

PERS PLAN 3 REPORT

Visit Your Plan 3 on the Web at: www.icmarc.org/plan3/pers

DEPARTMENT OF RETIREMENT SYSTEMS QUARTERLY UPDATE • OCTOBER 2007

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Are Your Personal Savings on Track?

The closer you get to retirement, the more important it is to know whether you're still on track to reach your savings goals — and what you can do to improve your situation. A few quick steps will help you take stock of your retirement savings:

Step 1: Estimate your monthly living expenses in retirement. Add up your regular expenses plus any new costs you'll have after you retire, such as health insurance premiums and personal expenses. As a general rule, some financial professionals believe you will need approximately 80% of your pre-retirement income to maintain your standard of living in retirement.

Step 2: Find out how much money you'll receive as retirement income. Your Plan 3 benefit has two parts, so you'll need to run two online calculators to estimate your total Plan 3 benefit. The benefit estimator on the Department of Retirement Systems (DRS) Web site (www.drs.wa.gov) will estimate your Defined Benefit portion, and the Plan's Retirement Savings Calculator available at www.icmarc.org/plan3/pers will estimate your Defined Contribution portion. If you've worked for other employers, find out if you had a retirement plan, such as a pension or 401(k). Also, if you qualify, review your annual Social Security statement to find out how much you could receive each month.

(See *Savings on Track*, p. 2)



MARKET COMMENTARY

as of August 31, 2007

Major market indexes around the globe experienced dramatic declines during the three-month period ending August 31, 2007, largely during the month of July. Nearly all types of lending activities were affected and the subprime issues almost shut down the pricing of some securities. The result has been a dramatic re-pricing of risk. Many of the sectors that have recently been performing well have done so without regard to their underlying fundamentals; these sectors experienced significant corrections during the period. The volatility that occurred, however, was likely mitigated by the continued strength of the economy and the healthy corporate earnings environment.

Bonds

This re-pricing of risk was most evident in the bond markets. High yield bonds, which have outperformed more conservative, higher quality bonds for years, were the most affected by the subprime concerns. The Lehman Brothers High Yield index lost 4 percent during the period while the Lehman Brothers Aggregate Bond Index rose 1.8

(See *Commentary*, p. 2)

PERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 6/30/2007

	2nd Qtr 2007	AVERAGE ANNUAL RETURNS		
		1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	5.48%	21.33%	16.97%	13.99%

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 9/30/2007

	3rd Qtr 2007	1-Year	3-Year	5-Year
MONEY MARKET FUND	1.35%	5.34%	4.20%	2.96%
WASHINGTON STATE BOND FUND	2.49%	4.96%	3.59%	4.30%
SOCIALLY RESPONSIBLE BALANCED FUND*	4.00%	12.06%	7.83%	N/A
U.S. LARGE STOCK INDEX FUND	2.09%	16.45%	13.06%	15.32%
U.S. STOCK MARKET INDEX FUND	1.51%	16.39%	13.63%	16.03%
U.S. SMALL STOCK INDEX FUND	-3.09%	12.26%	13.21%	18.50%
INTERNATIONAL STOCK INDEX FUND	2.19%	24.91%	23.19%	22.62%
SHORT-HORIZON FUND	2.11%	9.28%	7.65%	8.08%
MID-HORIZON FUND	2.31%	12.79%	10.69%	11.94%
LONG-HORIZON FUND	2.03%	16.37%	13.94%	15.49%

*The Socially Responsible Balanced Fund inception date is 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.

(Savings on Track from p. 1)

Step 3: If there are gaps between what you'll need in retirement and what you'll receive from Plan 3 and other retirement accounts, calculate how much money you'll need from personal savings to fill in the gaps. The Plan's calculators will let you know how close you are to reaching your target.

What if you fall short? If your projected balance isn't enough to pay your bills—and cover other expenses and emergencies—you still have time to consider several options. You can lower your expenses or you could work a few extra years. Increasing your contributions toward retirement, by contributing to DRS' Deferred Compensation Program or starting an IRA or other voluntary account, could also make up the difference between what you'll need and what you'll have in retirement.

Need extra help? DRS provides free educational seminars that outline the steps mentioned above and assist you with choosing appropriate investments and making informed retirement decisions. More information and a current schedule of seminars available throughout Washington State is available on the DRS Web site at www.drs.wa.gov. If you have any questions about your Plan 3 account, please call the Plan 3 Investor Services associates at 888-711-8773.

New Ways to View Your Personal Rate of Return

You can now access more information about the performance of your Plan 3 Account. Your quarterly statement now displays the quarterly and year-to-date personal rate of return. This information is also available on Account Access at www.icmarc.org/plan3/pers by logging into your account. New features have been added to help you view and analyze your personal rate of return data. You can customize the information about your funds by selecting date ranges for any period within the past five years. You also have new viewing options including:

- A cumulative returns graph, showing the personal return on your account, as well as investment performance.
- A personal rate of return table summary for specific months, quarters, and years.
- A bar chart summary, showing your rate of return for various time periods.
- A net investment versus market value chart, showing how much you have invested over time and how the market value of those investments has changed.

If you have questions about these new features, please contact the Plan 3 Investor Services at 888-711-8773.

(Commentary from p. 1)

percent. Bond investors fled to higher quality bonds during this time, which pushed up the prices and pushed down the yields of the most conservative government-backed bonds. All sub-sectors in the high yield market performed poorly, particularly those related to home construction.

Stocks

July proved to be the most challenging month for stock markets during this period. Despite showing some strength as August came to a close, stock indexes finished poorly for the three-month period, reducing some of the impressive gains they had achieved earlier in the year. Small and mid company stocks were hit the hardest as investors sought refuge in high quality, large company stocks. The S&P 500 Index lost 1.7 percent while the Russell 2000 Index was down 6.1 percent. Interestingly, growth outperformed value during the period despite being viewed as the more risky of the two investment approaches. This was largely due to the damage caused by the subprime meltdown in the Financials sector, traditionally a value sector. Information Technology, Energy, and Industrials were the only sectors to post meaningful gains during the period. Financials was the worst performing sector along with Consumer Discretionary.

International stocks held up pretty well, as the MSCI ACWI ex-U.S. lost only 1 percent for the period. Currency gains helped reduce the losses as the U.S. dollar continued to weaken versus most major foreign currencies. Style performance matched that of the U.S. with growth outperforming value. Emerging Markets, generally considered a high risk asset class, defied logic during the period as the MSCI Emerging Markets Index actually rose 8 percent. While Emerging Markets were not immune to volatility, the robust growth rates and improved economic conditions helped stabilize these developing markets as the rest of the globe was dealing with the massive credit squeeze.

CONTACT INFORMATION

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