MANAGING THE THRIFT SAVINGS PLAN TO THRIVE

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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MANAGING THE THRIFT SAVINGS PLAN TO THRIVE

TUESDAY, NOVEMBER 3, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:06 p.m., in room 2154, Rayburn House Office Building, Hon. Stephen F. Lynch (chairman of the subcommittee) presiding.

Present: Representatives Lynch, Cummings, Connolly, Chaffetz, Bilbray, and Cao.

Staff present: William Miles, staff director; Aisha Elkheshin, clerk/legislative assistant; Jill Crissman, professional staff; Dan Zeidman, deputy clerk/legislative assistant; Adam Fromm, minority chief clerk and Member liaison; Howard Denis, minority senior counsel; and Alex Cooper, minority professional staff member.

Mr. LYNCH. The subcommittee on the Federal Workforce, Postal Service, and the District of Columbia hearing will now come to order. I understand we have many things going on on the floor today, and I think the ranking member, Mr. Chaffetz, is there now, and we are also expecting some Members to come over, so we will have to do the best we can. And in the event that Members are not present, we will allow them in the record to submit testimony at a later time.

I do want to welcome the Members who are here in the hearing, witnesses, all those in attendance. The purpose of this hearing is to examine a host of issues confronting the Federal Retirement Thrift Investment Board as it upgrades the TSP, the Thrift Savings Plan, infrastructure and security capabilities in response to multiple legislative initiatives, regulatory proposals and a changed financial landscape.

The Chair, ranking member and subcommittee members will each have 5 minutes to make opening statements, and all Members will have 3 days within which to add statements to the record and any other incidental documents.

Ladies and gentlemen, despite recent signs of economic recovery, the past year has been a fairly tumultuous year in the financial world, which is why I have called today's hearing to discuss and assess the status of the Thrift Savings Plan. Millions of Americans have lost a significant portion of their 401(k) retirement savings during the latest market downturn, and the TSP, which is basically our 401(k) of the Federal community has not been immune, as many Federal employee TSP accounts demonstrate. They have also been significantly diminished in size. Given the absolutely integral role the TSP plays in determining the future retirement income of FERS employees, I feel it is critically important that the subcommittee conduct routine oversight of this aspect of the Federal Employees Retirement System.

Therefore, today's hearing is intended to compare the TSP's performance against private sector plans, as well as to discuss whether Federal employees, annuitants and survivors have been given the right plan and the proper tools to build an adequate retirement. Additionally, the recent enactment of the tobacco bill, H.R. 1256, included several major TSP-related provisions, which I am proud to highlight were also included in a bill I introduced, H.R. 1263, such as instituting both auto-enrollment and immediate agency contributions as well as creating a Roth 401(k) option and authorizing a mutual fund window. These recent changes deserve our close attention, especially during the critical developmental and implementation stages, which again point to the relevance of today's hearing.

I would also like to note the need for further debate over the addition of a mutual fund window feature for the TSP. As this option is being pondered, I believe it is important that we all have some level of understanding about the potential impact such changes could have on raising costs and administrative fees while at the same time giving fair consideration to the need to provide TSP participants with adequate investment options.

Today's hearing will also provide us a chance to hear from the board about the upcoming roll out of the new TSP Web site and its recent $18 million capital investment. Further, today's hearing will provide employees' representative groups opportunities to share suggested regulatory and or legislative proposals. It is my hope that the testimony feedback we receive today will provide the committee with precise guidance and direction. Again, I thank each of you for being with us this afternoon, and I look forward to your participation. This concludes my opening statement.

And I will now yield to my friend and colleague, Mr. Chaffetz, for his opening statement.

[The prepared statement of Hon. Stephen F. Lynch follows:]

STATEMENT OF CHAIRMAN STEPHEN F. LYNCH

SUBCOMMITTEE ON FEDERAL WORKFORCE AND POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA HEARING ON

"Managing the Thrift Savings Plan to Thrive."

Tuesday, November 3rd, 2009

Ladies and gentlemen, despite recent signs of economic recovery, the past year has been a pretty tumultuous year in the financial world, which is why I have called today's hearing to discuss and assess the status of the Thrift Savings Plan (the TSP). Millions of Americans having lost a significant portion of their 401(k) retirement savings during the latest market downturn and the TSP, which is basically the 401(k) of the federal community, has not been immune, as many federal employees' TSP accounts have also been significantly diminished in size.

Given the absolutely integral role the TSP plays in determining the future retirement income of FERS employees, I feel it is critically important that Subcommittee conduct routine oversight of this aspect of the federal employees' retirement system. Therefore, today's hearing is intended to compare the TSP's performance against private sector plans, as well as to discuss whether federal employees, annuitants, and survivors have been given the right plan and the proper tools to build an adequate retirement.

Additionally, the recent enactment of the tobacco bill, H.R. 1256 included several major TSP related provisions-- which I am proud to highlight were also included in a bill I introduced, H.R. 1263--- such as instituting both auto-enrollment and immediate agency contributions, as well as creating a Roth 401(k) option and authorizing a mutual fund window. These recent changes deserve our close attention, especially during the critical developmental and implementation stages, which again point to the relevance of today's Hearing.

I would also like to note the need for further debate over the addition of a mutual fund window feature for the TSP. As this option is being pondered, I believe it is important that we all have some level of understanding about the potential impact such changes could have on raising costs and administrative fees, while at the same time giving fair consideration to the need to provide TSP participants with adequate investment options.

Today's hearing will also provide us the chance to hear from the Board about the upcoming roll-out of the new TSP website and its recent $18 million capital investment. Further, today's hearing will provide employee representative groups with the opportunity to share suggested regulatory and/or legislative proposals. It is my hope that the testimony and feedback we receive from today's witnesses will provide the Subcommittee with precise guidance and direction. Again, I thank each of you for being with us this afternoon, and I look forward to your participation.

Mr. CHAFFETZ. Thank you, Mr. Chairman.

As a fan of "just in time," I have to tell you, I appreciate your patience and indulgence. I know I am a few minutes late, having been detained there on the floor, but I appreciate your participation and everybody here today and the expertise that you bring to bear and the important matters that we will discuss today. I want to thank the chairman for holding this hearing on such an important matter.

The Thrift Savings Plan is a central component of the Federal Employees Retirement System [FERS], and its success is critical from a number of different standpoints. Clearly, the kind of retirement an employee is offered at a given job has a significant impact on the employer's ability to recruit and retain people with the best skills and qualifications. Therefore, it is important that the TSP is managed carefully and properly, which means regular congressional oversight and legislation when necessary.

This has been one of the most challenging economic years the country has had in decades, and we are not out of the woods yet by no means. The timing of this economic crisis has truly been tragic for a number of reasons. The Federal Government is disproportionally top heavy with employees who are rapidly approaching Federal retirement, and now many of them find that while their defined benefits are intact, most FERS employees have taken a massive hit to their retirement savings.

We all know that in the world of investments, there are always ups and downs. The way of measured success of long-term investment is not in a snapshot of a year but over the life of an investment. This hearing will give us a chance to find out whether the TSP and others responsible for its management believe they have the necessary tools to complete the job or if there are things that we in Congress can do to help.

The Thrift Savings Plan Enhancement Act of 2009 was signed into law in June and made several improvements to the function of the TSP. Perhaps most significantly, the Roth type investment options was offered, allowing participants to pay taxes on retirement savings now rather than upon withdrawal. This is a great tool, especially for younger employees at the lower end of their earning spectrum.

However, this tool has been available in the rest of the investment world for decades. We also know that the TSP continues to have far fewer investment options than most private retirement programs. With that said, the TSP continues to outperform most private 401(k)'s and is unparalleled in its low associated administrative costs.

TSP can be frustrating to navigate. However, I believe that how the TSP interfaces with its participants is critical to its continued success in participation. Improvements can still be made. When we introduced these new investment tools as we did in June of this year, we must also see that its participants are fully informed of their available options. I look forward to working with the chairman and those responsible for managing the system to ensure that Federal employees continue to have one of the best investment vehicles available anywhere, and appreciate the input and suggestions from the participants. Again, I thank you for your participation and your being here today, and I will yield back the balance of my time, Mr. Chairman.

Mr. LYNCH. Thank you. The Chair now recognizes the distinguished gentleman from Maryland, Mr. Cummings, for 5 minutes.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I won't take that much time.

And I do appreciate you holding this hearing today. The Federal Employees Thrift Savings Plan is one of the best retirement plans offered by any employer. Under the plan, the government contributes a specific dollar amount or percentage of pay into an employee's account which can be invested in stocks, bonds or other financial instruments. This is an excellent program which many of our Federal employees benefit from greatly, and we must do all that we can in our power to ensure that it remains vibrant and strong. The enactment of the Thrift Savings Plan back in 2009 brought about some welcome changes to the program. That act permits new employees to begin contributing to the TSP, immediately rather than waiting 6 to 12 months.

Early participation in the Federal Employees Retirement System, particularly in the Thrift Savings Plan, is critical if an employee is going to maximize the amount of savings earned for his or her retirement. Not only does the act include provisions to eliminate the waiting period requirements, but it authorizes automatic enrollment for all new Federal civil employees. Currently, the TSP has 4.2 million participants. Automatic enrollment will largely increase participation in the savings plan.

The act also authorizes adding a new Roth 401(k) investment option, allowing participants to contribute after-tax dollars to the TSP, therefore allowing them to withdraw contributions and associated earnings tax-free. Last, this act would allow spouses of deceased Federal employees to leave funds in the TSP and become the managers of those accounts. I am eager to hear how some of these provisions will be rolled out, the timeframes of these changes, along with the new proposals, such as the unused annual leave proposition allowing employees to deposit their unused annual leave into their TSP accounts.

The TSP holds approximately $234 billion in assets, making it the world's largest defined-contribution plan. Hearings like this are important to ensure that the program continues to serve the best interests of Federal employees, uniform services, Reserves and their spouses.

And with that, Mr. Chairman, I yield back.

Mr. LYNCH. Thank you.

The Chair now recognizes—actually, I know that the gentleman from Louisiana, Mr. Cao, has declined the opportunity to make a 5-minute statement, but I do want him, since you are a new appointee to the committee, I did want to welcome you on behalf of the committee and invite you to become, you know, deeply involved in the issues that come before the committee. But by all means, welcome.

Mr. CAO. Thank you very much, Mr. Chairman.

I am very honored to be in this committee and to address the many issues that we are facing in this country, and I hope that my contributions to this committee can somehow have some impact to you from the problems that we are facing.

Mr. LYNCH. Thank you.

The Chair now recognizes the gentleman from northern Virginia, Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman.

And thank you for holding this important hearing. Since it represents a substantial portion of most Federal employees' retirement savings, the Thrift Savings Plan is of vital importance to the Federal work force. It is the largest defined contribution retirement plan arguably on earth, with 4.2 million participants and $234 billion in assets. In the past, some have attempted to use the TSP to promote political objectives.

Fortunately, the Federal Retirement Thrift Investment Board and the Employee Thrift Advisory Council have successfully fended off those efforts, and as a result, the TSP has more value today. Shortly before the real estate bubble burst, for example, some suggested that the TSP should have a fund which would be invested in real estate investment trusts. Federal employees' retirement savings are safe today because we did not make that investment at the height of the real estate market. The REIT index declined 40 percent just between January and April of this year. Others have suggested creating gold, copper or other specialized TSP funds.

Although Congress did give the Thrift Investment Advisory Board authority to invest in funds, such as mutual funds, it did not force the board to do so. The TSP already has six funds. One consists entirely of U.S. Treasury bonds; the others are a variety of index funds. All of these funds represent fairly secure investments over the long run, unlike more specialized investments and assets that could fluctuate more than a diversified portfolio. Because the TSP replaced part of the Federal employees defined-benefit pensions in 1986, it is appropriate that this fund be invested in a conservative manner that will maximize Federal employees' retirement security.

The Thrift Advisory Board is considering creating an option for Federal employees to invest their savings in mutual funds through the TSP. Given the historically strong performance of the TSP, including its superior maintenance of value during the recent crisis relative to many other privately managed funds, I find it hard to understand why such a change would be advantageous for Federal employees. Moreover, as the National Active and Retired Federal Employees Association has noted, creating additional mutual fund options could drive up TSP's administrative costs. Currently just 80 TSP employees manage the world's largest 401(k). We should be very cautious about proposals that might reduce the efficiency of this agency.

For these reasons, the Employee Thrift Advisory Council has resisted attempts to create mutual funds options within the TSP. In the written testimony, the American Federation of Government Employees, the National Active and Retired Federal Employees Association and the Senior Executives Association all have expressed reservations about establishing mutual fund windows for TSP.

During apartheid, some Members of Congress unsuccessfully attempted to divest TSP investments from companies that did business in South Africa with that government. More recently, others have proposed divesting from companies that are concerned with the genocide in Sudan. I would be interested, Mr. Chairman, in learning more about whether we could establish and should establish social responsibility criteria within the TSP without reducing the security of Federal employees' retirement in the administration of the TSP.

Again, I want to thank Chairman Lynch for holding this hearing. I applaud the TSP Employee Advisory Council and the Advisory Board for resisting past attempts to make potentially risky investments and look forward to working with these groups to protect the security of the TSP as we move forward. And I yield back.

Mr. LYNCH. I thank the gentleman. Before we move to witness testimony, I would like to offer brief introductions of our panelists.

Greg Long is the Executive Director of the Federal Retirement Thrift Investment Board, the agency that administers the TSP, and serves as CEO and plan managing fiduciary. Prior to his appointment as Executive Director, Mr. Long was the TSP's Director of Product Development where he was responsible for strategic planning and the development of new services and savings products.

James Sauber is the chief of staff to the president of the National Association of Letter Carriers, and in addition to his role at the Letter Carriers Association, Mr. Sauber has served on a voluntary basis since 2003 as the elected chairman of the statutorily created Employee Thrift Advisory Council [ETAC]. I will try to keep the acronyms to a minimum today.

J. David Cox is the national secretary-treasurer of the American Federation of Government Employees, the Nation's largest union representing Federal and D.C. government employees. Previously Mr. Cox served as the co-chair of the Veterans Affairs National Partnership Council from 1999 to 2000, and again from 2002 to 2006.

President Colleen Kelly is the president of the National Treasury Employees Union, the Nation's largest independent Federal-sector union, representing employees in 31 different government agencies. Ms. Kelley is a former IRS revenue agent and was first elected to the union's top post in August 1999.

Richard Strombotne has represented the senior—wait a minute. We are out of order. OK.

Margaret, I am sorry. I will go with you. They have the pages out of order. Margaret L. Baptiste was reelected for a second 2-year term as the National Association of Retired Federal Employees national president in September 2008. She is the first woman to be elected as NARFE president and first spouse of a Federal retiree to hold the position.

Richard Strombotne has represented the Senior Executives Association on ETAC for 10 years as a charter member of the SEA, the Senior Executives Association. He served on its Board of Directors for 8 years. Additionally, Mr. Strombotne has been extensively involved with the National Active and Retired Federal Employees Association.

And last but certainly not least, Colonel Michael Hayden, U.S. Air Force, retired, joined the MOAA legislative team in July 2005 upon completion of a 25-year military career in air and space operations, personnel recruiting, training and education. At the MOAA, he focused on active duty and retirement compensation issues.

That concludes the introduction of our witnesses. However, it is the custom and practice at this committee to swear witnesses so that they may offer testimony on the record. May I please ask you to rise and raise your right hands.

[Witnesses sworn.]

Mr. LYNCH. Let the record indicate that each witness answered in the affirmative.

Your entire statement is already included in the record. We will now move to the testimony portion. And I would just advise you, those small boxes in front of you, one which is working and one which is not working, the green light indicates you may proceed with your testimony. A yellow light indicates you should probably wrap it up. And the red light indicates that your time has expired. And since we have a large panel here, I will try to hold everybody to the 5-minute limit.

But Mr. Long, you are welcome and recognized for 5 minutes for an opening statement.

STATEMENTS OF GREG LONG, EXECUTIVE DIRECTOR, FEDERAL RETIREMENT THRIFT INVESTMENT BOARD; JAMES SAUBER, CHAIR, EMPLOYEE THRIFT ADVISORY COUNCIL; J. DAVID COX, NATIONAL SECRETARY-TREASURER, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES [AFL–CIO]; COLLEEN KELLEY, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION; MARGARET BAPTISTE, PRESIDENT, NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES ASSOCIATION; RICHARD STROMBOTNE, ETAC REPRESENTATIVE, SENIOR EXECUTIVES ASSOCIATION; AND COLONEL MICHAEL HAYDEN, USAF, RETIRED, DEPUTY DIRECTOR, GOVERNMENT RELATIONS, MILITARY OFFICERS ASSOCIATION OF AMERICA

STATEMENT OF GREG LONG

Mr. LONG. Chairman Lynch and members of the subcommittee, my name is Greg Long. I'm the Executive Director of the Federal Retirement Thrift Investment Board. The five members the board and I serve as the fiduciaries of the TSP for Federal employees and members of the uniformed services.

The TSP, as you said, is the largest defined-contribution retirement plan in the world. Accounts are maintained for more than 4.2 million Federal and Postal employee members of the uniformed services and retirees. As of September 30th, the TSP had approximately $234 billion in retirement savings. Your letter of invitation explained that the purpose of this hearing is to examine a host of issues, including upgrades to the TSP's information technology, security capabilities, legislative initiatives, regulatory proposals and a changed financial landscape.

I am pleased to discuss each of these matters. Before I do, however, I'd like to note that I am surrounded by individuals representing organizations whose knowledge and commitment to the

TSP goes back 26 years. Their knowledge and support have been essential in making the TSP the success that it is today.

Turning our attention to IT infrastructure, it's appropriate that IT infrastructure and security are the first items cited in your letter. The fiscal year 2010 budget, approved by the Board just last month, demonstrates our commitment to infrastructure security and other vital record keeping activities; $99 million, or approximately 76 percent of our total budget, is dedicated to these areas.

We have an ambitious agenda to improve the TSP. The Thrift Savings Plan Enhancement Act of 2009 provides substantial new benefits which we must implement. Further, other improvements, like updating the TSP Web site and implementing e-messaging capabilities, demand agency resources.

The TSP's expenses are born not by the taxpayers but by participants. During 2008, the TSP expense ratio was 2 basis points, or 20 cents, for every $1,000 invested by a participant. This compares very favorably to other similar plans.

Despite our low administrative expenses, we nevertheless maintain a robust IT infrastructure to support activities. Attached to my statement is a status report presented by the agency's director of automated systems to the Board and to ETAC at the joint meeting we held last October. You'll note that report covers our recently completed capital investments for our systems modernization, as well as a status report on data center and software applications.

On April 29th of last year, I appeared before this subcommittee to express the board's support for automatically enrolling newly hired employees in the TSP. As the Congress developed its legislation on that issue, it added provisions which bring the TSP up to date with comparable private sector 401(k) plans in a number of areas. Together these legislative changes make the TSP an even more flexible and valuable program. I come before you today to say thank you and to describe our plans for implementing these multiple legislative initiatives.

First is immediate agency contributions. As soon as the new law was signed on June 22nd, the waiting period for FERS employees to receive agency contributions was eliminated. All FERS employees should now be receiving agency automatic 1 percent contributions, and if they are contributing their own money, agency matching contributions as well.

Next is accounts for spouse beneficiaries. Beginning in the spring of 2010, if a participant dies and the spouse is the beneficiary of the participant's TSP account, the spouse will have the option of leaving the death benefit payment in the TSP in his or her own name.

Third, automatic enrollment. Starting next spring, newly hired Federal civilian employees will automatically make payroll contributions of 3 percent of pay to the TSP. Their agencies will send these contributions to the TSP along with an additional amount equaling 4 percent of pay, which is made up of 1 percent automatic and 3 percent matching contributions, each pay period, unless the employee decides to opt out or contribute a different amount. This will give new employees a chance to start saving earlier, to receive agency contributions and potentially reach greater levels of retirement security.

Fourth is the Roth feature. In 2011, we plan to offer a Roth feature which will be the equivalent of a private sector Roth 401. This is subject to different tax rules than a Roth IRA and open to people of all income levels. Employee contributions to the Roth TSP will be made on an after-tax basis, and participants will generally not have to pay Federal income tax on money they withdraw from it. We estimate it will take about 2 years to implement this benefit. It will require substantial modifications to agency as well as uniform services human resource and personnel systems as well as our own TSP systems and their accounting and associated systems.

The fifth feature is the mutual fund window. This legislation allows the TSP to offer a mutual fund window in the future. This would allow participants to invest some of their TSP savings in mutual funds outside of the TSP. Expenses related to the mutual fund window would be born solely by those participants who use it. The TSP has not set any implementation target or date. We will further consider this operation in cooperation with the unions and associations that make up ETAC.

Mr. LYNCH. Mr. Long, you need to wrap it up.

Mr. LONG. The regulatory proposals are simply unused leave. That is something which requires a change to FERSA, and we would be happy to work with Congress and ETAC in getting that done.

And finally, the limits on interfund transfers. This is a policy that we implemented last year based on a very small number of participants trading very actively, driving expenses, and we've taken steps to eliminate that problem. Thank you very much. I'll be willing to take questions.

