DCP

SECOND QUARTER
2009

Washington State Department of Retirement Systems
DEFERRED COMPENSATION PROGRAM

Update

In this issue

Go green, go paperless

You bank online and receive your bills by e-mail, so why not get your DCP quarterly statement online?

Switching to online statement delivery takes less than 30 seconds. It's a fast, convenient, and secure way to reduce paper.

- Log in to your DCP account at **www.drs.wa.gov/dcp**.
- Select the **Deferred Compensation Program Details** link.
- Click on the **Statement** link and then **Statement Prefs**.
- Select **Online only**, **discontinue paper statement** and click **Submit**.

Now you can click on the **Statement** link to generate a statement. You can view it online or save it to your computer.

After you review your funds' performance, check out the other resources available to you online. For the DCP Investment Guide and current and past editions of the **DCP Update** quarterly newsletter, select **Publications** in the **Plan Information** section. Make a note on your calendar to read the **DCP Update** and review your performance each quarter.

WSIB monitors DCP funds for quality

The Washington State Investment Board (WSIB) monitors all investment firms that provide daily-traded mutual funds and commingled funds to Deferred Compensation Program (DCP) participants.

We're occasionally asked what type of ongoing monitoring occurs to ensure the funds offered through DCP continue to be quality investments for your retirement savings. In its fiduciary role, WSIB regularly monitors each fund manager's organization, team, mandate, philosophy, process, performance, portfolio holdings, market environment, trading, client service, operations, and regulatory compliance.

Were an investment fund manager to fall short of expectations, WSIB staff would act quickly to determine the reasons for the shortfall and assess its seriousness. Factors taken into consideration would include the magnitude of the issue, time period, market conditions, and whether the manager recognizes the issue and is taking positive steps toward resolving it.

WSIB has many sources of information available for monitoring, including:

1. Face-to-face portfolio review meetings
2. On-site due diligence meetings
3. Monthly and quarterly reports, performance attribution, and analysis from the managers
4. Monthly reports from WSIB's custodian on performance and compliance
5. Access to daily holdings and daily performance for managers
6. Quarterly trade execution analysis reports
7. Media news of significance to markets and/or the investment management firms
8. Phone calls and e-mails with the managers

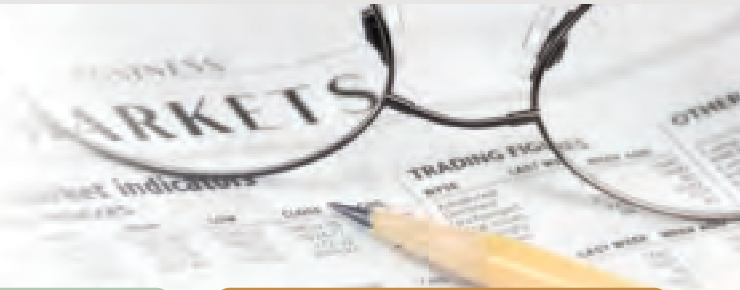
In the event of a serious question about a manager's ability to perform, WSIB staff discuss their concerns with the Chief Investment Officer and the Department of Retirement Systems. Any termination recommendation would be forwarded to WSIB's internal Investment Committee for consideration before going to the Public Markets Committee and then the full Board.

These ongoing activities, on behalf of DCP participants, ensure high quality investment options.

Administrative rate change

Effective July 1, 2009, the DCP administrative rate changed from 0.13% to 0.17%, which translates to an increase of $2.50 per quarter on an account balance of $25,000. DCP is operated by three organizations: DRS, WSIB, and ING, the DCP record keeper. All three work hard to serve you effectively and help you save for your retirement.

Your best defense: investing during a recession



Today's markets can test an investor's patience. Three steps can help you stay confident while investing for your retirement.

