



Life isn't always simple.
Investing in it can be.

Introducing Retirement Strategy Funds

Message From the Director



We all have many priorities competing for our time. Saving for our future is just one. That is why the Department of Retirement Systems (DRS) has set a goal to simplify the way you invest and monitor your Plan 3, Deferred Compensation Program or Judicial Retirement Account funds. Along with the Washington State Investment Board, DRS is pleased to announce the introduction of new Retirement Strategy Funds to provide a simple, one step option for investing that part of your savings you have with us.

Our new Retirement Strategy Funds will replace the existing Horizon Funds, which will no longer be available after October 3, 2008. Because you are currently invested in one of the Horizon Funds, we are providing you with information that will help you evaluate this new option and how your funds can move to a choice that is right for you.

HOW DO THESE FUNDS MAKE MY LIFE SIMPLER?

The new funds are diversified, automatically rebalance, and adjust your asset mix as you move toward a target date that meets your needs and lifestyle. With one step, you invest in a complete portfolio.

Each Retirement Strategy Fund has a date in its name (such as the 2010 Retirement Strategy) which corresponds to when you expect to begin drawing your money, for example, by retiring or leaving employment. This is your target date. When your target date is far away, your objective is to grow your savings, which means investing in a higher percentage of equities versus bonds. As you approach your target date, you have two objectives: to preserve what you've accumulated and continue to grow your savings. This means reducing the percentage of equities you are invested in and increasing the percentage of fixed income investments. The Retirement Strategy Funds automatically rebalance your investments based on your target date. This brochure explains more of the details.

HOW DOES THIS IMPACT ME?

For your convenience, we will automatically move your Horizon Fund investments into one of the new Retirement Strategy Funds (see the next page for more detail). The fund into which you will be moved will be based on a target date that assumes a retirement age of 65. If you are satisfied with this target date, you do not need to take any action.

If you think another target date better fits your needs, for example age 55, 60, or 70, we will make it easy for you to change your target date after the move. So whether you plan to be in the fund for five years or 50, there is a fund for you. You also have the choice to invest your funds in one of our other investment options.

Investing the savings you hold with us is an important choice. The Retirement Strategy Funds are a simple, one step option that may meet your investing style.

Sincerely,

A handwritten signature in black ink that reads "Sandy Matheson".

Sandy Matheson, Director

New Retirement Strategy Funds

Effective October 2008, Retirement Strategy Funds¹ will be added to the list of investment options available through the Washington State Teachers' Retirement System (TRS) Plan 3, the School Employees' Retirement System (SERS) Plan 3, the Public Employees' Retirement System (PERS) Plan 3, the Deferred Compensation Program (DCP), and the Judicial Retirement Account (JRA). They will replace the Horizon Funds.

Known in the industry as "target date" or "lifecycle" funds, the new investment options:

- Are designed for those who don't have the time or desire to build and monitor their investment portfolio.
- Are provided by the Washington State Investment Board and managed by a team of experienced investment professionals at AllianceBernstein.
- Offer an investment mix that automatically adjusts as you move closer to your target date for retirement or withdrawing your funds. In very general terms, the focus is on capital appreciation early in a career and preservation, along with capital growth, later on.

HOW YOUR HORIZON FUND ACCOUNT BALANCES WILL TRANSITION

In order to facilitate a smooth transition, your Horizon Fund account balance as of October 3, 2008 will be transitioned to the new options through a process called mapping.

When the markets close on Friday, October 3, 2008, your assets in the Horizon Funds will be liquidated and the Horizon Funds will close. At that time, your assets and investment allocations will be mapped to the corresponding Retirement Strategy Fund based on the year you were born and an assumed target date that corresponds to a retirement age of 65. Here's how it will work:

| IF YOU WERE BORN... | YOUR HORIZON FUND BALANCE AND INVESTMENT ALLOCATIONS WILL BE INVESTED IN: |
|-----------------------|---|
| In 1983 or after | 2050 Retirement Strategy |
| Between 1978 and 1982 | 2045 Retirement Strategy |
| Between 1973 and 1977 | 2040 Retirement Strategy |
| Between 1968 and 1972 | 2035 Retirement Strategy |
| Between 1963 and 1967 | 2030 Retirement Strategy |
| Between 1958 and 1962 | 2025 Retirement Strategy |
| Between 1953 and 1957 | 2020 Retirement Strategy |
| Between 1948 and 1952 | 2015 Retirement Strategy |
| Between 1943 and 1947 | 2010 Retirement Strategy |
| Between 1938 and 1942 | 2005 Retirement Strategy |
| In 1937 or before | 2000 Retirement Strategy |

The transfer from the Horizon Fund to the Retirement Strategy Fund is simultaneous so you will never be out of the market. Your assets are fully invested in the Retirement Strategy Fund when the exchange is completed. The new funds will then be available for new deferrals from DCP participants and Plan 3 member contributions.

