

SERS PLAN 3 REPORT October 2005

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

Plan 3 Web site redesigned

We have redesigned the Plan 3 Account Access Web site to provide you with even better service. The updated site now offers:

- Customized links on the home page allowing you to select your favorite pages
- A planning section with information on seminars, workshops, calculators and Plan 3 publications
- Renamed and reorganized tabs and menu options
- Consistent navigation across the entire site making it easier for you to find what you're looking for

If you are not currently using Account Access to obtain information about your Plan 3, you can register to use it by completing the following steps:

1. Select the Account Access link at www.icmarc.org/plan3/sers
2. At the login page, click on the "Request an Initial Password" link
3. Follow the instructions to select your password

We continue to look for opportunities to enhance the services we provide for Plan 3 members. If you have a suggestion, please let us know. If you have any questions or feedback about Account Access, please contact Investor Services at 1-888-711-8773.

IRS Qualifies PERS and SERS Plan 3

After a lengthy review, the Internal Revenue Service (IRS) has qualified PERS Plan 3 and SERS Plan 3 as defined benefit plans with a defined contribution component. This is good news - the favorable determination means that tax treatment of your contributions will continue unchanged and that DRS will continue to administer the plans as they were designed.

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 6/30/2005

	AVERAGE ANNUAL RETURNS			
	2nd Qtr 2005	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	3.21%	13.05%	10.77%	3.75%

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 asset mixes during the time periods shown.

SERS PLAN 3 SELF-DIRECTED FUNDS

AS OF 9/30/2005

	3rd Qtr 2005	1-Year	3-Year	5-Year
MONEY MARKET FUND	0.82%	2.49%	1.60%	N/A
WASHINGTON STATE BOND FUND	-0.21%	2.34%	4.35%	N/A
SOCIALLY RESPONSIBLE BALANCED FUND	0.85%	5.81%	N/A	N/A
U.S. LARGE STOCK INDEX FUND	3.60%	12.17%	16.53%	N/A
U.S. STOCK MARKET INDEX FUND	4.02%	14.45%	17.96%	N/A
U.S. SMALL STOCK INDEX FUND	4.78%	17.94%	23.82%	N/A
INTERNATIONAL STOCK INDEX FUND	10.33%	25.72%	23.05%	N/A
SHORT-HORIZON FUND	1.86%	6.84%	8.12%	N/A
MID-HORIZON FUND	3.11%	10.69%	12.81%	N/A
LONG-HORIZON FUND	4.57%	14.60%	16.75%	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 September 30, 2005.

N/A - Not Applicable

During the 2003 session, the Legislature passed a bill that would give PERS and SERS Plan 3 members a one-month window each year to select a different contribution rate. We know many members have expressed interest in such flexibility and we initially included a rate change option with our request for plan qualification.

The IRS position on rate flexibility changed, however, between 2002 when TRS Plan 3 was qualified and 2005, when the determination on PERS and SERS Plan 3 was made. Rate flexibility does not comply, the IRS advised, with the irrevocable choice of a contribution rate at the time of hire.

Market Outlook as of August 31, 2005

Two events made headlines during the quarter, leaving economists and investors to grapple with how they would affect global markets. Early in the quarter, terrorism returned to the front page, as London's transit system was struck. Global economies, however, were still able to focus on the strength of good economic news and strong corporate earnings. The U.S. experienced one of the worst natural disasters in the nation's history as the Gulf Coast and city of New Orleans were devastated by the strength of Hurricane Katrina. Katrina's effect on a number of oil rigs in the gulf worsened supply concerns and drove crude oil prices even higher after the

storm had passed. The U.S. economy, however, continued to show resilience against the negative pressures; Gross Domestic Product (GDP) growth was reported at a healthy 3.4 percent annualized rate amidst solid economic data.

Bonds

Bond markets continued to move forward, albeit at a relatively slow pace. The Lehman Brothers Aggregate Index posted a 0.9 percent return for the quarter. As the Federal Reserve's measured rate hike approach reached its first anniversary the overnight rate went from 1.0 percent to its current level of 3.5 percent. Given the effect of Hurricane Katrina, many expect the Fed to pause interest rate hikes while the country works through the fallout of the storm. U.S. Treasuries proved to be the weakest performing sector as investors continued to favor higher yielding bonds. Stronger than expected economic data in June and July bolstered investors' willingness to take on a little more risk in their bond investments.

Stocks

Despite slipping slightly in August, the stock market realized gains during the quarter. Small cap stocks led the charge during the period. The S&P 500 Index, which represents larger companies, gained only 2.8 percent during the same period, demonstrating how mega capitalization stocks continue to trail the majority of the market. Value stocks performed slightly better than growth stocks during this time. Energy continued to outpace all other sectors on the strength of continually rising oil prices. Technology stocks also performed well as strong earnings reports and a recovery in business spending spurred investor confidence. Financials and Telecommunication Services were the weakest performing sectors of the S&P 500 Index.

International stocks provided investors with gains during the last three months as the MSCI ACWI Index ex U.S. rose 6.3 percent. The biggest news during this period came out of China, where the country finally revalued its currency. The Far

East led in terms of performance but was closely trailed by improving economies in continental Europe. Many smaller eastern European countries rose on news of improved growth and falling inflation while Russia's economy continued to show strength due to strong oil prices. International stocks overall also received a bump in performance due to a slight weakening of the U.S. dollar.

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 Web (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 Web (www.icmarc.org/plan3/sers). You can transfer money between the WSIB and Self-Directed Investment Programs by contacting ICMA-RC Investor Services at 1-888-711-8773.