1 Don't miss the potential rebound.

Historically, stocks have recovered from short-term declines. Despite 2008's 37% decrease, Standard & Poor's 500 Index[1] posted a 10% annualized gain during the last 25 years through December 31, 2008.[2]

In fact, short-term declines aren't the biggest risks to investors — rather, it's inflation. If your investments grow at a rate that is less than the rate of inflation, you can lose purchasing power. For your portfolio to potentially grow, your returns must exceed the inflation rate. Stocks' returns have outpaced inflation by an average 6.2% a year since 1945.[2] So try to think of any short-term decline as an opportunity to buy investments at low prices.

2 Maximize your savings.

Uncertainty in a recession may lead some individuals to cut back on saving and investing and wait for good times to return. However, this reaction ignores the reality that it takes years of steady saving and careful investing to accumulate assets to generate enough after-tax, after-inflation income for a long, comfortable retirement.

Continue to save and invest for the long term. If you can afford to, consider increasing the amount you set aside each year or whenever you get a raise.

3 Choose the right mix.

Diversifying your investments can help you create a portfolio that may be better able to withstand market fluctuations, although it does not assure a profit or protect against loss in declining markets.

The way you invest depends on your age, objectives, and comfort with investment risk. For instance, people close to retirement often seek a lower-risk mix of investments but still hold a smaller allocation of stock investments for potential growth to help their savings last for decades.

1 The S&P 500 Index tracks the stocks of 500 widely held U.S. corporations, representing more than 70% of the value of the U.S. stock market. Investors cannot directly purchase or invest in an index.

2 Ibbotson Associates, a Morningstar company. Data as of February 2009.

Out from under

Are you swamped with credit card debt? There is no investment strategy anywhere that pays off as well — and with less risk — as eliminating high-interest debt.

Reducing high-interest credit card balances as quickly as possible is one of the wisest things you can do under any market condition. What you save on monthly credit card payments frees up money for other uses, such as adding to your retirement plan accounts.

Prioritize your payments

Write down the balance you owe, the interest rate you pay, and your credit limit on each credit card. Then create a repayment schedule. Concentrate on paying off the card that charges the highest rate first. Focus, too, on getting your outstanding balance on each card well below the credit limit to lessen your vulnerability to over-the-limit fees. Note: Never miss a payment. If you do, your interest rate may be raised on that card and others after credit card companies review your credit history.

Look for a lower rate

Consider transferring your balances to a lower-rate card. You can do side-by-side comparisons of other cards on ***www.cardratings.com***, ***www.bankrate.com***, and ***www.creditcards.com***. Be sure to check the transfer fees. If you find a low advertised rate, note how long the low rate lasts and make sure you qualify. Sometimes, it will depend on your credit rating.

Turn over a new leaf

Limit use of credit cards while paying off your debt. If you can, consider making all purchases with cash. Experts say no one needs more than two or three credit cards. But keep your oldest card: this can help your credit score by showing how long you've had credit. When you're debt-free, save for the long term by increasing the amount you contribute to your retirement plan accounts.

Go green and keep more green

Going green to help the environment makes life better for you and future generations. And cutting expenses can produce extra cash that could go toward your retirement savings.

Here are some simple things you can do to save money and the environment.

- Set your thermostat a few degrees higher to save on cooling costs this summer.
- Replace older incandescent bulbs with compact fluorescent light bulbs (CFLs).
- Unplug appliances and shut off lights when you're not using them.
- Wash clothes in cold water and hang laundry to dry outside to lower energy costs.
- Take shorter showers to reduce water use and lower your water and heating bills.
- Choose native plants that can tolerate drought for your garden.
- Use cell phones and computers as long as possible, then recycle or donate electronics responsibly to help reduce hazardous waste.

- Walk or ride a bike to save on gas and parking costs while doing errands.
- Tune-up your car and change the oil regularly to increase gas mileage.
- Carry a reusable water bottle instead of paying for bottled water that generates container waste.
- Borrow from libraries or friends instead of buying books and movies.
- If your bank or retirement plans offer electronic account statements, sign up for online delivery instead of mailed paper copies.