[The prepared statement of Mr. Long follows:]

STATEMENT OF GREGORY T. LONG
EXECUTIVE DIRECTOR
FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
BEFORE THE
HOUSE SUBCOMMITTEE ON THE FEDERAL WORKFORCE, POSTAL SERVICE,
AND
THE DISTRICT OF COLUMBIA

November 3, 2009

Chairman Lynch and Members of the Subcommittee, my name is Greg Long and I am the Executive Director of the Federal Retirement Thrift Investment Board. The five members of the Board and I serve as the fiduciaries of the Thrift Savings Plan (TSP) for Federal employees and members of the uniformed services.

The TSP is the largest defined contribution retirement plan in the world. Individual accounts are maintained for more than 4.2 million Federal and Postal employees, members of the uniformed services, and retirees. As of September 30, 2009, the TSP held approximately $234 billion in retirement savings.

Your letter of invitation explained that the purpose of this hearing is to examine a host of issues, including upgrades to the TSP's Information Technology (IT) infrastructure and security capabilities, multiple legislative initiatives, regulatory proposals, and a changed financial landscape. I am pleased to discuss each of these matters and respond to questions from the Subcommittee.

Before I do, however, I would like to note that I am surrounded by individuals representing organizations whose knowledge and commitment to the TSP goes back twenty-six years. In 1983, the Congress extended Social Security coverage to Federal civilian employees for the first time, and undertook the task of devising a new retirement system for new Federal hires. Most of the groups represented at this table were key participants in that process, which ultimately led to the enactment of the Federal Employees' Retirement System Act of 1986 and the creation of the Thrift Savings Plan for Federal employees.

The individuals I am sitting with represent Federal and Postal employees, supervisors, managers, postmasters, senior executives, retirees, and members of the uniformed services; most serve on the statutory Employee Thrift Advisory Council, which is chaired by my fellow panelist, Jim Sauber. Their knowledge and support have been essential in making the TSP the success it is today.

Upgrades in TSP IT Infrastructure and Security

It is appropriate that IT infrastructure and security are the first items cited in your letter. The FY 2010 TSP budget approved by the Board just last month demonstrates our commitment to infrastructure, security, and other vital record keeping activities; $99.1 million (or approximately 76%) of our total FY 2010 budget of $130.3 million is dedicated to these areas. We are putting the resources where the need is.

As I told the Board when we discussed the budget, I am an Executive Director who leans forward. We have an ambitious agenda to improve the TSP. The Thrift Savings Plan Enhancement Act of 2009 provides substantial new benefits which we must implement. Further, the Agency must spend money in order to implement other improvements, like updating the TSP website and implementing e-messaging for our participants, which demand agency resources.

TSP expenses are borne not by the taxpayers, but by Plan participants. During 2008, the TSP expense ratio (expenses as a percentage of funds on account) was 2 basis points, or 20 cents for each $1,000 in an individual participant's account. This compares very favorably to the average expense ratio of 63 basis points in a recent survey of expenses in other similar plans. (401(k) Benchmarking Survey, 2008 Edition, Deloitte Consulting LLP.)

Despite our low administrative costs (which our enabling legislation requires), we nevertheless must maintain a robust IT infrastructure to support Plan activities. Attached to this statement is a status report presented by the Agency's Director of Automated Systems to the Board and ETAC members at their joint October 19, 2009, meeting. As you will note, this report covers the recently completed capital investments for our systems modernization program, as well as a status report on Data Center operations and software applications. I would be pleased to further discuss the major items identified in this document during the question and answer session. I would also be pleased to discuss any security matters the Subcommittee would like to pursue, but recommend that we do so in a closed session so we do not disclose key information regarding how we protect participants' funds and personal information.

Multiple Legislative Initiatives

On April 29, 2008, I appeared before this Subcommittee -- which was then chaired by Congressman Danny Davis -- to express the Board's support for automatically enrolling newly-hired employees in the TSP. As the Congress developed its legislation on that issue, it added provisions which bring the TSP up-to-date with comparable private sector 401(k) plans in a number of areas. Together, these legislative changes make the TSP an even more flexible and valuable program for participants. I come before you today to say "thank you," and to describe our plan for implementing the multiple legislative initiatives authorized by the Thrift Savings Plan Enhancement Act of 2009.

- **Immediate agency contributions**. As soon as the new law was signed on June 22, 2009, the waiting period for Federal Employees' Retirement System (FERS) employees to receive agency contributions was eliminated. But changes like this don't implement themselves. Agency staff had already been working with Federal employing agencies to speed the delivery of this valuable new benefit to participants. All FERS employees should now be receiving Agency Automatic (1%) Contributions -- and, if they are also contributing their own money, Agency Matching Contributions as well -- regardless of when they were hired or rehired. I would like to recognize the hundreds of payroll professionals and personnelists in the employing agencies who implemented this new benefit so quickly.

- **Accounts for spouse beneficiaries.** Beginning in Spring 2010, if a participant dies and the spouse is the beneficiary of the participant's TSP account, the spouse will have the option of leaving the death benefit payment in a TSP account in his or her own name. Currently, a spouse beneficiary may only transfer a TSP death benefit payment to an Individual Retirement Account (IRA) or eligible employer plan or receive a lump sum payment in cash.

  Although we cannot fully implement the new spouse beneficiary account program (which was the initiative of a member of the Employee Thrift Advisory Council) until 2010, we do not want to force surviving spouses of recently deceased participants to withdraw their inherited funds if they would prefer to keep them in the TSP until the beneficiary accounts become available. Consequently, I recently approved a policy to establish an interim procedure under which surviving spouses can have the TSP funds they inherit invested in the Government Securities Investment (G) Fund until spouse beneficiary accounts are established next year. At that time, the funds will be transferred to the new spouse beneficiary account under the complete control of the spouse beneficiary as anticipated by the new law.

- **Automatic enrollment.** Starting next spring, new Federal civilian employees will automatically make payroll contributions of 3% to the TSP. Their agencies will send these contributions to the TSP along with an additional amount equaling 4% of basic pay (Agency

Automatic (1%) and 3% Matching Contributions) each pay period, unless the employee opts out of contributing or elects to contribute more or less. This will give new employees a chance to start saving early, receive agency contributions (if FERS), and achieve potentially greater retirement savings.

- **Roth feature**. In 2011, we plan to offer a Roth feature. (This will not be a Roth IRA, and you will not be able to transfer a Roth IRA into the Roth TSP.) It will be the equivalent of a private sector Roth 401(k), which is subject to different tax rules from a Roth IRA and open to people of all income levels. Employee contributions to the Roth TSP will be made on an after-tax basis, and participants will not have to pay Federal income tax on any money they withdraw from it. (However, participants may still be subject to the early withdrawal penalty tax if they don't meet the age requirement for withdrawing.)

  The TSP estimates it will take about 2 years to implement this benefit. It will require substantial modifications to agency and uniformed service human resources and payroll systems as well as to the TSP's own record keeping, accounting and other associated systems. The TSP will provide participants with educational materials as the implementation date approaches.

- **Mutual fund window.** The legislation also allows the TSP to offer a mutual fund window in the future. A mutual fund window would allow participants to invest some of their TSP savings in mutual funds outside the TSP. Expenses related to the mutual fund window would be borne solely by those participants who use it. The TSP has not set an implementation target, and will further consider this option in cooperation with the unions and associations of the Employee Thrift Advisory Council.

Regulatory Proposals

In preparing for this hearing, the Subcommittee staff requested a discussion of recent Internal Revenue Service rulings regarding contributions of unused leave to retirement plans and TSP regulations issued last year limiting the number of interfund transfers. I am pleased to discuss both these matters.

- **Contributions of Unused Leave.** During his Labor Day weekend radio address on September 5, 2009, President Obama announced his intention to encourage employees to put payments for unused vacation and sick days into their retirement plans. This announcement followed the Internal Revenue Service's (IRS) issuance of two Revenue Rulings on this subject. IRS Revenue Ruling 2009-31 sanctions contributions to section 401(k) plans of the dollar value of unused paid time off that is in excess of the employer's carryover limit and would otherwise be forfeited or cashed out at year-end. Revenue Ruling 2009-32 sanctions contributions to section 401(k) plans of the dollar value of unused paid time off that would otherwise be distributed to an employee as a lump-sum at the time of termination of employment. For purposes of both rulings, a "paid time off" plan refers to "a sick and vacation leave plan under which a participant may take paid leave without regard to whether leave is due to illness or incapacity."

  Annual leave offered by the Government to Federal employees is the type of benefit described in Revenue Rulings 2009-31 and 2009-32. It falls within the purview of the fact scenarios described in Revenue Ruling 2009-31 because section 6304, Title 5, United States Code, establishes limitations on the amount of annual leave a Federal employee may carry over from one leave year to the next and the employee forfeits the excess over the carryover limit. It also falls within the purview of the fact scenarios described in Revenue Ruling 2009-

32 because, under sections 5551 and 5552, Title 5, United States Code, Federal agencies must make a lump-sum payment for accumulated and accrued annual leave when an employee separates from Federal service.

With respect to sick leave, Revenue Rulings 2009-31 and 2009-32 are not directly applicable because such leave is not subject to forfeiture at year-end, may not be cashed out, and cannot be taken without regard to illness or incapacity.

Revenue Rulings 2009-31 and 2009-32 are premised on the assumption that the plan's governing document permits participants to contribute the dollar value of unused paid time off to their retirement plan accounts. The Federal Employees' Retirement System Act of 1986 (FERSA) functions as the TSP's governing plan document. FERSA does not currently permit participants to contribute the dollar value of unused paid time off to their TSP accounts.

Pursuant to sections 8351(b)(2)(A) and 8432(a)(1), Title 5, United States Code, a civilian employee's "basic pay" is the only allowable source of TSP contributions. Unused paid time off is not included in the definition of basic pay. See U.S.C. § 8331(3). Moreover, section 8331(3), Title 5, United States Code, explicitly excludes "lump-sum leave payments under subchapter VI of chapter 55" from the definition of basic pay.

For the foregoing reasons, Federal employees now cannot contribute unused annual leave or unused sick leave to their TSP accounts unless Congress amends FERSA to specifically allow them to do so. This issue was discussed at the Joint Board/ETAC meeting on October 19, 2009. The Board would be pleased to implement a program of TSP contributions from unused leave if authorized by the Congress.

- **Limits on Interfund Transfers.** Congress established the Thrift Savings Fund as a long-term, passive investment. The legislative history shows that active investments were considered, but rejected. The Federal Retirement Thrift Investment Board is required by law to develop policies under which three Thrift Savings Fund offerings—commonly known as the C, S, and I Funds—are invested to "replicate" the performance of selected market indexes at a low cost. We use this same approach for the F Fund. Through careful and diligent management, these goals have been achieved for more than twenty years.

  Each day, the Agency and its contractors tally new contributions, loan activities, disbursements, and Interfund Transfers (IFTs) to arrive at net amounts available for investment in each of the Thrift Savings Fund offerings that day. A similar netting process occurs in the TSP asset manager's commingled investment funds, which include the assets of many other institutional investors. Predictable cash flows and offsets due to netting minimize trading costs.

  This carefully designed structure, which optimizes achievement of the statutory goals, was challenged in 2007 by a noticeable increase in IFTs by a small group of participants. The Agency's analysis demonstrated that fewer than 1 percent of TSP participants were engaging in this activity to the detriment of more than 99 percent of participants who are long-term investors (those who requested 12 or fewer IFTs in calendar year 2007).

  The actions by the small group became less random, which suggested coordination, led to fewer opportunities for cost savings due to offsets, and seemed to be concentrated on the International Stock Index Investment (I) Fund. The deleterious consequences of these activities in the TSP were the same as those which the Securities and Exchange Commission found were occurring in mutual funds -- and subsequently restricted. Importantly, the clear intent of this activity—to "beat" the market indexes—fundamentally conflicted with statutory mandates that the Board provide passive investments which replicate the performance of market indexes.

To overcome the problems caused by the small group seeking multiple interfund transfers, the Agency instituted a rule that the first two IFTs in a month were unlimited. After that, any IFTs made that month could only move money to the G Fund. The final regulation was published in the Federal Register on April 24, 2008, and continues in place to this day. The restriction has succeeded in providing more predictable cash flows and offsets, thereby reducing costs. For example, in 2007, the I Fund incurred trading costs of $16.5 million. For 2008, trading costs for the I Fund fell to $5.8 million, and are $2.1 million through September 2009.

Changed Financial Landscape

Events during the past year or so have indeed changed the financial landscape. Wall Street firms that were too big to fail, failed. Others survived only with large infusions of taxpayer dollars. Perhaps most importantly in the world of voluntary savings and investments for retirement, investor confidence was severely challenged while millions wondered if they could ever recoup their losses. In the TSP alone, funds on account fell from $234 billion to $191.5 billion in just nine months (May 2008 to February 2009). Those losses translated into sizable reductions in the average participant's account balance.

Because the situation was so difficult, I decided to post messages to participants on the TSP website during October and December of last year. Those messages, which are attached to this statement, convey a simple thought: Despite all of the carnage, fear, and heartache inflicted on regular people who are just hoping to set aside enough funds to retire with dignity, there is no better way to pursue the long-term security afforded by sound investments than the fundamental design offered by the TSP.

First of all, the TSP is one part of a 3-legged retirement stool which includes guaranteed income from Social Security and a defined benefit plan;

Second, the Agency Automatic (1%) and Matching Contributions are very advantageous for FERS employees;

Third, tax-deferred contributions provide immediate tax reductions for all participants;

Fourth, low administrative costs ensure that investors get to put their assets to work for them, rather than paying high fees;

Fifth, the diversification offered by broad-based index funds helps to reduce the participants' exposure to risk;

Sixth, the TSP Lifecycle (L) Funds offer professionally designed asset allocation models;

And finally, the ease of investing through regular payroll withholding, in good times and bad, helps secure the best average price via dollar cost averaging in building for future financial security.

The Congress wisely designed the TSP to focus on fundamentals like these. During difficult times in the markets, when investors flee the "investment du jour" and return to basics, they will rediscover the simple value offered by long-term, lost-cost, diversified investments such as those available in the Thrift Savings Plan for Federal employees.

Thank you Mr. Chairman. I will be pleased to respond to any questions.

October 2009 Status Update

Office of Automated Systems

Modernization Review

- In September 2008 I proposed a multi-year, comprehensive and strategic approach toward refreshing the TSP infrastructure, focused on:
  - More efficient use of IT computing resources;
  - Improving redundancy across the enterprise; and
  - Providing sufficient levels of computing and storage capacity needed to meet unplanned, catastrophic events, and perform full end-to-end testing, improving software delivery and minimizing systems and application failures.
- Capital investments required included:

	Planned	Actual
• Storage Subsystem	$ 5.40 million	$ 7.25 million
• Server Consolidation	$ 1.50 million	$ 1.24 million
• Network Modernization	$ 1.99 million	$ 2.14 million
• Mainframe replacements	$ 6.30 million	$ 7.24 million
Total Investment	$15.19 million	$17.87 million

- As of September 30, 2009 all planned capital investments have been completed.

Data Center Operations – Current Status & Activities

- Primary circuits for new network are in service;
- Redundant/backup network circuits are being phased into service;
- Remote site network failover equipment in place and being configured;
- Migration to virtual server technology underway;
- Planning underway for implementation of full size test database;
- Planning underway for email consolidation;
- Continuing to work on closing audit findings;
- Planning Call Center IVR upgrade implementation;
- Planning underway for implementation of enterprise wide network and application management software;
- Planning underway for implementation of numerous security enhancements to safeguard participant accounts and personally identifiable information (PII);
- Planning underway for implementation of Enterprise Storage Backup and Restore process.

3

Software Applications - Current Status & Activities

- OmniPlus 5.7.5 upgrade completed(10/12/09);
- Implement legislation changes;
- Implement OmniPay;
- Complete documentation of system and establish update procedures;
- Complete source code audit programs to maintain currency control and accuracy of software inventory in support of business continuity;
- Continue conversion of redesigned forms to new OCR technology;
- Implement upgrade of PowerImage to new technology;
- Support electronic messaging implementation;
- Develop L2050 fund;
- Develop an enterprise-wide test area and implement test tools to enhance TSP Recordkeeping system performance, functional accuracy and operational readiness;
- Initiate coding standards and software assurance (secure coding) for TSP system applications;
- Upgrade the TSP accounting application to support Treasury changes;
- Upgrade configuration management tools and procedures;
- Work on closing audit findings; and
- Support all phases of TSP web site implementation.

Message from the Executive Director

October 7, 2008

Dear TSP Participants:

The last few weeks have been difficult times for all of us. Concerns about domestic and global economic conditions are widespread. News about the economy is front and center in the media. We have experienced tremendous volatility and negative performances in the stock markets. The C, S, and I Funds, which are invested entirely in stocks, have experienced sharp declines. Understandably, as their TSP account balances decline some participants are concerned about the future.

However, I view this as a time for prudence, not panic. For those participants nearing retirement age and who will need immediate access to their money, the G Fund provides the option for stability and safety. The G Fund is guaranteed by the U.S. Government and never declines in value. For those of you with longer-term goals, history has shown us that stock markets do recover. Experts agree that if you seek long-term growth, allocating a portion of your account to stocks remains a prudent choice. Even if you're nearing retirement, your time horizon may be longer than you think because many TSP participants are choosing monthly payments from their TSP accounts. These payments may very well stretch out 20 or 30 years in the future. So, although you may be thinking about retirement in the short-term, your TSP time horizon may actually be much longer.

If you want a better understanding of how to allocate your assets based on your time horizon, please check out the L Funds. While these funds do not guarantee against losses, they are designed by investment professionals to reduce risk as you get closer to retirement. Plus, they provide diversification among all of the TSP's individual funds – a critical strategy to manage your risk in today's environment. In addition, the feature article of the October *Highlights* addresses investing for the 'long haul." I recommend that you take a couple of minutes to read the article; it may help you assess your individual situation.

Some of our participants have asked whether the Government can use the assets in the G Fund to help pay for the credit recovery plan. The answer is no. By law, the assets in the TSP are held in trust for each individual participant. So, you don't have to worry about anyone "tapping" your retirement investments for another purpose.

Remember that the TSP is a long-term retirement plan and I encourage you to think carefully before you make changes to your TSP account. Although none of us has a crystal ball to predict the future, I can assure you the TSP remains committed to doing all we can to help you maintain a sound investment strategy during this turbulent period.

Gregory Long
Executive Director

THRIFT
SAVINGS
PLAN

Message from the Executive Director

December 19, 2008

Dear TSP Participants:

The volatile state of the economy has been in the headlines for longer than any of us would like. For those of us who have been diligently setting aside money in our retirement accounts, the news can be particularly discouraging. But it's important to keep in mind that stock market swings don't lessen our need to save for retirement. Accumulating sufficient retirement assets requires time, discipline, and a strategy that does not permit relatively short-term market movements to derail long-term investment plans.

Regardless of what is happening in the markets, your investment allocation remains one of the single most important factors affecting the growth of your TSP account. In addition to having different degrees of tolerance for risk, participants have different time horizons for retirement. Some of you may be drawing from your TSP account now or in the near future, while others may have many years before you'll need your money. The TSP offers excellent options no matter what your risk profile or where you are on your retirement path.

Another key factor in the success of your retirement plan is the amount you contribute to your TSP account each year and the consistency with which you make your contributions. For 2009, the IRS has increased the maximum allowable annual contribution from $15,500 to $16,500. For those participants age 50 and older, the maximum allowable "catch-up" contribution increases from $5,000 to $5,500. Participants in the uniformed services who make contributions from pay that is subject to the Combat Zone Exclusion will be allowed to contribute up to $49,000 to their TSP in 2009 due to an increase in the annual additions limit.

If stock funds comprise any part of your TSP allocation, you can consider the increase in allowed contributions particularly good news. With many stocks currently trading at bargain prices, you now have the opportunity to buy low. When the market rebounds—which history has shown it inevitably does over the long term—you will be well positioned to benefit from the higher prices that will increase the value of your TSP account.

Always remember that markets will swing, sometimes wildly, over relatively short periods of time, but retirement planning demands a long-term focus. Our retirement investments are, for most of us, the primary route we have to future financial security.

An appropriate investment allocation along with consistent TSP contributions through all market environments will keep you on course.

Gregory T. Long
Executive Director

Mr. LYNCH. Thank you, Mr. Long.

Mr. Sauber, you are now recognized for 5 minutes.

STATEMENT OF JAMES SAUBER

Mr. SAUBER. Good afternoon, Mr. Chairman, members of the committee. My name is Jim Sauber. I represent the National Association of Letter Carriers, and have served as the Council's Chair since 2003.

The Thrift Savings Plan is an extremely important part of the Federal retirement system and is very popular among the 4.2 million Federal employees and retirees who maintain TSP accounts. Protecting the $234 billion invested in the TSP, which are the personal assets of our members, is ETAC's highest priority. We also use the twice-a-year meetings we hold with the Board to address administrative issues and service problems.

At our most recent meeting, on October 19th, we met with the entire Board and received briefings on the new TSP Web site and the agency's ongoing effort to improve its IT infrastructure.

