

PERS PLAN 3 REPORT January 2006

Visit ICMA-RC on the Internet at: <http://www.icmarc.org/plan3/>

Distribution Options For Your Defined Contribution Account Funds

When you reach retirement age or leave employment, you have the opportunity to decide how to receive payments from your Washington State Investment Board (WSIB) Investment Program or Self-Directed Investment Program accounts. Payment options include:

- lump sum
- direct rollover into a qualified individual retirement account (IRA) or eligible employer plan
- periodic payments
- personalized payment plan

You may also use funds from your Plan 3 Defined Contribution account to purchase a life annuity. An annuity is a contract that provides a guaranteed income for the rest of your life in exchange for a lump sum dollar amount, paid up-front.

If you use funds from the WSIB Investment Program, you may purchase a Total Allocation Portfolio (TAP) Annuity, administered by the Department of Retirement Systems (DRS). If you use funds from your Self-Directed Investment Program account, ICMA-RC will arrange the annuity purchase through an insurance company on your behalf. For more information, or to request an annuity guide, contact ICMA-RC at 1-888-711-8773.

No Gain Sharing This January

In January of even numbered years, eligible members may potentially receive gain sharing benefits. Gain sharing only occurs in times of extraordinary and sustained market gains on retirement assets managed by the Washington State Investment Board. The Office of the State Actuary informed DRS that the average return for the past four years, 2002-2005, was 6.42 percent, which does not exceed the 10 percent required by law for gain sharing to occur.

Gain sharing has been in the news lately. For more information on the topic, please see the article on page 2.

PERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 9/30/2005

	AVERAGE ANNUAL RETURNS			
	3rd Qtr 2005	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	4.95%	17.53%	15.44%	4.84%

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 asset mixes during the time periods shown.

PERS PLAN 3 SELF-DIRECTED FUNDS

AS OF 12/31/2005

	4th Qtr 2005	1-Year	3-Year	5-Year
MONEY MARKET FUND	1.03%	3.16%	1.81%	N/A
WASHINGTON STATE BOND FUND	0.57%	2.17%	3.93%	N/A
SOCIALLY RESPONSIBLE BALANCED FUND	2.20%	1.51%	N/A	N/A
U.S. LARGE STOCK INDEX FUND	2.10%	4.86%	14.24%	N/A
U.S. STOCK MARKET INDEX FUND	2.02%	6.06%	15.71%	N/A
U.S. SMALL STOCK INDEX FUND	1.09%	4.57%	21.87%	N/A
INTERNATIONAL STOCK INDEX FUND	4.02%	13.54%	22.63%	N/A
SHORT-HORIZON FUND	1.33%	4.37%	7.52%	N/A
MID-HORIZON FUND	1.73%	5.74%	11.61%	N/A
LONG-HORIZON FUND	2.19%	7.18%	15.26%	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 and Socially Responsible Balanced Fund on April 1, 2004.

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 www.icmarc.org/pers/investing.

Returns cover the period ending December 31, 2005.

N/A - Not Applicable

Market Commentary

Even with the challenges the U.S. economy has faced following hurricanes, surging energy prices, and inflationary pressures, the nation's gross domestic product continued to climb during the third quarter. This marks the longest period of consistent growth since World War II. Strength in consumer spending continued, as new wealth from soaring housing prices grew. Record levels of household net worth and a

solid employment environment have helped offset higher energy prices. In addition, corporate earnings remained exceptionally strong and resulted in improved capital spending out of corporate America.

Bonds

The prospect of higher interest rates and inflation took its toll on bond markets during the quarter. Bonds appeared to show signs of succumbing to the pressure of the Federal Reserve's consistent rate hikes as bond prices, particularly on longer-term bonds, dropped. Bond investors were also anxious about the possible replacement candidates of current Federal Reserve Chairman Alan Greenspan, whose 14-year term

will come to an end in 2006. President Bush's nomination of Ben Bernanke was met with enthusiasm, as many believe Bernanke is well-qualified to take the reins. Bernanke shares a relatively common view of both economic and monetary policy to that of Greenspan. The Fed increased the federal funds rate by another quarter point to 4.0 percent in its most recent meeting.

