

SERS PLAN 3 REPORT February 2001

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What's Inside the SERS Plan 3 Report

Welcome to School Employees' Retirement System (SERS) Plan 3 and your first SERS Plan 3 Report. The SERS Plan 3 Report is a newsletter that is sent with quarterly statements to all Plan 3 members. Contents include returns for each of the funds and Plan 3 investment-related articles. You may also view current and future issues on the ICMA Retirement Corporation (ICMA-RC) Web site (<http://www.icmarc.org/sers/>).

Member Statements

As a SERS Plan 3 member, you receive various statements from DRS and ICMA-RC concerning your account. Enclosed, please find your quarterly statement for the fourth quarter of 2000 and your annual statement related to your defined contributions for 2000. This is the first quarter for SERS activity, so your fourth quarter statement and your annual statement for 2000 contain basically the same information.

Approximately 45 days after the end of each quarter, ICMA-RC mails a WSIB quarterly statement to your home. The quarterly statement contains details about your defined contribution account, such as employee contributions, gain sharing payments, transfer payments and earnings or losses from investments. For information about how to read this statement, *A Guide to Your Quarterly Statement* is enclosed with this mailing.

DRS also provides SERS Plan 3 members with an annual statement related to their defined benefit account. These statements are mailed directly to active members' employers in November and contain important information concerning service credit.

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 12/31/2000

	AVERAGE ANNUAL RETURNS			
	4th Qtr 2000	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	-2.78%	0.42%	10.70%	12.89%

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.

SERS PLAN 3 SELF-DIRECTED FUNDS

AS OF 12/31/2000

	Since Inception	4th Qtr 2000	1-Year	3-Year	5-Year
MONEY MARKET FUND	1.5%	N/A	N/A	N/A	N/A
WASHINGTON STATE BOND FUND	3.8%	N/A	N/A	N/A	N/A
U.S. LARGE STOCK INDEX FUND	-6.1%	N/A	N/A	N/A	N/A
U.S. STOCK MARKET INDEX FUND	-6.3%	N/A	N/A	N/A	N/A
U.S. SMALL STOCK INDEX FUND	0.8%	N/A	N/A	N/A	N/A
INTERNATIONAL STOCK INDEX FUND	-1.2%	N/A	N/A	N/A	N/A
SHORT-HORIZON FUND	1.2%	N/A	N/A	N/A	N/A
MID-HORIZON FUND	-1.2%	N/A	N/A	N/A	N/A
LONG-HORIZON FUND	-2.5%	N/A	N/A	N/A	N/A

The SERS Plan 3 Self-Directed Funds were available for investment on September 1, 2000 and have no performance history for this quarter. Actual inception dates (start of fund activity) are: U.S. Stock Market Index, U.S. Large Stock Index, Mid-Horizon and Money Market Fund on October 6, 2000; International Stock Index, U.S. Small Stock Index, Washington State Bond, Short-Horizon and Long-Horizon on October 10, 2000.

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/sers/investing>.

Returns cover the period ending December 31, 2000.

N/A - Not Applicable

How to Change Investment Programs and Your Allocations

As a Plan 3 member, you have the flexibility to move all or part of your funds between the Washington State Investment Board (WSIB) Investment Program and the Self-Directed Investment Program. If you elect to self-direct, you will be able to change from one investment fund to another within the Self-Directed Investment Program. The WSIB Investment Program has a predetermined invest-

ment portfolio called the Total Allocation Portfolio (TAP).

Although you may move your money between either investment program, you may have your contributions sent to only one investment program at a time. To change the investment program in which your contributions are invested, simply complete a Plan 3 Change of Investment Program form--available through your employer and the Internet (www.icmarc.org/sers/)--and submit it to your payroll office.

To change how your monthly contributions are allocated within the Self-Directed Investment Program, or to transfer money between the two different investment programs (WSIB or Self-Directed), you need to contact ICMA-RC Customer Services at (1-888-711-8773).

All SERS Plan 3 members (regardless of investment program) may get their account balance by calling ICMA-RC Customer Services at (1-888-711-8773) or by accessing the Internet (www.icmarc.org/sers/).

Contribution Rates and IRS Limits

SERS Plan 3 members select a contribution rate from one of the six options available (see the *Plan 3 Contribution Rate Brochure* available through your employer, DRS or the ICMA-RC Web site at www.icmarc.org/sers/). Contributions are deducted from the member's gross salary based on the rate selected.

If you became a SERS Plan 3 member by transferring from SERS Plan 2, you selected your contribution rate at the time of transfer. If you are a new member, or a Plan 3 member who is changing employers, you had up to 90 days from the date that you began working in an eligible position to select a contribution rate. If you did not select a rate option within the time allowed, the law requires that Option A (5 percent of pay) be assigned automatically. After you have selected your contribution rate, or it is automatically assigned, you cannot change your contribution rate unless you change employers.

SERS Plan 3 falls under Internal Revenue Code (IRC) 401(a), and is a mandatory plan. This means that members who transfer or are mandated into the plan must contribute. Since contributions are mandatory, members do not complete a salary deferral agreement as they do for various voluntary contribution plans.

Contributions to Plan 3 will reduce a member's taxable income, which may have an impact on IRC 415 contribution limits if the member also participates in a voluntary plan (such as IRC 457 deferred compensation plans, 403(b) tax-sheltered annuities and others). SERS Plan 3 is not sub-

ject to the same Internal Revenue Service (IRS) deferral limits that apply to voluntary plans.

Members should contact the IRS, a tax adviser, or a financial planner regarding all questions of federal and state tax implications or deferral limits arising from participation in Plan 3.

Long Term Investment Strategies For Retirement Plan Investors

The market gyrations of the past year have no doubt left investors a bit uneasy and perhaps even questioning their investment strategies. The wide swings in such measures as the Dow Jones Industrial Average and the Nasdaq Composite have even challenged the financial professionals.

As the stock market goes through any period of uncertainty, it is important for investors building their retirement portfolios to focus on the long term. The following activities can help investors focus on the long-term:

Stay balanced - Most successful long-term investors allocate their assets among stocks, bonds and cash. While each market period usually has a winning asset class, an investor can avoid frustration or distress by resisting the temptation to invest in only one asset.

Stay diversified - Diversification is the investor's main tool for controlling risk.

Focus on total return - Balanced, diversified portfolios will usually have some strong performers and some weak performers. Remember, the market is a changing place; today's weak performer could be tomorrow's big earner. When you review your portfolio, focus on total earnings. That is where the benefits of diversification show.

Evaluate risk tolerance - Bear markets help verify an investor's risk tolerance. Until an investor experiences a down market, it is difficult to determine just how much risk he or she can take.

Rebalance as needed - Periodically, one asset type or investment option will perform differently from the rest, altering the

asset allocation originally desired. Seasoned investors periodically rebalance back to their initial allocations. This practice provides better risk control and takes advantage of market trends.

Dollar cost average - Contributing consistently from each paycheck is an example of dollar cost averaging. Money is slowly and steadily invested through various market periods. When a market bottom is reached, dollar cost averaging provides a sound strategy of investing throughout the uncertain period.

Realistic expectations - When the stock market generates high returns for an extended time (like the three and one-half years up to mid-1998), investors' expectations can grow. Then, when more modest returns occur, there can be disappointment. The solution is to keep expectations in line with long-term results.

A Final Word

What happens to your retirement savings can take on a high level of importance. However, worrying about the market's short-term gyrations produces little. Successful long-term investors realize that returns are not a smooth trajectory, so they put together a well-constructed plan and allow it to bear fruit over time.