On behalf of the ETAC, I want to thank you, Mr. Chairman, for your leadership in enacting the TSP Enhancement Act of 2009. Your introduction of H.R. 1263 at the beginning of this Congress got the ball rolling with cosponsors from both parties. TSP participants very much appreciate the improvements in the plan provided by your bill.

The authorization of immediate TSP matching contributions and automatic enrollment will significantly boost participation in the TSP among younger workers and increase the level of savings among new employees.

We also very much welcome the legal change that will permit the spouses of deceased participants to keep their inherited funds in the TSP instead of rolling them over into much more expensive plans.

Many Federal employees will also welcome the Roth option in the TSP when it becomes available, especially the hundreds of thousands of men and women in the Armed Forces.

Thanks, again, to all of you who supported these improvements.

Of course, we'll continue to look for new ways to improve the plan. One such improvement springs to mind. Recently the IRS has ruled that 401(k) participants may contribute the dollar value of unused leave that might be forfeited or paid out as terminal leave into their plans. ETAC and its organizations urge Congress to amend FERS to allow this practice in the TSP the next time you take up TSP legislation.

We also ask this subcommittee to use its influence to facilitate the prompt appointment and or reappointment of members to the Thrift Investment Board. At present, all five members of the Board are serving beyond their terms of office. Three of them, Chairman Andrew Saul and members Alex Sanchez and Gordon Whiting, have expressed interest in being renominated, while two others wish to leave the Board. Although all five positions of the Board are Presidential appointments, by law, two nominees are recommended by the Speaker of the House and the Senate Majority Leader.

Most of the organizations that make up ETAC have supported the renominations of Saul, Sanchez and Whiting, both last year with President Bush and this year with President Obama. They performed well and have maintained excellent lines of communications with ETAC. Congress intended Board members to serve staggered terms to promote stability and continuity, and we believe it would be unwise to turn over the entire membership of the Board all at one time.

We hope the subcommittee will urge the Obama administration to move as quickly as possible on these appointments, and that you will encourage the Speaker of the House to do the same with respect to her recommended nominee.

Finally, I wish to conclude by noting that Federal and Postal employees have remained committed to the TSP despite the severe economic crisis. There is no way to sugarcoat the heavy losses experienced by many TSP participants last year. The C, S, and I funds all declined by more than 37 percent in 2008. Although the equity markets have bounced back somewhat this year, many of our members have had to alter their retirement plans as a result of these TSP losses.

One silver lining in the TSP has been the performance of the lifecycle funds. Thanks to the diversification provided by the L funds, the losses from last year's meltdown on Wall Street were somewhat mitigated for those who chose them. In fact, the TSP lifecycle funds performed much better than similar funds in the private sector. Losses in the TSP's 2010 fund, for example, were less than half those experienced by investors in 2010 funds offered by Fidelity and Vanguard.

Our recent experience serves to remind us of the wisdom shown by Congress when it designed FERS back in 1986 and sought to strike a balance between portability and security. TSP is just one component of the three-legged retirement stool, and thanks to the other two legs, guaranteed benefits from Social Security and the FERS basic annuity, the losses incurred last year by Federal employees in the TSP will not be catastrophic, even for those close to retirement.

Far too many workers in America have seen their defined-benefit pensions cashed out, and far too many workers are now exposed to excessive market risk in standalone 401(k)'s. Millions of workers have suffered a sickening blow to their retirement security as a result. We owe it to all of them to rebuild America's pension system once this crisis passes. FERS would be a good model to emulate. Thank you again for inviting me to this hearing.

[The prepared statement of Mr. Sauber follows:]

National Association of Letter Carriers
Fredric V. Rolando, President
100 Indiana Ave. NW
Washington, DC 20001-2144
202.393.4695
www.nalc.org

TESTIMONY OF
JAMES SAUBER
CHAIRMAN OF THE EMPLOYEE THRIFT ADVISORY COUNCIL
before the
SUBCOMMITTEE on the FEDERAL WORKFORCE, POSTAL SERVICE and THE DISTRICT OF COLUMBIA of the COMMITTEE on OVERSIGHT and GOVERNMENT REFORM, U.S. HOUSE of REPRESENTATIVES

November 2, 2009

Good morning Mr. Chairman and Members of the Sub-Committee. My name is Jim Sauber. I am the Chief of Staff at the National Association of Letter Carriers, a union that represents 300,000 active and retired employees of the U.S. Postal Service. Thank you for your invitation to participate in this oversight hearing in my capacity as the Chairman of the Employee Thrift Advisory Council. ETAC, as we are known, is a 15-member body established by the Federal Employees' Retirement System Act of 1986 (FERSA) to advise the Federal Retirement Thrift Investment Board on matters related to the Thrift Savings Plan. The 15 members are nominated by organizations identified in the FERSA statute. These organizations represent federal and postal employees, both active and retired, at all levels of the U.S. government, from wage earners to senior executives. I was nominated to serve on the Council by NALC and was elected to serve as chairman of ETAC in 2003 and in 2007.

As you know, the Thrift Savings Plan is an extremely important part of the federal retirement system and is very popular among the 4.2 million federal employees and retirees who maintain TSP accounts. With more than a quarter of a trillion dollars invested in its various funds, the TSP has become one of the largest defined contribution retirement plans in the world. Protecting these funds, which belong to the members of our unions and associations and are central to their retirement security, is the ETAC's highest priority. We also use our twice-a-year meetings with the Board to address administrative issues and service problems. At our most recent meeting on October 19th, we met with the entire board and received briefings on the new TSP website and the agencies ongoing effort to improve its Information Technology infrastructure.

I would like to raise three issues this afternoon.

First, I want to begin by thanking Chairman Lynch for your leadership on the Thrift Savings Plan Enhancement Act of 2009, which became law earlier this year. Thank you for introducing H.R. 1263 at the beginning of this Congress along with Representatives Danny Davis and Delegate Eleanor Holmes Norton and other members of both parties. All federal and postal employees, both active and retired, very much appreciate the improvements to the TSP provided in the bill, which were incorporated in broader legislation signed by the President during the summer. The authorization of immediate TSP matching contributions for new employees has already boosted participation in the TSP among younger workers and the provision for automatic enrollment will go a long way towards increasing savings rates among new employees when it is implemented next spring. We also very much welcome the new rule that will allow the spouses of deceased participants to keep inherited funds in the TSP instead of forcing them to roll them over into more expensive plans. And the hundreds of thousands of men and women serving in the uniformed armed services will especially benefit from the new Roth option provided by the law. Thanks again to all of you who supported these improvements.

As we have done since the TSP was created, ETAC constantly look for ways to enhance the TSP and to raise the level of retirement savings among federal employees. One idea this sub-committee might consider in the future is to allow federal workers to invest the dollar value of unused leave that might be forfeited or paid out as terminal leave into the TSP. Recent IRS rulings permit such deposits by workers in the private sector if their 401(k) plans provide for such deposits. At present, the FERSA law restricts TSP contributions to those taken from "basic pay," which does not include unused sick and annual leave. In order to permit these additional contributions, Congress would have to amend the law. ETAC and its organizations would support such a change.

Second, I would like to urge this Sub-Committee to use its influence to facilitate the prompt appointment and/or reappointment of members of the Federal Retirement Thrift Investment Board. At present, all five members of the Board are serving beyond their terms of office. Three of them, Chairman Andrew Saul and Members Alex Sanchez and Gordon Whiting, have expressed interest in being re-nominated while two others, Thomas Fink and Terrence Duffy, wish to leave the Board. While all five positions are Presidential appointments, by law two nominations are based on the recommendations of the Speaker of the House and the Senate Majority Leader.

Most of the organizations that make up the ETAC have supported the re-nominations of Saul, Whiting and Sanchez -- last year with President Bush and this year with President Obama. We have done so not only because we believe they have done an excellent job and have maintained excellent lines of communication with the ETAC, but also because we think it would be unwise to turn over the entire membership of the board at one time. Under FERSA, Congress intended Members to serve staggered terms to allow for continuity and institutional memory. Unfortunately, these non-partisan, fiduciary jobs have gotten bogged down in the Presidential appointment process. While no one in particular can be blamed for this, we hope you will urge the Obama Administration to move as quickly as possible on these appointments and that you will encourage the Speaker of the House to do the same with respect to her recommended nominee.

Finally, I wish to conclude by noting that Federal and Postal employees have remained committed to the TSP despite the trauma of the current economic crisis. There is no way to sugarcoat the heavy losses experienced by many TSP participants with investments in the TSP's three equity funds during this recession. The large cap, small cap and international stock funds all declined by more than 37 percent in 2008. Although the equity markets have bounced back somewhat, many of our members have had to alter their plans for retirement as a result of TSP losses. One silver lining in the TSP was the performance of the Lifecycle Funds. Thanks to the responsible diversification offered by the L Funds, the losses from last year's meltdown on Wall Street were somewhat mitigated. Indeed, the TSP's Lifecycle funds performed much better than similar funds in the private sector. Losses in the TSP's 2010 Fund were less than half those experienced by investors in 2010 funds offered by Fidelity and Vanguard while the losses in the 2020 L Fund were a third lower.

All this experience serves to remind us of the wisdom shown by Congress when it designed FERS. TSP is just one component of a three-legged retirement stool. Thanks to the other two legs – guaranteed benefits from Social Security and the FERS Basic Annuity – the losses incurred last year by federal employees in the TSP will not be catastrophic, even for those close to retirement. Far too many workers in America have seen their defined benefit pensions cashed out and far too many workers are now exposed to excessive market risk. Millions of workers have suffered a sickening blow to their retirement security as a result. We owe it to all of them to rebuild America's pension system once this crisis passes. FERS would be a good model to emulate.

Thank you once again for the opportunity to testify and I will be happy to answer any of your questions.

Mr. LYNCH. Thank you, sir. Appreciate that.

Mr. Cox, you're now recognized for 5 minutes.

STATEMENT OF J. DAVID COX

Mr. COX. Mr. Chairman and members of the committee, thank you for the opportunity to testify today on the policies, regulations, and administration of the TSP.

The Thrift Savings Plan Enhancement Act of 2009 created many changes for the TSP. AFGE supported passage of the bill, but we did not support all of its elements. We strongly supported immediate agency contributions, spousal benefits, Roth-type accounts and automatic enrollment for new employees.

However, establishing a mutual fund window in the TSP is another story. AFGE opposed the mutual fund window because we firmly believe that the current collection of investment options within the program is close to optimal. We believe that, in almost every case, Federal employees who would use the mutual fund window would lower their overall rate of return on their savings.

Further, it is not the practice of other defined-contribution programs to allow participants to have such a window, largely because it imposes large and unnecessary risk and expense.

One of the main virtues of the TSP is its extraordinarily low administrative costs. There is no real benefit for a TSP participant to choose to invest in a private mutual fund rather than the current TSP funds. Mutual fund fees can eat up half or more of an investor's return over time.

Unless the TSP is able to negotiate comparable cost, fees and profits with the investment management companies, AFGE believes it's not in the best interest of the plan's participants to pursue the mutual fund window option because administrators are required as part of that fiduciary responsibility to act solely in the interest of the participants. AFGE believes that the TSP should not exercise its authority under the law to create the mutual fund window.

An important issue left unaddressed last year was to change Title 5 to allow Federal employees to deposit the dollar value of unused annual leave into their TSP accounts. Internal Revenue Service rules now let private-sector employees contribute the value of their use-or-lose paid time off into their 401(k) account as long as the employee would be eligible to receive the dollar value of the unused leave in a lump sum at retirement. Federal employees can convert unused annual leave into a lump sum at requirement. Federal employees are forced to use or lose annual leave. They are subject to limits on the amount of annual leave they can carry over each year. When Federal employees retire, they're eligible to receive a lump sum of the dollar value of any unused annual leave.

Unfortunately, in order for the Federal employees to be able to take advantage of the current IRS rules regarding the deposit of dollars of unused paid leave into their TSP accounts, Congress must amend the current law. AFGE joins with others in urging the lawmakers to make this important change so that Federal employees have the same opportunities for retirement savings as their counterparts in the private sector and State and local governments.

When Congress was working to develop the Federal Employees Retirement System [FERS], AFGE worked hard to make sure that the legislation would require the establishment of an employee advisory committee for the TSP so that the concerns of the employees who finance the bulk of the plan's assets would be heard and considered. The law that was enacted did provide for such a forum, and I'm happy to report that the Employee Thrift Advisory Committee [ETAC], has operated effectively. It has also served to keep Federal employees informed and educated on how to make the most of their opportunities under the law.

We also believe that Federal employees in the investment board have benefited immensely from the unions' ability to help determine the policy direction of the TSP. Indeed, the ETAC works so well for both Federal employees and the TSP program itself that AFGE is working to establish a similar employee advisory committee for the Federal Employees Health Benefits Program, which lacks any means for Federal employee input.

We firmly believe that with the establishment of an ETAC-like advisory structure for FEHBP, it might be possible for that program to begin to obtain some of the virtues of the TSP with regard to efficiency and transparency and accountability.

The last, Mr. Chairman, is that we believe that TSP has been using a lot of outsourcing for its work and would encourage the committee to look at the fact that those jobs need to be done inhouse and provided by government services because they are inherently governmental.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Cox follows:]

AFGE
Congressional
Testimony

STATEMENT OF

J. DAVID COX, SR.
NATIONAL SECRETARY-TREASURER
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
AFL-CIO

BEFORE THE

SUBCOMMITTEE ON THE FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

ON

MANAGING THE THRIFT SAVINGS PLAN TO THRIVE

NOVEMBER 3, 2009

American Federation of Government Employees, AFL-CIO
80 F Street, NW, Washington, D.C. 20001 ★ (202) 737-8700 ★ www.afge.org

Mr. Chairman and Members of the Subcommittee: My name is J. David Cox, Sr., and I am the National Secretary-Treasurer of the American Federation of Government Employees, AFL-CIO (AFGE), the largest federal employee union representing more than 600,000 workers in agencies throughout the nation and around the world. I thank you for the opportunity to testify today on issues related to the policies, regulations, and administration of the Thrift Savings Program (TSP).

The Thrift Savings Plan Enhancement Act of 2009

The enactment of the Thrift Savings Plan Enhancement Act of 2009 effected many changes for the TSP, including immediate agency contributions and automatic enrollment for new employees, as well as the opportunity for spouse beneficiaries to maintain a TSP account in their own names and receive a federal employee death benefit into a TSP account. The law also directed the program to establish Roth-type TSP accounts as an option for participants, and authorized the TSP to offer a so-called "mutual fund window" to allow participants to invest some of the TSP money in mutual funds that are not part of the current fund options.

AFGE supported passage of the Thrift Savings Plan Enhancement Act, but we did not support all elements of it. We strongly supported immediate agency contributions, because there was no policy or technical rationale for delaying the opportunity for federal employees to receive the benefit of government matching contributions or the one percent of salary deposit. The former delay in receiving these benefits cost federal employees months of investment gains and AFGE was happy to see this unjustifiable delay corrected. AFGE also supported automatic enrollment for new employees. Although the notion of effectively "reducing" new employees' salaries by three percent without their affirmative consent was somewhat controversial, we believed that the cost of foregoing the extra four percent of salary that failure to enroll would entail was too high a price to pay. The government match of the three percent of salary savings, as well as the automatic extra one percent, form a crucial part of federal employee compensation. We surveyed our members and although some expressed misgivings about automatic enrollment, the majority believed that as long as there was ample opportunity to decline enrollment, that having the "default" action to be enrollment was the preferred policy option.

We believe that it will be important for the TSP to undertake a serious education effort with regard to the costs and benefits of the new Roth-type TSP accounts. Our analysis suggests that relatively few AFGE members would be better off choosing to receive their government match into a Roth-type account, and it will be important that they are fully aware of the differences between the two kinds of savings vehicles. No one likes to pay taxes, and it may seem to many that not having to pay taxes on withdrawals in retirement will be a "better deal" than being able to make tax-free deposits now and paying taxes later. For the majority of federal employees, that may be a very costly mistake. Nevertheless, we recognize that for some federal employees, the establishment of Roth-type accounts in the TSP will be advantageous, and for that reason AFGE supported their becoming an option in the program.

The Question of a Mutual Fund "Window" in the TSP

Establishing a mutual fund "window" in the TSP, however, was another story. AFGE opposed the mutual fund window because we firmly believe that the current collection of investment options within the program is close to optimal. We believe that in almost every case, federal employees who would choose to utilize this mutual fund window would lower their overall rate of return on their savings, not only by exposing themselves to unnecessary risk, but also by paying the large fees and "load" charges that mutual funds impose on investors. Further, it is not the practice in large private or public sector defined contribution programs to allow participants to have such a "window" largely because it imposes such large and unnecessary risk and expense.

One of the main virtues of the TSP is its extraordinarily low administrative costs. Private mutual funds impose on their investors a wide array of fees and "expenses" such as sales loads, deferred sales charges, redemption fees, exchange fees, annual account fees, purchase fees, management fees, distribution fees, and other "expenses." Although these fees and practices must be disclosed in the fund's prospectus, few people actually read this kind of fine print, and those who do rarely understand it, and can be shocked to learn later how much of their investment and profit is lost to such fees. This is not to say that the investment management companies that sell mutual funds do not deserve to make a living; AFGE does not begrudge them the reimbursement of their costs, the commissions for their salespeople, or even their profits (as long as they are reasonable). But we are quite pleased that federal employees are able to enjoy an extremely wide range of investment opportunities that cost them very little in administrative overhead. Indeed, the TSP as currently constituted offers its participants virtually every investment opportunity at truly minimal cost.

There is no real benefit to be had for a TSP participant to choose to invest in a private mutual fund rather than one or a combination of current TSP funds. That is the bottom line. Mutual fund fees can eat up half or more of an investor's returns over time. If someone were to invest $10,000 in a private mutual fund and keep it for 30 years with a six percent annual rate of return, that $10,000 would turn into $57, 434 with no fees. But with a two percent annual fee, the investor would only have $31,330 over the 30 years. The difference in rate of return in this example is 45.5%. And the assumption of a two percent annual fee is modest; many mutual funds charge various fees that exceed this amount. Although the TSP could negotiate favorable terms from the mutual funds that could sell in the "window," as this simple numerical example shows, the current TSP funds are a far better deal. The TSP investor would bear some administrative costs, but the amount would actually be quite close to $57,000, and the $25,000 or $26,000 is an enormous sum and an enormous benefit of the current investment options.

Unless the TSP is able to negotiate with the investment management companies that sell mutual funds a set of administrative costs, fees, and profits that are as low as the current fund options' costs, then AFGE believes that it is not in the best interest of the plan's participants to pursue the mutual fund "window" option. Because the plan's administrators are required, as part of their fiduciary responsibilities, to act solely in the interests of participants, AFGE believes that the TSP should not exercise its authority under the law to create the mutual fund "window."

Allowing Deposits of Unused Annual Leave into TSP

An important issue left unaddressed in the Thrift Savings Plan Enhancement Act was a change to Title 5 which allows federal employees to deposit the dollar value of unused annual leave into their TSP accounts. Internal Revenue Service (IRS) rules allow private sector employees who have unused paid time off that exceeds their employer's carryover limit to contribute that money into their 401(k) accounts as long as the employee would be eligible to receive the dollar value of the unused leave in a lump sum at retirement. Federal employees' unused sick leave cannot be converted into a lump sum payment at retirement, but unused annual leave can. Federal employees are forced to "use or lose" annual leave, that is, they are subject to limits on the amount of annual leave they can "bank" or carry over from year to year. And when federal employees retire, they are eligible to receive in a lump sum the dollar value of any unused annual leave they have accumulated and accrued. Unfortunately, in order for federal employees to be able to take advantage of the current IRS rules regarding the deposit of the dollar value of unused paid leave into their TSP accounts, Congress must amend the current law. AFGE urges lawmakers to make this important change so that federal employees have the same opportunities for retirement savings as their counterparts in the private sector and state and local governments.

The Employee Thrift Advisory Committee (ETAC)

When Congress was working to develop the Federal Employees Retirement System (FERS), AFGE worked hard to make sure that the legislation would require the establishment of an employee advisory committee for the TSP so that the concerns of the employees who finance the bulk of the plan's assets would be heard and considered. The law that was enacted did provide for such a forum, and I am happy to report that the Employee Thrift Advisory Committee (ETAC) has operated effectively as a means of facilitating pre-decisional employee input on a wide range of administrative and regulatory issues. It has also served to keep federal employees informed of impending changes and helped its constituent organizations to educate our members on how to make the most of their opportunities under the law. We also believe that both federal employees and the Federal Retirement Thrift Investment Board (FRTIB) have benefited immensely from the unions' ability to help determine the policy direction of the TSP through the ETAC. Indeed, the ETAC works so well for both employees and the TSP program itself that AFGE is working to establish a similar employee advisory committee for the Federal Employees Health Benefits Program (FEHBP), which lacks any means for federal employee input. We firmly believe that with the establishment of an ETAC-like advisory structure for FEHBP it might be possible for that program to begin to attain some of the virtues of the TSP with regard to efficiency, transparency, and accountability.

