

TRS PLAN 3 REPORT January 2001

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Contribution Rates and IRS Limits

TRS Plan 3 members select a contribution rate from one of six options available (see the *Plan 3 Contribution Rate Brochure* available through your employer, DRS or the ICMA Retirement Corporation Web site at www.icmarc.org/trs). Contributions are deducted from the member's gross salary based on the rate selected.

If you became a TRS Plan 3 member by transferring from TRS Plan 2, you selected your contribution rate at the time of transfer. If you were a new member, or a Plan 3 member changing employers, you had up to 90 days from the date that you began working in an eligible position to select a contribution rate. If you did not select a rate option within the time allowed, the law requires that Option A (5 percent of pay) be assigned automatically. After you select your contribution rate, or have it automatically assigned, you cannot change your contribution rate unless you change employers.

Keep in mind that TRS Plan 3 falls under Internal Revenue Code (IRC) 401(a), and is a mandatory plan. This means that members who transfer or are mandated into the plan must contribute. Since contributions are mandatory, members do not complete a salary deferral agreement as they do for various voluntary contribution plans.

Contributions to Plan 3 reduce a member's taxable income, which may have an impact on IRC 415 contribution limits if the member also participates in a voluntary plan (such as IRC 457 deferred compensation plans, 403(b) tax-sheltered annuities and others). TRS Plan 3 is not subject to the same Internal Revenue Service (IRS) deferral limits that apply to voluntary plans.

Members should contact the IRS, a tax adviser, or a financial planner regarding all questions of federal and state tax

TRS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)¹

AS OF 9/30/2000

	AVERAGE ANNUAL RETURNS			
	3rd Qtr 2000	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	-0.36%	15.33%	11.90%	14.63%

¹The 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 12/31/2000

	4th Qtr 2000	1-Year	3-Year	5-Year
MONEY MARKET FUND	1.7%	6.4%	5.6%	5.6%
WASHINGTON STATE BOND FUND	3.7%	N/A	N/A	N/A
U.S. LARGE STOCK INDEX FUND	-7.8%	-9.3%	12.0%	18.0%
U.S. STOCK MARKET INDEX FUND	-9.0%	-7.9%	11.7%	N/A
U.S. SMALL STOCK INDEX FUND	-6.9%	-3.2%	3.9%	10.0%
INTERNATIONAL STOCK INDEX FUND	-3.1%	-15.3%	9.1%	6.7%
SHORT-HORIZON FUND	0.1%	N/A	N/A	N/A
MID-HORIZON FUND	-2.4%	N/A	N/A	N/A
LONG-HORIZON FUND	-5.6%	N/A	N/A	N/A

The Plan 3 Self-Directed Index and Money Market Funds' inception dates were in May 1997. Investment returns for periods prior to that date were constructed using the underlying 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. Please refer to the *Plan 3 Investment Guide* or the Web site <http://www.icmarc.org/trs/investing> for additional fund information and estimated long-term performance.

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*.

Returns on the TAP Fund cover the period ending September 30, 2000. Returns for the Self-Directed Funds cover the period ending December 31, 2000.

N/A - Not Applicable

implications or deferral limits arising from participation in Plan 3.

Your Beneficiary's Rights Vary Depending on His or Her Relationship to You

Ever wonder how DRS would distribute your retirement account if you become ill or have a fatal accident while you are still actively teaching? Remember, as a TRS Plan 3 member, your retirement account has two separate components: the employer-financed defined benefit and the

defined contribution account where you invest your contributions. Each account handles beneficiary rights in a different manner.

Distribution of the Defined Contribution Account

In the case of the death of an active member, if the named beneficiary is the member's spouse, he or she has the right to take payment in cash or to roll over the defined contribution account into an approved Individual Retirement Account or a qualified employer retirement plan. Beneficiaries

who are not spouses do not have the option to roll over defined contribution funds and must take payment of the funds.

Payment of your Defined Benefit

If a member dies before retiring, the member's surviving spouse or eligible minor children will receive a benefit calculated as if the member had:

- Elected Option 2: Joint and 100 percent Survivorship, and
- Separated from service on the date of death.

If the spouse dies while receiving a survivor's retirement benefit and leaves minor children, the children will continue to receive the benefit. It will be shared equally among the children and paid until they reach the age of majority.

