDEX--consists of publicly issued, non-convertible corporate bonds rated AA or AAA. It is a value-weighted, total return index, including approximately 800 issues with maturities of 12 years or greater.

SALOMON BROTHERS BROAD INVESTMENT-GRADE BOND--is a market-weighted index that contains over 4,800 individually priced investment-grade corporate bonds rated BBB or better, U.S. Treasury/agency issues and mortgage passthrough securities.

SHEARSON LEHMAN LONG-TERM TREASURY BOND--is composed of all bonds covered by the Shearson Lehman Hutton Treasury Bond Index with maturities of 10 years or greater.

MERRILL LYNCH CORPORATE & GOVERNMENT BOND--consists of over 4,500 U.S. Treasury, Agency and investment grade corporate bonds.

SHEARSON LEHMAN CORPORATE (BAA) BOND INDEX--all publicly offered fixed-rate, nonconvertible domestic corporate bonds rated Baa by Moody's, with a maturity longer than 1 year and with more than $25 million outstanding. This index includes over 1,000 issues.

BOND BUYER MUNICIPAL INDEX (20-YEAR) BOND--is a yield index on current-coupon high grade general-obligation municipal bonds.

STANDARD & POOR'S PREFERRED INDEX--is a yield index based upon the average yield of four high grade, non- callable preferred stock issues.

NASDAQ INDUSTRIAL INDEX--is composed of more than 3,000 industrial issues. It is a value-weighted index calculated on price change only and does not include income.

COMPOSITE INDEX--70% Standard & Poor's 500 Index and 30% NASDAQ Industrial Index.

COMPOSITE INDEX--35% Standard & Poor's 500 Index and 65% Salomon Brothers High Grade Bond Index.

COMPOSITE INDEX--65% Standard & Poor's 500 Index and 35% Salomon Brothers High Grade Bond Index.

LIPPER SMALL COMPANY GROWTH FUND AVERAGE--the average performance of small company growth funds as defined by Lipper Analytical Services, Inc. Lipper defines a small company growth fund as a fund that by prospectus or portfolio practice, limits its investments to companies on the basis of the size of the company. From time to time, Vanguard may advertise using the average performance and/or the average expense ratio of the small company growth funds. (This fund category was first established in 1982. For years prior to 1982, the results of the Lippper Small Company Growth category were estimated using the returns of the Funds that constituted the Group at its inception.)

LIPPER BALANCED FUND AVERAGE--An industry benchmark of average balanced funds with similar investment objectives and policies, as measured by Lipper Analytical Services, Inc.

LIPPER NON-GOVERNMENT MONEY MARKET FUND AVERAGE--An industry benchmark of average non-government money market funds with similar investment objectives and policies, as measured by Lipper Analytical Services, Inc.

LIPPER GOVERNMENT MONEY MARKET FUND AVERAGE--An industry benchmark of average government money market funds with similar investment objectives and policies, as measured by Lipper Analytical Services, Inc.

LIPPER VARIABLE INVESTMENT PRODUCT PERFORMANCE ANALYSIS--

VARDS AVERAGE CONTRACT EXPENSE--tables that list the average total expenses of variable annuity contracts sold in the United States. The average is based upon a hypothetical $25,000 investment in each variable annuity contract covered by the study.

MORNINGSTAR'S BENCHMARK-VARIABLE ANNUITY--average total expenses of variable annuity contracts sold in the United States. With respect to the contract charges, Morningstar lists a dollar amount which Vanguard converts to basis points for comparison. This conversion is based on a $25,000 investment in a variable annuity.

LEHMAN BROTHERS AGGREGATE BOND INDEX--is a market weighted index that contains over 5,000 individually priced investment grade corporate bonds rated BBB or better, U.S. Treasury/agency issues, and mortgage pass-through securities and has a market value of over $4 trillion.

[LOW-COST ADV. GRAPH]

[INSERT TAX ADVANTAGE CHART]

The chart shows the potential value of the Plan's tax-deferred advantage over the average taxable Vanguard mutual fund. The assumptions are that you had invested $25,000 each in the Vanguard Variable Annuity Plan and in a taxable Vanguard mutual fund on the same day. (The average expenses for the Plan are 0.93% + $25 versus 0.31% for the average Vanguard mutual fund.) Twenty years later, assuming an annual growth rate of 8% for both, your Vanguard mutual fund investment after taxes (based on a 31% tax bracket in each year of investment) would be valued at $70,309; your pre-tax Vanguard Variable Annuity Plan assets would equal $96,910. If you were to withdraw your Plan assets at the end of the 20th year of investment, however, your after-tax distribution, based on a 31%

tax bracket, would be $74,618, over $4,000 greater than the balance available under the non-tax-deferred investment.

