

SERS PLAN 3 REPORT May 2005

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

Annual Statements Distributed

The Department of Retirement Systems (DRS) distributed members' 2004 annual statements to employers in March. The statements provide members with information pertaining to the defined benefit component of Plan 3. The statements also provide Plan 3 members with an update on service credit earned in 2004, as well as their total service credit.

Statements were distributed for members of the Public Employees' Retirement System. Members employed by public school districts, educational service districts and higher education institutions will receive their statements in November.

If you have questions or did not receive a statement, please contact your payroll office.

Access Your Account Online

Recently, DRS launched a new service – Defined Benefit Account Access – that provides online access to your defined benefit account information. You can view your current defined benefit, service credit details, employment history, beneficiary, annual statement and other information. If you are retired or are receiving payment as a survivor of a deceased member, you can view your monthly payment information, annual 1099-R tax statements and post-retirement employment information, if applicable. To register, go to www.drs.wa.gov and select the Online Account Access link.

To view information on the defined contribution component of your Plan 3 account, go to www.icmarc.org/plan3/sers and select the Account Access link.

Account Access also provides several tools to assist you with retirement planning.

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 3/31/2005

	AVERAGE ANNUAL RETURNS			
	1st Qtr 2005	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	1.07%	10.42%	8.07%	2.94%

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 3/31/2005

	1st Qtr 2005	1-Year	3-Year	5-Year
MONEY MARKET FUND	0.60%	1.60%	1.41%	N/A
WASHINGTON STATE BOND FUND	-0.65%	0.07%	5.65%	N/A
SOCIALLY RESPONSIBLE BALANCED FUND	-1.93%	5.03%	N/A	N/A
U.S. LARGE STOCK INDEX FUND	-2.16%	6.50%	2.61%	N/A
U.S. STOCK MARKET INDEX FUND	-2.22%	6.95%	3.52%	N/A
U.S. SMALL STOCK INDEX FUND	-5.28%	5.42%	7.88%	N/A
INTERNATIONAL STOCK INDEX FUND	-0.15%	15.10%	9.60%	N/A
SHORT-HORIZON FUND	-0.60%	3.29%	5.00%	N/A
MID-HORIZON FUND	-1.08%	5.24%	6.23%	N/A
LONG-HORIZON FUND	-1.40%	7.62%	6.10%	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 www.icmarc.org/sers/investing.

Returns cover the period ending March 31, 2005.

N/A - Not Applicable

Frequently Asked Questions

Plan 3 offers members two separate retirement benefit components—defined contribution and defined benefit. Following are a few of the most frequently asked questions.

1. Who do I contact to change my address?

You will need to provide your updated address to your employer. If you are no longer actively employed, you may contact ICMA-RC at 1-888-711-8773 to change your address.

2. Can I change my investment program and fund selections?

You may change your Plan 3 Investment Programs and Self-Directed investment allocations any time. To transfer money between the investment programs, contact ICMA-RC at 1-888-711-8773. (This process cannot be done online.) To change which investment program your contributions go to, please contact your employer.

To change your allocations within the Self-Directed Investment Program, contact ICMA-RC or change your allocations online at www.icmarc.org/plan3/sers.

<p>DRS: 1-800-547-6657</p> <ul style="list-style-type: none"> • Defined Benefit estimates • Service Credit • Timing of employer reporting related to your contribution process • Beneficiary information • Purchasing Optional Service • Annual Defined Benefit statements • Property Divisions 	<p>ICMA-RC: 1-888-711-8773</p> <ul style="list-style-type: none"> • Transferring money from one investment program to another (WSIB to Self-Directed or Self Directed to WSIB) • Self-Directed investment allocation or transferring among Self-Directed funds • Withdrawal requests from defined contribution component • Investment education and distribution seminars • Plan 3 Investment funds • Quarterly statements
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3. When do I call DRS and when do I call ICMA-RC?

You can contact DRS any time you have general questions about Plan 3. For specific questions on your Plan 3 account, please contact ICMA-RC.

The chart above will assist you in determining when to call DRS and when to call ICMA-RC regarding your account.

4. Can I withdraw from my Plan 3 balance while I am employed?

You can elect to withdraw the funds in your SERS Plan 3 defined contribution account any time after you separate from all SERS-covered employment. Since Plan 3 is a retirement benefit, there are no loans available.

5. I am interested in learning more about my Plan 3 investments. Do you offer seminars?

Yes. Financial Education specialists provide seminars on investment basics. You may view the seminars at www.icmarc.org/plan3/sers by selecting the seminars option on the left-hand menu bar.

Access the defined contribution portion of Plan 3 at www.icmarc.org/plan3/sers. Select the Account Access link and follow the instructions within the link "Request an initial password." Please be sure to have your six digit plan number handy. This number can be found on your quarterly statement.

Market Commentary

The events that dominated the headlines in 2004 faded from focus late in the year and early into 2005. The employment picture showed signs of strength with both wage and job growth picking up. Investor confidence improved as economic reports in January generally confirmed a bright outlook for American corporations.

Companies benefited from increased demand and were well positioned to meet the needs from the supply side. The Federal Reserve is keeping a close eye on inflation, which rose slightly during the three-month period. The Federal Reserve continued its measured pace of quarter point increases, leaving short-term interest rates at 2.5 percent. The U.S. still faces a number of challenges on the horizon. Exports were curtailed by a significant reduction in foreign demand, while imports, particularly oil, increased.

Bonds

Bond markets continued to struggle. Short-term yields rose while yields on longer-term bonds declined. The bond market appeared to be improving in December and January, but its slip in February diminished a portion of the gains. The Lehman Brothers Aggregate Bond Index finished with a 0.9 percent return for the period. Low quality, high yield bonds performed strongly relative to higher quality bonds, bolstering investor confidence that the yield advantage will continue.

Stocks

The stock market reversed course early in the year with the Energy sector once again dominating due to near record-high oil prices. After gaining momentum late in 2004, Consumer Discretionary, Technology, and Telecommunication stocks once again found themselves struggling. Despite the weakness early in the year, strong gains in December and

February kept the S&P 500 Index's return positive with a three-month gain of 2.5 percent. While the market remained mixed overall, large company stocks have outperformed small company stocks for three consecutive months. Small companies, as measured by the Russell 2000 Index, rose only 0.3 percent during the three-month period versus the 3.3 percent advance by the Russell 1000 Index.

International stocks continued to outperform U.S. stocks as the MSCI ACWI ex U.S. gained 7.5 percent. Currency was again the main driver; U.S. investors placing capital overseas benefited from the weakening U.S. dollar versus foreign currencies. The dollar showed signs of strength in January but continued its descent in February. Overseas investors feared the impact of rising interest rates, high energy prices, and weak growth prospects in Germany and Japan, causing stock prices of companies based in these countries to suffer as a result. Emerging markets continued to shine during this period; 24 of the 27 countries that make up the MSCI Emerging Markets Index produced positive returns, leading to an exceptional 13.9 percent gain for the Index.

*By Arnerich Massena & Associates
Due to printing requirements, this article includes market activity as of February 2005.*