

Your Distribution Options in Plan 3 Defined Contribution Component

If you are considering separating from service, you may have questions about the flexible distribution options included in the defined contribution component of your Plan 3 account. We've listed a few of the most commonly asked questions below. If you have others, please call us at 800-547-6657 (outside Olympia) or 360-664-7000. You can also find information on our Web site at www.drs.wa.gov.

After I separate from service, am I required to take payment immediately?

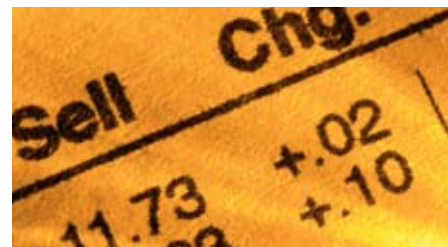
As a member of Plan 3, you are entitled to roll over or take payment of the balance of your defined contribution account when you leave Plan 3 employment. You are not required to withdraw your contributions simply because you terminate employment. Your defined contribution funds are a retirement benefit, and if you do not withdraw your contributions, they will continue to receive investment earnings according to the performance of your chosen investments until they are withdrawn. When you leave employment, you are not required to make a final decision on how or when to receive your benefit payments. The latest date that you must begin receiving benefit payments is April 1 of the calendar year following the year in which you reach age 70½ or when you retire, whichever is later.

What are the payment options?

When you take payment of the funds in your defined contribution account, you may choose from the following options:

- annuities
- rollover to an IRA or eligible qualified retirement plan
- partial payment

(See *Distribution Options*, p. 2)



MARKET COMMENTARY

as of May 31, 2007

The volatility early in the year continued into this three-month period, as investors reacted strongly to developing events. Despite the volatility, most major indexes established record heights as strong merger and acquisition activity, solid global growth, and easing inflationary pressures combined to push stock prices higher. Additionally, corporate earnings growth continued to exceed expectations. Promising recent economic data, however, suggests that the U.S. is in the moderation phase of its recent expansion.

Bonds

Investors took on more risk in the bond market during this period. After high-quality bonds experienced a brief period of popularity early in the year, investors began moving to lower-quality, higher-risk bonds. May proved to be a tough month for most bonds but high yield investors experienced a small jump during the quarter.

Stocks

After seven years of varying bull and bear market environments, the S&P 500 Index finally topped the previous all-time high achieved in March 2000. The S&P 500 Index finished the quarter with

(See *Commentary*, p. 2)

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 6/30/2007

| | 2nd Qtr 2007 | AVERAGE ANNUAL RETURNS | | |
|-----------------------------------|--------------|------------------------|--------|--------|
| | | 1-Year | 3-Year | 5-Year |
| TOTAL ALLOCATION PORTFOLIO | 5.48% | 21.33% | 16.97% | 13.99% |

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 6/30/2007

| | 2nd Qtr 2007 | 1-Year | 3-Year | 5-Year |
|--|--------------|--------|--------|--------|
| MONEY MARKET FUND | 1.30% | 5.35% | 3.85% | 2.78% |
| WASHINGTON STATE BOND FUND | -0.20% | 5.85% | 3.64% | 4.62% |
| SOCIALLY RESPONSIBLE BALANCED FUND* | 3.77% | 10.95% | 6.24% | N/A |
| U.S. LARGE STOCK INDEX FUND | 6.25% | 20.54% | 11.57% | 10.59% |
| U.S. STOCK MARKET INDEX FUND | 5.74% | 19.92% | 12.33% | 11.40% |
| U.S. SMALL STOCK INDEX FUND | 4.44% | 16.24% | 13.29% | 13.67% |
| INTERNATIONAL STOCK INDEX FUND | 6.49% | 26.98% | 22.21% | 16.53% |
| SHORT-HORIZON FUND | 2.01% | 10.37% | 7.22% | 6.87% |
| MID-HORIZON FUND | 3.27% | 14.59% | 10.05% | 9.57% |
| LONG-HORIZON FUND | 4.89% | 18.84% | 12.98% | 11.71% |

*The Socially Responsible Balanced Fund inception date is 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.

(Distribution Options from p. 1)

- partial payment along with scheduled installment payments
- scheduled installment payments
- 100% lump-sum payment

Are there penalties if I withdraw from the defined contribution account?