<u>Restricting the Number of Free Interfund Transfers in TSP</u>

In 2008, the TSP issued a new regulation that restricted TSP participants to two free interfund transfers per month. The new regulation was a response to the finding that the "frequent trading" activities of a small group of TSP participants were creating significant costs for the program as a whole and lowered overall rates of return to all of the affected funds. Most of the "frequent trading" has occurred in the I Fund (International Fund). The FRTIB's internal analysis concluded that trading in the I fund in 2006 cost *all* of the participants in the fund 0.08% of the return they would have received otherwise. To put this into perspective, in 2006, the total expense ratio of the entire TSP – all its overhead and administrative costs put together – costs only three basis points.

AFGE supported the imposition of restrictions, but would have preferred a slightly higher maximum. We were persuaded, however, that it was not in the best interest of participants to continue the policy of unlimited free interfund transfers. It was difficult to know for sure what the costs would be for the continuation of the former policy because foreign markets are closed by the time that the I Fund's orders are received each day. Since the trades are executed the next day, when foreign markets re-open, the prices were often different from what they were when the trade order was made. But all differences in prices between when I Fund trades are ordered and when they are executed are charged to the whole Fund, not to the individual participants who bought and sold. That is why the activities of a few were having a negative impact on the returns experienced by the I Fund as a whole. Differences in price between the time when an order is made and executed can affect any of the Funds that hold equities, but the large time differences between the eastern U.S. and many foreign markets have had the largest impact.

Another source of cost for frequent trading had to do with the fact that stock and bond trades settle three days after the trade date – that is when the money actually changes hands. The way the TSP operates allows TSP participants to credit proceeds from sales the next day, and it is up to the investment manager to bridge the divide. Again, the peculiarities of the I Fund make it more expensive to accomplish this task than for the other Funds that trade in private equities.

In response to the market-timing scandals among private mutual fund firms in 2002, the Securities and Exchange Commission (SEC) started allowing them to charge redemption fees to customers when they could show that the fees were in the best overall interest of a fund (as opposed to the best interests of individual fund holders). Instead of imposing redemption fees, the FRTIB issued a regulatory restriction to the number of interfund transfers permitted in a given month. When the regulation was first proposed, AFGE offered the following comment:

> *We do not question the FRTIB's contention that the frequent trading activity of a small minority of the TSP population, especially in and out of the I Fund, imposes large costs upon the system as a whole. We recognize that the policy of allowing unlimited numbers of free trades is not the practice of any large mutual fund company or defined-contribution retirement plan in either the public or private sector. Further, we understand that the process of effecting international sales and purchases of fund shares sometimes takes days, and that when frequent traders exploit this fact, they sometimes do so at a cost to their fellow I fund*

shareholders who realize a lower rate of return than they would in the absence of frequent trading.

We believe that the FTRIB's proposal is unnecessarily restrictive with respect to the problems it seeks to address and the costs it seeks to minimize. We believe that a more reasonable change would be to restrict TSP participants to four free interfund trades per calendar month, with unlimited interfund trades into the G-Fund. In addition, we believe that the FTRIB should follow the practice of many private financial services and mutual fund companies, and rather than disallow more than two interfund transfers per month, charge traders a fee of two percent of the value of the trade for all interfund trades that exceed this number. We have considered the FRTIB's claim that it would be too cumbersome and costly to track trading activities and assess this fee, but we believe the trade-off is worthwhile. Numerous AFGE members have expressed their support for charging the full cost of excessive interfund transfers to individual traders. We believe that not only will this serve as a disincentive to imprudent, high-risk behavior, it will either minimize or even eliminate the adverse impact of frequent trading on those who refrain from the practice.

Nevertheless, the FRTIB chose to retain its original proposal of limiting participants to two interfund transfers per month, while maintaining the ability to make unlimited transfers into the G Fund. AFGE understands that this regulation was issued to fulfill what the Board understood to be its fiduciary responsibility to the plan as a whole.

The TSP and Questions of Inherently Governmental Work

In the last decade, the TSP has outsourced several information technology and record-keeping functions and virtually all of its expansions of work. As the agency contemplates how it will staff the new requirements from the Thrift Savings Plan Enhancement Act, we are hopeful that they will be scrupulous in making sure not only that they follow the law that requires them to hire federal employees for all inherently governmental and near-inherently governmental work, but also that they consider carefully what TSP work may have been improperly contracted out in the past, and act to bring it back in-house. The TSP should not only work to insource inherently governmental work that was wrongly outsourced, but should also insource work that is closely related to inherently governmental work as well as contracted out work that could be performed by federal employees at less cost to the agency. Finally, we believe it should be a high priority of the agency to maintain in-house capacity in every area and function that the agency needs on an ongoing basis. This is not only an operational and security imperative, but it is also prudent from a fiduciary responsibility perspective.

Conclusion

AFGE is grateful for the Subcommittee's attention to issues surrounding the operation and policy of the TSP. We believe that the agency has made prudent decisions regarding the program, has acted in good faith by treating the ETAC with respect, and has upheld high standards for accountability, transparency, and responsiveness. We urge the Subcommittee to enact legislation that would allow federal employees to deposit the dollar value of unused annual leave into their TSP accounts. Finally, we ask that the Subcommittee continue to hold the agency accountable for its adherence to federal laws concerning government performance of inherently governmental work and work that is closely connected to inherently governmental work. This concludes my statement. I will be happy to answer any questions members of the Subcommittee may have.

Mr. LYNCH. Thank you.

President Kelley, you're now recognized for 5 minutes.

STATEMENT OF COLLEEN KELLEY

Ms. KELLEY. Thank you very much, Chairman Lynch, Ranking Member Chaffetz, and other committee members, for being here and for the opportunity to testify on recent developments and plans for the future of the Federal Retirement Thrift Investment Board.

Our members have been generally pleased with the Thrift Savings Plan and with thrift board policy. We have found low administrative overhead, good return on investments and an open dialog. TSP administrative costs compare very favorably with private 401(k) plans. With input from employee organizations with informed and prudent leadership by the Board and by the TSP managers and with your oversight, we think there are good systems in place to aid the TSP in remaining an important part of the Federal employees retirement.

As we all know, the last couple of years have been a very volatile time for the TSP Board and for every plan that's tied to market forces. And we have heard of the many recent advancements and legislative changes to the Thrift Savings Plan. As an active member of the ETAC, NTEU has participated in policy decisions that affect the fund. NTEU's primary concern is protecting the stability and maintaining the viability of TSP for our members and for all Federal employees.

Recent changes made to the Thrift Savings Plan which have been talked about include the immediate agency contributions and the automatic enrollment provision, and they have been noted, and they are very positive development for Federal employees. Hopefully, they will help employees to start saving for retirement immediately and to maintain or improve their savings rate as they move through their careers.

NTEU worked with the board to make sure that the automatic enrollment also includes an opt-out provision so that employees can decline to participate if they find they cannot afford to contribute.

The other change that was mentioned that is very important of course is the spousal beneficiary account. NTEU has heard from several members who are waiting for this option to begin, and we believe this is very valuable reform, and we are very pleased it was part of the final bill.

The legislation also created the Roth TSP feature, which we have heard about. And this option requires extensive modification to both agency and TSP recordkeeping and accounting systems. While systems updates will be needed to be monitored closely, NTEU views the Roth option as a welcome addition to the plan, especially for younger workers.

However, the board must be prepared to educate the Federal work force on the tax planning issues inherent to a Roth option, which are not automatically understood or necessarily easy to understand.

And finally, the provision that everyone has talked about, this mutual fund window. You know, in the abstract, NTEU thinks a mutual fund is a good idea, in the abstract. If a person wanted to invest in only socially conscious firms or in gold or oil futures, one could do that. Having a variety of funds to invest is in a desirable goal.

ETAC considered this option, and after a wide range of views were presented, no consensus was reached. The Council believes that the plan has enough diverse accounts within each of the five funds. And with the addition of the five lifecycle funds, participants have excellent opportunities to earn money on their retirement savings.

On the other hand, we know there have been some participants who wanted to invest in certain types of stocks that are not available. We look forward to the Board's analysis of the cost, the benefit, and the risk associated with mutual funds.

NTEU's bottom line on this is, what is it that is the best interest of our members?

In his weekly address on September 5th, President Obama focused his remarks on reviving the economy and creating incentives to save. One of those initiatives was to allow employees to invest their employer payouts for unused leave into their retirement plans, as we've heard. On behalf of our members, NTEU contacted both the IRS and the Thrift Board to inquire whether or not this could be applied to Federal employees. Many of our members carry over their maximum amount of annual leave on a yearly basis, which is capped at 240 hours, so this could significantly boost their TSP accounts.

But both the IRS and the Thrift Board have indicated to NTEU that in order for Federal employees to take advantage of President Obama's initiative, legislation would be needed to amend the Code. While NTEU is continuing to pursue this option along with others, we ask for your help, Mr. Chairman, and for this subcommittee in working together to write and to achieve passage of such legislation.

In closing, we appreciate your oversight of the TSP. It is an important part of the Federal retirement. We need to make sure that the Board is working to ensure that all participants understand the changes taking place within the TSP, most importantly the Roth option and the new spousal benefit. Employees need to be able to make informed choices.

There must be a careful and deliberate review before any changes such as the mutual fund window are added. The No. 1 goal is to ensure stability, integrity, and cost efficiency in the TSP so that, as this hearing title today states, the fund will thrive and our retirees will prosper. Thank you, and I'm glad to answer any questions you have.

[The prepared statement of Ms. Kelley follows:]

NTEU
The National Treasury Employees Union

**TESTIMONY OF COLLEEN M. KELLEY,
NATIONAL PRESIDENT,
NATIONAL TREASURY EMPLOYEES UNION**

ON

"MANAGING THE THRIFT SAVINGS PLAN TO THRIVE"

BEFORE

**THE SUBCOMMITTEE ON THE FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM**

November 3, 2009

1750 H Street, N.W. • Washington, D.C. 20006 • (202) 572-5500

Chairman Lynch, Ranking Member Chaffetz and other subcommittee Members, thank you for the opportunity to testify on recent developments and plans for the future at the Federal Retirement Thrift Investment Board.

In 1983, Congress decided to include federal employees in Social Security and set about designing a new retirement system around that notion. In keeping with the trend at that time, Congress moved away from the existing defined benefit program, the Civil Service Retirement System. The new system had three parts: Social Security, a small defined benefit, and a tax-deferred defined contribution retirement savings program similar to the private sector's 401(k) s. The Thrift Savings Plan was the work of a large group of committed organizations, and I am happy to say that NTEU was part of that group. We sought a program that would have low administrative costs and maximum earnings potential. Since the plan's inception in 1987, participation by FERS-covered employees has risen to 82.2%. The TSP consists of five individual investment funds: the Government Securities Investment (G) Fund, which invests in short term non-marketable U.S. Treasury securities; the Fixed Income Index Investment (F) Fund, which invests in an aggregate bond index fund; the Common Stock Index Investment (C) Fund, which invests in a stock index fund; the Small Capitalization Stock Index Investment (S) Fund, which invests in a different stock index fund; and the International Stock Index Investment (I) Fund, which invests in an international stock index fund. Lifecycle (L) funds were added in August of 2005, as asset allocation portfolios constructed from the five individual funds in the TSP pegged to a participant's retirement age.

Given the tumultuous last two years, the earnings of the various funds at the Thrift Board seemed to be in line with, or better than, the best of the private sector plans. A report published by Hewitt Associates in May of this year indicated that the median rate of return on 401(k) plans was a minus 28.3 percent. The rate of return on TSP funds ranged from 5.45 % (F Fund) to minus 42.43 % (I Fund), with the median rate between minus 22 and minus 27 %. Our members have been generally pleased with the Thrift Savings Plan, and even when NTEU disagrees with Thrift Board policy, as when the limitation on interfund transfers was placed on participants, we can't disagree with the results – low administrative overhead, good return, and an open dialogue. A 2007 GAO report compared the TSP administrative costs favorably with private 401 (k) plans, with the Thrift Board's administrative costs at 6 basis points and private plans at 75 basis points. With input from employee organizations, with informed and prudent leadership by the Board and by the TSP managers, and with leadership provided by your subcommittee, we think that there are good systems in place to aid the TSP in remaining an important part of federal employees' retirement.

It has been a very volatile time for the TSP Board and for every plan tied to market forces, and there have been many advancements and legislative changes to the Thrift Savings Plan. As an active member of the Employee Thrift Advisory Council (ETAC), NTEU has participated in policy decisions that affect the now 4.2 million active or former federal employees who invest in the Fund, whose assets are now approximately $234 billion. NTEU's primary concern is protecting the stability and maintaining the viability of the TSP for our members and for all federal employees.

LEGISLATIVE CHANGES

With the passage of H.R. 1256, the Family Smoking Prevention and Tobacco Control Act, several changes were made to the Thrift Savings Plan:

Immediate agency contributions – this provision, and the one that follows eliminates the waiting period contemplated in the original TSP statute. Through legislative changes, employees could immediately participate in the TSP with their own money, but had to wait 6 to 12 months to receive matching funds or the automatic agency contribution. Offering immediate contributions is a way to entice new employees to become active savers. At our last ETAC meeting, Executive Director Long advised us that this item was fully implemented in August.

Automatic Enrollment – In conjunction with the immediate agency contributions, there is a new provision setting up automatic enrollment for new employees. This way, federal employees are able to start saving for retirement immediately and hopefully will maintain or improve the savings rate as they move through their careers. There had been some discussion at ETAC as to whether the default fund would be the L (Lifecycle) fund or the G (Government Securities) fund. Originally, the Board had suggested the L fund because of the good returns, but as the economy soured, many, including NTEU were concerned, and ETAC encouraged the Board to set the G fund as a default. This ensured that the automatic funds would not be subject to market forces in a volatile time. NTEU worked with the Board to make sure that this change includes an "opt-out" provision, so that employees can decline the savings if they find they can't afford to contribute.

Spouse Beneficiary Accounts – this provision was an initiative of ETAC. Rather than requiring spouses to withdraw TSP funds on the death of a participant, spouses will now have the option of leaving the funds in the TSP and take ownership of the account. In an effort to protect the funds during this interim period, the Thrift Board will move the funds into the G fund, and then once the accounts are set up, the surviving spouse will be given the option of moving the money to other accounts. The Board hopes to have this system set up by June of next year. NTEU has heard from several members who are waiting for this option to begin. We believe that this is a valuable reform, and we are pleased that it was part of the final bill.

Roth TSP feature – the Board is embarking on a two-year project to provide a "Roth" feature to TSP participants. Under Roth, employees can contribute after-tax dollars. Contributions to a Roth account count against IRS limits (in 2009, $16,500 for regular contributions and $5,500 for catch up contributions). A Roth account will not allow a participant to contribute any more money than the law currently allows. Because tax is paid up-front, Roth contributions, and any attributable earnings are tax free at the time of withdrawal. The Roth option requires extensive modification to both agency and TSP record-keeping and accounting systems. While systems updates will need to be monitored closely, NTEU views the Roth option as a welcome addition to the Plan, especially for younger workers. However, the Board must be prepared to educate the federal workforce on the tax planning issues inherent in a Roth option.

Mutual Fund Window – the Tobacco bill contained a provision that authorizes a mutual fund window. A mutual fund window is a good idea in the abstract. If a person wanted to invest in only socially conscious firms, or in gold or oil futures, one could. Having a variety of funds to invest in is a desirable goal. ETAC considered this option, and after a range of views was presented, no consensus was reached. At our urging, the bill includes a provision stating that the expenses charged for use of the mutual fund window will be borne solely by the participants who use the window. In addition, to protect the interests of those who would participate, the Board can establish terms and conditions for participation including requirements relating to risk disclosure. The Council believes that the Plan has enough diverse accounts within each of the five funds, and with the addition of the five Lifecycle funds, provide excellent opportunities to earn money on their retirement savings. On the other hand, we know there have been some participants who wanted to invest in certain types of stocks that are not available. We look forward to the Board's analysis of the cost, benefit, and risk associated with mutual funds. Our bottom line on this is - what is in the best interests of our members?

NEW PROPOSAL

In his weekly address on September 5, President Obama focused his remarks on reviving the economy and creating incentives to save. One of his initiatives was to allow employees to invest employer pay-outs for unused leave in their retirement plan. Revenue Rulings 2009-31 and 2009-32 sanction two kinds of contributions to 401(k) plans: one is the dollar value of unused leave that is cashed out at year-end and the other is money that would otherwise be distributed as a lump-sum at the time of termination. NTEU, on behalf of our members, contacted both the IRS and the Thrift Board and inquired whether the unused annual leave that is cashed out at separation of federal service could be deposited in the TSP under the lump-sum provision. Many of our members carry over the maximum amount of annual leave on a yearly basis (240 hours), so this could significantly boost their TSP accounts. Both IRS and the Thrift Board have indicated to NTEU that, in order for federal employees to take advantage of President Obama's initiative, legislation would have to be passed to amend the Federal Employees' Retirement System Act of 1986. NTEU is continuing to pursue this option, and we ask the help of you and your subcommittee, Mr. Chairman, in working together to write and achieve passage of such legislation.

GROWING PAINS

The phenomenal growth of the TSP brings with it a need for updated automation systems and increased safeguards. The Board shared with ETAC the results of an audit done earlier this year by Clifton Gunderson, a certified public accountant firm. The auditors had several suggestions for decreasing risks and increasing security at the Board, and we have no problem with the report. The automation update experienced a significant cost overrun, but little information was given to ETAC on the reasons for the overrun. The website will receive a much-needed update and participants will be asked to view and comment on it before it becomes final. NTEU would suggest that updates be provided to the committee on these improvements.

In closing, we appreciate your oversight of the TSP. It is an important part of federal retirement. We need to make sure that the Board is working to ensure that all participants understand the changes taking place within the TSP. There will have to be an outreach program developed, especially for the Roth option. There will have to be dissemination of information about the new spousal benefit. Employees need to be able to make informed choices. There must be a careful and deliberate review before changes such as the mutual fund window are added. The number one goal is to ensure stability, integrity and cost efficiency in the TSP so that, as the hearing title states, the Fund will thrive, and our retirees prosper. Thank you.

Mr. LYNCH. Thank you.

Ms. Baptiste, you're recognized for 5 minutes.

STATEMENT OF MARGARET BAPTISTE

Ms. BAPTISTE. We are proud of NARFE's work with Congress in 1986 to create the Thrift Savings Plan. Indeed, by any measure, the TSP has been a huge success.

Despite the current volatile financial market, we believe the Federal Retirement Thrift Investment Board has continued to perform admirably.

Unfortunately, many TSP participants have had losses during this downturn. Federal workers years away from retirement should have time to recover. But employees at or near retirement don't have that luxury. Most of them will either retire with a smaller nest egg or work until the market rebounds.

Retirement plans were created so that employees could avoid working into old age and also to make room for younger workers to take their places. As employers have migrated away from defined-benefit annuities to defined-contribution savings plans, the burdens of retirement liabilities and risk have been shifted from employer to employee. But the purpose of retirement programs are negated when workers cannot afford to retire until they make up for lost gains.

Fortunately, the retirement security of FERS workers is diversified with the three-legged stool of the TSP, a relatively modest annuity, and Social Security benefits. In 1998, a proposal was made which undermined the FERS annuity and diverted the agency and employee contributions for it to a new and separate fund within the TSP. This was and is a bad idea because it threatened the defined benefit of the FERS retirement stool which, as evidenced by the recent market slump, has become an essential safety net for FERS workers. Still, the FERS annuity lacks the full inflation protection afforded to CSRS workers.

That's why NARFE supports COLAs for all federally administered retirement programs. What's more, for some Federal workers, the Social Security leg of retirement is eroded by the so-called windfall elimination provision or WEP. NARFE supports H.R. 235, legislation to repeal the WEP and the related government pension offset.

For years we have worked to improve the TSP by conforming it to 401(k) plan rules and by adding new features to the TSP, which are consistent with the program's investment philosophy. With your help, Mr. Chairman, we are pleased that several TSP improvements became law in June. For example, the most important enhancement in the program's history was made when newly hired Federal employees were automatically enrolled in the TSP, provided an immediate matching contribution. Now more Federal employees will be better prepared for their retirement.

NARFE supported adding a Roth option to allow participants to make after-tax contributions to the plan and withdraw their earnings tax-free upon retirement. In addition, we are happy the new law will give surviving spouses the same rights over their inherited accounts as any other TSP participant.

Beyond these improvements we are concerned about the new self-directed option to allow participants to invest their accounts in funds outside the TSP. Indeed, the administrative costs incurred by funds beyond TSP are usually much higher and many lack the reduced risk and proven long-term performance of TSP's well diversified index funds. For that reason, NARFE fears the participants could take on too much risk. We urge the Thrift Board to consider limitations on funds invested outside of TSP to ensure that participants do not put all their eggs into one basket.

Some have said the self-directed option was included to placate interests in offering single-sector funds in the TSP. The Thrift Board has advised against adding such funds because they conflict with the program's diversified investment strategy. NARFE agrees, and we urge Congress and the Thrift Board to base fund decisions on carefully crafted objective financial analysis and not politics.

