

# THE THRIFT SAVINGS PLAN: HELPING FEDERAL EMPLOYEES ACHIEVE RETIREMENT SECURITY

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## HEARING

BEFORE THE  
SUBCOMMITTEE ON FEDERAL WORKFORCE,  
U.S. POSTAL SERVICE AND LABOR POLICY  
OF THE

COMMITTEE ON OVERSIGHT  
AND GOVERNMENT REFORM  
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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## **THE THRIFT SAVINGS PLAN: HELPING FEDERAL EMPLOYEES ACHIEVE RETIREMENT SECURITY**

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**WEDNESDAY, JULY 27, 2011**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL  
SERVICE AND LABOR POLICY,  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:16 p.m., in room 2154, Rayburn House Office Building, Hon. Dennis A. Ross (chairman of the subcommittee) presiding.

Present: Representatives Ross, Lynch, and Davis.

Staff present: Jennifer Hemingway, senior professional staff member; James Robertson, professional staff member; Cheyenne Steel, press assistant; Peter Warren, legislative policy director; Nadia A. Zahran, staff assistant; Kevin Corbin, minority staff assistant; and William Miles, minority professional staff member.

Mr. ROSS. Good afternoon. Thank you for your patience. I'll now call the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy to order.

I would like to begin this hearing by stating the Oversight Committee mission statement. We exist to secure two fundamental principles. First, Americans have the right to know that the money Washington takes from them is well spent; and, second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to taxpayers because taxpayers have a right to know what they get from their government. We will work tirelessly, in partnership with citizen watchdogs, to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy. This is the mission of the Oversight and Government Reform Committee.

I'll now begin with my opening statement. The Thrift Savings Plan, established in 1986, provides a tax-deferred retirement savings plan to 4½ million Federal participants. With \$289 billion in assets, the TSP is the largest defined contribution plan in the world and is a smart choice for Federal employees planning for a secure retirement. The TSP models private sector practice, with two-thirds of its employers reporting that the 401(k) is the primary retirement savings vehicle for the employees that they cover.

The TSP provides participants a choice of investment options to allow participants to determine the appropriate amount of risk for their own circumstances. Participants may currently select from a choice of five funds in addition to life cycle funds tied to a projected retirement date. In 2009 Congress passed the Thrift Savings Plan Enhancement Act, resulting in a number of significant changes to the TSP. Requiring automatic enrollment for new hires has led to an increase in TSP's participation rates. Expanding survivor spouse benefits allows for Federal employee households continued access to low-cost investments. Implementing a Roth TSP contribution program should prove beneficial to employees, particularly those at the early stages of their career. The 2009 legislation also grants TSP discretionary authority to offer a mutual fund window, allowing participants to invest a portion of their savings in mutual funds outside of the TSP. This enhancement could help respond to the continued debate in Congress on the merits of adding additional investment alternatives. Increasing the number of TSP investment options, similar to those being offered by the private sector 401(k) plans, could prove to add more flexibility to participants wishing to further diversify their portfolios. Several legislative proposals have been introduced in the 112th Congress to modify investment options for Federal employees participating in TSP.

With TSP contributions—participants contributing more than \$2 billion per year, this hearing presents an opportunity for lawmakers to examine the administration of the TSP, including its investment offerings, participation rates, and expenses. As the committee with jurisdiction over the TSP, I hope to learn whether further legislative change is needed to ensure that the plan continues to meet participant needs. I thank the witnesses for appearing today, and I look forward to your testimony.

I now recognize the distinguished gentleman, ranking member from Massachusetts, Mr. Lynch, for his opening statement.

Mr. LYNCH. Thank you very much, Mr. Chairman. I want to thank you for holding this hearing and also want to welcome our witnesses in coming forward to help this committee with its work.

Today's hearing, as the chairman mentioned, will examine recent developments regarding the Federal Thrift Savings Plan, the retirement savings plan and investment plan for Federal civilian employees and members of the uniformed services. With over 4.4 million participants and more than \$285 billion in assets, as the chairman noted, the Thrift Savings Plan is the largest defined contribution plan in the world, and an integral component of our Federal Employee Retirement System.

In addition, through its diverse and sensible investment options and with the average annual fees that are significantly lower than those of our typical private sector plans, the Thrift Savings Plan stands as a model 401(k). In light of its vital role, the Thrift Savings Plan merits continued and careful oversight by our subcommittee so that we can better ensure that our Federal employees and service members are afforded the tools necessary to maximize their savings and enhance their retirement security.

Therefore, I welcome this opportunity to discuss the status of the Thrift Savings Plan, given our current economic climate, budgetary challenges faced by the Federal Retirement Thrift Investment

Board, and legislative and regulatory changes. In particular, as we all know, Congress is currently considering legislation to raise the Federal debt limit and tackle the Federal deficit. Notably, the past several months have been marked by wide speculation regarding the broad market consequences of a failure to enact a debt limit increase. As a result, I would be interested in hearing our panelists' perspectives on how a Treasury debt default and proposed spending reductions may affect the Thrift Savings Plan balances of participants and their beneficiaries as well.

I also look forward to hearing our panelists' thoughts on how the current Federal pay freeze may be impacting the Thrift Savings Plan.

Additionally, during the previous Congress, the Thrift Savings Plan underwent a significant modernization with the enactment of provisions collectively known as the Thrift Savings Plan Enhancement Act. Specifically, that legislation contained several key enhancements to the plan, including automatic enrollment and immediate agency contributions for all new Federal civilian employees as well as the addition of Roth 401(k) investment options which allow participants to contribute after-tax dollars to the plan.

Given these significant changes to the Thrift Savings Plan, I look forward to examining the progress of implementation of the Thrift Savings Plan Enhancement Act, including the challenges that the Federal Retirement Thrift Investment Board has faced in terms of increasing plan participation among uniformed service members in establishing the mutual fund options. I would also like to revisit the feasibility of permitting Federal employees to invest the cash value of unused annual leave in their Thrift Savings Plan retirement accounts.

I introduced legislation to this effect during the last Congress, and I'm very interested in again exploring the possibility of allowing Federal employees to roll over their lump sum annual leave payments into their Thrift Savings Plan accounts as a means of ensuring equity with their private sector counterparts. In fact, I hope the chairman will agree to join me in working to find a legislative solution to this issue as well as other administrative modifications to the Thrift Savings Plan.

Last, I look forward to examining the various legislative proposals relating to the Thrift Savings Plan put forward by my colleagues on both sides of the aisle. However, as we continue to seek ways to enhance Federal retirement security that are also mindful of the Federal deficit, I would remind my colleagues that the Thrift Savings Plan is only one element of our three-legged stool—so-called—Federal Employee Retirement System, which also includes the Federal Employee Retirement System defined benefit plan and, of course, Social Security.

During the current Congress I've increasingly heard the majority suggest the possibility of eliminating the pension portion of the Federal Employee Retirement System and instead providing the Thrift Savings Plan as the only retirement security option for Federal workers. I believe that this would be a step in the entirely wrong direction. Since its inception, our Federal Employee Retirement System has been praised on a bipartisan basis as a fair and equitable framework that promotes retirement security for our Fed-

eral workers and achieves cost savings for the Federal Government. We should keep it that way.

Before closing, I would also like to ask unanimous consent that the written statement of Colleen Kelly, national president of the National Treasury Employees Union, highlighting the value of the TSP as well as the Federal Employees Retirement System in general, be included for the record.

Thank you, Mr. Chairman. I look forward to discussing these and other issues with our witnesses this afternoon, and I yield back the balance of my time.

Mr. ROSS. Thank you, Mr. Lynch, and, without objection, the report will be admitted.

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



### Opening Statement

**Rep. Stephen F. Lynch, Ranking Member**  
**Hearing on “The Thrift Savings Plan: Helping Federal Employees Achieve Retirement Security”**

Thank you, Mr. Chairman. I'd also like to welcome our witnesses and thank each of you for helping this Subcommittee with its work.

Today's hearing will examine recent developments regarding the federal Thrift Savings Plan, the retirement savings and investment plan for federal civilian employees and members of the uniformed services and reserves. With over 4.4 million participants and more than \$280 billion in assets, the Thrift Savings Plan is the largest defined contribution plan in the world and an integral component of our Federal Employee Retirement System. In addition, through its diverse and sensible investment options, and with average annual fees that are significantly lower than those of typical private sector plans, the Thrift Savings Plan stands as a model 401(k).

In light of its vital role, the Thrift Savings Plan merits continued and careful oversight by our Subcommittee, so that we can better ensure that our federal employees and service members are afforded the tools necessary to maximize their savings and enhance their retirement security. Therefore, I welcome this opportunity to discuss the status of the Thrift Savings Plan given our current economic climate, budgetary challenges faced by the Federal Retirement Thrift Investment Board, and legislative and regulatory changes.

In particular, as we all know, Congress is currently considering legislation to raise the federal debt ceiling and tackle the federal deficit. Notably, the past several months have been marked by wide speculation regarding the bond market consequences of a failure to enact a debt limit increase. As a result, I would be interested in hearing our panelists' perspectives on how a Treasury debt default and proposed spending reductions may affect Thrift Savings Plan balances, participants, and their beneficiaries. I also look forward to hearing our panelists' thoughts on how the current federal pay freeze may be impacting the Thrift Savings Plan.