Under current federal tax law, if you receive payments prior to age 59½, you may be required to pay a 10% tax to the Internal Revenue Service (IRS) in addition to the normal federal tax amount.

For the defined contribution account under Plan 3, you will not be subject to the 10% IRS penalty if you meet one of the following requirements:

- Separate from service during or after the year you reach age 55
- Your funds are rolled over into another eligible retirement account within 60 days of disbursement
- Retire or separate due to disability
- If, after you separate from service, payment is made as equal or almost equal payments over your life or life expectancy, or you, and your beneficiary's lives or life expectancies
- Payment is made to your beneficiary after your death
- Distribution is equal to or less than the deductible medical expenses
- Funds are paid on a federal tax levy
- Payment is made to an alternate payee under a Qualified Domestic Relations Order.

Can I roll over the funds into an IRA or another qualified retirement plan?

Yes. Your funds can be rolled over directly from your Plan 3 account to an IRA or eligible employer retirement plan. If you roll over tax deferred funds directly into an IRA or an eligible employer retirement plan, income taxes are not withheld but continue to be deferred until you take payment.

You can also choose to have the funds paid directly to you and then within 60 days have the funds rolled over into the IRA or eligible employer retirement plan. Please note that the 20% mandatory

tax will be withheld in this situation, and you will need to replace the 20% when you have the funds provided to your IRA or eligible retirement plan. For this reason, it is advisable that you have the funds directly rolled over from the Plan 3 account to the IRA or qualified retirement plan.

You cannot roll over a payment if it is part of a series of equal payments made at least once per year and lasting for your life expectancy, your life expectancy and your beneficiary's life expectancy or for a period of ten years or more.

Can I withdraw from Plan 3 if I am not separated from service?

No. Plan 3 is a defined benefit plan with a defined contribution component. There are no loan or in-service withdrawal provisions.

If I have additional questions, what resources are available?

Contact Investor Services at 888-711-8773 between 5:30 a.m. and 6:00 p.m. PT.

Change in Plan 3 Management Fee

Effective July 1, the Washington State Investment Board's (WSIB) Plan 3 management fee will increase slightly, from 0.0123 percent to 0.0124 percent. This slight fee increase will fund additional professional WSIB staff needed to enhance fund performance in a challenging investment environment.

For more information on Plan 3 fees, consult the Plan 3 Investment Guide. The Guide is available at www.icmarc.org/plan3, or you may obtain a copy by contacting Investor Services at 888-711-8773.

New legislation changes gain sharing

The 2007 Legislature passed a law to end gain sharing after January 1, 2008. One final gain sharing distribution will be made on January 1, 2008. Under the new law, Plan 2 and 3 members of PERS, SERS and TRS who have 30 years of service and are at least age 55 will be able to retire under new lower early retirement

reduction factors. For PERS members, the new factors take effect July 1, 2008. For SERS and TRS members, the new factors take effect September 1, 2008. Beginning July 1, 2007, new members of SERS and TRS will be able to choose either Plan 2 or Plan 3.

If a court of law decides the repeal of gain sharing is invalid, the reductions for early retirement that were in place before passage of the new law will apply. Additionally, if the court decides the repeal of gain sharing is invalid, any new SERS or TRS members hired after that action would no longer have a choice between Plan 2 and Plan 3 and would be mandated into Plan 3.

(Commentary from p. 1)

an exceptional gain on the strength of 8.5% growth in operating earnings of its underlying companies. Though the string of 14 consecutive quarters of double-digit growth came to an end, nearly two-thirds of the companies exceeded earnings forecasts during the first quarter. Large company stocks showed strong performance, outpacing small company stocks. Growth stocks outperformed value in smaller company stocks; however, style preference was essentially non-existent in larger company stocks. Consumer sectors lagged the overall markets as investors grew increasingly concerned about the housing market and the ability of the average American to continue the spending habits of recent years.

International stocks bounced back during the quarter, outperforming their domestic counterparts. The weakening U.S. dollar once again helped bolster international returns. Strong gains in Europe and Asia Pacific were somewhat mitigated by weakness experienced in the Japanese stock market. Emerging Markets reverted back to the upward trend of recent years. These developing markets benefited from strong demand for commodities and growing consumer demand.

The investments available in Plan 3 are not offered by or through the ICMA Retirement Corporation, the VantageTrust, or ICMA-RC Services, LLC.