Still, more must be done to advance the program further. As has been said, President Obama said that employees should have the option of putting payments for unused leave into their 401(k)'s. As a matter of equity, NARFE believes that Federal workers should have this choice if it is offered to private-sector employees. NARFE also supports a proposal to allow Federal workers to contribute bonuses into their tax deferred accounts.

And while NARFE seeks the means to maximize retirement savings, we are concerned that the Federal Government does not do enough to educate its own workers saving for retirement.

We commend you for your interest in making the Thrift Savings Plan continue to thrive. And thank you for inviting us to testify.

[The prepared statement of Ms. Baptiste follows:]

STATEMENT BY
MARGARET L. BAPTISTE
PRESIDENT
NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES ASSOCIATION

THE SUBCOMMITTEE ON THE FEDERAL WORKFORCE, THE POSTAL SERVICE AND THE DISTRICT OF COLUMBIA
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES

HEARING ON
"MANAGING THE THRIFT SAVINGS PLAN TO THRIVE"

NOVEMBER 3, 2009

National Active and Retired
Federal Employees Association
606 N. Washington Street, Alexandria, VA 22314
Phone: 703-838-7760 • Fax: 703-838-7785 • Web site: www.narfe.org

Chairman Lynch, Ranking Member Chaffetz, and Members of the subcommittees, on behalf of our nation's 4.6 million federal employees, retirees and survivor annuitants, I appreciate the opportunity to express the views of the National Active and Retired Federal Employees Association (NARFE) on the federal Thrift Savings Plan (TSP).

We continue to be pleased with the performance of the TSP. We believe that the Federal Retirement Thrift Investment Board (FRTIB) and its staff, have acted as dutiful fiduciaries on behalf of federal workers and retirees.

Indeed, the TSP has been a huge success, with an 82.1 percent voluntary contribution rate by Federal Employee Retirement System (FERS) employees. It is the largest 401(k)-type plan in the country, with more than $234 billion in assets and with an exceptionally low expense ratio of just three one-hundredths of 1 percent, that is, just 30 cents on each $1,000 invested.

In 1986, NARFE worked with key legislators to write the law that created the TSP and FERS. Today, Richard C. Ostergren, NARFE's National Treasurer, represents our Association on the Employee Thrift Advisory Committee (ETAC), which meets with the FRTIB executive director and his staff on a regular basis to consider the operations and investment policies of the plan.

The Viability of Defined Contributions Plans

The test of any organization is its performance during a crisis. We believe that FRTIB and its vendor fund managers have continued to perform admirably in the current volatile financial market. Unfortunately, because of events beyond our control, nearly all Americans who participate in a defined contribution retirement plan – including TSP participants -- lost a significant amount of their savings value during the current economic downturn, the worst since the Great Depression. While many of us are just now gaining back what we lost, few if any retirement plan participants will take it for granted that their investments in the stock and bond markets will always grow.

Federal workers who are years away from retirement should have plenty of time to make back what they lost -- and hopefully gain ground along the way. The same is not true for workers who are at or near retirement. Those employees are in the unenviable position of either retiring with a smaller nest egg than they had hoped for or deferring retirement until some undetermined point in the possibly distant future -- after market rebounds.

We commend the Thrift Board for trying to mitigate this problem by creating "Lifestyle" funds (L Funds), which reduce a participant's exposure to investment risks as they age and move closer to retirement.

Employers originally created retirement plans for their workers to ensure that they would not have to work into old age, and also to make room for younger employees to move up the promotion ladder and take their places. As employers have migrated away from "**defined benefit**" pensions and annuities to "**defined contribution**" retirement savings plans, the burdens of retirement liabilities and risk have been shifted from employer to employee. While this transition has improved corporate balance sheets and enabled workers to have portable retirement benefits, the original purpose of employer-sponsored retirement programs are diminished when employees are compelled to remain in the workforce until they make up for lost gains.

Preserving the FERS "Three-Legged Stool"

We acknowledge that it is unlikely that a bear market would result in employers going back to defined benefit pensions and annuities. Fortunately, the retirement security of FERS workers is diversified with the "three-legged stool" of the TSP, a smaller-than-Civil Service Retirement System (CSRS) annuity and Social Security benefits.

Several years ago, the former chairman of this subcommittee proposed that the government and FERS worker contributions made to the Civil Service Retirement and Disability Fund be diverted to a significantly altered version of the TSP. We opposed the proposal plan back then, and we would oppose it now because it would remove one of the three legs of the FERS retirement stool, which, as evidenced by the recent market slump, has become an essential safety net for FERS workers.

Still, the FERS annuity lacks the full inflation protection afforded to CSRS workers. FERS retirees have to wait until age 62 to receive a cost-of-living adjustment (COLA). ONCE they reach that age, their COLA is one percentage point less than what CSRS and military retirees and Social Security beneficiaries receive. NARFE supports COLAs for all federally-administered retirement programs on a regular annual schedule, computed on the same basis and paid at the same time, regardless of age and/or income level.

What's more, for some FERS workers the Social Security leg of retirement is eroded by the so-called Windfall Elimination Provision or WEP. The WEP unfairly and arbitrarily reduces the Social Security benefits of certain FERS and CSRS employees who paid Social Security payroll taxes just long enough to qualify for benefits at age 62. Repeal or reform of the WEP would shore up the retirement security of more than 950,000 federal, state and local government retirees. NARFE supports H.R. 235, legislation introduced by your colleagues, Howard Berman (D-CA) and Howard "Buck" McKeon (R-CA), which would repeal the WEP and related Government Pension Offset or GPO.

TSP Improvements

For several years, we have worked with Congress and the FRTIB on legislation to conform TSP regulations to Internal Revenue Service rules on other qualified retirement savings plans such as 401(k)s. We have supported adding new features to the TSP that have succeeded when offered in private retirement savings plans and when they are consistent with the program's investment philosophy.

With the help of you and your colleagues, Mr. Chairman, and through NARFE's and the federal/postal community's advocacy, several TSP improvements were included in the Tobacco Regulatory legislation signed into law by President Obama on June 22 as P.L. 111-31.

For example, the new law automatically enrolls newly hired federal employees in the TSP and makes them eligible to receive an immediate matching contribution from their employing agency. We believe this is the most important enhancement added to the program since it was created. Indeed, it will increase the percentage of federal employees who make use of the TSP to ensure they are better prepared for their retirement.

NARFE supported authorizing the FRTIB to add a "Roth" option to the TSP which will allow participants to make after-tax contributions to the plan and withdraw their earnings tax-free upon retirement. A growing percentage of private 401(k) plans have a Roth option, and it could be a viable alternative for individuals whose income taxes are likely to be higher in retirement than they were when they were working. We are pleased that the FRTIB plans to use their newly acquired authority to offer a TSP Roth option.

In addition, the new law addresses the retirement security of the surviving spouses of workers and retirees by granting them the same rights over their inherited accounts as any other TSP participant. Prior to the enactment of P.L. 111-31, a spouse married to a TSP participant who passed away was required to either transfer their inherited account to an individual retirement account (IRA) or take the benefit as a cash withdrawal, which is subject to federal income taxes. NARFE is grateful to our friends on this committee for extending full ownership of TSP accounts to surviving spouses.

I would also like to acknowledge my colleague Dick Strombotne, representing the Senior Executive Association today, for leading this effort during the past six years and for working with us on spousal account rights. Mr. Strombotne is also a long-time NARFE Maryland Federation and chapter officer.

"Self-Directed" Option

Beyond these improvements, the only change in the new law that gives us pause is the authority given to the Thrift Board to allow participants to invest their account in mutual funds outside the investment funds currently offered by the plan. While some TSP participants might enjoy this "self-directed" option, the administrative costs incurred by funds beyond TSP are typically much higher than our program. THAT IS because the 4.059 million federal workers and military personnel who participate in TSP create a large economy of scale, which achieves administrative savings unheard of in other employer-sponsored retirement savings plans. Indeed, TSP's index plans are large, well-diversified portfolios of securities that have reduced risk to investors and have a proven performance, over the long term. The same cannot be said for many funds outside of the TSP. For that reason, NARFE is concerned that such a self-directed option could result in federal workers taking on too much risk. While we recognize that some participants may want to the freedom to invest outside of the TSP, we urge the Thrift Board to consider limitations on the percentage of funds invested in the self-directed option to ensure that federal workers do not put all their eggs in one basket.

Some have said that the self-directed option was added to the new law to placate interest in offering single-sector industry or commodity funds or socially responsible investment funds in the TSP. As part of their fiduciary duty, the Thrift Board has advised against adding such funds because they conflict with the diversified index fund strategy of the program which has minimized risk and created retirement security for participants and beneficiaries. NARFE agrees with this position, and we hope that future fund selection will not be driven by the politics of outside self-interested funds. Instead, we urge Congress and the Thrift Board to work together and to base fund decisions on carefully crafted objective financial analysis and not politics. Most of all, Congress and the Thrift Board must act in the best interests of federal civilian workers and military personnel who put their hard-earned dollars in the TSP.

NARFE Policy Recommendations for the TSP

Although NARFE is delighted with most of the TSP improvements in the Tobacco law, we continue to be interested in advancing the program further.

For instance, President Obama said in his September 5th radio address that "we'll make it possible for employees to put payments for unused vacation and sick days into their retirement plan if they wish to. Right now workers don't have that option." On that same day, the Treasury Department and the Internal Revenue Service followed up on the president's remarks by issuing Revenue Ruling 2009-31, which explained that a 401(k) plan may be amended to require or permit the contribution of the dollar equivalent of unused paid time off as of the end of a year to the 401(k) plan and the allocation of the amount to the participant's account. In response, NARFE and the National Treasury Employees Union asked the Thrift Board to address whether the new ruling would apply to TSP participants. They concluded that federal employees cannot contribute unused annual or sick leave to their TSP accounts unless the Federal Employees

Retirement System Act is amended. As a matter of equity, NARFE believes that federal workers should have this savings option if it is offered to private-sector employees.

NARFE also supports a proposal to allow federal workers to contribute bonuses into their tax-deferred accounts. We acknowledge that bonus investments would not be exempt from IRS retirement contribution limits, and would not be eligible for any government/employer matching contributions otherwise available to FERS workers. For instance, if such a proposal became law this year, TSP participants already making the maximum contribution ($16,500 for workers 49 years old and younger, and $ 22,000 for those 50 and older) would not be able to deposit a bonus in their account. Allowing the deposit of bonuses for civilian participants would be helpful for those who contribute under the current limits.

Finally, NARFE supports legislation to authorize the Thrift Board to take legal action to protect the interests of TSP participants and beneficiaries in accordance with its fiduciary responsibilities.

Retirement Savings Education

From our TSP legislative and policy recommendations, it is clear that it is NARFE's desire that federal civilian workers and military personnel have the means to maximize their retirement savings. We made progress towards this goal by the provisions in the new law that will automatically enroll new employees into the TSP and provide them with an immediate agency matching contribution.

Still, we can make it easier to save for retirement. A defined contribution system will not work unless employees do their part. Unfortunately, many Americans cannot afford or are unwilling to accept this responsibility and have little money put away in savings and investments. According to the Employee Benefits Research Institute's 2009 "Retirement Confidence Survey," 53 percent of respondents reported that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000.

We would like to think that a much greater portion of federal workers have saved more money than the general public. Certainly, the efforts by the Thrift Board to educate federal employees about the importance of retirement savings have helped. However, we remain concerned that the federal government, as an employer, does not do enough to educate its own workers about how much they need to save now to preserve their quality of life in retirement. Nor do we believe that many workers appreciate that their retirement planning should extend beyond the TSP to other savings vehicles such as Individual Retirement Accounts. Mature and older Americans should be able to live dignified and independent lives. Many will not reach that goal unless our retirement education efforts create a culture of savings.

Conclusion

Chairman Lynch and Ranking Member Chaffetz, we commend you for your interest in ensuring that the Thrift Savings Plan continues to thrive. TSP is a model employer-sponsored retirement savings program because of the dedication of the Federal Retirement Thrift Investment Board and its staff, and as a result of this committee's support and oversight of the program. The TSP provisions in the recently enacted Tobacco law will only help to perfect the program. We stand ready to work with this panel, others in Congress and the Thrift Board to find the ways and means to ensure that federal civilian workers and military personnel are financially prepared for retirement and that the TSP continues to be innovative and a model for other employers to follow.

I would be happy to answer any questions you may have.

NEWS FROM

NARFE
National Active and Retired Federal Employees Association
606 North Washington Street
Alexandria, VA 22314-1914
(703) 838-7760 ● FAX (703) 838-7785
E-Mail: natlhq@narfe.org

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FOR INFORMATION:
Dan Adcock 202-246-6273

NARFE Says Thrift Savings Plan Is "Huge Success," But Has Concerns About Losses For Feds Near Retirement

National Active and Retired Federal Employees Association (NARFE) President Margaret L. Baptiste told the House Subcommittee on the Federal Workforce today that while the first 23 years of the federal Thrift Savings Plan (TSP) has been a huge success, NARFE is concerned that the current volatile financial market is forcing federal employees at or near retirement to keep working until they can regain their losses.

The TSP is the tax-deferred retirement savings program created by Congress in 1986 and is similar to 401(k) plans offered to workers in the private sector.

"Federal workers years away from retirement should have time to recover. But employees at or near retirement don't have that luxury," Baptiste testified. "Most of them will either retire with a smaller nest egg or work until the market rebounds."

Baptiste noted that retirement plans were created so that employees could avoid working into old age and also to make room for younger workers to take their places. "But the purpose of retirement programs are negated when workers cannot afford to retire until they make up for lost gains," she testified. "That's why, as evidenced by the recent market slump, the relatively modest 'defined benefit' annuity earned by Federal Employees Retirement System (FERS) retirees has become an essential safety net."

In addition, NARFE's President praised Subcommittee Chairman Stephen F. Lynch, D-MA, and others for working with the Association and other federal/postal organizations on including several TSP improvements in the Tobacco Regulatory bill, which became law in June. That new law provides:

- Automatic enrollment of, and immediate matching contributions for, newly hired federal employees.
- A "Roth" option to the TSP to allow participants to make after-tax contributions to the plan and withdraw their earnings tax-free upon retirement.
- Surviving spouses with the same rights over their inherited accounts as any other TSP participant.

However, Baptiste said that NARFE was concerned about a provision in the new law that will allow participants to invest their accounts in funds outside the TSP.

"TSP's index plans are large, well-diversified portfolios of securities that have reduced risk to investors and have a proven performance, over the long term. The same cannot be said for many funds outside of the TSP," she testified. "For that reason, NARFE is concerned that such a 'self-directed' option could result in federal workers taking on too much risk."

Baptiste suggested that the Federal Retirement Thrift Investment Board consider limitations on funds invested outside of the TSP "to ensure that participants do not put all their eggs in one basket."

She also noted that, in September, President Obama announced that private 401(k) plans could allow their workers to put payments for unused vacation and sick days into their retirement savings. "As a matter of equity, NARFE believes that federal workers should have this choice if it is offered to private-sector employees."

# # #

NARFE, one of America's oldest and largest associations, was founded in 1921 with the mission of protecting the earned rights and benefits of America's active and retired federal workers. The largest federal employee/ retiree organization, NARFE represents the retirement interests of nearly 5 million current and future federal annuitants, spouses, and survivors.

Mr. LYNCH. Thank you.

Mr. Strombotne, you are now recognized for 5 minutes.

STATEMENT OF RICHARD STROMBOTNE

Mr. STROMBOTNE. Chairman Lynch, and distinguished members of the subcommittee, I want to thank you very much for the opportunity to testify before this subcommittee on the perspective of the Senior Executives Association relating to the Thrift Savings Plan.

For the past 10 years, I have served as the representative of the Senior Executives Association on the Employee Thrift Advisory Council. I served as the chairman of SEA's Task Force on Retirement Issues during the mid-1980's, when both the Federal Employees Retirement System and the Thrift Savings Plan were created. And I spearheaded SEA's efforts to ensure that CSRS employees could contribute 5 percent of their salary to the Thrift Savings Plan. And SEA has participated as a member of the Employee Thrift Advisory Council since its inception.

The Thrift Savings Plan has not been a static retirement plan. ETAC and its members have worked together to consider and implement new offerings to upgrade the Thrift Savings Plan and make it more useful to its employees. Over the last decade, such upgrades, including adding the small cap and international funds to the original G fund, large cap and fixed-income funds, and adding the option to invest in the lifecycle funds, and providing access to Thrift Savings Plan participants, assuring that they can easily access information about their plan and access the account to manage their contributions.

The new features that significantly upgrade the Thrift Savings Plan were signed into law by President Obama, and SEA supports the passage of many of these features and believes that they will provide long term benefits.

Much has been said already about the Roth option, and I would applaud that, as well as the automatic enrollment of new employees.

But I want to take just a moment to talk about the beneficiary accounts for the surviving spouses. Prior to this change, the spouses of deceased Federal employees had a choice of receiving a payout of the Thrift Savings Plan account in a lump sum or transferring the money into a rollover IRA. Neither of these options was ideal as the lump-sum payment had tax consequences and the rollover IRA had higher administrative costs than the Thrift Savings Plan, as you've heard. And the new law allows spouses who are the beneficiary of an account to keep the funds in the Thrift Savings Plan and become the managers of these accounts. It also relieves them of having to make an important financial decision in a time of grief. This was pointed out to me by one of the members of ETAC, and I think it's a good point to make.

As the ETAC member who proposed this addition to the Thrift Savings Plan, I was very happy to see it become law and very pleased with the Federal Retirement Thrift Investments Board's prompt efforts to support its purpose. And Director Long reported at the joint meeting of the Board and the Council on October 19th that it's already being used.

On the mutual fund window, SEA has concerns about the mutual fund window. It's necessary to study this option further to determine whether the cost of implementation is feasible and practical. We have a concern about the likelihood that this would overburden already strapped human resource and personnel offices. And it's not at all clear that participants have the necessary investment expertise that would be needed to use a mutual fund window effectively because it's a riskier investment than traditional funds.

With that in mind, the Senior Executives Association urges the Thrift Investment Board to take a cautious approach to opening the newly authorized mutual fund window.

As to looking for ways to improve the Thrift Savings Plan in the future, there are two that we think would be very useful. One is to provide the opportunity for employees who receive bonuses and performance awards to contribute those in one—some amount; 1 percent ranging to 100 percent directly into the Thrift Savings Plan. Military members can do this already, but it's not available for civilian employees. The bonuses are an important part of the compensation package, especially for members of the Senior Executive Service, and the amount of money that a senior executive can contribute to their Thrift Savings Plan is reduced compared with the employees in the GS system. So we recommend that bonuses and performance awards be included as allowable deposits.

And now, when employees retire, they receive lump-sum payments for their unused annual leave, and they cannot make this, cannot use this as a payout, cannot use this payout to make a deposit. I had the experience of talking with one Federal retiree, a woman who retired late in the year. She received a payout of her annual leave in a lump sum. When she received the payment——

Mr. LYNCH. Mr. Strombotne, I just have to let you know you're way over your time.

Mr. STROMBOTNE. I'm sorry. Yes,I will conclude.

Mr. LYNCH. I appreciate it. Thank you.

Mr. STROMBOTNE. I'm through.

Mr. LYNCH. I didn't mean to cut you off.

Mr. STROMBOTNE. Well, let me finish that one story. Because the woman, when the lump-sum payout was added to her salary she already received, it meant that she went over the means test for Medicare, and so her Medicare premiums went up as a result. And that's the final story.

[The prepared statement of Mr. Strombotne follows:]

Senior Executives Association

the voice of career federal executives since 1980

820 First Street N.E., Suite 700 • Washington, D.C. 20002 • (202) 927-7000 • Fax (202) 927-5192 • www.seniorexecs.org

TESTIMONY

of

RICHARD STROMBOTNE

Representative to the Employee Thrift Advisory Council

SENIOR EXECUTIVES ASSOCIATION

Before the

HOUSE SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

"MANAGING THE THRIFT SAVINGS PLAN TO THRIVE."

November 3, 2009

Chairman Lynch and Distinguished Members of the Subcommittee:

Thank you for the opportunity to testify before this Subcommittee on the perspective of the Senior Executives Association relating to the Thrift Savings Plan. The Senior Executives Association (SEA) is a professional association that for over 28 years has represented the interests of career federal executives in government, including those in Senior Executive Service (SES) and equivalent positions, such as Senior Level (SL) and Scientific and Professional (ST) positions.

For the past ten years I have served as the SEA representative on the Employee Thrift Advisory Council (ETAC). I also served as the chairman of SEA's Task Force on Retirement Issues during the mid-1980s, during the time when both the Federal Employees Retirement System (FERS) and the Thrift Savings Plan (TSP) were created. As chairman, I spearheaded SEA's efforts to ensure that CSRS employees could contribute 5% of their salary to the TSP. SEA has participated as a member of ETAC since its inception and has continually participated in advising the Federal Retirement Thrift Investment Board (FRTIB) on proposals to implement and improve the TSP.

SEA has continued to be active on ETAC and believes that it is important to obtain the input of federal employee groups to ensure that the TSP provides upgraded and necessary services for employees, retirees and their families.