Additionally, during the previous Congress, the Thrift Savings Plan underwent a significant modernization with the enactment of provisions, collectively known as the *Thrift Savings Plan Enhancement Act*, included in the *Family Smoking Prevention and Tobacco Control Act of 2009*. Specifically, this legislation contained several key enhancements to the plan, including automatic enrollment and immediate agency contributions for all new federal civilian employees, as well as the addition of a Roth 401(k) investment option, which allows participants to contribute after-tax dollars to the plan. Given these significant changes to the Thrift Savings Plan, I look forward to examining the progress of implementation of the *Thrift Savings Plan Enhancement Act*, including the challenges that the Federal Retirement Thrift Investment Board has faced in terms of increasing plan participation among uniformed service members and establishing the mutual fund option.

I would also like to revisit the feasibility of permitting federal employees to invest the cash value of unused annual leave in their Thrift Savings Plan retirement accounts. I introduced

legislation to this effect during the last Congress and am very interested in again exploring the possibility of allowing federal employees to roll-over their lump-sum annual leave payments into their Thrift Savings Plan accounts as a means of ensuring equity with their private sector counterparts. In fact, I hope the Chairman will agree to join me in working to find a legislative solution to this issue as well as other administrative modifications to the Thrift savings plan.

Lastly, I look forward to examining the various legislative proposals relating to the Thrift Savings Plan put forth by my colleagues on both sides of the aisle. However, as we continue to seek ways to enhance federal retirement security that are also mindful of the federal deficit, I would remind my colleagues that the Thrift Savings Plan is only one element of our three-tiered Federal Employee Retirement System, which also includes the Federal Employee Retirement System defined benefit and of course, Social Security. During the current Congress, I've increasingly heard the majority suggest the possibility of eliminating the pension portion of the Federal Employee Retirement System and instead providing the Thrift Savings Plan, as the only retirement security option for our federal workers. I believe that this would be a step in the entirely wrong direction. Since its inception, our Federal Employee Retirement System has been praised, on a bipartisan basis, as a fair and equitable framework that promotes retirement security for our federal workers and achieves cost savings for the federal government. We should keep it that way.

Before closing, I'd like to also ask unanimous consent that the written statement of Colleen Kelly, National President of the National Treasury Employees Union highlighting the value of the TSP as well as the Federal Employees Retirement System, in general, be included for the record.

Thank you, Mr. Chairman and I look forward to discussing these and other issues with our witnesses this afternoon.

I yield the balance of my time.

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Mr. ROSS. I would now like to also note that Members may have 7 days to submit opening statements for the record.

And we will now recognize our panel. We have Mr. Gregory T. Long, who is the executive director of the Federal Retirement Thrift Investment Board; we have Mr. Dailing, who is the chairman of the Employee Thrift Advisory Council; we have Mr. Joseph Beaudoin, who is the president of the National Active and Retired Federal Employees Association.

As is custom and policy with the Committee on Oversight, all witnesses will be sworn in before they testify. Please rise and raise your right hands. Thank you.

[Witnesses sworn.]

Mr. ROSS. Thank you. Please be seated. Let the record reflect that all witnesses responded "yes."

In order to allow for the discussion, please limit your testimony to 5 minutes. As you know, your entire written statement will be made part of the record.

And now I would like to recognize Mr. Long for 5 minutes.

**STATEMENTS OF GREGORY LONG, EXECUTIVE DIRECTOR, FEDERAL RETIREMENT THRIFT INVESTMENT BOARD; CLIFFORD DAILING, CHAIRMAN, EMPLOYEE THRIFT ADVISORY COUNCIL, SECRETARY-TREASURER, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION; AND JOSEPH BEAUDOIN, PRESIDENT, NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES ASSOCIATION**

**STATEMENT OF GREGORY LONG**

Mr. LONG. Chairman Ross and members of the subcommittee, my name is Greg Long, and I'm 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 for Federal employees. I've submitted my statement for the record, and I will summarize here.

Your letter of invitation explained that the purpose of this hearing is to review the Thrift Savings Plan, including implementation of the Thrift Savings Plan Enhancement Act of 2009 I am pleased to discuss.

I would again like to thank this committee and subcommittee for its initiative on the Enhancement Act. The agency began working with the employing agencies of the government toward implementation even before the ink was dry. We devised a plan for an orderly roll-out of the new provisions, starting with those which could provide the most immediate value for our participants. I will briefly discuss each element.

First, immediate employer contributions. This very valuable, long-sought benefit was first on the list for implementation because it would immediately increase the amounts being contributed to the TSP accounts of participants covered by FERS. Hundreds of dedicated payroll and personnel professionals throughout the government stepped up to the plate and performed admirably in implementing this feature.

Next, beneficiary participant accounts. This was another provision of the Enhancement Act that fully warranted prompt imple-

mentation. Under previous law, surviving spouses were required to withdraw TSP account balances which they inherited as beneficiaries of their deceased spouses. Our review of this matter found that spousal beneficiary accounts were available in many private sector 401(k) plans. However, implementation was complex because it involved obtaining important decisions from a largely aging cohort of widows and widowers who had never worked for the government previously. Our process that included special communications to the spouse beneficiaries, a welcome package, as well as tailored account maintenance and withdrawal forms, that was completed in December 2010. We have now established over 4,800 beneficiary accounts, and that number continues to grow.

The next provision was automatic enrollment. I'm pleased to say that since last August, all new Federal civilian employees are being automatically enrolled in the TSP at an initial contribution rate of 3 percent of basic pay unless they elect otherwise. Automatic enrollment is a game changer for the TSP. Over 97 percent of those hired since automatic enrollment began in August are now contributing their own funds to the TSP. Our overall participation rate is now slowly but steadily climbing as a result.

The next item is Roth, and 2012 will be a year of significant change to the TSP and the agency I help run, most notably because of the implementation of Roth TSP. With Roth comes sweeping changes, as this new offering touches virtually every element of the plan. The Roth—this will require us to change 27 of our 28 record-keeping and accounting systems. All of our phone reps, our PSRs, need to be educated in how to answer a wide variety of new types of questions. This is a pretax versus a post-tax decision, and that's going to be highly complex, and we need to provide assistance to the employees as well as the agency reps that in turn need to provide advice and guidance to their employees.

Additionally, our legal team is currently drafting regulations covering all aspects of the Roth project, and our timetable is to obtain three publication comments from ETAC this fall, followed by publication in the Federal Register. We expect to roll this out in the second quarter of 2012.

Attached to my statement is a document entitled "Thrift Savings Plan Statistics." The data displayed on this page provides an excellent overview of the status of the TSP. It is updated and publicly distributed each month at board meetings. Plan activities should be and are conducted in full public view in order to maintain the confidence of participants. We work hard to ensure that neither the participant nor the Congress or any other observers are surprised by what we do. We function just like a 401(k) plan, and we strive to excel. Our responsibility is to act solely in the interest of participants and their beneficiaries.

Our goal is dignity in retirement for those participants who in their day jobs secure our Nation, deliver the mail, and perform countless other necessary functions. In today's world, saving and investing for retirement is essential. Congress has given us the program with which we can accomplish that goal, and we work hard every day to achieve it. That concludes my statement.

Mr. ROSS. Thank you very much.

[The prepared statement of Mr. Long follows:]

STATEMENT OF GREGORY T. LONG  
EXECUTIVE DIRECTOR  
FEDERAL RETIREMENT THRIFT INVESTMENT BOARD  
BEFORE THE  
HOUSE SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE  
AND LABOR POLICY.

July 27, 2011

Chairman Ross 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.

The TSP is the largest defined contribution retirement plan in the world. Individual accounts are maintained for nearly 4.5 million Federal and Postal employees, members of the uniformed services, retirees, and spousal beneficiaries. As of June 30, 2011, the TSP held approximately \$289 billion in retirement savings.

When I last presented testimony to this Subcommittee on November 3, 2009, those numbers were 4.2 million and \$234 billion, respectively. This increase of nearly 300,000 participants and \$55 billion in savings in the past 20 months demonstrates the steep growth trajectory of the Plan. When this growth in size is coupled with the growth in complexity contemplated with the addition of a Roth feature as discussed later in my statement, it becomes crystal clear why we are so busy and expect to remain so in the foreseeable future.

Your letter of invitation explained that the purpose of this hearing is to review the Thrift Savings Plan including implementation of the Thrift Savings Plan Enhancement Act of 2009. I am pleased to discuss these matters.

First, I would again like to thank this Committee and Subcommittee for its initiative on the "Enhancement Act." The initial legislative efforts by then-Committee leaders Henry Waxman and Tom Davis, as well as then-Subcommittee Chairman Danny Davis, provided the

bipartisan support which led to the President's signature on June 22, 2009. That action helps ensure that the TSP remains current with private sector 401(k) Plan practices.

The Agency began working with the employing agencies of Government toward implementation even before the ink was dry. We devised a plan for an orderly rollout of the new provisions, starting with those which could provide the most immediate value for our participants and their beneficiaries. I will briefly discuss each element.

#### Immediate Employer Contributions

This very valuable long-sought benefit was first on the list for implementation because it would immediately increase the amounts being contributed to the TSP accounts of participants covered by the Federal Employees Retirement System (FERS). When I last testified just a little more than four months after the law was enacted, however, the best assessment I could provide regarding the immediate employer contribution provision was that all affected employees "should" then be receiving employer contributions. I could only go so far due to the fact that this improvement was given effect via the Government's many payroll systems across all Federal employing agencies. It turns out that there was no need for me to hedge. Hundreds of dedicated payroll and personnel professionals in the employing agencies of Government had again stepped up to the plate and performed admirably. This new benefit had in fact been fully implemented, even though final confirmation was not then possible.

