

SERS PLAN 3 REPORT

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

Enhancing your Plan 3 statement

Beginning this quarter, you will notice a change to your Plan 3 statement. A new line, titled "STIF Contribution Transfer," has been added to display the contributions from your paycheck that have been posted to your investments from the Short Term Investment Fund (STIF).

Previously, contributions were shown in "Fund-to-Fund Transfers." This total included not only your contributions, but also transfers you initiated from one fund to another. Itemizing them separately will help you track the details of your transactions.

Need to update your address? Contact your employer

When you move, there is always a list of people and places to notify. One of those on your list should be your employer.

DRS receives address information from your employer. Employers regularly provide up-to-date information about you, so we can manage your retirement account.

The next time you have an address change, don't worry about calling DRS or ICMA-RC. Simply notify your employer.

Diversification reduces investment risk

It isn't surprising that investors are a bit wary of the stock market these days, as it rises and falls with little predictability. Will the market continue upward, or remain in a tight trading range? Investors may be wondering what they should do. No one can predict what will happen over any period of time, and past performance cannot guarantee future returns.

Investment experts suggest developing a long-term program to help you meet your

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 6/30/2004

	AVERAGE ANNUAL RETURNS			
	2nd Qtr 2004	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	0.82%	16.72%	4.48%	3.85%

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 6/30/2004

	2nd Qtr 2004	1-Year	3-Year	5-Year
MONEY MARKET FUND	0.23%	0.92%	1.70%	N/A
WASHINGTON STATE BOND FUND	-2.56%	-0.07%	6.52%	N/A
SOCIALLY RESPONSIBLE BALANCED FUND	0.99%	12.40%	N/A	N/A
U.S. LARGE STOCK INDEX FUND	1.68%	18.98%	-0.82%	N/A
U.S. STOCK MARKET INDEX FUND	1.31%	20.31%	-0.02%	N/A
U.S. SMALL STOCK INDEX FUND	0.57%	33.18%	6.08%	N/A
INTERNATIONAL STOCK INDEX FUND	0.35%	31.13%	1.83%	N/A
SHORT-HORIZON FUND	-0.80%	6.91%	4.05%	N/A
MID-HORIZON FUND	-0.57%	12.63%	4.12%	N/A
LONG-HORIZON FUND	0.44%	18.94%	2.54%	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 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 <http://www.icmarc.org/sers/investing>.

Returns cover the period ending June 30, 2004.

N/A - Not Applicable

investment goals at a comfortable risk level. You can do this, in part, through diversification, a technique used to spread investments among different asset classes (stocks, bonds, money market or stable value).

Equity, bond and money market funds all react differently to market conditions. While rising interest rates may boost money market returns, some equity funds may decline as a result. Diversification gives you a better chance of protecting yourself from investment risks such as interest rate changes and inflation. In taking this approach, Plan 3 members can

reduce downside risks while potentially maximizing returns.

It is also important to remember that if you are 100 percent invested in any fund, you may want to consider diversifying your investments. That way, your portfolio won't likely experience wide swings in the value of your investments as the markets rise and fall.

Members interested in changing their allocations can do so by contacting ICMA Retirement Corporation (1-888-711-8773) or by visiting the Web site at <http://www.icmarc.org/plan3>.

Regardless of what course the markets take, diversifying your portfolio is an effective way to reduce risk and help you reach your retirement investment goals.

First steps in developing a retirement plan

For many of us our retirement years will mean spending time with our families, hobbies, or perhaps extensive traveling. But how do you actually translate your goals (and other financial obligations) into specific amounts of money you will need for retirement?

The financial link to dream fulfillment, many experts say, is simple: fulfilling your dreams may mean budgeting for them. Establishing specific objectives for your “wants” and “needs” helps you build a total financial action plan.

Start with a list of your needs. Next, create a list of your wants. For both lists, jot down your five most important financial aims, including what you want long-term, mid-term and short-term.

- Pay off mortgage in five years by adding \$400/month to each regular monthly payment.
- Establish a Roth IRA for both partners with payroll deduction or automatic checking draft of \$250/month.

Remember, your various objectives are in competition for limited money. Considering all of them at the same time challenges you to realistically prioritize them, perhaps deferring or downsizing some of what you want to achieve. Or, you may find that you are not dreaming big enough!

After you have created a realistic picture of the amount of money you will need in retirement, the next step is to plan your investments in your Plan 3 defined contribution account. To help you get started, the Asset Allocation calculator is available at <http://www.icmarc.org/plan3/sers/planning/calculator/>. If you do not have access to the Internet, please call 1-888-711-8773 and one of our specialists can assist you. After

performing this calculation, you will be able to build an investment strategy to help you reach your goals.

Review your objectives annually to see if they still reflect what you want. Perform a needs calculation regularly, and monitor your progress toward achieving your objectives. By taking this approach, you will be on your way to a retirement lifestyle that addresses your needs and goals.

Market Commentary as of May 31, 2004

This market commentary is written as of May 31, 2004. Market activity is subject to change and may not reflect activity as of the release of this publication.

The investment landscape for 2004 continues to pose a challenge. A number of factors seem to be troubling for investors, making it difficult to fully anticipate what is ahead. Energy prices remain high, with the price of oil pushing gas prices to \$2.00 or more a gallon across the United States. This doesn't bode well for vacationers, as the summer travel season is quickly approaching.

Bonds

Bonds in general declined for the three-month period ending May 31, 2004. The Lehman Brothers Aggregate Index dropped -2.3 percent during the period. The Federal Reserve chose to leave short-term interest rates unchanged but strongly hinted that a rate increase is around the corner. As a result, longer maturity bonds, whose prices suffer more dramatically in a rising interest rate environment, were particularly hard hit. Short-term Government bonds tended to perform the best, as investors chose short-term bonds to wait out the looming rate hike. High Yield bonds outperformed the broader Lehman Brothers Aggregate Index for the three-month period.

Stocks

U.S. stocks, regardless of market capitalization or investment style, declined for the three-month period

ending May 31, 2004. Large company stocks, as measured by the S&P 500 Index, were down -1.7 percent for the period. However, small company stocks, as measured by the Russell 2000 Index, suffered the worst. The Index was down -2.7 percent for the period. Small company stocks rose strongly last year, with mid and large company stocks trailing. Much of last year's strong small stock performance is attributed to the feeling of investors that the U.S. economy was turning the corner. Recently however, the increasing possibility of rising interest rates has caused higher risk stocks to take a bit of a breather. Surprisingly, growth stocks have tended to fare slightly better than value stocks in this current environment, perhaps fueled by investor sentiment that the economy will continue to grow.

International stocks started the period strong only to succumb to pressures similar to those being experienced in the United States. The MSCI All Country World Index declined -2.2 percent for the trailing three-month period. Of the major countries, Japan has taken the lead. Japan's stock market has seen renewed enthusiasm, as its economy has benefited from China's strong economic growth. As for currency-related news, the U.S. dollar reversed its trend during the quarter and strengthened slightly against most major foreign currencies. However, the dollar continues to trade at lows against most major foreign currencies.

***By Arnerich Massena & Associates
Due to printing requirements, this article
includes market activity as of May 2004.***