If there is no surviving spouse at the time of the member's death, then the member's minor children shall receive the benefit equally. The benefit will be calculated as if the age of the spouse and the member were the same at the time of the member's death. If there is no surviving spouse or children, no defined benefit will be paid.

Designating a Beneficiary

It is a good idea to keep your beneficiary designation in your TRS records up-to-date. If you marry, divorce or remarry, file a new Beneficiary Designation form, even if your beneficiary remains the same. If you wish to change your beneficiary, simply submit a new Beneficiary Designation form to DRS. You can obtain this form from your employer, DRS, and from the Forms Archive at the DRS Internet Site at <http://www.wa.gov/DRS/forms/fmz-mbr.htm>.

Important Fee Changes

The Washington State Investment Board's (WSIB) adviser fee will be increased from .0102 percent or 1.02 basis points to .0103 percent or 1.03 basis points. The new adviser fee will be effective January 1, 2001. The other Self-Directed investment fees will remain the same. This adviser fee replaces the fee published in the *Plan 3 Investment Guide*, September 2000 edition.

If you have any questions regarding this information, please contact ICMA-RC Customer Services at 1-888-711-8773.

Equity Market Finishes the Year on an Unsteady Note

U.S. stock indexes fell during the fourth quarter amid indications that the economy is slowing. A flurry of corporate earnings warnings, many in once-hot sectors, accelerated the decline. However, index returns were not representative of individual issue performance, as more than 60 percent of S&P 500 Index stocks had positive returns for the quarter. International stocks continued to struggle. Thanks to falling interest rates, bonds were the best-performing asset class for the quarter.

U.S. Economic Growth Is Moderating

The longest economic expansion in U.S. history continued, but at a slower pace as a result of Federal Reserve policy. Gross Domestic Product (GDP), the total value of the nation's output of goods and services, grew at a 2.2 percent annual rate in the third quarter, down from 5.6 percent in the second quarter. While unemployment remained near a record low at 4.0 percent, initial claims for unemployment benefits rose to the highest level in nearly two years. Manufacturing activity contracted for the fifth consecutive month. Higher energy costs put pressure on the Consumer Price Index, but productivity growth and price competition kept overall price increases to 3.4 percent year-over-year.

Bonds Produce Price Gains

Bond yields fell for all Treasury maturities for the quarter, producing price gains for investors. The 30-year U.S. Treasury bond yield, which began the year at 6.48 percent, dropped 0.44 percent during the quarter to end the year at 5.44 percent. Except for the 3-month T-bill, all Treasury yields declined for the year. Major bond benchmarks such as the Lehman Aggregate and the Lehman Government/Credit Bond Indexes had positive returns for the quarter and each returned in excess of 10 percent for the year.

Most Major Stock Indexes Struggle

The S&P 500 Index, weighted toward larger companies, dipped 8.1 percent in the fourth quarter and was down 10.1 percent for the year. Smaller companies, as measured by the Wilshire 4500 Index, fared worse as that Index fell 19.2 percent for the quarter and was down 16.0 percent for the year.

Not all sectors suffered. Those that did were clustered in technology, communication services and equipment, while value-oriented sectors like health care, financials, and utilities had double-digit returns for the year (though they posted smaller gains for the quarter). Returns varied widely by investment style as well. The S&P/BARRA Growth Index disappointed with a 16.8 percent loss for the quarter, but the S&P/BARRA Value Index gained 1.2 percent.

International stocks did not fare any better than their U.S. counterparts, with the MSCI EAFE Index falling 5.0 percent in U.S. dollars for the quarter. The loss was even greater in local currencies, but the dollar weakened against the euro, reducing U.S. investors' losses. Fourth-quarter dollar weakening was not enough to offset the strengthening trend of the previous three quarters; the EAFE Index return in dollar terms was 15.2 percent for the year as a whole.

Looking Ahead

This market has reminded investors that short-term gains can be quickly erased by market gyrations. It's practically impossible to earn returns by chasing short-term trends. As a case in point, all sectors with negative 1999 returns had positive 2000 returns, and the value style of investing rebounded to strongly outperform the growth style of investing in 2000. During volatile times like these, investors should protect their assets with reasoned diversification by issue and sector, and be certain that risk exposures are justified by time horizon and ability to withstand losses.