I should also note that the enactment of this provision shows what the Congress can achieve given bipartisan consensus and sufficient time. The 1986 TSP enabling legislation created a waiting period governing participation by new hires as was customary at that time. Over the ensuing years waiting periods for 401(k) participation were virtually eliminated. In 1999, then-Congresswoman Connie Morella introduced bipartisan legislation to totally eliminate

the TSP waiting period to reflect the changes which had occurred in the 401(k) world. Her effort succeeded in eliminating the waiting period for employee contributions at that time (P.L. 106-361). Ten years later, the legislative effort which she started was completed.

#### Beneficiary Participant Accounts

The Beneficiary Participant Account was another provision of the Enhancement Act that fully warranted prompt implementation. Under previous law, surviving spouses were required to withdraw TSP account balances which they inherited as beneficiaries of their deceased spouses. Although we provided as much time as we could administratively, surviving spouses were often confronted with a momentous decision regarding a potentially large amount of money even while some were still in the grieving process.

Our review of this matter found that spousal beneficiary accounts were available in many private sector 401(k) plans. However, implementation was very complex because it involved obtaining important decisions from a largely aging cohort of widows and widowers who, by and large, had never worked in the Government and were unfamiliar with its procedures.

We addressed this by establishing a two-step implementation. First, we simply discontinued requiring that surviving spouses withdraw the funds. We would process their withdrawals if requested, but we also invited these beneficiaries to leave their funds on account in the Government Securities Investment (G) Fund (if they wished to do so) until we could properly and fully implement the Beneficiary Participant Accounts.

That process, which included special communications to the spouse beneficiaries, a welcome package, as well as tailored account maintenance and withdrawal forms, was completed in December 2010. At that time, the accounts for approximately 2,600 surviving spouses were converted to Beneficiary Participant Accounts offering them wider control and the full range of

withdrawal options. We have now established over 4,800 beneficiary accounts, and that number continues to grow.

This provision was the initiative of a member of the Employee Thrift Advisory Council (ETAC), and is indicative of our close partnership with the Council. I am appearing today with Cliff Dailing, who was unanimously supported by his fellow Council members earlier this year as their new Chairman. I again thank the Council members for the invaluable advice they provide and the critical statutory role they play in helping us administer the TSP solely in the interest of its participants and their beneficiaries.

#### Automatic Enrollment

Since last August, all new Federal civilian employees, and most rehired civilian employees are being automatically enrolled in the TSP at an initial contribution rate of 3 percent of basic pay unless they make a positive election regarding the TSP. The employing agencies forward information regarding these employee contributions to the TSP for investment in the G Fund along with additional employer provided amounts equaling 4% of basic pay (Agency Automatic (1%) and 3% Matching Contributions). This occurs each pay period, unless the employee opts out of contributing, elects to contribute a different amount or makes a different investment choice. This effectively “jump-starts” early savings, leading to more agency contributions (if FERS) and potentially greater savings over time as well as greater security during retirement.

I have said in the past, and continue to say, that automatic enrollment is a “game changer” for the TSP. Thus far, the numbers show that to be the case. Over 97 percent of those hired since automatic enrollment began in August 2010 are now contributing their own funds to the TSP.



Attached to this statement is an analysis showing the cumulative results of automatic enrollment. While 10 full months of data is generally insufficient for reliable and valid conclusions, these results are very positive:

- only 2.6% of those automatically enrolled have opted-out and remain non-contributors (although FERS employees in this group do still have TSP accounts which hold their Agency Automatic (1%) Contributions);
- 35.7% of new hires who were automatically enrolled at the 3% level have not changed that enrollment and consequently now have an amount equaling 7% of their basic pay being invested for them in the G Fund; and
- 61.7% of all new hires have taken control of their future by electing a different contribution amount or investment choice.

This last bit of data shows us that a large percentage of new hires are ready to take control of their retirement savings. They will likely be more receptive to our financial education efforts, and better prepared for their eventual retirement. And as you will note in the attachment, this percentage is growing.

We are aware of recent press stories debating whether automatic enrollment is achieving the intended result. While it is still early for us to draw any firm conclusions, the numbers cited on the attachment are all heading in the right direction.

#### Roth

2012 will be a year of significant change for both the TSP and the FRTIB, marked most notably by the implementation of Roth TSP. With Roth comes sweeping changes, as this new offering touches virtually every element of the Plan:

- The Roth TSP requires changes to 27 of the Plan's record keeping and accounting systems. The implementation of this option generally requires adding the capability to maintain separate participant records of Roth balances, track pre-tax, post-tax and tax-exempt contributions, allow for related investment and loan flexibility, and integration of the Roth balances into the TSP withdrawal options along with the appropriate tax reporting for withdrawals of Roth money. In addition to the changes in our record keeping systems, we are also working with the agency and service payroll offices to incorporate the new Roth requirements into their personnel and payroll systems.
- Participant Service Representatives (PSRs) at our two call centers will have to be trained to answer the wide and increased variety of participant questions, and the systems which support the PSRs will need to be updated.
- More than 145 forms, booklets and notices are being revised to address the addition of the Roth TSP. The public and the secure "My Account" areas of the website will be significantly modified to provide general information, as well as transactional capabilities and detailed participant specific information.
- Roth also brings with it the need to provide appropriate education to our participants. The pre-tax vs. post-tax decision is a more complex decision than the investment allocation decision. We must communicate this new benefit broadly and provide relevant assistance. Consequently, we are planning a two-phase approach of first providing generic educational materials and a web-based calculator. After gaining experience with

participants' issues and questions, we plan to develop a more customized and interactive set of web-based tools during FY 2013.

- Our education program must also provide the agency and service representatives who are responsible for providing information to their employees and members with guidance and materials about the new Roth feature. We have already begun weaving the Roth feature into our ongoing agency/service training programs.

The Agency's legal staff is currently drafting regulations covering all aspects of the Roth project. Our timetable is to obtain pre-publication comments (as is our customary practice) from ETAC early this fall, followed by publication in the Federal Register with a formal comment period. We expect to implement Roth in the second quarter of 2012.

#### Mutual Fund Window

The Enhancement Act 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.

#### Other Issues

During the 111<sup>th</sup> Congress we worked with the Subcommittee and the ETAC on authorizing TSP contributions from terminal annual leave payments. Such contributions are permissible under Internal Revenue Service revenue rulings, and many private 401(k) plans offer this option. Importantly, such a change would only authorize contributions from a new source.

It would not increase the overall amount that participants may contribute, nor would it increase employing agency contributions to the TSP.

We were very pleased when these efforts resulted in the introduction of H.R. 4865, a bipartisan initiative introduced by then-Subcommittee leaders Stephen Lynch and Jason Chaffetz, along with five other cosponsors.

As this proposal was moving through the legislative process we discussed with staff the possibility of using it as a vehicle for three important administrative amendments to the TSP. Unfortunately, the Congressional Budget Office reported a \$317 million cost for the leave proposal, and further progress on the entire matter was simply not possible as a result.

Although we recognize that action on the leave issue cannot proceed at this time, I urge the Subcommittee to remain aware that this proposal would simply keep the TSP comparable to 401(k) plans. I also ask that the Subcommittee continue to consider the three administrative issues we raised last year and which are described in writings provided to the staff.

The first issue concerns language in our authorizing legislation stating that the Thrift Savings Fund is not subject to levy. The Internal Revenue Service has asserted that IRS levies on TSP accounts should be honored; however, we have not done so due to the absence of statutory language in Title 5 of the U.S. Code. Statutory exemptions to the TSP's non-alienation provision have been made in Title 5 with regard to alimony, child support, and most recently Mandatory Victims Restitution Act orders, and we have complied in these matters. I bring this to our authorizing Committee's attention because it is an ongoing matter, and just last week was the subject of an announced amendment to be proposed in the Senate.

Secondly, since 1987 the Board has maintained its standard of acting solely in the interest of Plan participants in all matters including procurement. While the Agency has generally

followed Federal contracting protocols as best practices, we have always asserted independence from any requirement that would not produce the best value for our participants. Our position was bolstered by the fact that we receive no annual appropriations from the Congress and our activities are paid for by the participants. Non-appropriated fund instrumentalities (NAFIs) are not required to follow rules that govern procurements which are paid for with taxpayer money.

In a recent court case, a Federal judge held that the Board is not a NAFI. Although that ruling was incorrect (and this same judge was overruled on another virtually identical ruling involving the U.S. Mint which is also a NAFI), the Board settled the instant case and thus that ruling will remain on the books. Our administrative amendment seeks to clarify our status as a NAFI and remove any doubt that we will continue to expend participants' funds solely in their interest and for their exclusive benefit in all situations, including our procurement activities.

The final administrative issue concerns the fact that our law establishes no statute of limitations for benefit claims. Similar private sector plans either establish their own limitations period or function under limits enacted by various state laws. When we discussed this matter with ETAC, we cited a three-year limit suggested in the Uniform Management of Public Employee Retirement Systems Act of 1997. Although there was universal agreement that some limit is needed, some Council members voiced concern that three years might not be long enough. We understand those concerns, and remain flexible with regard to a precise time limit, but strongly believe that a reasonable statute of limitations does need to be established.

#### G Fund Remains Fully Protected

Although not requested in your letter of invitation, I feel that I should report for the hearing record that Government Securities Investment (G) Fund investors remain fully protected during the current debt issuance suspension period. My comments on this matter today echo

information that we have issued in our quarterly *Highlights* newsletter, published on our web site, discussed at our public Board Member meetings as well as with ETAC member organizations, and provided to members of the press.

