DCP

FOURTH QUARTER
2009

Washington State Department of Retirement Systems
DEFERRED COMPENSATION PROGRAM

Update

In this issue

Introducing the 2055 Retirement Strategy Fund

The 2055 Retirement Strategy Fund became available for participant investments on January 4, 2010.

The introduction of the 2055 Retirement Strategy Fund comes a little more than one year after One-Step Investing was added to the DCP investment lineup. Each Retirement Strategy Fund has a diversified mix of equities and bonds that automatically adjusts and rebalances as you move toward the day when you expect to begin drawing your money. The 2055 Retirement Strategy Fund addresses the needs of those who were born in 1988 or after.

The New Year is also a good time to assess whether any recent career or life plans mean you need to review your current retirement strategy. If you've experienced significant changes, or your target date for retirement has changed, and you're currently investing in a Retirement Strategy Fund, you may wish to consider moving to a new Retirement Strategy fund.

More information about the 2055 Retirement Strategy Fund is available on the DRS Web site at **www.drs.wa.gov**. Prior to making an investment decision, you should carefully read and review all fund information.

1099 statements

On February 2, 2010, you can view and print duplicates of your 2009 DCP tax forms by logging in to your account and selecting ***My Correspondence and Records*** at the top of the screen. Tax forms will be postmarked on or before Monday, February 1, 2010.

Has your address changed?

Please be sure to keep us updated if your address changes. This will keep your 1099s and retirement news from being delayed in reaching you. Call **(888) 327-5596** and select option 2.

No changes to federal limits in 2010

The IRS has announced that the maximum amount you are allowed to defer from your paycheck per year will not change in 2010. The limit will remain $16,500 ($1,375 a month).

The limits to catch-up contributions were also left unchanged. If you're at least age 50 during 2010, you can defer up to $22,000 a year ($1,833 a month). And if you're within three years of normal retirement age, you may be allowed to defer up to $33,000 a year ($2,750 a month). To take advantage of either of these provisions, please call the DCP Information Line.

Who's your beneficiary?

It's important for you to review your beneficiary information from time to time. To view this information online:

- Log in to your account and select *Deferred Compensation Program Details*
- Select *Beneficiary* information from the *Personal Information* drop down menu

You can now review your beneficiaries, both primary and contingent (if applicable). If you want to change your beneficiary information:

- Go to *Forms* and choose *Beneficiary Designation form*
- Send the completed form to DCP, PO Box 40931, Olympia, WA 98504-0931

Upon receipt, we will update your beneficiary information for DCP.

Lessons learned from 2009: investing for retirement now

Our economy is still in the midst of major change. Painful as the economic events of the last two years were, they taught some lessons that apply to investing for retirement.

Save more

Until recently, Americans were spenders, not savers. Times have changed. The savings rate among consumers was 3.7 percent toward the end of 2009, up from just 0.2 percent in early 2008.[1]

One way to save more is to live below your means in the New Year. Try to save 10 – 15 percent of your income for retirement. Saving more this year may help you make up for some of the recent decline in the value of your retirement accounts.

It's important to get into the habit of saving and investing for retirement. If you stop whenever the stock market takes a dip, you risk spending the money instead of accumulating assets for retirement on a consistent basis.

Be realistic about risk

The market always moves in cycles. Whether a cycle is up or down, no one knows how extreme each cycle will be or how long it will last.

When the market went down sharply in 2008, so did the value of portfolios worldwide. In reaction, many investors took extreme measures. Some moved most or all of their retirement assets into a money market fund, stable value fund, or other cash equivalent investment. They now face another risk: if returns don't keep up with inflation, they could run out of money during retirement.

Others saw the market rebound in 2009 and tried to make up for lost ground. They invested in aggressive growth stock funds, aiming to pump up their returns but potentially risking further losses.

All investing involves some level of risk. However, diversifying your investments among a mix of stock, bond, and cash equivalent funds may help you manage risk in your retirement portfolio. You should have an asset allocation strategy that's appropriate for your age, the amount of time left before you expect to retire, and the level of risk you can tolerate.

Make a plan to keep investing

Many analysts forecast lower annual investment returns for the near future. If that happens, you may need to update your retirement planning.

Revisit your estimates for how much retirement income you will need, how much you can reasonably save, and how much your money needs to grow. Then review the investment choices available to you.

You can be more effective in investing for your retirement if you understand what to expect from different types of investments, including their potential returns and risks. Traditionally, investors have looked to stocks for long-term growth, bonds for current income, and cash for short-term protection of assets. Depending on your plan, you might decide to adjust your investment mix to take on more risk, or increase the amount you are saving for retirement, or invest for a longer period of time.