Stocks

After struggling in October, stock markets came roaring back in November to finish the three-month period with solid gains. Weakening oil prices, which have declined nearly 20 percent since the post-Katrina spike, and solid corporate earnings spurred investor confidence. All major stock indexes posted strong gains in November, pushing the three-month period results well into the positive. Investors with a larger appetite for risk were rewarded, as small and mid company stocks continued to outpace larger companies. Additionally, investors have shown a preference for growth-oriented companies, which continue to make up ground versus their value counterparts. Financial stocks, as well as Industrials and Materials, led the charge, while Energy and Utilities significantly lagged after leading the markets for the past year.

International stock markets followed a similar path as that of U.S. markets. Foreign stocks reeled in October and bounced back in November. International companies significantly outpaced U.S. stocks in their local currency, but returns were hampered by a strengthening dollar. The MSCI ACWI ex-US rose 4.7 percent during the period, providing a solid return to international investors. Japan was the standout performer despite the yen's two-year low versus the dollar. Financial stocks such as banking, brokerage, and real estate were the primary areas of strength. Emerging markets continued to show strength as the MSCI EM Index rose 10.6 percent.

*By Arnerich Massena & Associates
Due to printing requirements, this article includes market activity as of November 2005.*

Gain Sharing – Under Discussion

A number of recent news stories have covered the topic of gain sharing. What is gain sharing? In general terms, it means sharing extraordinary investment gains with members. Specifically, if earnings on the combined retirement trust fund assets average more than 10 percent per year over a four-year period, a portion is credited to the accounts of eligible Plan 3 members.

Gain sharing has occurred twice since it was passed into law in 1996. When it does occur, as it did in 1998 and 2000, gain sharing gives PERS, SERS and TRS Plan 3 members a defined contribution account payment that is based upon years of service credit.

The Select Committee on Pension Policy studied gain sharing this year and submitted its report to the Legislature. Data in the report shows that gain sharing has a significant unanticipated cost to the retirement trust fund. Legislators are expected to discuss the subject when they convene in January.

Privacy Policy

The following is DRS' Plan 3 record keeper's (ICMA-RC) privacy policy.

We at the ICMA Retirement Corporation (ICMA-RC) recognize the sensitive nature of your personal financial information, and take every precaution to protect your privacy. In order to provide services to you, DRS collects certain nonpublic personal information about you from your employer. DRS then provides that information to ICMA-RC, to allow your account to be serviced. Our policy is to keep this information strictly safeguarded and confidential. We will use this information only as necessary to provide services to you or as otherwise required or permitted by law. Our contract with DRS also requires us to maintain the privacy of your personal information. You can be certain your financial information will only be used within our strict guidelines. Our privacy policy and practices apply equally to nonpublic personal information about former clients and individuals who have inquired about our services.

Information We Collect

"Nonpublic personal information" is personally identifiable financial information about you as an individual or your family. Nonpublic personal information we have about you includes information provided by DRS and information you provide to us in telephone calls, forms, and correspondence.

Information We Disclose

We use this information to process your requests and transactions, for example, to provide you with additional information about the investments available in your plan or to process a withdrawal. In order to service your account and carry out your instructions, we may also provide your personal information to firms that assist us in servicing your account. For example, we will provide your address to the company that mails your quarterly financial statements. We do not provide customer names and addresses to outside firms, organizations or individuals except as provided to conduct official business on your behalf, or as otherwise allowed by law. In addition to our own policies, our contract with DRS requires us to maintain all information regarding plan members confidential. We are prohibited from disclosing, using, selling or sharing your personal information except to conduct business on your behalf or as directed by DRS.

How We Safeguard Your Information

We restrict access to nonpublic personal information about you to those persons with ICMA-RC who need the information to provide services to you or who are permitted by law to receive it. We maintain internal policies and procedures to safeguard your personal information.

If you have any questions regarding our Privacy Policy, please contact us at 1-888-711-8773.