

SERS PLAN 3 REPORT

August
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IRS approves DRS proposal on TRS Plan 3 contribution rates

DRS recently received approval from the Internal Revenue Service (IRS) to provide an annual window for Teachers' Retirement System (TRS) Plan 3 members to change their contribution rates. DRS will seek executive request legislation during the 2003 session to authorize this change in state law. IRS approval of the DRS proposal opens the way for DRS to seek similar IRS approval for School Employees' Retirement System (SERS) Plan 3 and Public Employees' Retirement System (PERS) Plan 3 this summer.

The IRS must approve the SERS and PERS Plan 3 requests, and the legislature must enact the executive request legislation before DRS can implement these changes.

Given these approvals, the first open window for Plan 3 members to change their contribution rates is anticipated to be January 2004.

Under current state law, a member's choice of contribution rate is irrevocable unless the member changes employers. DRS has received numerous requests since the inception of TRS Plan 3 in 1996 to provide Plan 3 members with some flexibility to change their contribution rates. DRS worked with the Employee Retirement Benefits Board to develop the proposal that was submitted to the IRS as part of the formal TRS 3 plan qualification process.

Under this proposal an additional contribution rate has been added to the basic rate of 5 percent. This provides members with the flexibility to contribute amounts that will help them achieve their retirement goals. When added together, the rates equal the six options currently provided to Plan 3 members. See the proposed contribution rate table on the next page.

The first steps to developing an investment strategy

The best advice in retirement planning is to begin early. The earlier in your career that you develop an investment strategy the more flexibility you have in its execution.

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 06/30/2002

	AVERAGE ANNUAL RETURNS			
	2nd Qtr 2002	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	-4.18%	-5.15%	0.15%	5.62%

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 06/30/2002

	2nd Qtr 2002	1-Year	3-Year	5-Year
MONEY MARKET FUND	0.47%	2.71%	N/A	N/A
WASHINGTON STATE BOND FUND	1.98%	7.34%	N/A	N/A
U.S. LARGE STOCK INDEX FUND	-13.39%	-18.07%	N/A	N/A
U.S. STOCK MARKET INDEX FUND	-13.19%	-17.45%	N/A	N/A
U.S. SMALL STOCK INDEX FUND	-8.23%	-8.54%	N/A	N/A
INTERNATIONAL STOCK INDEX FUND	-2.50%	-10.28%	N/A	N/A
SHORT-HORIZON FUND	-1.70%	-0.40%	N/A	N/A
MID-HORIZON FUND	-4.45%	-4.76%	N/A	N/A
LONG-HORIZON FUND	-7.61%	-10.63%	N/A	N/A

The SERS Plan 3 Self-Directed Funds were available for investment on September 1, 2000 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 and Money Market 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 June 30, 2002.

N/A - Not Applicable

Before you design your personal investment strategy, you need to assess your current financial situation and determine your retirement goals. Even the most sophisticated investment strategy begins with some very basic steps:

1. Estimate your expenses at retirement. The amount of guesswork here depends greatly on how far off retirement is and the expenses you expect to have. Will you have mortgage payments? Do you expect to travel a great deal? Will you have any dependents?
2. Identify your sources of retirement income and estimate the amount you will have available for monthly expenses (Social Security, IRAs, Deferred Compensation accounts, savings, your defined benefit, etc.).
3. Calculate the difference between your retirement expenses and your estimated income. This will require you to make an assessment of how much your investments should earn to meet your expectations and how much risk you are willing to take.

If there is a significant negative difference between projected income and projected expenses, you need to consider two things: committing more income to retirement investments, or reducing your expenses in retirement. Once you have determined your course, it is important to periodically revisit the three steps, assess your progress, and, if necessary, make adjustments.

Changing investment programs and allocations

As a SERS 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. The WSIB Investment Program has a predetermined investment portfolio called the Total Allocation Portfolio (TAP). In the Self-Directed Investment Program, you can select from a variety of investment types and freely move your money from one investment type to another.

Although you may move your money between the two investment programs, your monthly contributions can be sent to only one investment program. To change the

investment program that your contributions are sent to, complete a *Plan 3 Change of Investment Program* form. These forms are available from your employer and also may be accessed via the Internet (<http://www.icmarc.org/plan3/>). Once completed, a *Change of Investment Program* form should be submitted to your employer.

If your contributions are directed to the Self-Directed Investment Program, you may change how they are allocated within the program by accessing your account via the Internet (<http://www.icmarc.org/plan3/>). You can transfer money between the WSIB and Self-Directed Investment Programs by contacting ICMA-RC Investor Services at 1-888-711-8773.

Requests for payment of funds should be directed to ICMA Retirement Corporation (ICMA-RC)

If you separate from SERS employment, you have the option to withdraw your defined contribution investment funds. To initiate payment you need a *Request for Payment of Defined Contribution Funds*. This informational packet provides a variety of informa-

tion about your tax obligations and includes the form you must complete to take payment.

Unless you roll your funds directly to a qualified retirement plan or an IRA, federal taxes will be deducted from the payment. If you are under age 59½, an additional penalty for early withdrawal may be required. Payment cannot be made until ICMA-RC receives notice of termination of employment from your employer.

The *Request for Payment of Defined Contribution Funds* packet can be obtained by calling ICMA-RC toll-free at 1-888-711-8773, by e-mailing InvestorServices@icmarc.org, or downloaded from the ICMA-RC Web site (<http://www.icmarc.org/sers/pubs/>).

See related article on page 1 of this newsletter

PROPOSED PLAN 3 MEMBER CONTRIBUTION RATES*			
Option A	Mandatory Contribution	Additional Contribution	Total Contribution Rate
All ages	5%	0.0%	5%
Option B			
Up to age 35	5%	0.0%	5%
Age 35 to 44	5%	1.0%	6%
Age 45 and above	5%	2.5%	7.5%
Option C			
Up to age 35	5%	1.0%	6%
Age 35 to 44	5%	2.5%	7.5%
Age 45 and above	5%	3.5%	8.5%
Option D			
All ages	5%	2.0%	7%
Option E			
All ages	5%	5.0%	10%
Option F			
All ages	5%	10.0%	15%

* This rate table reflects the contribution rates approved by the IRS in DRS' recent TRS Plan 3 proposal. Before the rates can take effect, executive request legislation must pass in the State Legislature. For more information, see article on page 1.