FINANCIAL STATEMENTS

The Fund's Financial Statements for the year ended September 30, 1993, including the financial highlights, appearing in the 1993 Vanguard Variable Insurance Fund Annual Report to Shareholders and the report thereon of Price Waterhouse, independent accountants, also appearing therein, are incorporated by reference in this Statement of Additional Information. The Fund's 1993 Annual Report to Shareholders is enclosed with this Statement of Additional Information. For a more complete discussion of the Fund's performance, please see the Fund's 1993 Annual Report to Shareholders, which may be obtained without charge.

APPENDIX -- DESCRIPTION OF SECURITIES AND RATINGS

A-1 AND PRIME-1 COMMERCIAL PAPER RATINGS

Commercial paper rated A-1 by Standard & Poor's has the following characteristics: (1) liquidity ratios are adequate to meet cash requirements; (2) long-term senior debt is rated "A" or better; (3) the issuer has access to at least two additional channels of borrowing; (4) basic earnings and cash flow have an upward trend with allowance made for unusual circumstances; (5) typically, the issuer's industry is well established and the issuer has a strong position within the industry; and (6) the reliability and quality of management are unquestioned. Relative strength or weakness of the above factors determine whether the issuer's commercial paper is A-1, A-2, or A-3. The rating Prime-1 is the highest commercial paper rating assigned by Moody's. Among the factors considered by Moody's in assigning ratings are the following: (1) evaluation of the management of the issuer; (2) economic evaluation of the issuer's industry or industries and the appraisal of speculative-type risks which may be inherent in certain areas; (3) evaluation of the issuer's products in relation to competition and customer acceptance; (4) liquidity; (5) amount and quality of long-term debt; (6) trend of earnings over a period of ten years; (7) financial strength of a parent company and the relationships which exist with the issuer; and (8) recognition by the management of obligations which may be present or may arise as a result of public interest questions and preparations to meet such obligations.

VARIABLE AMOUNT MASTER DEMAND NOTES

Variable amount master demand notes are demand obligations that permit the investment of fluctuating amounts at varying market rates of interest pursuant to an arrangement between the issuer and a commercial bank acting as agent for the payees of such notes, whereby both parties have the right to vary the amount of the outstanding indebtedness on the notes. Because variable amount master demand notes are direct lending arrangements between a lender and a borrower, it is not generally contemplated that such instruments will be traded, and there is no secondary market for these notes, although they are redeemable (and thus immediately repayable by the borrower) at face value, plus accrued interest, at any time. In connection with a Portfolio's investment in variable amount master demand notes, Vanguard's investment management staff will monitor, on an ongoing basis, the earning power, cash flow and other liquidity ratios of the issuer, and the borrower's ability to pay principal and interest on demand.

BOND RATINGS

Excerpts from Moody's Investors Service, Inc. description of its four highest preferred bond ratings:

AAA--judged to be the best quality by all standards. AA--judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. A--possess many favorable investment attributes and are to be considered as "upper medium grade obligations". BAA--considered as medium grade obligations: i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Moody's also supplies numerical indicators 1, 2 and 3 to rating categories. The modifier 1 indicates that the security is in the higher end of its rating category; the modifier 2 indicates a mid-range ranking; and 3 indicates a ranking toward the lower end of the category.

Excerpts from Standard & Poor's Corporation description of its four highest bond ratings:

AAA--highest grade obligations. Capacity to pay interest and repay principal is extremely strong. AA-- also qualify as high grade obligations, a very strong capacity to pay interest and repay principal and differs from AAA-rated issues only in small degree. A--regarded as upper medium grade. They have a strong capacity to pay interest and repay principal although it is somewhat susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories. BBB--regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories. This group is the lowest which qualifies for commercial bank investment.

Standard & Poor's applies indicators "+", no character and "-" to its rating categories. The indicators show relative standing within the major rating categories.