The TSP began in 1987 with the G Fund as the sole TSP investment fund. Early that year a looming debt limit crisis called into question whether Treasury securities would continue to be issued, including those issued to the G Fund (under the Federal Employees Retirement System Act of 1986). To assure G Fund investments, the Board formally requested legislation which guaranteed G Fund earnings even when G Fund securities could not be issued due to the statutory debt limit. Seventeen days later, the Thrift Savings Plan Investment Act of 1987 was signed into law by then-President Reagan.

The statutory debt limit has been raised 28 times since then, often only after a hiatus in debt issuance. In each of these cases, G Fund investors remained fully protected. There are just two fact-based possibilities regarding the G Fund: either securities will be issued or securities won't be issued. G Fund investors are fully protected in either circumstance. Because of this we are able to update individual account balances each day, and issue loans as well as withdrawals without interruption.

Participants seem to understand this quite well at this point. We have received relatively few inquiries on this matter from participants. I would also like to recognize the responsible reporting on this matter by ETAC member organizations. This situation would be easy to demagogue. Rather than do that, however, the unions and associations have used their publications to educate rather than exaggerate. Nevertheless, everyone is dissatisfied with the status quo, and we urge a prompt resolution.

Members of the press have asked us to speculate on many “what-ifs,” but we have declined to do this. I fully expect our nation’s highest elected officials to resolve the debt limit issue as they must. It would be inappropriate for me as a pension plan manager to make their job more difficult or frighten investors by speculating on doomsday scenarios.

Thrift Savings Plan Review

Attached to my statement is a document entitled “Thrift Savings Plan Statistics.” The data displayed on this page provides an excellent overview of the status of the TSP over a moving three-month period. This item is updated and publicly distributed at each monthly Board member meeting.

Plan activities should be and are conducted in full public view in order to maintain the confidence of the participants who pay the costs of Plan administration. We maintain open lines of communication with the members of our statutory advisory council, welcome their questions and act on their recommendations. We involve them in all important TSP decisions, and regularly provide packets of material relating to Plan administration. In order to assist the Committee in its oversight function, copies of these packets are also provided on a regular ongoing basis to key Committee staff on both sides of the aisle and both sides of Capitol Hill. We are audited continuously by the Department of Labor, annually by the Plan’s auditor, and periodically by the Government Accountability Office.

Most importantly we work very hard to ensure that neither the participants, nor the Congress, or any other careful observers are surprised by what we do. We function just like a 401(k) plan, and we strive to excel. Our responsibility is to act solely in the interest of the participants and their beneficiaries; our goal is dignity in retirement for those participants who, in their day jobs, secure our nation, develop medical breakthroughs, deliver the mail, and perform

countless other necessary functions. In today's world, saving and investing for retirement is essential. Through its actions in 1986, as well as through scores of legislative amendments since then, the Congress has given us a program which can accomplish that goal, and we work very hard, every day, to achieve it.

That concludes my prepared statement. I would be pleased to respond to any questions you may have.



THRIFT SAVINGS PLAN  
AUTOMATIC ENROLLMENT <sup>1</sup>

	Auto-Enrolled <sup>2</sup>		Elected TSP <sup>3</sup>		Total Participating		Declined TSP or Opted-Out <sup>4</sup>	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
2010 <sup>5</sup>								
Aug	5,606	68.1%	2,506	30.4%	8,112	98.5%	120	1.5%
Sep	18,230	58.5%	12,470	40.0%	30,700	98.5%	481	1.5%
Oct	27,709	51.2%	25,311	46.8%	53,020	98.0%	1,083	2.0%
Nov	33,663	45.8%	38,208	52.0%	71,871	97.8%	1,641	2.2%
Dec	37,036	43.0%	47,067	54.6%	84,103	97.6%	2,030	2.4%
2011								
Jan	40,556	40.9%	56,229	56.7%	96,785	97.6%	2,423	2.4%
Feb	45,442	39.7%	66,107	57.8%	111,549	97.5%	2,808	2.5%
Mar	51,214	39.0%	76,810	58.5%	128,024	97.6%	3,203	2.4%
Apr	53,531	37.2%	86,821	60.4%	140,352	97.6%	3,510	2.4%
May	56,188	36.2%	95,145	61.3%	151,333	97.5%	3,906	2.5%
June	59,850	35.7%	103,528	61.7%	163,378	97.4%	4,321	2.6%

<sup>1</sup> The counts for each month represent the cumulative total for each category since the implementation of Automatic Enrollment in August 2010.

<sup>2</sup> Automatically-enrolled participants who remain at the default contribution amount and allocation.

<sup>3</sup> Count includes participants who elected TSP immediately upon hiring and, therefore, not auto-enrolled as well as those who were auto-enrolled and then made subsequent investment decisions.

<sup>4</sup> Declined TSP participation immediately upon hiring or opted out of automatic enrollment.

<sup>5</sup> Counts reflect partial month activity.

## THRIFT SAVINGS FUND STATISTICS

Fund Balances (\$ millions)	June 2011	May 2011	April 2011
G Fund	119,455 41%	117,183 40%	116,812 40%
F Fund	17,321 6%	16,758 6%	16,183 6%
C Fund	70,018 24%	71,859 25%	72,619 25%
S Fund	25,437 9%	26,801 9%	27,067 9%
I Fund	18,985 7%	19,415 7%	19,823 7%
L Income Fund	5,317 2%	5,357 2%	5,317 2%
L 2020 Fund	14,526 5%	14,688 5%	14,632 5%
L 2030 Fund	10,183 4%	10,237 4%	10,184 4%
L 2040 Fund	7,386 3%	7,441 3%	7,426 3%
L 2050 Fund	703 <1%	707 <1%	661 <1%
Total*	289,330 100%	290,445 100%	290,722 100%

## Twelve Month Returns

G Fund	2.63%	2.66%	2.69%
F Fund	4.03%	5.97%	5.49%
C Fund	30.66%	25.92%	17.19%
S Fund	39.43%	32.93%	24.53%
I Fund	32.26%	31.46%	20.23%
L Income Fund	8.30%	7.83%	6.26%
L 2020 Fund	19.43%	17.62%	12.59%
L 2030 Fund	23.47%	21.12%	14.88%
L 2040 Fund	26.76%	23.97%	16.68%
L 2050 Fund	n.a.**	n.a.**	n.a.**

## Number of Participants (000s)

FERS Contributing with Agency Contributions	2,045	2,043	2,038
FERS Not Contributing with Agency Contributions	348	349	350
FERS Participation Rate	85.5%	85.4%	85.3%
FERS Contributing w/out Agency Contributions	<1	<1	<1
Total FERS with Contributions	2,393	2,392	2,388
CSRS Contributing	213	216	219
Uniformed Services Contributing	695	695	698
Participants with No Current Contributions	1,185	1,174	1,163
Total Plan Participants	4,486	4,477	4,468

## Loans Outstanding

Number	878,441	873,269	868,321
Amount (\$ millions)	7,774	7,701	7,648

Admin. Expense	Total	G	F	C	S	I
2007 Gross	0.0352%	0.0351%	0.0351%	0.0353%	0.0353%	0.0349%
2007 Net	0.0146%	0.0146%	0.0146%	0.0147%	0.0146%	0.0142%
2008 Gross	0.0432%	0.0426%	0.0428%	0.0437%	0.0437%	0.0439%
2008 Net	0.0186%	0.0184%	0.0183%	0.0188%	0.0187%	0.0188%
2009 Gross	0.0519%	0.0523%	0.0521%	0.0516%	0.0511%	0.0512%
2009 Net	0.0281%	0.0283%	0.0282%	0.0278%	0.0276%	0.0276%
2010 Gross	0.0478%	0.0480%	0.0479%	0.0476%	0.0470%	0.0480%
2010 Net	0.0246%	0.0247%	0.0246%	0.0246%	0.0242%	0.0250%
2011 Gross YTD	0.0241%	0.0242%	0.0241%	0.0240%	0.0239%	0.0240%
2011 Net YTD	0.0139%	0.0139%	0.0139%	0.0139%	0.0138%	0.0138%

\*Effective January 2011, the Fund Balances no longer include outstanding loans and other assets in conformance with revisions to the financial statements. \*\*The L 2050 Fund was created on January 31, 2011.

Note: The net expense ratios are the administrative expenses charged to TSP participants per dollar invested in the respective funds after offsetting gross administrative expenses with account forfeitures and loan fees.

Mr. ROSS. Mr. Dailing, you are recognized for 5 minutes.

**STATEMENT OF CLIFFORD DAILING**

Mr. DAILING. Chairman Ross, members of the subcommittee, thank you for the opportunity to testify today. As you mentioned, my name is Clifford Dailing, and I am the secretary-treasurer of the National Rural Letter Carriers Association.

Today I come before you as chairman of the Employee Thrift Advisory Council, ETAC. I was elected chairman by my peers at our last meeting in April. Prior to becoming chairman, I was NRLCA's representative on the Council for the previous 15 years. ETAC is a Federal advisory committee established by the Federal Employees Retirement System Act of 1986 to give a voice to the participants in the operations of the Thrift Savings Plan, TSP. We provide advice on matters relating to investment policies and the administration of the TSP.