What's in the economic stimulus plan for retirees

The government's economic stimulus plan includes changes that aim to put more money in people's pockets to spend and help revive the nation's economy.

Retirement income. If you're a recipient of Social Security, Supplemental Security Income (SSI), Railroad Retirement, or Veterans Administration benefits, you collected a one-time payment of $250 in May or June. Retired government employees not eligible for Social Security benefits will get a $250 credit when they file their 2009 tax returns.

Withholding rules. The Internal Revenue Service (IRS) issued new tax tables that lowered the tax withholding rates for retirees and employees starting April 1.

If you get income on a regular basis from your retirement accounts or annuity, you are now seeing a little extra with each payment because less income tax has been withheld.

Of course, if no taxes are withheld, you won't see any difference in your payments. The change does not apply to lump sum payments.

No retiree tax credit. The stimulus plan included a new tax credit on earned income such as wages reported on Form W-2. This credit helps employees offset the impact of lower withholding on their 2009 and 2010 tax bills. However, retirees who receive retirement income reported on Form 1099-R are not eligible for this credit.

Impact on tax return. Getting more with each retirement plan or annuity check throughout the year might affect your tax situation next April. If you typically receive a refund, this could lower the amount of the refund. Or if you normally pay taxes, you could owe more, depending on your circumstances.

If you want to avoid any tax surprises, you may want to review your situation. Ideally, you want your withholding to cover your tax liability. For a quick analysis, you can use the new withholding calculator for retirees at **www.irs.gov**.

You don't have to do anything. However, if you wish, you may adjust the amount of taxes withheld from your retirement income. Ask the provider that sends your scheduled payments how to file a new Form W-4P, Withholding Certificate for Pension or Annuity Payments.

Since tax issues can be complex, consult your tax or financial adviser before changing your withholding.

Test your knowledge of investing in a bear market

Should I keep saving for retirement even though I have experienced losses?

Yes. One of the best ways to replenish your retirement assets is to boost your savings efforts. Continuing to save — and increasing your contributions to your retirement accounts — provides a number of important benefits that can help keep you on track for retirement. By purchasing stocks when prices are lower during a bear market, you are potentially positioning yourself for strong gains when the market recovers.

Should I pull my money out of stocks and invest more conservatively until the market recovers?

Probably not, if you are still comfortable with your long-term asset allocation and personal risk assessment. It is your personal decision. However, if you pull out of the market, you're likely to miss the beginning of its eventual recovery. Historically, stocks have produced some of their strongest returns as they rebounded from their low points. Missing the rebound would reduce your long-term returns.

Research by Dalbar, Inc., found that investors' tendency to jump out of the market after declines caused their returns to lag the market dramatically. Dalbar discovered that the average investor earned an annualized return of only 4.48% during the 20 years between 1988 and 2007, compared with an 11.81% return for the S&P 500.[1] The lower return came as a result of moving in and out of stocks at the wrong times, missing the best days of the recoveries.

What does history tell us about market downturns and recoveries?

Stocks historically begin recovering before a recession ends.[2] To avoid missing the eventual rebound, you may want to be patient. Consider the stock market's five worst individual years between 1926 and 2007: 1930, 1931, 1937, 1974, and 2002. The S&P 500's average cumulative loss for those years was 30.4%. By contrast, the index scored an average cumulative return of 72.8% for the five-year periods that followed each of the down years.[3]

[1] *Dalbar, Inc., Quantitative Analysis of Investor Behavior 2008.*

[2] *"Does Sector Rotation Signal Recession?" Standard & Poor's, November 26, 2007.*

[3] *Ibbotson Associates, a division of Morningstar, Inc. Stock market returns represented by the performance of the S&P 500.*

DCP

Plan Information Line: (888) 327-5596

Plan Web site: www.drs.wa.gov/dcp

DRS Web site: www.drs.wa.gov

quarterly calendar

The New York Stock Exchange is closed:

- **Monday, September 7, 2009**

Transactions made on this day will be processed the following business day.

This newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact their legal, tax, or investment advisers.