¹ The Retirement Strategy Funds are a customized product, not a registered investment company, and interests in the funds have not been registered with the Securities and Exchange Commission. Therefore, there is no prospectus for these funds. The funds are only available in the Deferred Compensation Program, Judicial Retirement Account and Plan 3. Additional investment detail can be found online in the program's *Investment Guide*.

If you are satisfied with how your Horizon Fund balances will transition, **you do not need to take any action**. You may, of course, change your investment options at any time, subject to the rules of your plan.

A Simple Way to Invest

Each Retirement Strategy Fund is invested in a mix of equity and bond funds. Funds with target dates furthest in the future have the most aggressive investment mix, focused on growth. They start out invested almost entirely in equities. As the target date for a fund gets closer, and continuing for 15 years past the date, professional fund managers gradually make the adjustment to a more conservative investment mix. That means fewer equities and more bonds.

By the time you reach your target date, and are ready to draw your money, your fund will be focused more on protecting your investment and preserving spending power. This change happens automatically—you don't have to do a thing.

AN INVESTMENT STRATEGY THAT LASTS A LIFETIME

This chart shows how the mix between equities and bonds gradually changes over a lifetime.



*Equities includes stocks and global Real Estate Investment Trust (REITs).

When applying a particular asset allocation model for retirement investing, you should consider your other assets, income, and investments (e.g., equity in a home, IRA investments, savings accounts, and interests in other qualified and non-qualified plans) in addition to this plan.

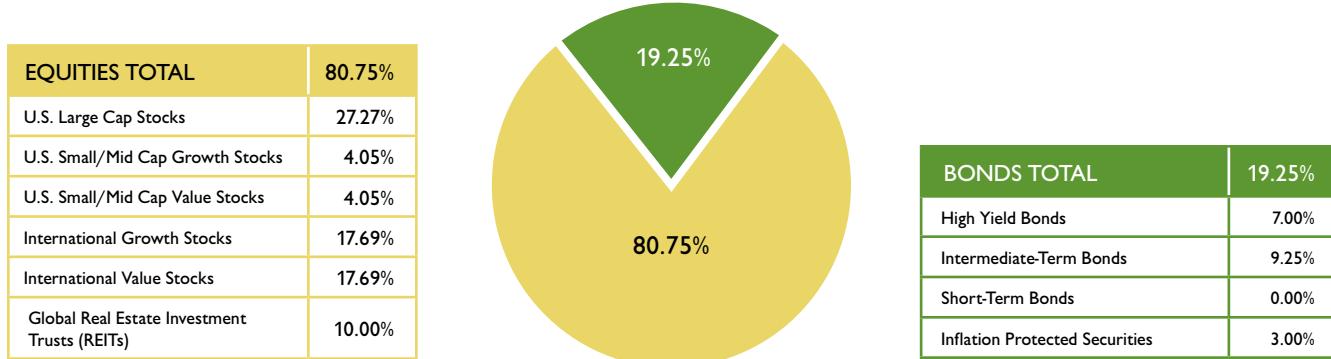
DIVERSIFICATION THAT CHANGES WITH YOUR NEEDS

You've heard about the importance of diversification and how you should avoid "putting all your eggs in one basket." When you choose one of the Retirement Strategy funds, you're spreading your money across different investment options that make up the fund. This means you'll be less likely to miss out on opportunities in any particular investment category.²

² While diversification and shifting to a more conservative investment mix over time helps to manage risk, it does not guarantee earnings growth. There is a potential to lose money in any investment program.

MULTIPLE INVESTMENTS IN A SINGLE STRATEGY

Here's an example of the diversified investment mix of the 2020 Retirement Strategy Fund as of October 3, 2008.



ASSET ALLOCATION AND FEES FOR THE RETIREMENT STRATEGY FUNDS

(Projected as of October 3, 2008.)

Each Retirement Strategy Fund is built with specific target date objectives. This chart provides both the component fund breakdown and the fees associated with each fund as of October 3, 2008. The fund's asset allocation gradually changes over time.