The Thrift Savings Plan is an extremely important part of the Federal retirement system and is very popular among its participants. Currently 15 unions, employee organizations, and uniformed services comprise ETAC. Our organizations represent the vast majority of the TSP's 4.5 million participants. TSP continues to be one of the best-run and largest defined contribution plans in the world. In fact, TSP administrative costs are mere cents on the dollar, making TSP perhaps the least expensive defined contribution plan in the Nation.

At the end of June 2011, the TSP had roughly \$289 billion in assets. Protecting these assets is our highest priority. Contributing to the plan's current success is the TSP Enhancement Act of 2009. Two of the key components of this law include immediate agency contributions and automatic enrollment. Both of these features, in my opinion, are part of the reason we have seen a significant increase in participation levels, particularly among younger employees and new hires. Currently 97.4 percent of all new hires are participating in the TSP, with only a minimal of 2.6 percent opt-out rate. Overall, roughly 85 percent of all Federal and postal employees are participating in TSP.

Compared with the private sector, where roughly 75 percent of employees are participating in available 401(k) plans, Federal and postal employees are doing extremely well planning for their retirement.

As the law stands, every new hire that is automatically enrolled into the TSP plan is preset to contribute 3 percent into the G fund. This amount does change if participants elect to increase or decrease their contribution levels or to opt out altogether. Educating new hires about the Thrift Savings Plan continues to be a priority, but I would think everyone can agree that 97.4 percent participation rate is very encouraging.

In addition to automatic enrollment, the Federal Retirement Thrift Investment Board has had the arduous task of implementing the Roth TSP option. Originally scheduled to begin in January 2012, the plan has been delayed several months for more testing and planning. I encourage the Thrift Board to quickly act toward completion of the implementation of the Roth TSP and give Federal

and postal employees and retirees an additional option to invest for their retirement needs.

Mr. Chairman, I also need to address the national administration's decision to suspend all Federal employees' investments into the G fund until the debt ceiling has been resolved. I and probably other members of the ETAC have received numerous calls from concerned members who have had retirement investments into the G fund, wanting to know what will become of their retirement. However, despite the fact our members who have invested in the G fund are protected, it is imperative that this information is distributed to all participants to maintain confidence in the TSP. We need to ensure that a strong line of communication is maintained between Federal agencies and their employees so that TSP participants have a high level of confidence during the ongoing debt issuance suspension period. If this information is not dispersed, its impact becomes minimal, as many participants will reduce their contribution from fear of loss of their investment. This can only be done if the administration, Congress, and ETAC maintain a line of communication among each other and remain in contact as the debt ceiling is resolved.

Finally, Mr. Chairman, I urge you to proceed with caution as deficit reduction measures are debated. I fear we may see a decrease in employees' TSP contributions as Federal and postal employees will plan for the present rather than invest for the future. We cannot afford to have our members reduce their TSP contributions because cost-of-living adjustments are deferred or Federal employees are required to pay a higher share of their health care costs. This could have a negative effect on our members' financial security in retirement.

Once again, thank you for giving me the opportunity to testify before you today. As I mentioned earlier, TSP is very popular among its participants, and part of the reason for that is the strong backing Congress has traditionally shown.

I urge you to continue protecting TSP by insulating it from political and budgetary pressures. I would be happy to answer any questions you may have. Thank you.

Mr. ROSS. Thank you, Mr. Dailing.

[The prepared statement of Mr. Dailing follows:]

Chairman Ross, and members of the Subcommittee on Federal Workforce, U.S. Postal Service, and Labor Policy, thank you for allowing me the opportunity to testify today. As you mentioned, my name is Clifford Dailing, and I am the Secretary/Treasurer of the National Rural Letter Carriers' Association. This is the second time I have had the opportunity to testify before this committee. The first time I was a representative of the National Rural Letter Carriers' Association. Today, I come before you as the chairman of the Employee Thrift Advisory Council (ETAC). I was elected Chairman by my peers at our last meeting in April. Prior to becoming Chairman, I was the NRLCA's representative on the council for the previous fifteen years.

ETAC is a federal advisory committee established by the Federal Employees Retirement System Act of 1986 to give a voice to the participants in the operations of the Thrift Savings Plan (TSP). We provide advice on matters relating to investment policies and the administration of TSP. We regularly meet, usually twice a year, with the board or its Executive Director to address administrative, legislative, and service issues.

The Thrift Savings Plan is an extremely important part of the Federal retirement system and is very popular among its participants who maintain TSP accounts. Currently, fifteen unions, employee organizations, and uniformed services comprise ETAC. Our organizations represent the vast majority of the TSP's 4.5 million participants.

The Thrift Savings Plan (TSP) continues to be one of the best run, and largest defined contribution plans in the world with extremely low administrative costs. In fact, TSP administrative costs are mere cents on the dollar, making TSP perhaps the least expensive defined contribution plan in the nation. At the end of June 2011, the

TSP had roughly \$289 billion in assets. Protecting these assets is our highest priority. Contributing to the plan's current success is the TSP Enhancement Act of 2009, P.L. 111-31. A couple of notable implementations from that law include immediate agency contributions and automatic enrollment. Both of which, I believe, are reasons the TSP enjoys such a high participation rate.

Immediate agency contributions were made effective upon the signing of the act. This added benefit, in my opinion, is part of the reason we have seen a significant increase in participation levels among younger employees and new hires, increasing the levels of participation among both groups. Automatic enrollment has proven to be a huge advancement in the TSP. We have seen an immediate impact in members' participation rates. Currently, 97.4% of all new hires are participating in the TSP, with only a minimal 2.6% opt-out rate. Overall, roughly 85% of all federal and postal employees are participating in TSP. Compared with the private sector, where roughly 75% of employees are participating in available 401(k) plans, federal and postal employees are doing extremely well planning for their retirement.

As the law stands, every new hire that is automatically enrolled into the TSP plan, is pre-set to contribute 3% into the G Fund. This amount does change if participants elect to increase or decrease their contribution levels, or to opt-out altogether. Challenges still exist with respect to educating new members so they understand the TSP's role in their retirement and how it can help them financially prepare for retirement. Educating new hires about the Thrift Savings Plan continues to be a priority, but I think everyone can agree that a 97.4% participation rate is very encouraging. While I unfortunately expect the overall participation rate to drop in the months ahead, I still believe automatic enrollment has been nothing but beneficial to the TSP and its participants.

In addition to automatic enrollment, the Federal Retirement Thrift Investment Board (FRTIB) has had the arduous task of implementing the Roth 401(k) option. Originally scheduled to begin in January 2012, the plan has been delayed several months for more testing and planning. I encourage the FRTIB to speedily work towards completion of the implementation of the Roth 401(k), and give federal and postal employees and retirees an additional option to invest for their retirement needs. Mr. Chairman, I need to address the National Administration's decision to

suspend all federal employees' investments into the G-fund until the Debt Ceiling has been resolved. I, and probably other members of ETAC, have received numerous calls from concerned members who have retirement investments into the G-Fund wanting to know what will become of their retirement. This is a serious issue.

The good news for our members is TSP has been insulated from the politics of the debt ceiling. The G Fund is safe and fully protected during the "debt issuance suspension period." A law was enacted in 1987, which assures G Fund investors that they will continue to accrue earnings and their accounts will remain unaffected even during periods when the Secretary of the Treasury cannot issue G Fund securities due to the statutory debt limit. This is possible because of the "make-whole" provision [5 U.S.C. § 8438(g) (4)] contained in Public Law 100-43, the Thrift Savings Fund Investment Act of 1987. This provision ensures TSP participants who have invested in the G Fund will not lose any interest earning on their retirement investments. The G Fund account balances are exactly the same as if they were no interruption in the issuance of Treasury securities.

Despite the fact our members who have invested in the G Fund are protected, I bring up this issue out of concern about maintaining confidence in the TSP. We need to establish a better line of communication between federal agencies and their employees so that TSP participants are satisfied and have a high level of confidence during the ongoing debt issuance suspension period. In short, a dialogue needs to be started. We need to let our employees, and members, know their investments are safe and secure. All of us need to work together to create a greater understanding for federal and postal employees and retirees that their pension assets remain fully protected. This can only be done if the Administration, Congress, and ETAC maintain a line of communication among each other, and remain in contact as the Debt Ceiling is resolved.

Finally, Mr. Chairman, I urge you to proceed with caution as deficit reduction measures are debated. I fear we may see a decrease in employees' TSP contributions as congressional actions target federal employee pay and benefits as a means to reducing the deficit. Many TSP participants have already been hit with a two-year pay freeze. The impact this will have on TSP contributions is uncertain at

this point. However, a two-year pay freeze coupled with an increase in contribution rates to FERS that could exceed 5% of employees' pay, as some proposals have suggested, would, I believe, lead to a severe drop in contributions to employees' TSP accounts. I fear that federal and postal employees will plan for the present rather than invest for the future. We cannot afford to have our members reduce their TSP contributions because cost-of-living adjustments are deferred, or federal employees are required to pay a higher share of their health care costs. This could have a negative effect on our members' financial security in retirement.

Once again, thank you for giving me the opportunity to testify before you today. As I mentioned earlier, TSP is very popular among its participants, and part of the reason for that is the strong backing Congress has traditionally shown. I urge you, and Congress, to continue protecting TSP by insulating it from political and budgetary pressures. I would be happy to answer any questions you may have.



Mr. ROSS. Mr. Beaudoin. Is that correct? You are recognized for 5 minutes.