Plan Upgrades to the Thrift Savings Plan

Since its inception, the TSP has not been a static retirement plan. ETAC and the members of the FRTIB have worked together to consider and implement new offerings to upgrade the TSP and make it more useful to those employees whom it serves. Over the last decade, such upgrades include adding the S and I Funds to the original G, C and F Funds; adding the option to invest in a Lifecycle Fund; and, providing online access to TSP participants, assuring that they can easily access information about their plan and access their account to manage their assets and contributions.

Recently, new features that significantly upgrade the TSP were signed into law by President Obama. SEA supported the passage of many of these features and believes that they will provide long-term benefits for participants.

Roth Option

Traditionally, contributions to the TSP are tax-deferred. The new Roth option would allow participants to invest their after-tax salary into an account without tax liability on their future earnings. Therefore, participants would not have to pay taxes regardless of how much their account grows.

Due to the administrative cost and effort to implement this new option, it will likely take two years before it is available to participants. It is important that the FRTIB work to get this option off the ground as soon as possible, while ensuring that payroll and personnel offices are not overburdened by the implementation efforts. This will require significant oversight by the FRTIB and Congress.

Automatic Enrollment of New Employees

SEA is also supportive of the change to automatically enroll new federal employees into the TSP with the 90 day opt-out. With the new provisions that require agencies to immediately begin depositing a 1% contribution to employees' TSP accounts, even if the employee has not yet opened or started contributing to it, the automatic enrollment ensures that employees do not miss out on these funds.

Beneficiary Accounts for Surviving Spouses

Prior to the recent changes to the TSP, spouses of deceased federal employees had the choice of receiving a payout of the TSP account in a lump-sum or transferring the money into a roll-over IRA. Neither of these options was ideal as the lump-sum payout had adverse tax consequences and the roll-over IRAs had higher administrative costs than the TSP. The new law allows spouses who are the beneficiary of an account to keep the funds in the TSP and become the managers of the accounts. It also relieves them from having to make an important financial decision in a time of grief.

As the ETAC member who proposed this addition to the TSP, I was happy to see it become law and am very pleased with the FRTIB's prompt efforts to support its purpose. Director Greg Long reported at the joint meeting of the FRTIB and ETAC on October 19th that it is already being used.

Mutual Fund Window

Although this provision was part of the recent legislation, consensus did not exist among members of ETAC or the FRTIB on the usefulness of providing this option to TSP participants. The compromise that passed into law is the authorization for the FRTIB to create a mutual fund window in the future, not the actual creation of the option itself. Currently, it is not likely that this will be implemented in the near future.

SEA does have concerns with the mutual fund window. Due to the complexity of such a program and the large amount of resources needed to implement it, SEA believes that it is necessary to further study this option to determine whether the cost of implementation is feasible. This is especially appropriate since the mutual fund window is of interest to a limited number of participants (the 2008 Participant Survey found that only 24% of respondents were interested in this option and the number dropped to 10% if an annual usage fee were to be attached). Another concern is whether starting up such an option would overburden already strapped human resource and personnel offices. Furthermore, many participants do not have the investment expertise needed to use a mutual fund window, which can be a riskier investment than the traditional TSP funds. Consideration should be given to providing professional advice to participants interested in using such an option and requiring that they cannot place all of their investments in this high risk fund.

With these concerns in mind, SEA urges the FRTIB to take a cautious approach to opening the newly authorized mutual fund window and ensuring that it is in the best interest of participants.

Suggestions for Future TSP Upgrades

The current changes to the TSP have gone a long way to upgrading the plan to increasing its usefulness to participants. However, there are a number of other changes that would be desirable additions to the TSP that should be considered in the future.

Adding Bonus and Performance Awards on to the List of Permissible Deposits for Civilian Employees

Members of the military may contribute any amount, from 1 to 100 percent, of their bonuses directly into the TSP. Currently, civilian federal employees are not allowed to deposit any bonuses or performance awards directly into the TSP. Bonuses are an important part of compensation, especially for members of the Senior Executive Service (SES). Under the current SES pay system, agencies have complete discretion to set pay and provide bonuses to their Senior Executives. The average SES annual pay adjustment lags behind annual pay adjustments (including locality pay) given employees paid under the General Schedule (GS), although the majority of Senior Executives do receive awards based on their performance. This means that the amount of money that a Senior Executive can contribute to their TSP is greatly reduced, compared to those employees in the GS system.

SEA recommends that bonuses and performance awards be included as allowable deposits for members of the civilian federal service.

Permitting the Deposit of the Lump-Sum Annual Leave Payout

When employees retire from the civil service, they receive lump-sum payments for their unused annual leave. Under current law, employees cannot use this payout to make a deposit into their TSP accounts. This option would be useful to those federal employees who would be subject to higher means testing due to a lump-sum payout.

For example, one federal retiree who retired late in the year received the payout of her annual leave in a lump-sum. When she received the payment it raised her annual income for that year and triggered the means test for Medicare, leading to an increase in her Medicare premiums. Allowing federal retirees to deposit their lump-sum payout into their TSP accounts will ensure that federal employees have options so that they are not unfairly penalized for taking the lump-sum payout.

Conclusion

There are many challenges to managing the Thrift Savings Plan and maintaining its vitality and usefulness to its participants. SEA is supportive of many of the recent changes to the TSP and encourages the FRTIB and Congress to consider the proposed additions to the Plan outlined above.

On behalf of SEA, I look forward to continuing to work with ETAC, the FRTIB, and Members of Congress to thoughtfully implement the newly enacted legislation and to identify future upgrades.

Mr. LYNCH. Thank you, sir.

Colonel Hayden, you're recognized for 5 minutes.

STATEMENT OF COLONEL MICHAEL HAYDEN

Colonel HAYDEN. Mr. Chairman, distinguished members of the subcommittee, on behalf of the 375,000 members of the Military Officers Association, I'm grateful for the opportunity to present testimony on MOAA's views of recent legislative changes to the Thrift Savings Plan and potential other enhancements that could benefit uniformed service members and their families.

The Thrift Savings Plan Enhancement Act of 2009, part of Public Law 111–31, signed into law in June of this year, included two noteworthy provisions for uniformed service members and their families, provisions that had MOAA's full support.

The first provision made some modest future increases in payments to military survivors affected by the offset of DOD's Survivor Benefit Plan by VA's dependency and indemnity compensation. The second provision, which is the focus of my testimony today, authorizes currently serving uniformed service members and Federal civilian employees a Roth savings option under the Federal Thrift Savings Plan, a provision we have been advocating for since the advancement of the Roth 401(k) in 2006.

MOAA strongly supports a Roth TSP option under which participants pre-pay taxes on their contributions but watch their Roth savings grow tax-free and enjoy tax-free withdrawals in retirement. Providing a Roth option will be especially attractive for young service members in lower tax brackets, as well as career military people who receive part of their current pay as tax-free allowances but can expect to have taxable retirement annuities.

MOAA believes providing a raw TSP option for currently serving personnel is an equitable and enlightened action which will improve their long-term financial security. The family of our service members surely deserve this option in light of their contributions to our Nation.

Since the passage of the act, we are grateful that the Thrift Savings Plan Web site has taken a very proactive approach by posting two informative fact sheets: one outlining the legislative changes to the Thrift Savings Plan for Federal employees and service members, and another that provides frequently asked questions and answers.

The Q&A fact sheets makes the following key statements MOAA intends to follow closely during the upcoming implementation period. The first is that uniformed members and Federal employees could see a Roth TSP implementation as early as January 2011. The second outlines that there will be no income restrictions on Roth TSP contributions. And finally, the third outlines the Thrift Savings Plan will develop a plan to educate eligible users on the relevant advantages and disadvantages of the Roth versus regular TSP. We believe this third bullet is crucial. Service members must be provided concise decision information in order to determine if a Roth TSP plan is right for them.

As for other TSP recommendations, we suggest a TSP conversion. As was the case in the late 1990's when a Roth IRA was first introduced, we recommend that with the implementation of a Roth TSP, military and Federal employees should be offered the option of converting some or all of their existing TSP accounts to Roth TSP accounts, regardless of their modified gross income.

Providing a conversion option is a win-win for both the participant and the Federal Government, especially in the current national deficit environment. Participants win by having the option to convert, pay taxes now, and have their TSP earnings grow without tax liability upon withdrawal. Additionally, the Federal Government wins by garnering more tax revenues now upfront.

Additionally, MOAA supports a change either in policy or law that would allow uniformed service members to enjoy the same TSP contribution options that Federal employees presently enjoy. Currently, service members can only elect a whole percentage option for TSP contributions. Federal civilian employees have the option to contribute either a dollar amount or a percentage of a pay. We believe that providing a fixed-dollar amount option would simplify the process for the service members.

Finally, as stated before, we believe a thorough education plan will be instrumental to ensure the Roth rollout is implemented most effectively. Therefore, MOAA recommends that TSP bring affected agencies together, to include Federal agencies and military and veteran service organizations, in roundtable discussions to assist in developing the rollout education plan and necessary rule-making policy. We feel a collaborative effort will produce a much more comprehensive result.

So in conclusion, MOAA is grateful to the subcommittee for its leadership on this issue and for the commitment of both Congress and the Federal Retirement Thrift Investment Board to provide this much-needed savings option for Federal employees and uniformed service members.

We look forward to assisting in the upcoming policymaking and subsequent rollout as well as to your questions.

[The prepared statement of Colonel Hayden follows:]

STATEMENT

of the

MILITARY OFFICERS ASSOCIATION OF AMERICA

on

THRIFT SAVINGS PLAN ENHANCEMENTS

before the

HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE

FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA SUBCOMMITEE

November 3, 2009

Presented by

Colonel Michael F. Hayden, USAF (Ret.)
Deputy Director, Government Relations

CHAIRMAN LYNCH, RANKING MEMBER CHAFFETZ, AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE, on behalf of the 375,000 members of the Military Officers Association of America (MOAA), I am grateful for the opportunity to present testimony on MOAA's views of recent legislative changes to the Thrift Savings Plan and potential other enhancements that could benefit uniformed service members and their families.

MOAA does not receive any grants or contracts from the federal government.

The Thrift Savings Plan Enhancement Act of 2009, part of Public Law 111-31 signed into law in June of this year, included two noteworthy provisions for uniformed service members and their families – provisions that have MOAA's full support.

The first provision makes some modest future increases in payments to military survivors affected by the offset of DoD's Survivor Benefit Plan by VA's Dependency and Indemnity Compensation.

The second provision, which is the focus of our testimony today, authorizes currently serving uniformed service members and federal civilian employees a Roth savings option under the federal Thrift Savings Plan – a provision we have been advocating for since the advancement of Roth 401Ks in 2006 and one that the Federal Retirement Thrift Investment Board recommended to Congress earlier this year.

MOAA strongly supports a Roth TSP option, under which participants pre-pay taxes on their contributions but watch their Roth savings grow tax-free and enjoy tax-free withdrawals in retirement.

Providing a Roth option will be especially attractive for young service members in lower tax brackets as well as career military people, who receive part of their current pay as tax-free allowances, but can expect to have taxable retirement annuities.

MOAA believes providing a Roth TSP option for currently serving personnel is an equitable and enlightened action which will improve their long term financial security. The families of our service members most assuredly deserve this option in light of their contributions to our nation.

Since the passing of the Act, we are grateful that the Thrift Savings Plan website has taken a very proactive approach by posting two informative fact sheets; one outlining the legislative changes to the Thrift Savings Plan for federal employees and service members and another that provides frequently asked questions and answers.

The Q&A fact sheet makes the following key statements MOAA intends to follow closely during the upcoming implementation period:

- The first is that uniformed members and federal employees could see a Roth TSP implementation as early as January 2011.

- The second outlines there will be no income restrictions on Roth TSP contributions.

- Finally, the third outlines that the Thrift Savings Plan will develop a plan to educate eligible users on the relative advantages and disadvantages of the Roth vs. regular TSP.

We believe the third bullet is critical. Service members must be provided concise decision information in order to determine if a Roth TSP plan is right for them.

OTHER TSP RECOMMENDATIONS

TSP Conversion – As was the case in the late 90s when a Roth IRA was first introduced, we recommend that with the implementation of a Roth TSP, military and federal employees should be offered the option of converting some or all of their existing TSP accounts to Roth TSP accounts regardless of their modified adjusted gross income.

Providing a conversion option is a win-win for both the participant and the federal government, especially in the current national deficit environment. Participants win by having the option to convert, pay taxes now, and have their TSP earnings grow without tax liability upon withdrawal.

Additionally, the federal government wins by garnering more tax revenues now, upfront.

Fixed Dollar Amount Option – Additionally, MOAA supports a legislative change to Title 5, sec. 8432 that would allow uniformed service members to enjoy the same TSP contribution options that federal employees presently enjoy.

Currently, service members can only elect a whole percentage option for TSP contributions. Federal civilian employees have the option to contribute either a set dollar amount or a percentage of pay.

MOAA believes that all TSP members, both service members and federal civilians, should be permitted to contribute a set dollar amount. A set dollar amount will allow service members to calculate monthly withholdings in order to maximize their annual contributions.

Right now service members can only get "in the ball park" to maximize their annual contribution amount. They must calculate and adjust the whole percentage number throughout the year and any time their pays change. Pay amounts don't change just annually. Several factors can adjust a members pay: promotions, deployments, longevity increases, changes to special pays, and achievement of flight pay "gates" are just a few.

One member wrote that in 2008 he had to adjust his pay-rate percentage three times; once for the annual pay raise, once for promotion, and once for a longevity pay increase.

We believe that providing a "fixed-dollar" amount option would simplify the process for the service member.

Collaborative Education and Rule-Making – As stated before, we believe a thorough education plan will be instrumental to ensure the Roth rollout is implemented most effectively.

Therefore, MOAA recommends that TSP bring affected agencies together, to include federal agencies and military and veteran service organizations, in round-table discussions to assist in developing the rollout education plan and necessary rule-making policies. We feel a collaborative effort will produce a much more comprehensive result.

CONCLUSION

MOAA is grateful to the Subcommittee for its leadership on this issue and for the commitment of both Congress and the Federal Retirement Thrift Investment Board to providing this much-needed savings option for federal employees and uniformed service members.

We look forward to assisting in the upcoming policy making and subsequent rollout.

Biography of Michael F. Hayden, Colonel, USAF (Ret.)
Deputy Director, Government Relations

Colonel Mike Hayden, USAF-Ret., joined the MOAA legislative team in July 2005 upon completion of a 25-year military career in air and space operations, personnel, recruiting, training, and education, and adds his wide knowledge and broad experience to MOAA's legislative expertise, focusing on active duty and retiree compensation issues.

Mike spent his last five years on active duty at the Pentagon as chief of the Military Personnel Policy Division, HQ USAF, and as chief, Personnel Services Division for the Joint Chiefs of Staff. As the Military Personnel Policy Division chief, his team developed and implemented the one-year drawdown of over 24,000 airmen. In the latter position, he worked with MOAA in winning Survivor Benefit Plan (SBP) coverage for survivors of service members killed on active duty.

Mike compiled over 2,800 flying hours as a B-52 instructor radar navigator and holds a Bachelor's degree in Economics from Northern Illinois University and a Master's degree in Aeronautical Science from Embry Riddle University.

Mr. LYNCH. Thank you, Colonel. I now want to recognize myself for 5 minutes. I want to say at the outset that I am very happy with the way the Thrift Saving Plan works as a participant. That is my own assessment. And I think it is very good. I agree with the testimony that it has been a great success. On a scale of 1 to 10, I would give it an 8.

There needs to be some improvement. For instance, the Web site. In the video game world, your Web site is Pong. It is simple, I understand that. It is very simple, it is very basic, very utilitarian, but we can do better, I think. And I know you are already undertaking that, but I do think that it could stand some improvement.

I'm just going to go with the issues that have been laid out in your testimony, some of it. As far as using unused annual leave for deposit, I think that is a great idea because it is out there already and for the IRS and has approved it, anticipating putting it in the participating bill. I talked to the ranking member. He's receptive to it. So we'll try to get it. We'll probably move forward with that when I get more assistance from the other members.

Also Mr. Cox, your comments regarding a similar advisory group and that sector, as you have here—because it has worked out so well—is also something that I would be willing to look at, and I think it would be welcome.

Let me just say the one issue that has introduced some controversy and difference of opinion here has been the idea of a mutual fund window. And I understand both of the arguments, but I think there might be a way to address all of those concerns and still allow some flexibility here. And that might be—I am just suggesting—limiting the amount that any person, any participant, might be able to venture in this window, whether it is a third of what they have. I think there's the real possibility of limiting what's available through the window.

In other words, it's not the whole world of mutual funds there, but there might be the ability to screen the cost structure that the union representatives have raised and also some of the retiring representatives raised about making sure that the cost structure there is not prohibitive. In other words, to participate and be eligible through that window, you have to bring the costs down. And I think having $224 billion in the fund gives a certain amount of bargaining power to the TSP to put out that RFP to some of these funds that might offer these packages.

So I think there's some protections that we might introduce if we were going to go forward with this. But they have to be consistent with protecting the retirement of the participant. We can't just have people out there, day trading. That would be inconsistent with our overall mission.

And last, the conversion question that you raised, Colonel Hayden, about converting existing TSPs to Roth, I think that is a very interesting issue and I think the more that Roth becomes available out there, I think that issue will percolate. So it is going to take some thought, I think. So I think it is very, very interesting and worthwhile in discussion.

Let me ask this. I know I am down to the end of my time. But Mr. Long, the idea of TSP was really, I think, structured on buy-and-hold. Buy-and-hold. That was my strategy, unfortunately, during this whole economic downturn. And is that something that we need to move away from, or is that something that we can move away from and still maintain the protection and adhere to the central purpose of the TSP?

Mr. LONG. The policy that's been in place now for over 20 years I don't think needs change. The structure of the TSP and the policies behind it I do not think need to change. The vast majority of participants appreciate the fact that we have a small number of easily understood investment options, the vast majority of them buy-and-hold. And I don't think that is going to change, nor do I think it should.

I think this leads up to the question of the mutual fund window: Is it appropriate, can we figure out a way to make it work?

And there are a small number of participants that will, I think in perpetuity, if the structure doesn't change, will always say, well, we should have the gold fund, the real estate fund, the socially conscious fund—and there's an unending list of the whatever fund, fill-in-the-blank.

If we seek a way to come up with solutions for the small portion of the population, without doing anything to change what affects the other 98 percent of participants that won't use it, a mutual fund window is a way to get there. You can structure it in such a way that the cost of a mutual fund window, the people who use it are the only people who pay for it. The people who don't use it don't pay a nickle for it. That is critical.

And we certainly have anticipated that we would limit the total amount of a percentage of an account that could go there. The exact number, whether it's 50 percent or 25 percent is certainly up for debate. But the fundamental policy of the TSP simplicities should not change.

Mr. LYNCH. Thank you. I yield to the ranking member for 5 minutes.

Mr. CHAFFETZ. Thank you, Mr. Chairman. Thank you all for your testimony and for your comments.

Let me mention about the mutual funds, at least as an approach, I would suggest that the idea of choice is a good one, that the individuals in different stations in life, have different backgrounds, whether they have inherited certain things. There's such an unending array of possibilities that I think that the idea that they could be properly educated in understanding the risk; that they're not just going on, you know, making a quick decision that 15 years from now they may regret. They can also understand the risk and reward. Maybe they want to be a little more aggressive.

I would hope and encourage and support efforts to move down that path in a cautious way, but at the same time ultimately allowing the individual some degree of choice. And I would support that push on the mutual—at least from a mutual fund point.

Mr. Long, I am a freshman. I am trying to understand these issues and dive deeper into this. You made quite an assertion about the low administrative costs, and I've certainly heard that far and wide, but it is also my understanding that many of these costs are deferred, if you will, and pushed over into, for instance, Treasury and other groups. Well, you are not actually having the expense;

actually, the taxpayers of the United States are having those expenses.

Can you help me understand how self-sufficient and cohesive this group is, and what percentage and what dollars you're talking about are actually shared assets in the Federal Government, which are hopefully shared by all the people in the United States, not just the TSP?

Mr. LONG. The TSP does rely on human resource personnel throughout the government. Every agency has a certain number of personnel specialists that are required to pass out information.

Mr. CHAFFETZ. Going macro here on you, do we have a sense of we're budgeted for this amount of money and it takes this percentage of——

Mr. LONG. No is the short answer, and I do know that one of my predecessors was asked this question years ago. They were not able to get to an answer and thought it was—we were chasing our tails.

Mr. CHAFFETZ. Our time is short. I have 5 minutes, and I'm sure we can go a couple rounds.

At some point I think that is important to understand—the self-sufficiency, again, in the grand scheme of a $3.9 trillion budget. But to me, allowing the participants to pay for the administrative costs I think is an important one. We are at a time when we are $12 trillion in debt, and certainly we are not going to nitpick little things. But at the same time, I think the principle of self-sufficiency is an important one.

I would love to followup with you and try at some point to tackle that number, if that is OK with you.

Mr. LONG. Yes.

Mr. CHAFFETZ. Even if it is not, I would still like to pursue it.