Having a plan that you monitor regularly can help you stay on track toward your retirement objectives, no matter what the market is doing.

[1] *Money magazine, December 2009, "Your Savings and Credit: The Outlook," page 78*

Test your knowledge: economic recovery

At the end of 2009, the U.S. economy showed signs of righting itself and growing again. Take this quiz to gauge what previous recessions might predict about the shape of things to come.

1 Recoveries in the stock market typically tend to begin:

a. before the economy starts to recover.

b. only after the economy is clearly out of recession.

c. about the same time as the recession ends.

2 The Great Depression was a perfect example of this shape of recession followed by recovery:

a. U

b. V

c. W

3 When the stock market is depressed, your best strategy is to:

a. shift your money from stock and bond funds into cash.

b. stick with your chosen asset allocation despite the bear market.

c. hold off on making new investments until you are certain the new bull market is here to stay.

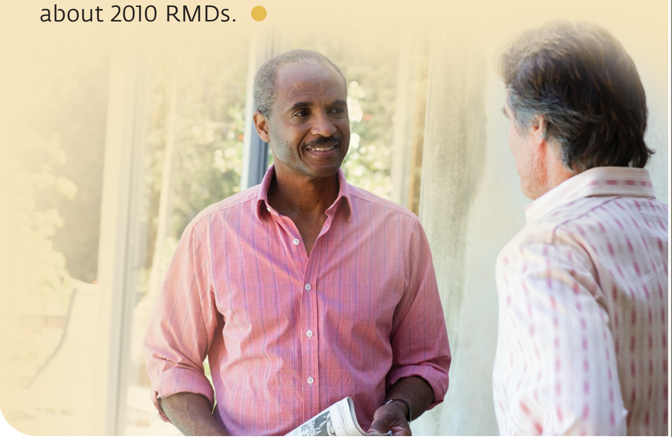
retiree corner

Required Minimum Distributions in 2010

Tax laws require you to begin annual withdrawals known as Required Minimum Distributions (RMDs) from your retirement accounts in the year you reach 70½, or in the year you retire, whichever is later.

The Worker, Retiree, and Employer Recovery Act of 2008 waived the requirement for the 2009 RMD due to the economic downturn. This meant that most participants and beneficiaries who would otherwise have been required to take minimum distributions for 2009 from retirement accounts did not have to withdraw any amount last year. Since the Act did not waive the requirement for 2010, RMDs are expected to resume this year.

Consult with your legal or tax adviser for guidance about 2010 RMDs.

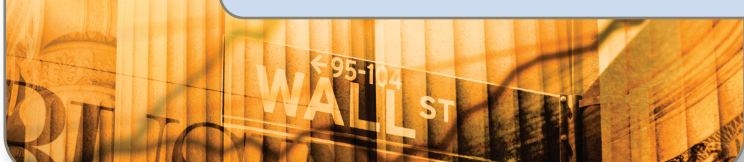


Answers

1 ***a.*** Based on past recessions, the stock market tends to recover three to six months on average before the recession ends.[1,2] That is why the market, measured using the performance of the Standard & Poor's 500 Index, is one of the 10 leading indicators that are supposed to help identify turning points in the economy.

2 ***c.*** The Depression of the 1930s was not one but several events. First came a recession that lasted from August 1929 to March 1933. That was followed by a recovery that lasted until May 1937. Next came a second recession that lasted until June 1938. The second upward leg of the W was a recovery that began midway through 1938 and lasted until early in 1945.[2]

3 ***b.*** All recessions are certain to end some day. On the other hand, the need to save for retirement and keep your retirement savings growing faster than inflation is a lifelong constant. So maintain your long-term investment strategy through market fluctuations. Investing in the stock market when stock prices are depressed means potentially valuable assets are available at what are likely to be bargain prices.