#### STATEMENT OF JOSEPH BEAUDOIN

Mr. BEAUDOIN. Chairman Ross, Ranking Member Lynch, and members of the subcommittee, I am Joseph A. Beaudoin, president of NARFE, and I want to thank you for the opportunity to testify.

We continue to be pleased with the performance of the Thrift Savings Plan. We believe that the Thrift Board has acted as dutiful fiduciaries on behalf of Federal civilian workers and annuitants and uniformed military personnel and retirees.

For example, NARFE supports the Thrift Board's ongoing commitment to offering diversified index funds, which has minimized risk and created retirement security for participants and beneficiaries. We urge Congress and the Thrift Board to work together and to base fund decisions on carefully crafted objective financial analysis. 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.

The test of any organization is its performance during a crisis. We believe that the Thrift Board has continued to perform admirably during the most volatile financial market periods of the recession. 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 saving value during the economic downturn.

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 caught between a rock and a hard place: Either retire with a smaller nest egg than they had hoped for or defer retirement until some point in the distant future, after the market sufficiently rebounds.

Fortunately, the retirement security of FERS workers is diversified with a three-legged stool, consisting of the TSP, a modest defined benefit annuity, and Social Security benefits. In fact, we believe the FERS defined benefit annuity has become an increasingly important safety net for FERS workers, particularly given the recent market slump of the country's economic recession. Indeed, the construct of FERS is a delicate balance. We strongly hold that the integrity of FERS must be preserved to ensure that the Federal Government is able to attract and retain the best employees. This is no small point, because Americans increasingly appreciate that Federal employees protect us and drive America's progress.

For several years we have worked with Congress and the Thrift Board on legislation to add new features to the TSP that have succeeded when offered in private 401(k) plans. We are particularly pleased with the implementation of three provisions in the Thrift Savings Plan Enhancement Act of 2009.

First, newly hired Federal employees are now automatically enrolled in TSP and are immediately eligible for an automatic contribution. As a result, 97 percent of newly hired Federal employees are voluntarily putting their own wages in their TSP account.

Second, by the second quarter of 2012 a Roth option will be added to the TSP. This feature will allow participants to make after-tax contributions to the plan and withdraw their earnings tax free upon retirement.

Third, the retirement security of the surviving spouses of workers and retirees has been enhanced by granting them the same rights over their inherited accounts as any other TSP participant.

Although NARFE is delighted with most of the provisions in the TSP Enhancement Act, we continue to be interested in advancing the program further. For instance, since September 2009, 401(k) plans could be amended to allow employees to contribute unused annual leave to their 401(k) account. As a matter of equity, NARFE supported legislation introduced during the 111th Congress by Representative Lynch and Chaffetz that would have allowed Federal workers to do the same. We support reintroduction of this bill in the current 112th Congress, and we encourage this subcommittee to approve it. NARFE also supports a proposal to allow Federal workers to contribute bonuses into their tax-deferred account.

Chairman Ross, Ranking Member Lynch, we commend you for your interest in ensuring that the Thrift Savings Plan continues to thrive. Thank you, and I'll answer any questions you have.

Mr. ROSS. Thank you very much.

[The prepared statement of Mr. Beaudoin follows:]

Chairman Ross, Ranking Member Lynch, and members of the subcommittee, 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 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 85.5-percent voluntary contribution rate by Federal Employees Retirement System (FERS) employees. It is the largest 401(k)-type plan in the country, with more than \$289 billion in assets and with an exceptionally low expense ratio, just 25 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 G. Thissen, 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.

NARFE continues to be interested in advancing the program further by allowing federal workers to contribute accumulated and accrued annual or vacation leave and, bonuses, to their TSP accounts in the same manner as private-sector employees.

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 during the most volatile financial market periods of the recession. 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 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 the market sufficiently rebounds.

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 is 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” consisting of the TSP, a modest defined-benefit annuity (significantly smaller than provided under the Civil Service Retirement System (CSRS), and Social Security benefits. In fact, we believe the FERS defined-benefit annuity has become an increasingly important safety net for FERS workers, particularly given the recent market slump of the country’s economic recession.

Unfortunately, the FERS annuity has been threatened by a series of recent deficit-reduction proposals:

- Basing the FERS annuity on the highest five years of salary rather than the highest three years of average salary would reduce the annuity of FERS retirees by an average of \$462 over five years, according to the most recent estimate made by the Congressional Budget Office.

- Ending the FERS annuity would mean that, for the first time since 1921, the federal government would not offer a defined-benefit retirement annuity to its employees. The average FERS annuity is \$1,050 per month. Absent a FERS annuity, retiring federal employees could lose their health insurance (FEHBP) since coverage is currently linked to receipt of a retirement annuity. Likewise, if a federal worker is no longer eligible to receive an annuity, he or she could no longer elect to provide a modest survivor annuity to a spouse or dependent, even by paying the actuarial cost of that benefit. The average FERS survivor annuity is \$375 a month.

In addition, the proposal to require federal workers to contribute an additional 5.5 percent of salary to the Civil Service Retirement and Disability Fund (CSRDF) will significantly reduce the wage earnings available to employees that could otherwise be contributed to their TSP account.

While employees currently make contributions from their salary to the CSRDF, most large private-sector employers historically have not required their workers to make any contribution toward their defined-benefit pensions. According to the U.S. Department of Labor, private-sector workers put in \$1 for every \$109 their employers contributed to their defined-benefits plans in 2008, the latest year for which statistics were available.

Taken together – and compounded by the two-year federal pay freeze enacted in December 2010 that will permanently lower future retirement annuities – these proposals send the wrong signal to the federal employees whose jobs are to protect us and drive America's progress. The American people have come to expect that federal meat inspectors will ensure the safety of the

food our families eat and federal nuclear regulators will prevent the next nuclear disaster from happening on U.S. soil. However, the cumulative affect of proposals to substantially reduce the earned compensation of federal workers could severely undermine the government's ability to attract and retain the best American employees.

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. 1332, legislation introduced by your colleagues, Howard "Buck" McKeon (R-CA) and Howard Berman (D-CA), which would repeal the WEP and the 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 this committee, and through the advocacy of NARFE and our colleagues in the federal/postal community, several TSP improvements were included in the Tobacco Regulatory legislation signed into law by President Obama on June 22, 2009, as P.L. 111-31. Collectively, those improvements are referred to as the Thrift Savings Plan Enhancement Act of 2009.

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, 97 percent of newly hired federal employees are voluntarily putting their own wages in their TSP accounts and the government, as an employer, is matching these contributions as a result of this new feature. Now, more federal workers will be 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 implement use of the TSP Roth option in the second quarter of 2012.

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. Today there are 4,834 spousal accounts, and this number will only grow over time. 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, for leading this effort for more than six years 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 TSP Enhancement Act that gives us pause is the authority granted 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 more than 4.5 million federal workers and military personnel who participate in the 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 in which they could put all their eggs in one perilous basket.

When the TSP Enhancement Act became law, some said that the self-directed option was added to the legislation 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, created retirement security for participants and beneficiaries and insulated the federal government from being accused of manipulating the stock market through the TSP. NARFE agrees with this position, and we hope that future fund selection will not be driven by the politics of outside self-interested funds. Do not tie the hands of the fiduciaries in delivering the best TSP to participants and beneficiaries that money can buy. Instead, we urge Congress and the Thrift Board to work together and to base fund decisions on carefully crafted, objective financial analysis and not on 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 provisions in the TSP Enhancement Act, we continue to be interested in advancing the program further.

For instance, on September 5, 2009, the Internal Revenue Service issued 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 annually to a participant's account. Shortly thereafter, NARFE and the National Treasury Employees Union asked the Thrift Board to address whether the new ruling would apply to TSP participants. The Board 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 supported legislation introduced during the 111<sup>th</sup> Congress by Reps. Stephen Lynch (D-MA) and Jason Chaffetz (R-UT) that would have allowed federal workers to contribute accumulated and accrued annual or vacation leave to their TSP accounts in the same manner as private-sector employees. We urge Reps. Lynch and Chaffetz to reintroduce this bill in the current 112<sup>th</sup> Congress, and we encourage this subcommittee to approve it.

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

As our TSP legislative and policy recommendations attest, NARFE wants federal civilian workers and military personnel to have the means to maximize their retirement savings. We made progress towards this goal by the provisions in the TSP Enhancement Act 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 2011 "Retirement Confidence Survey," 56 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, 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. Accordingly, we implore you to promote the establishment of a coordinated effort to educate workers about the need for informed decision making.

#### TSP G Fund and Default

On May 16, Treasury Secretary Timothy F. Geithner was forced to take extraordinary measures to avoid a government default, including short-term use of the TSP G Fund and the Civil Service Retirement and Disability Fund to manage the U.S. Treasury's cash flow, because Congress failed to increase the statutory debt ceiling. NARFE would prefer that our funds only be used to pay the retirement annuities and TSP benefits earned through a lifetime of public service. However, we also acknowledge that such extraordinary measures ensure that annuities and TSP savings continue to be paid. In fact, once Congress raises the debt limit and the period of debt suspension ends, the Treasury Secretary is required by federal law to "make whole" the retirement funds, with back interest. As we approach the August 2 deadline to pass an increase in the debt limit, many federal employees and annuitants are concerned about how a possible default would affect them. For that reason, we appreciate that the Thrift Board has made it clear that, through the operation of the "make whole" law, a default would have no impact on the G

Fund invested in government securities. Even without action on the debt ceiling, all of the G Fund monies would still be on account with the Treasury, and the interest that would accrue if the G Fund were fully invested would still be credited to the G Fund, according to the FRTIB.

