

TRS PLAN 3 REPORT February 2000

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Limitations on annual contributions

Did you know that the amount that you can contribute to tax-deferred retirement programs is limited under Internal Revenue Code?

TRS Plan 3 is a qualified 401(a) program. If you participate in tax-deferred programs in addition to TRS Plan 3, your tax-deferred contributions are limited by the IRS. The limitation for tax-deferred contributions is based on your annual taxable income. Be aware that tax-deferred contributions decrease your taxable income. Because of this, the amount you can legally defer may change if you increase the amount that you are deferring. Consult the Internal Revenue Service (IRS) and/or a tax advisor for detailed information.

Thinking about leaving your teaching position?

If you leave TRS-covered employment, you have the option to leave your defined contribution money in the Plan.

As long as you retain your defined contribution investments, they will continue to be valued at market rate. You will continue to receive quarterly statements and be able to move your balance between investments. The value of your defined contribution account can rise or fall depending on investment performance in the market.

The IRS requires that you begin receiving a minimum amount from your retirement account by April 1 of the year after you reach age 70 1/2, or you retire, whichever comes later. The portion of your account that you must receive cannot be rolled over. The options you have for receipt of the money are outlined in the TRS Plan 3 Request for Withdrawal of Defined Contributions packet.

TRS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)¹

AS OF 12/31/1999

AVERAGE ANNUAL RETURNS

	4th Qtr 1999	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	11.66%	18.47%	16.58%	17.80%

¹ 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.

TRS PLAN 3 SELF-DIRECTED FUNDS

AS OF 12/31/1999

	4th Qtr 1999	1-Year	3-Year	5-Year
TRS PLAN 3 SMALL STOCK INDEX	18.5%	20.1%	12.6%	16.3%
TRS PLAN 3 U.S. STOCK MARKET INDEX	16.8%	22.4%	25.3%	N/A
TRS PLAN 3 LARGE STOCK INDEX	14.8%	20.7%	27.2%	28.2%
TRS PLAN 3 INTERNATIONAL STOCK INDEX	17.1%	27.0%	15.6%	12.7%
TRS PLAN 3 MONEY MARKET	1.3%	5.1%	5.4%	5.4%
TRS PLAN 3 BOND MARKET	0%	-1.0%	5.3%	7.4%

The TRS Plan 3 Self-Directed Funds' inception dates were in May 1997. Investment returns for periods prior to that date were constructed using the underlying State Street Global Advisors Funds' gross return and deducting current fees and expenses associated with each fund as if the fund had been in existence for the respective three and five year periods. The U.S. Stock Market Index Fund commenced September 1996 and has no investment performance history prior to that date.

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 *TRS Plan 3 Investment Guide*.

Returns on the TAP Fund cover the period ending 12/31/1999. Returns for the Self-Directed Funds cover the period ending 12/31/1999.

If you leave TRS-covered employment and leave your defined contributions in the Plan, keep DRS informed of any name, address and beneficiary changes. You can obtain a Name/Address Change form by contacting DRS at (800) 547-6657, or by visiting the Forms Archive at the DRS Internet site. The address for the DRS Internet site is <http://www.wa.gov/DRS/>.

Income tax will be due when you take payment from Plan 3

For most Plan 3 members, all of the money in the defined contribution account is tax-deferred. You will owe

income tax on your contributions and investment earnings when you withdraw funds from your defined contribution account.

DRS is required by the IRS to withhold 20 percent of any lump sum withdrawal of tax-deferred funds. If you are under age 59 1/2 when you take payment, an additional 10 percent tax for early withdrawal may be assessed by the IRS when you file your annual tax return. All withdrawals paid to you are reported to the IRS as earnings in the year the withdrawal is paid.

If you wish to avoid the withholding tax and 10 percent additional tax, you may be able to roll the funds directly into a tax-deferred retirement account, or a qualified employer-sponsored retirement plan.

For more information about the tax implications of withdrawing your defined contribution money, obtain a copy of Publication 575, *Pension and Annuity Income*, from the IRS. This publication is available at the IRS Internet site: www.irs.ustreas.gov.

MARKETVIEW

Stocks Finish the Century on a High Note

Equity markets rose during the fourth quarter on both increasing optimism and anticipation of higher corporate profits. The S&P 500 Index recorded an unprecedented fifth consecutive year of double-digit returns. Growth stocks outpaced value stocks, powered by the red-hot technology sector. Indexes of small and mid-sized companies performed well.

U.S. Economy Flourishes

With continued growth in 1999, the U.S. achieved its longest peacetime expansion ever. Third quarter gross domestic product, the total value of the nation's output of goods and services, was finalized at an annual rate of 5.7%. Unemployment remained near record lows at 4.1%. Thanks to productivity enhancements, inflation remained dormant despite steady increases in earnings.

Bond Yields Rose

The byproduct of continued economic strength was rising interest rates. Bond yields increased during the quarter, causing bond prices to fall. The Federal Reserve raised the target fed funds rate to 5.50% in November, its third rate increase in 1999. Yields on U.S. Treasury notes and bonds reached their highest levels in more than two years. The 30-year U.S. Treasury bond yield rose from 5.09% on December 31, 1998, to 6.48% on December 31, 1999. Major bond

benchmarks such as the Lehman Aggregate and the Lehman Government/Corporate Bond Indexes had negative returns for the quarter and year.

All Domestic Stock Indexes Had Positive Returns

The S&P 500 Index, weighted toward larger companies, returned 14.9% in the fourth quarter. The Wilshire 4500 Index, which consists of all U.S. companies except those in the S&P 500 Index, returned 29.1%.

Technology stocks generated a large portion of fourth-quarter gains, as the S&P Technology Index rose 34.5%. Although these gains are impressive, they mask broad weakness. More than half of the stocks in the broad market had negative returns for 1999.

Value and dividend-paying stocks, such as those found in funds with income objectives, continued to lag growth stocks in the fourth quarter. Rising interest rates and oil prices, technologically driven changes, and current investor preferences have put pressure on value stock prices.

International Returns Continue to Rise

International markets provided attractive returns in the fourth quarter, outperforming the S&P 500 Index. General global economic improvement, particularly in Japan, coupled with continued corporate restructuring and mergers contributed to the 16.6% rise of the MSCI EAFE Index in the fourth quarter. Returns to U.S. investors were helped by the dollar weakening versus the yen, but were held back slightly by the dollar strengthening versus the currencies of many developed countries, including the German mark, British pound, and the French franc.

Looking Ahead

During good times like these, it's tempting to overlook the risks inherent in investing and focus exclusively on return. However, it is a mistake to extrapolate past performance into the future. Trends

can change and larger stocks could yield the stage to smaller stocks, value stocks could outperform growth stocks, and technology stocks could underperform the market. Stocks could even decline. The proven long-term strategy is to maintain the discipline of a well-diversified portfolio.