

PLAN 3 *special* REPORT

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Protecting your account from the effects of market timing

Market timing is an activity that involves frequent trades and transfers of large amounts of money between investment options, with the intent to acquire short-term gains.

Relatively few Plan 3 members practice market timing (also referred to as excessive trading), but those who do can lower returns and increase transaction costs for all members. Frequent trades also interfere with the Washington State Investment Board's ability to manage the funds, since cash must be pulled out of the market to accommodate such transactions.

To address this issue, we are implementing **trading restrictions on all Plan 3 Self-Directed Investment Program funds – effective July 7, 2006**. Again, most members don't engage in market

timing and won't be affected by the new policy. All members, however, depend on us to protect fund performance and maximize their retirement savings. We are committed to doing so.

Flexibility continues

The ability to choose your investments and make trades is an important feature of Plan 3. That flexibility continues. The new policy addresses the excessive trading that can negatively impact fund performance.

The policy is the same one used in the International Fund and is similar to those that have worked well elsewhere in the nation. It's simple and straightforward: a member who transfers more than \$1,000 out of a fund will not be able to transfer

money back into that same fund for 30 calendar days. *Note: Withdrawals, mandatory distributions and transactions initiated by the Department of Retirement Systems (DRS) are not a part of the restriction.*

Long-term plans, designed for long-term results

Plan 3 funds are not designed for daily trading or short-term gains. They are long-term retirement investments, designed to fit the needs of a diverse group of members. The overwhelming majority of Plan 3 members average less than one trade every thirty days.

Below you'll find a Q&A with more information on the new policy. If you have questions, please call us or ICMA-RC at 1-888-711-8773. We're always glad to help.

Q&A

What is market timing?

Market timing involves trading on a frequent basis and transferring large amounts of money between funds with the intent of seeing short-term gains.

How does market timing impact my returns?

Market timing, or excessive trading, by a few members diminishes the returns for all members.

Excessive trading requires more cash on hand to honor the frequent trades and transfers. Because the cash is used to cover potential

transfers instead of being invested, returns can be lowered for other members.

What is the new policy?

A member who transfers more than \$1,000 out of a fund will be required to wait 30 days before transferring money back into that same fund. For example, if you transfer \$2,500 from a fund on September 1, 2006, and attempt to transfer \$1,500 back into the fund on September 20, 2006, the transaction will not go through. If you wait until October 2, 2006, the transaction will be processed.

If I transfer more than \$1,000 out of a fund, but still have my current payroll contributions designated to go into that fund, will they be stopped?

Your current Plan 3 payroll contributions are not subject to the restriction. Your contributions will continue to go into the fund(s) you designated.

What if I transfer more than \$1,000 out of a fund and then change my mind and want to put it back in?

You'll be able to transfer money back into that fund once the 30-day

Q&A *continued on page 2*

period has elapsed. In the meantime, you can allocate the money to another fund.

What if I want to transfer \$1,000 or less?

Transfers of \$1,000 or less are not impacted by the trade restrictions.

How would this affect rebalancing my asset allocation?

Trade restrictions also apply when rebalancing asset allocations. If you transfer more than \$1,000 out of a

fund, you will be required to wait 30 days before transferring money back into the same fund. Since trade restrictions apply to all transactions over \$1,000, if you transfer out of a fund and then attempt to transfer back in within thirty days as part of rebalancing, the transaction will be blocked.

What if I transfer half of my holdings out of a fund and within 30 days want to transfer the remaining balance from the fund?

You can always transfer out of a fund. For example, you can transfer half of your \$10,000 fund holdings in one week and transfer the \$5,000 balance the following week.

However, with each new transfer out, the 30-day clock on transfers back to the fund is restarted, extending the time before a transfer back in can be completed.