#### Conclusion

Chairman Ross and Ranking Member Lynch, we commend you for your interest in ensuring that the Thrift Savings Plan continues to thrive. The 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 Thrift Savings Plan Enhancement Act 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.

Mr. ROSS. I'll now recognize myself for 5 minutes, and I will say for someone who has just come from the private sector in a 401(k) and now under the TSP, I think it's a phenomenal program, and I think that you are doing a very good job with it.

Mr. Dailing, you talked about communication to the members and what not. What recommendations would you give in terms of flexibility or more products to entice more people to join them? Eighty-five percent is pretty good, but any suggestions?

Mr. DAILING. The core, I think, is to—the core I think in this, to answer your question, is just to ensure from all directions that information, no matter what type the material, is given either by the employer, in verbal, in written form, that the individuals know the aspects, all the directions, the parameters of the TSP, and the importance of that for planning initially from the get-go as they begin their career.

Mr. ROSS. Mr. Long, in 2009 with the changes, did we see an increase in participation? I mean, we did, but we're at 85 percent now. What was it prior to the act?

Mr. LONG. It was down to 82 percent, and so it's a little bit confusing, but when the immediate contributions were put into place directly after the act was signed, our participation rate actually dropped, and it slowly, since automatic enrollment was implemented in August, has slowly been creeping up by one- or two-tenths of a percent each month. We're in a long, slow march toward 90 percent.

Mr. ROSS. Let me ask you this. If a person does not participate in it, they're still enrolled in it; is that correct?

Mr. LONG. Today, under automatic enrollment, if a participant takes no action, they are automatically enrolled at 3 percent. They can choose zero or any other amount, but we needed to take inertia off the table. Instead of a default rate of zero, the default rate is now 3 percent.

Mr. ROSS. And just help me with this, because I just coincidentally talked to a colleague of mine a little while ago who doesn't want to participate in the TSP for philosophical reasons or whatever reasons. I didn't question that. But he said that he can't get out of it. He cannot opt out of it, and that there is going to be a contribution made I think of 1 percent of his salary annually in the TSP.

Mr. LONG. The 1 percent is automatic, that is absolutely correct.

Mr. ROSS. Would you recommend an opt-out provision, if someone, for whatever reason, chose to do so?

Mr. LONG. Administratively, that 1 percent automatic is very beneficial in running the plan. One of the things that other plans struggle with is they don't know who doesn't participate. Now we know everybody. Everybody gets 1 percent. So I can track all participants. And now I need to know—now I know who you need to target as far as automatic enrollment. So it's—administratively it's very beneficial.

Mr. ROSS. But that 85 percent enrollees does not take into account somebody who would not want to enroll and still getting a 1 percent; is that correct?

Mr. LONG. The colleague that you referenced would actually fall under the about 2.4 percent of people that joined after automatic

enrollment and the very small percentage that actually chose to do zero.

Mr. ROSS. Okay. In terms of your budget, your budget's at, what, \$143 million or thereabouts? It was frozen, I think, this last year?

Mr. LONG. Yes; \$131 million for fiscal year 2011.

Mr. ROSS. Okay, and you're requesting a 12 percent increase—

Mr. LONG. That is—

Mr. ROSS [continuing]. For next year?

Mr. LONG. Well, I have put forth an estimate. I will actually put forth a formal request in September, but I have put forth an initial estimate to the board of 147, and now I scaled that back to about 145.

Mr. ROSS. Okay. And then what would you say the budget was in about 2006? Do you have any of those numbers?

Mr. LONG. Yep. About \$90 million.

Mr. ROSS. Okay. And so in 5 years it's increased about \$45 million?

Mr. LONG. Yes. It is substantial.

Mr. ROSS. And any particular reason? I mean, was there capital improvements or something?

Mr. LONG. Well, several reasons. When I initially joined, one of the things that we dedicated a significant amount of resources to was a TSP systems modernization. We had an infrastructure which created risk, and we actually had situations in which hardware and network failures put us out of business for short periods of time. That's bad. And so we needed to invest significant dollars in infrastructure modernization.

Then we moved to a significant change in our Web. The Congressman from Massachusetts previously referred to that as the equivalent of "pong." If you look at it today, you will notice it is far improved. It's a state-of-the-art Web site. And now after those two things, we moved to the TSP Enhancement Act, automatic enrollment, spousal accounts, immediate contributions. And finally the big one, which is Roth that we're in the middle of now.

Mr. ROSS. Last, I've got just a couple seconds. Any suggestions as to streamline, to help reduce costs in the operation of the TSP?

Mr. LONG. Well, we have—we're constantly taking a look at anything that creates expenses. I've put forth in my budget proposal several recommendations to the board as to how we can reduce costs at the agency, but everything is a give and take. If you want to reduce costs, there's something that you're planning on providing that you will no longer provide, and that's a discussion that I'll have with the board.

Mr. ROSS. Thank you. My time's expired. I'll now recognize the distinguished gentleman from Massachusetts, the ranking member, Mr. Lynch, for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

Mr. Long, let's stay right on that same thought. I know that the TSP provides to its members and investors a great advantage in that it charges, I think the last time we looked at this, very small fees as a percentage of revenue for its operations, and I believe it can do this because it doesn't seek to make a profit. You are just basically maintaining the service. You are not looking to, as I said,



to make money off this. And you also have huge economies of scale in terms of your operation.

Have you done any analysis in terms of how your fee structure compares with the private sector?

Mr. LONG. We are constantly taking a look at data that comes out, and just a couple weeks ago we had a report that came out from one of the large consulting firms which takes a look at the average recordkeeping and total investment charges that are allocated to the typical 401(k) participant. Right now a TSP participant pays 2½ basis points, 25 cents on every thousand dollars. Compare that to about 65 to 75 basis points for the largest plans. Some 401(k) plans pay 200 basis points or 2 full percentage points in fees. We are tiny relative to the typical 401(k) plan, and it's a result of, yes, economies of scale, but also our efficiencies that we create through our design.

Mr. LYNCH. Now, also the fees for—well, the salaries that you are paying for your investment people, I imagine those are also drastically lower than what we are seeing hopefully in the private sector.

Mr. LONG. Yes. Well, my investment staff internally is two people, so—

Mr. LYNCH. Okay.

Mr. LONG. And all of the agency employees fall under the standard pay scale, government pay scale structure.

Mr. LYNCH. Okay, great. The last time you were up we actually asked about providing a mutual fund window as one of the options. You know, I'm a participant. You know, I think the TSP is great. I think it offers a lot of folks an opportunity to invest in their own retirement.

Mr. LONG. Uh-huh.

Mr. LYNCH. And it encourages employees to use their own money.

Mr. LONG. Uh-huh.

Mr. LYNCH. That's a great advantage to the taxpayer, that these employees are using their own money to sustain their retirement. It's a good idea, I think. There is some volatility.

But let me ask you about the mutual fund option. Right now you can select the G fund, you know, so forth, the I fund, all that. What are we doing about the opportunity to give participants a chance to invest through a so-called mutual fund window?

Mr. LONG. The mutual fund window was a provision that was in the TSP Enhancement Act of 2009, so it is authorized but it is not required. We've also taken no action to implement it. This is a provision which I know will require significant discussions with members on the Employee Thrift Advisory Council as well as my board before we move forward, and we may never move forward, quite frankly.

Mr. LYNCH. What is the big drawback here? Is it just simply risk?

Mr. LONG. Well, I think there is a concern, and some of it is a paternalistic concern; that being that if we provide a window to access mutual funds, those mutual funds will virtually all be more expensive than what our core offerings are. And there is the poten-

tial that those offerings have a higher level of volatility than what we have because we rely on—

Mr. LYNCH. Let me just go back a little bit. Is there a way for you to say, you know, in order to be eligible within this mutual fund window—we are not talking about opening it up to the entire universe of mutual funds out there, but is there an opportunity for you to use your leverage because this is the largest plan out there to say, okay, we are going to allow this window, we are going to allow our members to have access to the funds within this window. However, you know, use the leverage and say we want your fees to be, you know, comparable to our own or certainly at a much greater discount, so you can use the leverage of your size to encourage those private mutual funds to give a better deal to the, you know, Federal employees as a group.

Mr. LONG. Yes. Would we be using our leverage? If we move forward with this, we would compete it in the marketplace. We would, we feel, command best pricing because of our size. The other way to limit the potential risk and concern is to not allow participants to put all of their money through this window. You might say only 25—some other percentage.

Mr. LYNCH. Yeah, and I know—thank you for your indulgence. The other way to do this is to say, look, we're not going to allow participants to invest any more than 20 percent, and then track it.

Mr. LONG. Yeah.

Mr. LYNCH. Track it, and see what the usage is and what the danger might be. But I think it is a good opportunity for—you need some flexibility, you know, for employees. I know you're doing very, very well, but I still think there's a need to diversify our options within that plan.

And I yield back the balance of my time. Thank you.

Mr. ROSS. Thank you. The gentleman from Illinois, Mr. Davis, is recognized for 5 minutes of questions.

Mr. DAVIS. Thank you very much, Mr. Chairman. I want to thank our witnesses for being with us.

One area that I am interested in exploring relates to the potential consequences, if any, of raising or not raising the Federal debt ceiling and what impact it might have on TSP fund balances and the participants.

All of us have listened over the last several months as there has been a tremendous amount of speculation as to what might happen to global financial markets, particularly the bond market, if the Federal Government fails to increase its debt ceiling by August the 2nd and therefore defaults on some of its legal obligations.

