

# PERS PLAN 3 REPORT

November  
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## Budgeting for your retirement years will help you reach your lifestyle goals

As you prepare for retirement, you should remember that times have changed. Retirement today is far different from just a generation ago. Keep these thoughts in mind as you plan your retirement:

- You'll most likely be more active and live longer – and be retired longer – than previous generations.
- You'll need more money to carry you through that longer retirement period.
- You may not rely on savings alone since post-retirement employment is an increasing option for many retirees.

How do you plan for these new realities? The first step is developing a personal financial plan. Your financial plan will give you a better understanding of the steps you can take as you prepare for and then transition into retirement.

Financial plans can be as simple or as complex as you require. Each scenario is dependent on your lifestyle choices for your retirement years. Budgeting for your retirement years will help you reach your goals and enjoy the lifestyle of choice. Establishing specific objectives for your retirement will help you build a total financial action plan.

One of the best places for public employees to get started with retirement planning is DRS's Plan 3 Web site at <http://www.icmarc.org/plan3/pers>, which offers a variety of planning and investment tools ranging from fund descriptions to online investment education. At the Plan 3 Web site you'll find:

- Fund Descriptions – read about fund objectives, investment strategy and risk, performance, fees, sector holdings, and fund characteristics.
- Fund Performance – see daily share prices, period-to-period share prices, and long-term performance.
- Asset Allocation Tool – determine the best way to allocate your investments by answering a short questionnaire.
- Investment Education – access an online training class regarding investment choices, look up schedules of investment

## PERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 9/30/2003

	AVERAGE ANNUAL RETURNS			
	3rd Qtr 2003	1-Year	3-Year	5-Year
<b>TOTAL ALLOCATION PORTFOLIO</b>	3.59%	15.07%	-1.79%	4.96%

The Washington State Investment Board (WSIB) periodically reviews and adjusts the TAP Fund's asset allocation. Over the last five years, the TAP Fund has shifted to a more aggressive asset mix. These returns reflect the actual asset mixes during the time periods shown.

## PERS PLAN 3 SELF-DIRECTED FUNDS

AS OF 9/30/2003

	3rd Qtr 2003	1-Year	3-Year	5-Year
<b>MONEY MARKET FUND</b>	0.23%	1.24%	N/A	N/A
<b>WASHINGTON STATE BOND FUND</b>	-0.37%	7.86%	N/A	N/A
<b>U.S. LARGE STOCK INDEX FUND</b>	2.59%	24.08%	N/A	N/A
<b>U.S. STOCK MARKET INDEX FUND</b>	3.35%	25.64%	N/A	N/A
<b>U.S. SMALL STOCK INDEX FUND</b>	9.00%	35.69%	N/A	N/A
<b>INTERNATIONAL STOCK INDEX FUND</b>	7.53%	21.83%	N/A	N/A
<b>SHORT-HORIZON FUND</b>	1.34%	11.05%	N/A	N/A
<b>MID-HORIZON FUND</b>	2.38%	17.33%	N/A	N/A
<b>LONG-HORIZON FUND</b>	3.74%	21.79%	N/A	N/A

The PERS Plan 3 Self-Directed Funds were available for investment on March 4, 2002, and have no performance history prior to this date. Actual inception dates (start of fund activity) are: U.S. Stock Market Index, U.S. Large Stock Index, Mid-Horizon, Money Market, International Stock Index, U.S. Small Stock Index, Washington State Bond and Long-Horizon on March 27, 2002; Short-Horizon on March 28, 2002.

All returns are net of fees. Self-Directed funds are valued daily; your account balance and rate of return will vary accordingly. Past performance is no guarantee of future results. For more information about the funds, please see the *Plan 3 Investment Guide* or the Web site at <http://www.icmarc.org/pers/investing>.

Returns cover the period ending September 30, 2003.

N/A - Not Applicable

seminars in your area, and view videos on the fundamentals of investing.

If you are just starting out, the Online Classroom is an interactive video that introduces you to investing concepts and retirement planning and can help you understand that the financial decisions you make today impact the probability of achieving your dreams tomorrow.

In addition to the Online Classroom, you can attend an Investment Basics seminar, a one and a half hour presentation on the basics of Plan 3 investment options and services. The schedule of seminars offered is available online at <http://www.icmarc.org/plan3/pers/planning/>. In addition to the

Online Classroom and Investment Basics seminars, you can view videos on the fundamentals of investing. The videos that are available on the site provide basic concepts in planning your retirement investments.