The implementation of the Roth-type option, why does this process take so long? We are talking about a 2-year window. It can't be that complicated.

Mr. LONG. Yes, it is. This is an enormous project.

Mr. CHAFFETZ. Explain to me why it takes 2 years to try to implement something——

Mr. LONG. I'll just explain the payroll side, which has nothing to do with us.

All throughout the Government, payroll is done. Multiple agencies do payroll. Anytime you have moneys that are taken out through the TSP—just like any 401(k)—those are pretax dollars, so the paycheck is reduced, your taxable income for that year is now reduced.

Now, all of a sudden, those payrolls are going to do changes and say, OK your paycheck is reduced, but a portion of that which is pretax—standard 401(k)—reduces your taxable income. But the other amount that is still going to go to the 401(k) plan is going to be Roth, so it is going to be removed from your paycheck but included in your taxable income. Just from a payroll side only, that is an enormous change. From our standpoint, we are right now implementing software changes for our systems to be able to accept that.

You've got recordkeeping changes, you've got communications changes. It is a really big deal. It is what it boils down to. The other changes on immediate contributions, also a big deal, but we are able to do it quickly. Automatic enrollment, a big deal, but not half as big as Roth. Roth is an enormous project.

Mr. CHAFFETZ. Are there ongoing challenges, is there there any way to speed up the timeline? Will you please let us know?

You stated in your testimony, Mr. Long, that the I fund incurred trading costs from roughly $16.5 million in 2007 and only $2.1 million in September. Just give me a sense of what's happening there. Is that because the economic environment has dwindled, or what are the factors that are there?

Mr. LONG. We had a small group, less than 1 percent of the total TSP population that were effectively active traders. They were moving large amounts of money back and forth. So, a small population making large transfers on a daily basis. So every day, we bundle up all of our total trades and submit a net trade to our investment manager. It gets either buy or sell. It gets executed every day. That comes with a cost. You have to execute those in a different market.

By moving to a policy which we no longer permitted unlimited transfers back and forth—we set a policy where two per month unlimited—reduce the trading activity, therefore reduce the volume of the trades that we submit in the market each day, therefore drastically reduced our expenses.

The bottom line is now everybody else, all 4.2 million participants, have a little bit less in total trading expenses because of our policy change to restrict a small number of participants.

Mr. CHAFFETZ. Thank you, Mr. Chairman. I know my time is up.

I don't want to take any more time from Mr. Connolly, because I know he wants to get home in plenty of time to watch the election results of the races in Virginia.

Mr. LYNCH. Thank you very much. I'm not sure he's going to be pleased with the results.

The Chair recognizes the gentleman from Virginia, Mr. Connolly, for 5 minutes.

Mr. CONNOLLY. It must be nice, Mr. Chairman, to come from a political culture that's unidimensional. We enjoy our political competition in Virginia.

Thank you, Mr. Chairman.

Let me ask, Mr. Long—and I'm going to ask Mr. Long once again to speak into the microphone. I cannot hear you.

Tell me what the desirability is, from your point of view at least potentially, of a mutual fund window.

Mr. LONG. The likelihood of how many participants would use it? I assume in the single digits. It would be somewhere between 1 and 4 percent. It would be small.

Mr. CONNOLLY. Given the concerns you've heard raised at the table, if it is only 1 to 4 percent, why do we want to pursue this?

Mr. LONG. Well, we want to get from an 8-out-of-10 to a 9-out-of-10, and eventually a 10-out-of-10.

What you find is you have a small but very vocal group of disaffected participants. And in the end, do you want to provide solutions that help everybody?

What we can do here is for the participants that say I am very unhappy because I can't execute my desired trade in an equity fund that does not invest in oil companies, that does not invest in tobacco companies, that does not invest in companies that support non-democratic regimes, or does not permit me to execute my investment belief that Japanese airlines are going to be the best investment in 2010.

If we want to create a method by which those participants can execute their investment beliefs, a mutual fund window is a way to get that done. It is generally recognized by the consultant community that the ideal 401(k) design is a core group of small, very broadly diversified funds, exactly what we have today in five funds, plus a small menu of life cycle funds, which we have today. And then add to that, for the small group of self-directed, for the people that are on the frontier, offer them a window to execute their own independent beliefs. That is a way to get it done.

We are not doing anything to move forward unless the members of the ETAC, as well as the board—which both, by the way, have divided opinions on this. Until we get those two groups together, we are not doing anything on this.

Mr. CONNOLLY. Mr. Cox, you heard that. What's wrong with that approach?

Mr. COX. It is my job as a union representative to be concerned about the risk for our members. I would say maybe many Members of Congress come from a background that is a financial background and are very savvy with their ability to invest, as well as some other Federal employees. I would say out of AFG's membership nationwide, many of whom are housekeeping aides, nursing assistants, nurses, correctional officers, those people, they are not that savvy about investing. They want solid core funds that are dealing with their retirement.

People still have the option to go out and invest their moneys any way they want to in this country and to buy all type of stocks and mutual funds and anything else they want to invest in.

But we are talking about protection of people's retirement security and the better good of the whole. Even though we talk about only 1 percent today, there's predatory lending that's in this country, there's predatory marketing to Federal employees about various things.

So I just think it is a concern that we have of protecting our membership and that 99 percent of them.

Mr. CONNOLLY. Mr. Long, Mr. Cox talks about some inherent risks with going further abroad on the kinds of investments that are allowed in TSP. If we had opened up TSP to the REIT investment that had been advocated when real estate was at its height, what would have happened to people's investments?

Mr. LONG. They would be very unhappy.

Mr. CONNOLLY. They would be very unhappy.

Mr. LONG. I know there was a proposal to create a real estate investment trust fund, and it has been over the last year extremely volatile, and, as you noted in your comments, for a period of several months basically fell off the cliff. Yeah. If we had a fund at that point, yes, I think the participants in that would not have been happy.

What we are talking about here is something different, it is not creating a new core fund, but creating a window by which a small number of participants, with the appropriate protections, to say before you go through this window understand there are risks, there are expenses, this is not for the novice investor. But if you choose to invest a portion of your money in a mutual fund through this window, you can do so.

Mr. CONNOLLY. Thank you. My time is up, Mr. Chairman.

Mr. LYNCH. Let me ask the participant representatives, from Mr. Cox all the way down to Colonel Hayden—and you've each hit on this a little bit—the need for education, the fact that we have a diversity of financial education within the people that we're serving here. We are going to have to have it with the Roth IRA, that is going to have to be explained already, for what we are doing already. It is very likely that the payment of unused leave time, the bonus issue, how do we get out there? What's the best way, in your experience in representing participants, to get that message out, make sure that people, to the degree possible, are educated about the options here? That would be especially difficult with the mutual fund piece because that can be complex for the best of us. How do you think we might best accomplish that educational function that's going to have to happen in any event?

Mr. LONG. I would suggest two things. One is the Web site which you had previously mentioned. More and more investment companies use those Web sites as very effective educational tools. That needs to be developed, as you said, more than it is today. That is one way.

The real issue, I think, for a lot of employees is they need someone to talk to, they need someone to be able to ask questions of. And one of the things that has complicated this in recent years is that used to be and should be the function of Human Resources in the agencies. And more and more agencies are centralizing their Human Resource functions and pulling them away from the employees who are out there in the cities and towns across the country. So they're not even there.

And, as importantly, new agencies like TSA are contracting out all of their human resource work.

So I would see the need for some kind of an outreach from the board to agencies and to Human Resources, because there has to be some face-to-face opportunity for people to ask questions about these things. They're very important decisions, and everyone is at a very different level of what they're confident in and what they're able to absorb to make these choices. Otherwise, they're going to stick with the simplest and the most straightforward, and they're going to be afraid to take advantage of some of the things that Congress passed this past summer, because they won't know how to do that.

Mr. LYNCH. I am anticipating that, Mr. Long, you have already thought about this with respect to the Roth IRA and some of the other things. How are you proposing this rollout? How is this going to happen?

Mr. LONG. We are actually doing some research on that right now, trying to figure out what the rest of the world is doing as far as advertising the Roth 401(k) provision in large 401(k) plans. It is a complicated choice. You move from just talking about basic investment principles to effectively talking about tax minimization strategies. Trying to communicate that to 4.2 million people is going to be a challenge.

There are mechanisms for how to get that done. Certainly we will be relying on the Web site. Certainly we will be relying on the human personnel specialists.

But Colleen Kelley is exactly correct. We know that we work with the Human Resource professionals, and they're stretched thin. And that is a challenge that we work with every day. We work with OPM as well, because they're the party that is primarily responsible for making sure that the government has a financial readiness program. We partner with them, and through them and the personnel specialists, but there are challenges there.

Ms. BAPTISTE. Federal employees need to hear from professional financial advisors because, as Ms. Kelley has said, Human Resources staff don't necessarily have this expertise and they are stretched beyond all knowledge. They do not have the time to cope with—they don't have the time to counsel people who are retiring. They don't have the expertise.

I agree, we need a better Web site. We need much more information. It's a tricky subject.

Mr. COX. Mr. Chairman, I think I would agree with my other colleagues. I believe it is that personal touch. I go back to my own years working for the Federal Government. I went to Human Resources. I got counseling there. I was one of the first participants in the TSP back in 1986, and it was because there were HR people that were present that could sit down and talk to me about it.

And I remember the HR person saying to me, put that 5 percent right up front, boy, because you will get that matched. But let me tell you something else; each year when you get a raise, up it another percent, keep going on up, because you will want to retire 1 day, and you have to start preparing early.

I still remember that advice, and it didn't come from a Web site or it didn't come by osmosis. It was a person counseling me, probably not on a printed brochure, but it was very, very sound advice.

Mr. LYNCH. Right. Thank you.

Mr. Connolly, you are now recognized for 5 minutes.

Mr. CONNOLLY. Thank you, Mr. Chairman. Mr. Long, are there differences between CSRS and FERS with respect to TSP?

Mr. LONG. Absolutely, primarily in terms of the government contribution. The CSRS contribution is voluntary. There is no government contribution that goes along with it. For the FERS employees they have the 1 percent automatic and then the matching contribution in addition.

Mr. CONNOLLY. What is the rationale for differentiating between the two?

Mr. LONG. The basic annuity.

The annuity for the CSRS is more generous, and for people hired after 1983 they continue to have an annuity but it is less generous. And along with that, TSP was created, and they also are eligible for Social Security. So you have a three-legged stool for those under FERS.

Mr. CONNOLLY. Have we looked at the actuarial cost of the Roth conversion that you talked about?

Mr. LONG. I don't think I talked about the Roth conversion. I think the gentleman down at the end of the table talked about the Roth conversion.

Mr. CONNOLLY. I am just wondering if we have done some cost estimates of what are the implications?

Colonel HAYDEN. Our organization has done no cost analysis associated with that, again, as we see this as more of a win-win for both the Federal Government as well as for the members because the revenues would be coming back to the Federal Government immediately.

That's the option that we were looking at as having some type of conversion.

Mr. CONNOLLY. Colonel Hayden, folks in the military, are they subject to the same kind of rule as CSRS employees with respect to the match, the 1 percent?

Colonel HAYDEN. It is my understanding they're more tied toward just the annual contributions, the 16.5 or the 49,000. We do have the limitation associated with the 49,000 if they happen to be in a combat zone. So you can take up to that amount on top of the 16.5 if you are in a combat zone, and that was a provision in law.

Mr. LONG. The members of the uniformed services are not eligible for any government contribution, again, with a similar strategy. They have a pension, a 20-year pension, which is considered to be attractive and that is their primary source of retirement income.

Mr. CONNOLLY. Are you aware of the fact the ranking member of this full committee had an amendment that would allow the military to qualify for a match similar as FERS employees?

Mr. LONG. No, I was not.

Mr. CONNOLLY. It might be worth your costing out the implications of such an amendment .

Mr. LONG. There is one thing that I do need to make sure people are clear on: that the Roth TSP, which will be similar to a Roth 401(k), that is meaningfully different than a Roth IRA. My understanding is that the IRS does not permit, and we're aware of no 401(k) plans that permit people to take their 401(k) contributions and convert them to Roth 401(k) contributions. I believe, according to the data I got from the IRS, it's not permissible under tax law.

What is permissible today is conversions of Roth—of regular IRAs and Roth IRAs. The thinking behind it might be similar, but inside the qualified plan, it is not permissible today.

Mr. CONNOLLY. Ms. Baptiste, I didn't ask you for NAR's position, but what is NAR's position on creating new investment windows, especially maybe a mutual fund window?

Ms. BAPTISTE. We believe it is a little risky without a lot of—there's some—people do not have enough information and education. They're really looking at going into retirement with some solid money, and this is much riskier.

Mr. CONNOLLY. Thank you. Thank you, Mr. Chairman.

I guess when we look at this kind of issue, we have to balance the rights of individual members to take risks with their own money. On the other hand, when we are looking at something that is a retirement fund, we have to balance that out.

Not so long ago, the previous administration had strongly suggested the idea of desegregating part of the Social Security payment and allowing folks to invest in the market because it would grow so much more healthy. Of course, had folks done that, the weeping and gnashing of teeth in the opening of those 401(k) statements today would be magnified by many fold, and an awful lot of folks would find their retirement security in jeopardy. So it is a very serious policy question and one I know we will be debating for some time.

I thank you all.

Mr. LYNCH. I know some of this sounds paternalistic or maternalistic that we're trying to protect some of the participants here. But I think that we have to realize that if you do something—let us take the mutual fund window piece of this. It's not just that participants going out through the window, it is retirees being bombarded with marketing information that might be more driven by profit and fees than by best serving the retirement needs of the individual. So I am concerned about that.

Colonel, I want to ask you, you've got flag officers, you've got field officers, you've got junior officers versus noncommissioned officers. The education piece, this has to be considerably more complex in your situation as opposed to an agency. You've got folks in much different circumstances. Do you have any specific concerns about being able to go out and educate?

I have been in Iraq and Afghanistan so many times, and those folks are on the Internet all the time. They're on more than I am, and much more savvy than I am in that respect. But you've got such a wide diversity of position and circumstances, as well as financial education within the group that you represent.

Colonel HAYDEN. It is an interesting scenario. When the actual TSP option was first offered to the uniformed services, I was actually at the Pentagon at the time in a role of sitting in the J–1, trying to figure out exactly what this TSP option was going to provide. So the education piece was even critical when we first had the option of participating.

This now provides even a broader base, depending on your financial situation, depending what your tax bracket is going to be. It's going to be even more critical for a junior troop to have an understanding of what they intend to have as their taxable income in retirement compared to their taxable income that they're currently looking at.

And then when you throw in that some of these folks are deploying into the combat zone, getting tax-free benefits as it is associated with it, how generous that can actually be when it comes to actually just contributing to the TSP, its important.

What took place then, and what I would hope will take place before the rollout of the Roth option, is that the services will do, once again, we call them road shows. We would take our HR personnel, get them smart on the issue, go out and have mandatory fund—mandatory formations, where you would have to go out and get the briefing, so that you had an understanding of exactly what this was being provided to you. And we have that option with the uniformed services to do something just like that.

The Web site is going to be critical, because as you say, the younger troops today, they live on it. They understand it, they go out there, they do their research and that's how they find the information. The older horses like myself, it was a little bit more difficult for me to get an understanding of contributing. But when I did have that HR person sit down with me and said, start out with the 1 percent growth each year, every time you get a promotion, every time you get a change in pay associated with the way you are doing business. If you get flight pay increases, put a portion of that into your TSP account. Save for yourself, save for your future. That's how we did the business, but you had to have that one-on-one.

Mr. LYNCH. I appreciate that, and I think this hearing has certainly elicited some of the conflicts here. So while I said at the outset I am very happy with the TSP, we need to move forward and we are. But I think we have to do so with a certain degree of caution as to the interests of the people that we all represent, these participants now and in the future.

But I want to thank you very much for your willingness to come before the committee and help us with our work. We have benefited greatly by your perspectives and your recommendations. I can't guarantee that you won't be asked to appear here again, maybe around the time that we are rolling this out, so we can keep a closer tab on things and maybe respond to some of the issues that you've raised here today.

But thank you very much for your participation, and you're free to go. The hearing is now adjourned.

[Whereupon, at 3:45 p.m., the subcommittee was adjourned.]

[The prepared statements of Hon. Jason Chaffetz, Hon. Elijah E. Cummings, and Honl. Gerald E. Connolly, and additional information submitted for the hearing record follow:]

Opening Statement of Jason Chaffetz
Ranking Member
Hearing: "Managing the Thrift Savings Plan to Thrive"

I want to thank the chairman for holding this hearing on such an important matter. The Thrift Savings Plan (TSP) is a central component of the Federal Employee Retirement System (FERS), and its success is critical from a number of different standpoints. Clearly, the kind of retirement an employee is offered at a given job has a significant impact on the employer's ability to recruit and retain people with the best skills and qualifications. Therefore, it is important that the TSP is managed carefully and properly, which means regular Congressional oversight, and legislation when necessary.

This has been one of the most challenging economic years this country has had in decades, and we are not out of the woods yet. The timing of this economic crisis has truly been tragic—the federal government is disproportionately top-heavy with employees who are rapidly approaching federal retirement, and now many of them find that while their defined-benefits are intact, most FERS employees have taken a massive hit to their retirement savings. We all know that in the world of investments, there are always ups and downs. The way to measure success of long-term investments is not in the snapshot of a year, but over the life of the investment. This hearing will give us a chance to find out whether the TSP and others responsible for its management believe they have the necessary tools to complete the job, or if there are things we in Congress can do to help.

The Thrift Savings Plan Enhancement Act of 2009 was signed into law in June, and made several improvements to the function of the TSP. Perhaps most significantly, a Roth-type investment option was offered, allowing participants to pay the taxes on retirement savings now rather than upon withdrawal. This is a great tool, especially for younger employees at the lower end of their earnings spectrum. However, this tool has been available in the rest of the investment world for decades. We also know that the TSP continues to have far fewer investment options than most private retirement programs. With that said, the TSP continues to outperform most private 401(k)s, and is unparalleled in its low associated administrative costs.

The TSP can be a bit frustrating to navigate, however. I believe that how the TSP interfaces with its participants is critical to its continued success. Improvements can still be made. When we introduce new investment tools, as we did in June of this year, we must also see to it that participants are fully informed as to their available options. I look forward to working with the Chairman and those responsible for managing the system to ensure that federal employees continue to have one of the best investment vehicles available anywhere, and appreciate the input and suggestions from our participants.

Representative Elijah E. Cummings, D-MD7
Subcommittee on Federal Workforce, Postal Service and the District of Columbia
Committee on Government Reform
U.S. House of Representatives
111th Congress

Hearing on "Managing the Thrift Savings Plan to Thrive"

November 3, 2009

Mr. Chairman,

Thank you for holding today's hearing on managing the thrift savings plan to thrive.

The Federal Employees Thrift Savings Plan is one of the best retirement plans offered by any employer. Under the plan, the government contributes a specific dollar amount or percentage of pay into an employee's account, which can be invested in stocks, bonds, or other financial instruments. This is an excellent program which many of our federal employees benefit from greatly—and we must do all in our power to ensure that it remains vibrant and strong.

The enactment of the Thrift Savings Plan Enchantment Act of 2009 brought about some welcomed changes to the program. That Act permits new Federal employees to begin contributing to their TSP immediately rather than waiting six to twelve months. Early participation in the Federal Employees Retirement System, particularly in the Thrift Savings Plan, is critical if an employee is going to maximize the amount of savings earned for his or her retirement.

Not only does the Act include provisions to eliminate the waiting period requirements, but it authorizes automatic enrollment for all new federal civil employees. Currently the TSP has 4.2 million participants. Automatic enrollment will largely increase participation in the savings plan.

The Act also authorizes adding a new Roth 401(k) investment option, allowing participants to contribute after-tax dollars to the TSP therefore allowing them to withdraw contributions and associated earnings tax-free.

Lastly this Act would allow spouses of deceased federal employees to leave funds in the TSP and become the managers of the accounts.

I am eager to hear how some of these provisions will be rolled out, the timeframes of these changes, along with new proposals such as the unused annual leave proposition allowing employees to deposit their unused annual leave into their TSP accounts.

The TSP holds approximately $234 billion in assets making it the world's largest defined contribution plan. Hearings like this are important to ensure that the program continues to serve the best interest of federal employees, uniformed services, reserves, and their spouses.

Thank you and I yield back the remainder of my time.

Opening Statement of Congressman Gerald E. Connolly

Subcommittee on Federal Workforce, Post Office, and District of Columbia

"Managing the Thrift Savings Plan to Thrive"

November 3rd, 2009

Thank you, Chairman Lynch for holding this important Subcommittee hearing. Since it represents a substantial portion of most federal employees' retirement savings, the Thrift Savings Plan (TSP) is of vital importance to the federal workforce. It is the largest defined contribution retirement plan on earth, with 4.2 million participants and $234 billion in assets. In the past some have attempted to use the TSP to promote political objectives. Fortunately, the Federal Retirement Thrift Investment Board and Employee Thrift Advisory Council have successfully resisted these efforts, and as a result the TSP has more value today.

