

SERS PLAN 3 REPORT

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DEPARTMENT OF RETIREMENT SYSTEMS QUARTERLY UPDATE • OCTOBER 2008

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New Fund Choices Join the Plan 3 Investment Lineup

We are pleased to announce the new Retirement Strategy Funds are now part of the Plan 3 Self-Directed investment lineup. The new funds became available on October 6, 2008.

Each Retirement Strategy Fund has a diversified mix of equities and bonds that automatically adjusts and rebalances as you move toward your target date (when you expect to begin drawing your money). The adjustment process changes the mix of equities to bonds as you get closer to your target date while the rebalancing process helps maintain your investment objectives. Funds with target dates furthest in the future have an asset mix focused on growth. As you get closer to your target date, the mix changes to focus on preservation and capital growth.

Choose your investment approach by asking yourself these questions:

- Do I have the desire to select my own mix of individual funds?
- Am I comfortable deciding how much to invest in each fund?
- Do I have the time to keep an eye on my investments and make changes in them as I get closer to retirement?

(See *New Fund Choices*, p. 2)



Current Investment Market Conditions

The financial markets are experiencing significant volatility in response to the credit crisis that began with the collapse of sub-prime mortgages last summer. The Washington State Investment Board (WSIB) did not invest in sub-prime mortgage products and was not impacted by the initial losses that occurred earlier this year.

It's important to remember that the WSIB is a long-term investor with a highly diversified, high-quality portfolio of global assets built to withstand the inevitable ups and downs of investing in capital markets.

Market fluctuations do not affect the defined benefit portion of your retirement plan. That benefit is based on your compensation and years of service. Market fluctuations may affect the defined contribution portion of your Plan 3 retirement benefit.

(See *Market Conditions*, p. 2)

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 6/30/2008

	AVERAGE ANNUAL RETURNS			
	2nd Qtr 2008	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	-1.16%	-1.22%	11.83%	13.04%

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 9/30/2008

	3rd Qtr 2008	1-Year	3-Year	5-Year
MONEY MARKET FUND	0.59%	3.21%	4.42%	3.36%
WASHINGTON STATE BOND FUND	-2.69%	2.37%	3.61%	3.22%
SOCIALLY RESPONSIBLE BALANCED FUND*	-4.34%	-5.78%	3.72%	5.20%
U.S. LARGE STOCK INDEX FUND	-8.36%	-22.04%	0.18%	5.10%
U.S. STOCK MARKET INDEX FUND	-8.68%	-21.49%	0.21%	5.61%
U.S. SMALL STOCK INDEX FUND	-1.07%	-14.58%	1.67%	8.02%
INTERNATIONAL STOCK INDEX FUND	-19.22%	-29.28%	1.70%	9.98%
SHORT-HORIZON FUND	-4.45%	-5.06%	3.46%	4.74%
MID-HORIZON FUND	-7.24%	-11.61%	2.69%	5.77%
LONG-HORIZON FUND	-9.52%	-18.11%	1.87%	6.67%

*The Socially Responsible Balanced Fund became available for investment on April 1, 2004. The fund inception date is July 1, 2003.

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.

CONTACT INFORMATION

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(New Fund Choices from p. 1)

If the answer to any of these questions is yes, you're likely most interested in what we refer to as the "Build and Monitor" approach to investing within the Self-Directed Investment Program. If the answer to any of these questions is no, you may be most interested in the "One-Step Investing" approach.

Build and Monitor Investing

With this approach, you choose from among the seven different funds to create a diversified portfolio. You are then responsible for monitoring your portfolio and rebalancing the allocation mix as necessary. The funds available to you are: Money Market Fund, Washington State Bond Fund, Socially Responsible Balanced Fund, U.S. Large Stock Index Fund, U.S. Stock Market Index Fund, U.S. Small Stock Index Fund and International Stock Index Fund.

One-Step Investing

Choosing just one Retirement Strategy Fund allows you to invest in a complete portfolio. With this approach, you determine your target date for retiring or withdrawing your funds and then select the fund closest to your target date.

- 2050 Retirement Strategy
- 2045 Retirement Strategy
- 2040 Retirement Strategy
- 2035 Retirement Strategy
- 2030 Retirement Strategy
- 2025 Retirement Strategy
- 2020 Retirement Strategy
- 2015 Retirement Strategy
- 2010 Retirement Strategy
- 2005 Retirement Strategy
- 2000 Retirement Strategy

If your target date changes, you can transfer your money to a Retirement Strategy Fund that more closely matches your revised date.

Q&A

- *What asset classes make up the Retirement Strategy Funds?*

Each fund is well diversified, investing in a mix of equity and bond funds. In very general terms, the focus is on capital appreciation early in a career and preservation, along with capital growth, later on. The Washington State Investment Board selected AllianceBernstein to provide active management of the Retirement Strategy Funds.

- *When will performance data be available?*

These funds are new, and created specifically for Washington's DCP and Plan 3, so past performance is not available. The month of November will be the first full month of reported performance and it will be available online in December 2008. In the meantime, we've provided hypothetical historical performance for the fund's custom benchmarks (available online at www.drs.wa.gov).

- *Should I invest in more than one Retirement Strategy Fund?*

Once you choose your target date, your Retirement Strategy Fund is specific to your timeline. The funds are diversified and automatically rebalance, so you only need to invest in one.

- *Where can I learn more?*

Visit our Web site at www.drs.wa.gov or call 1-888-711-8773.

Market Conditions from p. 1)

It is always a good practice to review your investment portfolio on an ongoing basis, to make sure your investment mix reflects your comfort level with risk. Any time you review and consider changing your investment strategy, it's important to avoid emotional responses during market fluctuations like the ones we are currently experiencing. Decisions based on short-term performance, or in an attempt to time the market, could have adverse effects. Changes should always be made using a thoughtful, deliberate strategy.

For resources to help you with investing in today's market, please call 1-888-711-8773 or take a look at available seminars on our Web site at www.drs.wa.gov/member/retirementplanning.