If you are further along in your career, the asset allocation tool can help you establish a savings plan, assess probability of financial success, maximize income and flexibility and minimize taxes. This type of planning places particular emphasis on coordinating income distributions from a variety of asset sources as well as tax issues, relating to each asset source.

There is no better time than now to develop your financial plan and start investing.

Remember, the key to your retirement will be to create a financial plan that supports an active retirement lifestyle lasting many years.

## Money Market Fund Change

Effective July 1, 2003, the Money Market Fund provided by the Washington State Investment Board (WSIB) is managed by Barclays Global Investor (BGI).

Most Plan 3 members are already familiar with BGI, as they currently manage the U.S. Large Stock Index Fund, the U.S. Stock Market Index Fund, and the U.S. Small Stock Index Fund. *Pension & Investments*, an international newspaper of money management, ranks BGI as the largest manager of passive domestic equities and the second largest manager by worldwide institutional assets.

The manager change was precipitated by the expiration of the state contract with the previous provider, State Street Global Advisors (SSgA). The WSIB conducted a thorough search during the first quarter of 2003, reviewing and ranking the risk, return, and costs of numerous money market funds. After much discussion the Board decided that the BGI risk and return characteristics were more in line with investment goals envisioned for the Plan 3 participants.

New fund characteristics for the Money Market Fund can be found in the June 2003 *Plan 3 Investment Guide* which is available at <http://www.icmarc.org/plan3/pers/pubs>.

## Market Outlook

Gaining momentum from a strong finish to the second quarter, the U.S. economy began to show a surge in activity in July and August. Concerns over the conflict in Iraq appear to be a distant memory as investors increasingly began to look towards the growing health of the economic climate in the United States. Improving corporate earnings proved to be one of the major catalysts to improving positive investor sentiment as over 86 percent of companies met or exceeded second quarter earnings estimates. Gross domestic product grew 3.1 percent, helped in part by low interest rates, but largely aided by a significant rise in defense spending. Despite growing evidence that the economic outlook is improving, the Fed is not expected to raise interest rates

in the near term as they are trying to encourage economic growth and ward off deflation. Labor markets continue to show weak demand for workers, suggesting that while the economy is showing signs of improvement, it is not yet off to the races.

## Bonds

The bond market experienced one of its most challenging periods on record. The Lehman Brothers Aggregate Bond Index, a commonly used measurement of the overall U.S. taxable bond market, returned -2.9 percent for the three-month period ending August 31, 2003. Declining bond prices are indicative of improving economic conditions, but may also have been driven by concerns surrounding the increasing federal deficit and confusion over the general direction of monetary policy. While investment-grade bonds struggled during the last three months, high yield bonds continued to provide meaningful gains.

## Stocks

Coming off one of the strongest quarters in history, U.S. stocks continued to rally in July and August as the general sentiment in the marketplace remained positive. The S&P 500 Index increased for the sixth consecutive month in August, an event that hasn't occurred in more than eight years. In addition to positive corporate earnings reports, other economic indicators added to the optimistic outlook. Although consumer sentiment wavered somewhat during the three-month period, consumer spending remained robust, supporting nearly two-thirds of U.S. economic activity. Smaller capitalization companies continued to outperform their large cap counterparts while growth stocks generally outperformed value stocks. Technology stocks continued to perform well, partially resulting from repeated cost-cutting measures that are helping boost earnings. Financial holdings benefited from the low interest rate environment, which resulted in strong lending revenues.

International stocks generally outperformed U.S. stocks over the past three-month period. In a reversal from the previous three months, Europe significantly underperformed Asia Pacific, which was led by strong gains in China. While economic growth in China was somewhat dampened during the last three months due to continued concerns over SARS, China maintained impressive growth levels. The troubled Japanese economy enjoyed some positive signs of

relief, as unemployment rates fell and household spending experienced one of the largest gains seen in the last decade. European countries continue to struggle to achieve substantial economic growth, but began to show signs of stabilization and a possible rebound. Emerging market countries provided strong gains, led by higher growth in countries focused on technology exports.

**By Arnerich Massena & Associates.**  
**Due to printing requirements, this article includes market activity as of August 2003.**