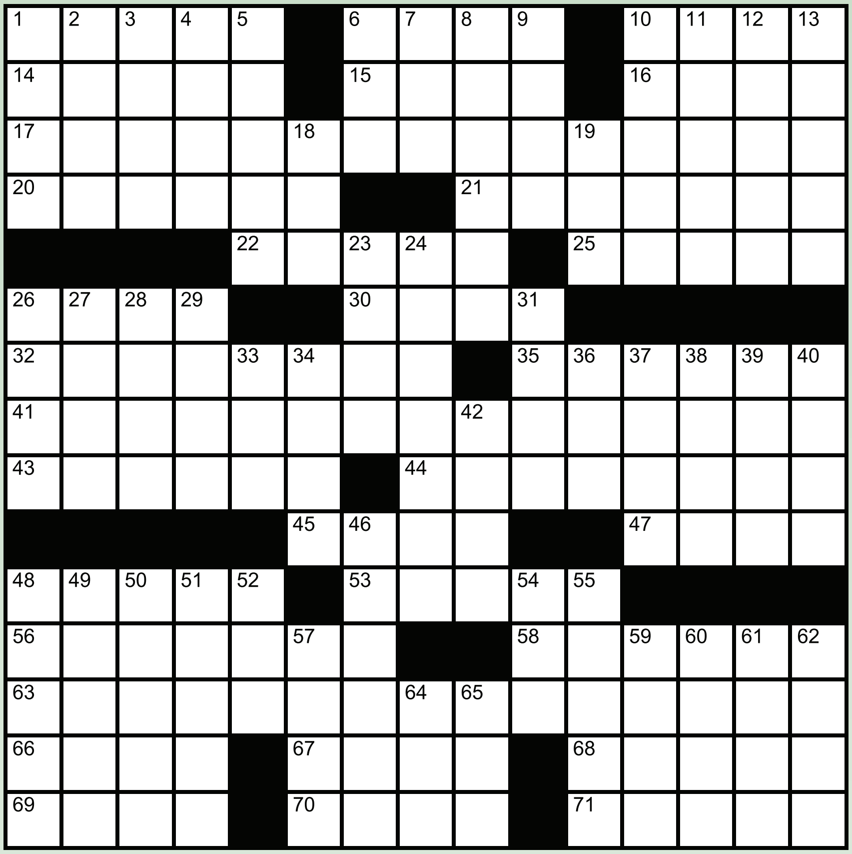


[1] *InvesTech, March 13, 2009.*

[2] *National Bureau of Economic Research, 2009.*

New Year's resolutions

Try solving this puzzle after reading ***Lessons learned from 2009: investing for retirement now*** on Page 2. The answers to 17-, 41-, and 63- Across may belong on your to-do list for 2010.



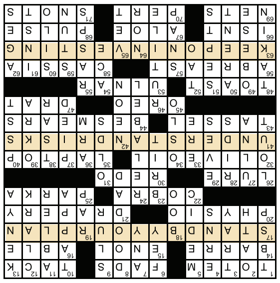
ACROSS

1. ___ pole
6. In things
10. Approach
14. Wilkes-___, Pa.
15. Carbon compound
16. ___-bodied
17. A twist on a Tammy Wynette refrain? (4 words)
20. Physical therapist, slang
21. Window curtains
22. Army attack helicopter
25. Winter wear
26. Artificial bait
30. Change
32. Salad dressing (2 words)
35. Portable computer
41. Get real about volatility (2 words)
43. Mortarboard attachment
44. Spreads
45. Sundae topper, perhaps
47. "Dang!"
48. A goner
53. Of an arm bone
56. Au courant
58. Medicinal shrub
63. A twist on a 1968 R. Crumb comic? (3 words)
66. "___ It Romantic?"
67. Skin cream ingredient
68. Beat
69. Brings home
70. Chipper
71. Annoying people

DOWN

1. Cookbook abbr.
2. "@#$%!," e.g.
3. Cafeteria carrier
4. Coastal raptors
5. "M*A*S*H" extra
6. Effeminate
7. "___ calls?"
8. Ornament
9. Aspersion
10. Mulberry bark
11. Less inept
12. University in Worcester, MA
13. Lake Turkana locale
18. Disapproving noise
19. 50 Cent piece
23. Native of Great Britain
24. Apply new name
26. Boor
27. Arm bone
28. Clears
29. Times to call, in classifieds
31. Cutlass, e.g.
33. "... ___ he drove out of sight"
34. Christiania, now
36. Branch
37. ___ Piper
38. Boris Godunov, for one
39. Creole vegetable
40. "Check this out!"
42. Advertising sign
46. A mineral
48. Himalayan goat
49. Corpulent
50. "You ___ kidding!"
51. School mos.
52. Chinese "way"
54. Trick taker, often
55. Irritates
57. Become unhinged
59. Bowl over
60. Fodder holder
61. Part of M.I.T.
62. Long, long time
64. "___ any drop to drink": Coleridge
65. Check for accuracy

Solution



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quarterly calendar

The New York Stock Exchange is closed:

- **Monday, February 15, 2010**
- **Friday, April 2, 2010**

Transactions made on these days will be processed the following business day.

Plan Information Line: (888) 327-5596

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

DRS Web site: www.drs.wa.gov

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