

SERS PLAN 3 REPORT July 2006

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

Plan 3 - investment flexibility, account protection, long-term results

In a recent special edition of the *Plan 3 Report*, we announced a policy on excessive trading that went into place July 7, 2006 on all Plan 3 Self-Directed Investment Program funds. It's the same policy that has worked well in the International Fund - a member who transfers more than \$1,000 out of a fund cannot transfer \$1,000 or more **back into the same fund** for 30 calendar days.

Excessive trading involves transferring large amounts of money between investment options with the hope of acquiring short-term gains. Excessive trades interfere with the Washington State Investment Board's ability to manage the funds, since cash must be pulled out of the market to accommodate the transactions.

Plan 3 funds are not designed for daily trading or short-term gains. Though the majority of Plan 3 members average less than one trade every 30 calendar days, excessive trading by even a few can negatively impact everyone. We are committed to protecting the investments of all members.

If you have questions, please call DRS at 1-800-547-6657 or ICMA-RC at 1-888-711-8773. We're always glad to help.

Market Commentary as of May 31, 2006

Corporate profitability has remained at exceptional levels with corporate earnings continuing to reach record levels. Gross Domestic Product (GDP) growth measures the value of all goods and services produced and provided in the United States and is expected to stay in the 3% range for the foreseeable future - this is considered a healthy rate of growth. In recent years, high

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 3/31/2006

	AVERAGE ANNUAL RETURNS			
	1st Qtr 2006	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	6.03%	19.26%	18.51%	8.72%

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 6/30/2006

	2nd Qtr 2006	1-Year	3-Year	5-Year
MONEY MARKET FUND	1.16%	4.16%	2.37%	2.26%
WASHINGTON STATE BOND FUND	0.14%	-0.07%	1.67%	4.91%
SOCIALLY RESPONSIBLE BALANCED FUND	-1.38%	3.49%	6.71%	N/A
U.S. LARGE STOCK INDEX FUND	-1.47%	8.57%	11.09%	2.37%
U.S. STOCK MARKET INDEX FUND	-1.98%	9.53%	12.45%	3.38%
U.S. SMALL STOCK INDEX FUND	-5.16%	14.43%	18.55%	8.35%
INTERNATIONAL STOCK INDEX FUND	0.79%	26.47%	23.53%	8.70%
SHORT-HORIZON FUND	0.16%	5.42%	6.08%	4.69%
MID-HORIZON FUND	-0.41%	7.82%	9.42%	5.59%
LONG-HORIZON FUND	-0.88%	11.33%	13.01%	5.52%

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 June 30, 2006.

N/A - Not Applicable

consumer spending has largely been responsible for keeping the U.S. economy prosperous. More recently, however, consumer spending has slowed but is being offset by higher corporate spending.

Bonds

At its May meeting, the Federal Reserve once again increased the overnight lending rate by a quarter-point to 5.25% - the 16th consecutive quarter-point hike since policy makers began their tightening campaign in June 2004. Bond returns remained weak during the three-month period, as the Lehman Brothers Aggregate Index fell -1.27 percent during this time. Higher yielding issues were once again the

standout performers as investors continued their search for income. The Lehman Brothers High Yield Index gained 1.2 percent during the three-month period.

Stocks

Stocks nearly reached all-time highs in early May, but tumbled later in the month as inflation fears overrode confidence in corporate America. The losses were broad-based as stocks of all sizes and styles experienced erosions to the gains established early in the quarter. Large company stocks slightly outpaced small company stocks during the period, but small company stocks experienced more volatility. The S&P 500 Index finished the quarter slightly in the red

with a loss of -0.3 percent while mid and small company stocks finished with losses of -0.3 percent and -1.05 percent respectively as measured by the Russell Mid Cap and Russell 2000 indices. Value-oriented stocks outpaced their growth counterparts across the market capitalization spectrum. Technology and Health Care stocks experienced the largest losses for the quarter.

International stock markets continued to outperform the U.S. stock market, mostly the result of currency gains as opposed to pure stock gains. After showing strength in 2005, the U.S. dollar has reversed course thus far in 2006. Foreign investors have concerns regarding the Federal Reserve's suggestion that rising interest rates may be coming to an end, as well as worries over the growing U.S. trade deficit. The MSCI ACWI ex-U.S. finished the three-month period with a gain of 3.2 percent, despite actually losing ground when measured in local currencies. After a tremendous run over the past three years, Emerging Markets pulled back during the quarter.

*By Arnerich Massena & Associates
Due to printing requirements, this article includes market activity as of May 2006.*

SERS quarterly statements available online

Members can view, print and download quarterly account statements via the Online Statements feature on Account Access.

The Online Statements feature gives you secure electronic access to your quarterly account statement as soon as it is available.

Enrolling in Online Statements is easy. After you have logged into Account Access (www.icmarc.org/sers), click on the Statements tab which takes you to the Online Statement registration page. Next, click on the box to indicate you want to receive quarterly statements electronically and

then select whether you would like to receive email notification when your statement is available to view.

After you submit your request, a confirmation will appear showing you have successfully signed up for Online Statements. (Once you are enrolled you will get a notification in the Messages section of the Account Access Home page instructing you where to find your most recent statement.) That's all you need to do.

If you selected email notification, you will receive notification shortly after the quarter ends. You can log on to your account, click on the Statements tab and the Statements menu option to see your quarterly statement.

Once you sign up for Online Statements, you will no longer receive a printed statement in the mail. If you need a printed statement, it can be printed from the Web site or a copy can be requested from ICMA-RC at 1-888-711-8773.

While online don't forget to try other services available through Account Access, including the ability to check your account balance, perform fund transfers or check fund performance.



Signing up for Online Statements is easy!

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