Shortly before the real estate bubble burst, some suggested that the TSP should have another fund which would be invested in Real Estate Investment Trusts (REITs). Federal employees' retirement savings are safer today because we did not make that investment at the height of the real estate market. The REIT index declined 40% just between January and April of 2009. Others have suggested creating gold, copper, or other specialized TSP funds. Although Congress did give the Thrift Investment Advisory Board authority to invest in funds such as mutual funds, it did not force the Board to do so.

The TSP already has six funds. One consists entirely of U.S. Treasury bonds, and the others are a variety of index funds. All of these funds represent fairly secure investments over the long run, unlike more specialized investments in assets that would fluctuate more than a diversified portfolio. Because the TSP replaced part of federal employees defined benefit pensions in 1986, it is appropriate that this fund be invested in a conservative manner that will maximize federal employees' retirement security.

The Thrift Advisory Board is considering creating an option for federal employees to invest their savings in mutual funds through the TSP. Given the historically strong performance of the TSP, including its superior maintenance of value during the recent crisis relative to many other privately-managed funds, I find it hard to understand why such a change would be advantageous for federal employees. Moreover, as the National Active and Retired Federal Employees Association has noted, creating additional mutual fund options could drive up TSP's administrative costs. Currently, just 80 TSP employees manage the world's largest 401(k). We should be very cautious about proposals that might reduce the efficiency of this agency. For these reasons, the Employee Thrift Advisory Council has resisted attempts to create mutual fund options within the TSP. In written testimony, the American Federation of Government Employees, National Active and Retired Federal Employees Association, and the Senior Executives Association all expressed reservations about establishing a mutual fund window for TSP.

During Apartheid some members of Congress unsuccessfully attempted to divest TSP investments from companies that did business with the South African government. More recently, some have proposed divesting from companies that are connected with the genocide in Sudan. Because these proposals do not force TSP investments into a narrow and potentially risky asset class, and because they could be consistent with national security policy, I would be interested in learning more about whether we could establish social responsibility criteria within the TSP without reducing the security of federal employees' retirement or efficiency of administering the TSP.

Thank you again, Chairman Lynch for holding this important hearing. I applaud the TSP Employee Advisory Council and Advisory Board for resisting past attempts to make potentially risky investments, and look forward to working with these groups to protect the security of the TSP and explore opportunities to align its investments with national security policy.

Questions for:

Greg Long, Federal Retirement Thrift Investment Board:

Mr. Long, if Congress had forced you to create a Real Estate Investment Trust (REIT) option for TSP, and some federal employees had chosen that investment options, what would have happened to their savings over the last several years?

David Cox, AFGE; and James Sauber, Employee Thrift Advisory Council:

Mr. Cox and Mr. Sauber, merely 80 employees manage a 401(k) program for 4.2 million people holding $234 billion in assets. Compared to private investment funds, does the TSP have relatively low or relatively high administrative costs?

Follow up question for David Cox and James Sauber:

Is the TSP's efficiency related to its fairly limited choices of investment options?

ANSWERS TO QUESTIONS FOR THE RECORD FROM CHAIRMAN STEPHEN F. LYNCH AND RANKING MEMBER JASON CHAFFETZ
MANAGING THE THRIFT SAVINGS PLAN TO THRIVE
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENTAL REFORM
SUBCOMMITTEE ON THE FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA
NOVEMBER 3, 2009

Question 1. As of September 2009, 82% of FERS employees were contributing to the TSP. The passage of the Thrift Savings Plan Enhancement Act in June is expected to increase FERS participation owing to auto-enrollment and immediate agency contributions. Given the critical role played by the TSP for FERS employees, what other steps will the Board consider going forward to increase plan participation?

Answer: As discussed in our most recent Board meeting on November 16, 2009, the Agency has developed the enclosed pamphlet that will be mailed within the next two weeks to approximately 365,000 non-contributing TSP participants. The audience is those employees who are only receiving Agency Automatic (1%) Contributions. This population grew significantly under the immediate agency contributions provision of the Thrift Savings Plan Enhancement Act, which President Barack Obama signed on June 22, 2009. This targeted communication effort will encourage these participants to avoid "leaving money on the table" in the form of Agency Matching Contributions for which they are now eligible, thanks to the new legislation. The leaflet is also designed so that it can be used in future mailings. We are also in the final stages of developing the new "Investing in the TSP" DVD which will be available to participants directly through the TSP website. Although the primary purpose of the DVD is to educate participants about the TSP and its investment options, it does encourage active participation in the TSP.

With regard to the recently enacted TSP automatic enrollment provision, as explained in my testimony to the Subcommittee, the Agency expects to implement this provision next spring. In anticipation of this implementation, the Agency is designing communication materials to explain this new benefit. In addition to updating the *Summary of the Thrift Savings Plan*, the "Welcome to the TSP" letter to new participants, and our other basic materials, we are also contemplating a booklet that agency personnel offices may use to explain the automatic enrollment program to their employees. We will also include a discussion of the program in the "new participant" DVD we plan to produce next year. We will be pleased to share these materials with the Subcommittee when they are completed. We believe that the benefits of automatic enrollment, which have already been demonstrated in the private sector, will boost TSP participation and, more importantly, strengthen the retirement security of thousands of Federal employees by automatically providing them with the benefits Congress has authorized for them.

Finally, one goal of the TSP website redesign project is to enhance its appeal to younger Federal employees and uniformed service members. By doing so, we feel that they will be more engaged and, therefore, more inclined to contribute to their own retirement. We will be rolling out a beta site this month to allow a select number of participants to "test drive" the site and provide us with their feedback. We plan to deploy the updated website next year.

Question 2. Mr. Long, given the expanded role the Board and staff will most likely have to assume in response to some of the upgrades and recently enacted legislative changes to the plan, can you articulate any possible future human resources or staffing plans that the Board may have to pursue. Also, it would be good to hear how you and the agency determine whether a particular job should be carried out directly by a Federal employee or if a position or function is better contracted out?

Answer: The Agency has been, and I believe will remain, a small agency for the foreseeable future. Every year, the Agency assesses its staffing needs in light of the challenges it faces. We build these staffing needs into each annual budget, which is submitted simultaneously to the appropriate committees of the Congress (including the Committee on Oversight and Government Reform) and the Administration. Unlike other Federal agencies, the budget approved by the TSP fiduciaries is not subject to control by OMB. During the FY 2011 budget cycle, the total number of Agency employees will increase from 89 full-time (and 7 part-time) positions in FY 2009 to 103 full-time (and 7 part-time) positions. We have already expanded our communications and Web staff by one employee in conjunction with our website redesign.

With regard to the Agency's determination as to whether a particular activity should be carried out by a Federal employee or contracted out, the Agency's history is particularly instructive. Initially, the TSP's enabling legislation (the Federal Employees' Retirement System Act or FERSA) was signed into law in the summer of 1986 with a very short deadline for implementation.

A Request for Proposals (RFP) for record keeping services (which is our major expense) was not possible because of the time needed to develop, evaluate, award, and implement such a contract. Consequently, the Department of Agriculture's National Finance Center (NFC) was tasked with creating the initial record keeping system under an interagency agreement. Essential to this determination was NFC's familiarity with government payroll systems (as a consequence of its handing the payroll functions for a number of agencies) and its responsiveness to the deadline. The NFC designed and tested a record keeping system that allowed the TSP to be up and running by April 1987, when the first contributions were received and accounts established.

Notwithstanding this necessity, the Board expressed clear recognition that while it would include government-wide protocols (such as OMB Circular A-76) in its decision process, fiduciary responsibility would be the determining factor in final decisions. As explained in an October 20, 1986, letter from then-Board Chairman Roger Mehle to then-Senate Governmental Affairs Chairman Ted Stevens, the Board made clear its intention to all parties, including the NFC, that it would issue RFPs for the record keeping system and other services. The letter stated that the fiduciaries could not "foreswear, without violating its statutory fiduciary responsibility, any legal alternative for services to the Board that may serve Federal employees [and as of 2001, members of the uniformed services] best at least cost. (Emphasis added.)

The Agency has continued to procure competitive bids with a number of contractors for various services, including our two Call Centers, forms processing and other record keeping services. These contractors have maintained the high service standards set by the Agency while keeping costs low for the Plan's participants and beneficiaries.

Additionally, as appropriate, the Agency has also used the services of other Federal agencies. For instance, the U.S. Department of the Treasury (Treasury) serves as the TSP's pay agent. The Treasury provides this service to all Federal entities free of charge. Moreover, FERSA provided both the Office of Personnel Management (OPM) and the Agency with responsibility for employee education. The Congress recognized that the retirement counselors and human resource (HR) representatives at the Federal agencies were already providing benefit information to employees concerning defined benefit pensions, health benefits, and life insurance. The Congress thus sought to use the existing infrastructure to advise employees about the new benefits available through the TSP. We note that this arrangement comports with the practice of private sector defined contribution plans, where HR departments also serve as the primary contact point for plan participants.

The arrangement has worked well. The Agency has and continues to provide comprehensive training of these agency representatives (which is free of charge, except for travel and per diem in the event that an agency requests an Agency trainer to provide training at its work site). The Agency also augments the Federal agency HR infrastructure by providing briefings about the TSP to employees at their work sites.

Going forward, the Agency will, as appropriate, develop statements of work, determine the availability of services, and issue RFPs as required. If a service can be provided at high standards and competitive pricing, the Agency will select such bids irrespective of whether the work is performed by a Federal entity or the private sector. We are bound as fiduciaries and by statute to make our decisions solely in the interest of participants and their beneficiaries.

Question 3. With the news of Blackrock's purchase of Barclays Global Investors (BGI) in the upcoming fourth quarter of 2009, will this change have any impact on the TSP's passive management investment strategy going forward?

Answer: We expect no impact from Blackrock's purchase of BGI on the TSP's passive management investment strategy going forward. Blackrock is reportedly purchasing BGI because of BGI's expertise in managing index funds. Blackrock asserts that adding this expertise to its operations will strengthen and complement its business model. As a matter of due diligence, Board members, senior staff, and the Executive Director have personally met with Blackrock executives for detailed discussions regarding our continuing expectations under our contract. Blackrock foresees no changes to BGI's operations nor to the principals who interface with the Board.

We further note that the TSP has successfully handled similar transitions in the past. The TSP's first asset manager, Wells Fargo, was purchased by Nikko Investments in the early 1990s. The successor asset manager, Wells Fargo Nikko Investments, was subsequently purchased by BGI. These events had no impact on the TSP's passive management investment strategy, and we expect the same in this instance.

Question entered into the record by Ranking Member Jason Chaffetz:

Question 1: The Thrift Savings Plan is well-known for its very low administrative costs to participants, which in 2007 were about 15 cents for every $1,000. The TSP is able to offer such low costs in part because it offers a limited range of investments, aggregated and executed centrally, to millions of participants, all of whose contributions are made through similar computerized payroll systems. However, there are other costs associated with the administration and operation of the TSP which are not expressed. For instance, the TSP's expenses are reduced by forfeitures of non-vested agency contributions and participant loan processing fees. The participant's employing agency also serves as a primary TSP contact point, while U.S. Treasury undertakes certain functions for the TSP without charge, including accounting for the government securities fund, cutting checks, and executing electronic fund transfers. Can you tell me in dollars how much of the administrative cost of the TSP is borne by the U.S. Treasury, the TSP participant's employing agency or entity, and any other entity which is not expressed in the TSP's basis-points analysis?

Answer: When I became Executive Director I learned that one of my predecessors had tried unsuccessfully to perform just such an analysis. Part of the difficulty in doing so is that various employers handle Plan expenses differently. Another difficulty is putting a value on a service which has not been competed in the marketplace. Consequently, I would respond to your question by examining the major cost centers in running a plan.

Under the FY 2010 budget recently approved by the Board, 76% of our budget will be consumed by record keeping expenses, including call centers and other operations serving participants. In my experience, these costs are routinely borne by the plan, and are the most significant administrative costs of running any plan.

A second major cost center, communications with Plan participants, is generally handled through the employer's HR activities. For the TSP, the Congress anticipated that this would be the case by establishing retirement counselors in the various employing agencies of government. 5 U.S.C. § 8350. However, we have also budgeted almost $7 million in the upcoming year for direct communications with our participants and beneficiaries.

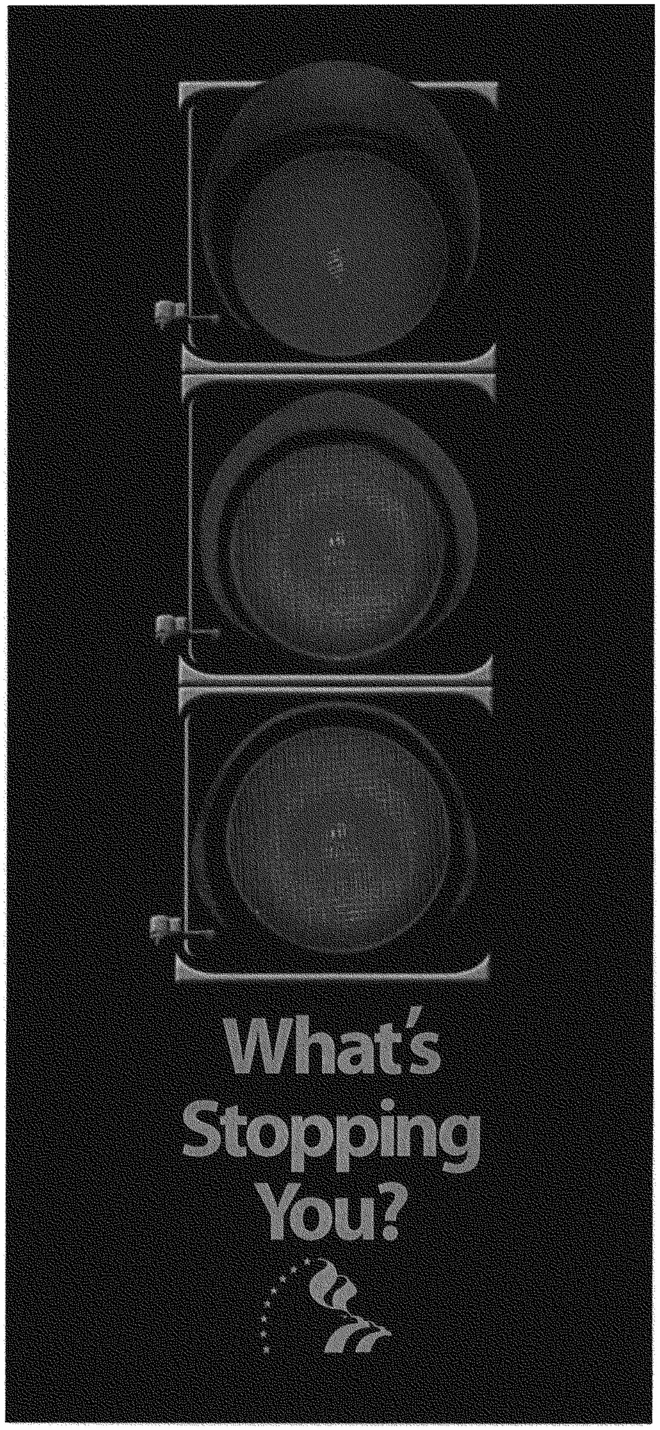
A third major activity, collecting employee and employer contributions or loan repayments for investment or reinvestment in participant accounts, is normally handled via the employer's payroll system. This would be the case for 401(k) plans as well as the employing agencies of government.

Your question notes that the TSP charges a fee of $50 for loan processing. When the Agency initiated this fee, it contacted various 401(k) plans and learned that fees in that price range were often required. Thus, we view this as another area where TSP and 401(k) plans are very similar.

Your question also notes that the TSP's expenses are reduced by forfeitures of non-vested agency contributions and loan processing fees. Although some 401(k) plans also have forfeited funds, the existence of such forfeitures and their treatment is neither universal nor consistent in the 401(k) marketplace. Forfeitures to the TSP and loan fees in 2008 reduced expenses to participants by 2.46 basis points.

Your letter additionally notes that the TSP keeps investment costs low by limiting investment choices. We agree, and note that the low cost index funds we provide under our law are available to 401(k) plans, and many do offer them as well.

Finally, the TSP does clearly receive advantageous treatment from the U.S. Treasury for two major activities: as required by our statute, the Government Securities Investment Fund is directly invested with the Treasury. Further, the Treasury provides check writing services at no cost to the TSP or its participants. In the first instance, the services provided by Treasury in support of the G Fund are similar to those it provides in support of the Civil Service Retirement and Disability Fund and the Social Security Trust Fund. In the latter case, check writing services are provided free to all Federal agencies and thus do not constitute any "special treatment," except when comparing TSP expenses to the expenses borne by other similar plans.


What's
Stopping
You?

A
brighter
future
is
ahead.

Get more free money.

You're in! Your agency has opened a Thrift Savings Plan (TSP) account for you and is depositing an amount equal to 1% of your pay each pay period. **But you're entitled to an additional 4%** — a lot of free money to leave unclaimed. All you have to do is save. Your agency will match dollar for dollar the first 3% you contribute, and 50¢ on the dollar for the next 2%. That means that when you save 5% of your pay, 10% goes into your TSP account. That's hard to beat.

But don't stop reading if you can't afford to save 5% of your pay each pay period. You can contribute less — as little as $1 — and still get free money. Your $1 in savings means $2 in your account.

There is even a significant tax benefit.

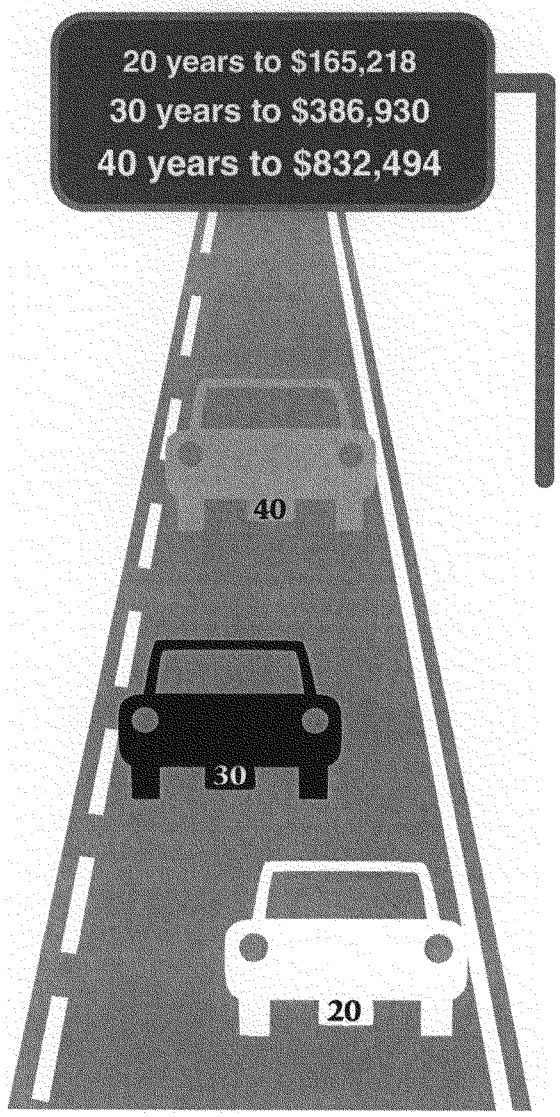
The money you put in your TSP account is deducted from your pay before income taxes are calculated. That reduces the amount of your taxable pay and your overall tax bill. The taxes you don't pay now help to finance your TSP savings:

If your biweekly salary =	$1,462
Your 5% contributions =	$73
Your paycheck is reduced by only	$61*

* This example is based on a TSP participant making $38,000 a year, married filing jointly, with 2 dependents in 2008. It does not take state taxes into account, which vary widely. Your benefit will depend on your personal tax situation and the state in which you live. In general, the higher your taxes, the greater the benefit, and the more money you'll have in your paycheck after your TSP savings come out. (You pay no taxes on your TSP contributions and their earnings until you withdraw them.)

Why wait?
Time is your biggest ally.

It's simple. The longer you save, the more dramatically your account will grow. Look at the savings potential of 3 FERS employees earning $38,000 a year and contributing 5% to the TSP (assuming a 7% annual rate of return, compounded monthly):



The TSP is important to your retirement.

Your TSP account could mean the difference between a comfortable retirement and a difficult retirement. As a FERS employee, your retirement benefit consists of the FERS Basic Annuity, Social Security, and the TSP. Your TSP account is the part that you control. You contribute as much as you wish (up to the IRS limit) and you decide how to invest it.

The TSP is a simple plan that you customize to your needs.

You can invest your savings in a mixture of stocks, bonds, and U.S. Treasury securities, deciding what is the appropriate level of risk for you — from high risk to no risk at all. The TSP even makes it simpler with the L Funds, which offer a mix of investments tailored to the year you'll need your money in retirement. If you're not ready to make an investment decision, you can keep your money in the G Fund — secure, but usually with better returns than any savings or money market account around.

Get smart. Get saving.

To start your TSP savings, ask your personnel office for Form TSP-1, download the form from the TSP website, or use your agency's electronic version of the form.

For more information, go to:

www.tsp.gov

or call

1-877-968-3778