| Target Date | U.S. Large Cap Stocks | U.S. Small/Mid Cap Growth Stocks | U.S. Small/Mid Cap Value Stocks | Intl. Growth Stocks | Intl. Value Stocks | Global REIT | High Yield Bonds | Int.-Term Bonds | Short-Term Bonds | Inflation Protected Securities | Fund Mgmt. Fee* |
|-------------|-----------------------|----------------------------------|---------------------------------|---------------------|--------------------|-------------|------------------|-----------------|------------------|--------------------------------|-----------------|
| 2050 | 34.28% | 5.36% | 5.36% | 22.50% | 22.50% | 5.00% | 0.00% | 5.00% | 0.00% | 0.00% | 0.40% |
| 2045 | 34.28% | 5.36% | 5.36% | 22.50% | 22.50% | 5.00% | 0.00% | 5.00% | 0.00% | 0.00% | 0.40% |
| 2040 | 34.28% | 5.36% | 5.36% | 22.50% | 22.50% | 5.00% | 0.00% | 5.00% | 0.00% | 0.00% | 0.40% |
| 2035 | 34.28% | 5.36% | 5.36% | 22.50% | 22.50% | 5.00% | 0.00% | 5.00% | 0.00% | 0.00% | 0.40% |
| 2030 | 32.45% | 4.96% | 4.96% | 21.19% | 21.19% | 6.50% | 3.75% | 5.00% | 0.00% | 0.00% | 0.41% |
| 2025 | 30.01% | 4.43% | 4.43% | 19.44% | 19.44% | 9.25% | 6.50% | 6.50% | 0.00% | 0.00% | 0.41% |
| 2020 | 27.27% | 4.05% | 4.05% | 17.69% | 17.69% | 10.00% | 7.00% | 9.25% | 0.00% | 3.00% | 0.40% |
| 2015 | 24.81% | 3.53% | 3.53% | 15.94% | 15.94% | 10.00% | 7.00% | 11.50% | 0.00% | 7.75% | 0.38% |
| 2010 | 22.65% | 2.86% | 2.86% | 14.19% | 14.19% | 10.00% | 7.00% | 13.50% | 0.00% | 12.75% | 0.36% |
| 2005 | 19.44% | 2.15% | 2.15% | 11.88% | 11.88% | 10.00% | 5.50% | 15.50% | 6.75% | 14.75% | 0.33% |
| 2000 | 15.59% | 1.57% | 1.57% | 9.38% | 9.38% | 10.00% | 3.13% | 18.63% | 15.75% | 15.00% | 0.31% |

*The Fund Management Fee includes estimated operating expenses for the funds (as of October 3, 2008) and may change. The Fund Management Fee does not include:

- The Deferred Compensation Program's Administrative fee of 0.1300% (as of July 1, 2008) or
- Plan 3's Record-keeping fee of 0.1100% and WSIB Expenses of 0.0154% (as of July 1, 2008).

Additional fee data is available online and in your *Investment Guide*.

Questions & Answers

WHY IS THE WASHINGTON STATE INVESTMENT BOARD (WSIB) CHANGING THE INVESTMENT OFFERINGS?

The WSIB's primary objectives were to:

- In one simple step, provide a product that is broadly diversified for people who may not have the time or desire to build and monitor their own investment portfolio.
- Offer an investment option that is dynamic, professionally managed and gradually shifts over time as participants approach their target retirement age.

WHEN WILL MY HORIZON FUND ASSETS BE TRANSFERRED TO THE NEW FUND?

If you are invested in a Horizon Fund as of the close of the markets on Friday, October 3, 2008, your Horizon Fund assets will be transferred into a new Retirement Strategy Fund the evening of October 3, 2008.

WHEN WILL PERFORMANCE DATA BE AVAILABLE FOR THESE NEW FUNDS?

These funds are new, and created specifically for Washington's plans, so past performance is not available. For comparison purposes only, we will provide hypothetical historical performance for the fund's custom benchmarks. The month of November will be the first full month of reported performance, and it will be available online in December 2008.

WILL THERE BE A BLACKOUT PERIOD?

No, there will not be a blackout period for implementing the new funds. The transition to the Retirement Strategy Funds will occur the evening of October 3, 2008. The morning of October 4, 2008, you will be able to access your account balance online and see the completed transition to the age appropriate Retirement Strategy Fund.

I HAVE MONEY IN A HORIZON FUND, BUT I DON'T WANT YOU TO AUTOMATICALLY MOVE IT TO A RETIREMENT STRATEGY FUND. WHAT SHOULD I DO?

If you don't want your balances to transfer to the new funds, you have until the time the market closes on October 3, 2008 to choose another investment option. You can initiate a fund transfer online or by phone. Contact information is available on the back cover of this *Transition Guide*.

If you decide you want to change your investment option, but don't do so before October 3, you can always make that change after October 3, subject to the rules of your plan (find more information on "market timing" in your *Investment Guide*).

WHO MANAGES THE RETIREMENT STRATEGY FUNDS?

The Retirement Strategy Funds are provided by the WSIB and managed by AllianceBernstein. AllianceBernstein's senior portfolio staff are solely responsible for managing the asset allocation of the funds.



WHAT ASSET CLASSES MAKE UP THE RETIREMENT STRATEGY FUNDS?

Each retirement fund is well diversified, investing in a mix of equity and bond funds. More investment detail is 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.

They are designed for individuals who do not want to take an active role in rebalancing their retirement portfolio. If you would like to invest in more than one fund, you might be a person who wants to become involved in building and monitoring your retirement portfolio. If so, we encourage you to look at the complete spectrum of investment options in the online *Investment Guide*, available at www.drs.wa.gov.

WHERE CAN I LEARN MORE?

Visit our Web site at www.drs.wa.gov to learn more about the Retirement Strategy Funds.

If you are a DCP participant or JRA member, call: 1-888-327-5596

If you are a Plan 3 member, call: 1-888-711-8773



Retirement Strategy Funds Transition Guide 2008

Teachers' Retirement System (TRS) Plan 3

School Employees' Retirement System (SERS) Plan 3

Public Employees' Retirement System (PERS) Plan 3

Deferred Compensation Program (DCP)

Judicial Retirement Account (JRA)

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