I believe it is in your written statement, Mr. Dailing, that you mentioned that the G fund is safe and fully protected during debt issuance suspension periods, and that's a quote.

Would you mind elaborating on that point a little bit further for the committee?

Mr. LONG. Oh, I'm sorry.

Mr. DAILING. Me, Mr. Davis?

Mr. DAVIS. Yes.

Mr. DAILING. I guess I will ask Director Greg to help me with the technical pieces of this as well, too, in the explanation. But as we have been elaborating to our members and trying to give it in

a layman's term of a movement of money on paper and IOUs prepared, if you will, to ensure that our members—the understanding of the action from the Secretary of the Treasury during the suspension period of the G fund. Our members did not understand fully what that meant, and their initial reaction was: Is my retirement money safe? Is it going to be there when I draw from that? And I think that was the biggest issue in the overall explanation of what that did mean, and trying to draw that down to our members.

The first reaction that I heard from some individuals that I spoke to from our respective group was that their contribution to the TSP, that they were going to change it, and that they would withdraw or reduce their amount into the G fund. They were concerned of the government, if you will, using their money in the issue of the debt ceiling situation and wanted to withdraw that back to where they knew it was in their hands. With absence of a technical explanation, that's from our members' concern.

Mr. DAVIS. Well, let me ask Mr. Beaudoin and Mr. Long if they agree with that basic assertion or explanation.

Mr. LONG. I do, yes. And I think this is an area in which the board and Congress could, frankly, appropriately anticipate a disadvantage, and it was largely driven by what was going on in 1987. When the TSP started early that year, 1987, there was a debt crisis then, and to assure G fund investments, the board, my predecessors, formally requested legislation guaranteeing G fund earnings. The Thrift Savings Plan Investment Act of 1987 was then signed by President Reagan at the time. It included the make-whole provision. So what this means is that under FERSA, our governing legislation, when G fund—when securities are issued to the G fund, we have—investors are protected.

In the other scenario in which securities are not issued, we have this Thrift Savings Plan Investment Act that protects them. Whether they're issued or whether they're not issued, G fund investors are protected, and that's the message that we have tried to deliver on our Web site, through our partners in ETAC, through our communications with the newsletters, and all of our mediums. We've tried to get this message out, but grant you there are some—we can't always get through clearly, but we try.

Mr. DAVIS. Thank you very much. Mr. Beaudoin, could you just react to that?

Mr. BEAUDOIN. Yes, sir. Although the NARFE would prefer that the funds be used for the retirement annuities and benefits—

Mr. ROSS. Mr. Beaudoin, is your button pushed there?

Mr. BEAUDOIN. Oh, I'm sorry.

We do acknowledge that such extraordinary measures ensure that annuities in TSP savings continue to be paid. We just want to ensure that once Congress raises the debt limit and the period of debt suspension ends, the Treasury Secretary fully complies with the Federal law which requires him to make whole the retirement funds with back interest, but we do agree with Mr. Long and Mr. Dailing.

Mr. DAVIS. Well, let me thank each one of you. You sounded pretty positive, so I think I'll just end at that. You did say, "once Congress does raise the debt limit."

Thank you, Mr. Chairman.

Mr. ROSS. Thank you, Mr. Davis.

That concludes our questioning and our hearing for today.

I thank the witnesses for being here and taking the time out of your busy schedules to testify. With that, our subcommittee stands adjourned.

[Whereupon, at 2:58 p.m., the subcommittee was adjourned.]

[The prepared statements of Hon. Elijah E. Cummings, Hon. Gerald E. Connolly, and Hon. James R. Langevin follow:]

**Opening Statement  
Ranking Member Elijah E. Cummings**

**“The Thrift Savings Plan: Helping Federal Employees Achieve Retirement Security”**

**July 27, 2011**

Thank you, Chairman Ross and Ranking Member Lynch, for holding today’s hearing.

The Thrift Savings Plan (TSP) is one of the three components of the Federal Employee Retirement System (FERS), which includes the TSP, the FERS basic annuity, and Social Security.

The Thrift Savings Plan serves 4.5 million employees and is the world’s largest defined contribution plan. With administrative funds comprising just a fraction of a percent of total investment, the TSP is extremely inexpensive to run and far outperforms any private sector financial retirement savings plan.

The adjustments made in the Thrift Savings Plan Enhancement Act of 2009 have improved the TSP, allowing it to work more efficiently and effectively for federal employees and their beneficiaries.

For instance, the Act requires new employees to be automatically enrolled in the TSP, and the federal government begins making contributions on the first day a new employee reports to work. As a result, more than 97% of new hires are enrolled in TSP, while only 2 percent have opted out of the program. Prior to enactment of the TSP Enhancement Act, just 45% of new hires were enrolled.

In addition, a number of new options will be added to the TSP, including the Roth contribution option, which allows employees to contribute after-tax funds to the TSP. I understand that this feature is scheduled to be up and running by the second quarter of fiscal year 2012, so I look forward to hearing more about its roll-out from our witnesses this afternoon.

I am also pleased with how quickly and efficiently the Federal Retirement Thrift Investment Board has implemented these enhancements, and I hope it will be able to continue down this path, notwithstanding current budgetary challenges.

On this point, the recession has had a significant impact on the retirement funds maintained by federal employees. Many individuals close to retirement are questioning whether they will be able to afford to retire, and too many employees must choose between saving for retirement and supporting their families.

Recent proposals to increase employee FERS contributions, and to reduce annuity benefits have created substantial uncertainty and concern for federal employees. In a recent

Statement of Congressman Gerald E. Connolly

Thrift Savings Plan: Helping Federal Employees Achieve Retirement Security Security

July 27<sup>th</sup>, 2011

Thank you, Chairman Ross for holding a hearing on the Thrift Savings Plan (TSP). The TSP is a model of administrative efficiency, with expenses representing a mere \$0.47 per \$1,000 invested. It has provided consistently strong rates of return for these low costs, ranging from 4.42% to 9.55% annually depending on the fund. Congress strengthened the TSP in 2009 by passing the TSP Enhancement Act, which automatically enrolls new federal employees and allows spouses of deceased participants to leave savings in the TSP.

This hearing is an opportunity to look back at the TSP's successful record and contemplate potential legislative changes to the TSP. In the private sector, many investment firms offer socially responsible investment options. Congressman Langevin has introduced legislation which would create a socially responsible investment fund within the TSP. We should consider whether legislation such as this bill could allow federal employees to align their investment choices with national policy. For example, it could allow them to divest their money from states that sponsor terrorism or from companies that do business with regimes which have interests that are anathema to the United States'. Adding another option to the TSP should be done in a manner that minimizes additional administrative costs.

In contrast, legislation has been introduced which would create a TSP investment account for gold, silver, and platinum. Legislation like this was proposed in the past. When the real estate bubble was reaching its peak, some suggested that Congress should create a TSP fund focused on real estate investments. In retrospect, avoiding such an undiversified investment was wise, as the real estate market crashed. Investing in a particular commodity such as gold may be tempting during times of political turbulence, but such narrow investments can be highly volatile and imperil the savings of federal employees. The historical record shows that the TSP's diversified funds are resilient to economic downturns and are safer than highly specialized investments. The proposal to create a TSP fund for gold is qualitatively different from Mr. Langevin's bill because a gold fund is inherently unstable, whereas a socially responsible fund could have more stable diversified investments.

Thank you again, Chairman Ross for holding this hearing. I look forward to the witnesses' testimony and hope that we can work with the TSP Board to maintain low administrative costs while considering possible new investment options for federal employees who are interested in socially responsible investments.

**Statement of Congressman James Langevin  
For the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy  
Of the Committee on Oversight & Government Reform  
U.S. House of Representatives  
July 27, 2011**

Chairman Ross, Ranking Member Lynch and distinguished Members of the Subcommittee, I would like to thank you for having this important hearing today on the Thrift Savings Plan (TSP) and retirement security for our federal employees. This topic is especially critical in our country's current economic climate.

I believe federal employees deserve the opportunity to invest in companies that embrace the same integrity in their practices that government employees work to uphold. That is why I introduced H.R. 2130, the Federal Employees Responsible Investment Act, which would direct the Federal Retirement Thrift Investment Board (FRTIB) to select a "Corporate Responsibility Index" as an option for TSP investment. The index would include companies that meet strict financial criteria, in addition to having strong corporate governance, sustainable environmental policies and practices, solid workplace relations, positive community involvement, safe products, and respect for human rights around the world. Under this bill, the FRTIB would select an index that best meets Federal employees' needs and demonstrates returns comparable to the other investment options available under the TSP.

Investors are increasingly turning to socially responsible investing (SRI) options because good corporate practices are often an indicator of good management, financial success and long-term stability. Nearly one out of every eight dollars under professional management in the United States today is involved in some strategy of socially responsible and sustainable investing. In 2009, three out of four large cap SRI mutual funds outperformed the Standard & Poor's (S&P) 500 Index by an average of 6 percentage points, according to data analyzed by the Social Investment Forum, a national association made up of over 400 financial professionals and institutions. There are at least 16 states that offer employees the option of investing retirement dollars in SRI funds, and at least five states offer socially responsible 529 plans.

Mr. Chairman, making an investment in companies that are committed to corporate responsibility will have a positive impact on our financial system, as well as empower federal employees to reward companies that share their values. I look forward to working with you to ensure our federal employees have responsible and sound retirement savings options.