THRIFT SAVINGS PLAN

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE   Washington, DC 20002

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G FUND IRREPLACEABLE FOR TSP PARTICIPANTS

- The Federal Retirement Thrift Investment Board (FRTIB) is an independent Government agency that administers the Thrift Savings Plan (TSP), a retirement savings and investment plan for Federal employees and members of the uniformed services that is similar to 401(k) plans offered to private sector employees.
  - The TSP is established under the Federal Employees' Retirement System Act (FERSA) of 1986. By law, the assets in the TSP are held in trust for each individual participant.

- The Board Members and Executive Director serve as fiduciaries charged with administering the TSP solely in the interest of the participants and beneficiaries of the Plan.

- The FRTIB receives no congressional appropriations. As such, all Plan expenses are paid by participants. The fiduciaries are charged by law to administer the Plan at low costs.

- The hallmark of the TSP is its simple design. It is comprised of five core funds: the G Fund (Government Securities Investment Fund), F Fund (Fixed Income Index Investment Fund), C Fund (Common Stock Index Investment Fund), S Fund (Small Cap Stock Index Investment Fund) and I Fund (International Stock Index Investment Fund), and five Lifecycle funds. The L Funds are invested in the five individual TSP funds based on professionally determined asset allocations.

- FERSA requires the G Fund to be invested in special non-public interest-bearing Treasury securities obligations. The interest rate of these securities resets monthly and is based on the weighted average yield of all outstanding Treasury notes and bonds with 4 or more years to maturity.

- Interest on the Treasury securities issued to the TSP is calculated using the same formula as the securities issued to the Civil Service Retirement and Disability Fund and the Social Security's Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds.
  - This means every American contributing to Social Security is benefiting from the same interest formula as is available in the G Fund.

- The G Fund currently serves three investment purposes; it acts as a money market fund, a stable value fund, and an inflation protection fund. Other 401(k) plans generally offer one or more of these funds to their participants.
  - Stable value investment options are one of the most common capital preservation options in defined contribution plans. They are offered in more than 160,000 plans and participants have invested over $721 billion, which is 12 percent of all defined contribution plan assets.
  - Among state and local governments that offer defined contribution plans, 82 percent include a stable value fund as an investment option, according to a survey by the National Association of Governmental Defined Contribution Administrators.

- Of the $505.2 billion invested in the TSP as of June 2017, roughly $204 billion is invested in the G Fund. Of the 5.08 million TSP participants, more than 3.7 million participants have all or some of their account balance invested in the G Fund.

- If the G Fund interest rate is amended to match a 3-month maturity of a Treasury bill, the interest rate payable on the G Fund would drop precipitously to 1.03%; if it dropped to a four week maturity, the interest rate would plummet to 0.84%. Such a change would make the G Fund virtually worthless for TSP investors, as account growth would not keep pace with inflation nor be competitive with stable value funds. The G Fund would then only be serving the purpose of a money market account.

- The FRTIB would undoubtedly respond in several ways:
    - First, the FRTIB would have to evaluate whether it is possible for the TSP to offer a stable value or inflation protection fund.
    - Second, the more than $35 billion currently invested in the G Fund as part of the L Fund allocations would need to be reallocated to the other Funds to properly balance risk and return.
    - Third, the FRTIB would conduct an education campaign alerting TSP participants to the change in the interest rate and purpose of the G Fund.

- Given the size of the G Fund, it may not be possible to create a new TSP stable value fund or an inflation protection fund.
    - The TSP's investment consultant has advised that any asset class in which the TSP invests should have a market value of $1 trillion or more, to ensure that TSP investors are not in a position to affect market prices.

- Stable value funds generally consist of intermediate corporate bonds with an insurance product guaranteeing a price floor. The total outstanding value for all stable value funds as of December 31, 2016 is roughly $779 billion.

- If the FRTIB tried to create a TSP stable value fund, it is very possible that the TSP would not be able to purchase sufficient securities or would have such an impact on the price that it would adversely impact both TSP participants and other investors in the market. It is also unlikely that the TSP would find a single insurer willing to guarantee a price floor for a TSP stable value fund.

- A similar size limitation exists in the Treasury Inflation Protected Securities (TIPS) market, which is roughly $1.09 trillion.
    - By comparison, the C Fund, with $172 billion in assets, invests in a $19.3 trillion market; the S Fund, with $60 billion in assets, invests in a $4.4 trillion market; the I Fund, with $42 billion in assets, invests in a $12.2 trillion market; and the F Fund with $27 billion in assets, invests in a $19.1 trillion market.

- This likely means the TSP it would be very difficult to replace the G Fund with a widely available and highly utilized option that would provide the appropriate risk and return balance.

- Beginning January 1, 2018, new members of the uniformed services will be auto-enrolled in the TSP, receiving a 1% automatic employer contribution and matching funds beginning two years after their start date. In addition, in 2018, members of the uniformed services with less than 12 years of service will have the ability to opt-in to the matching program (called Blended Retirement). This will increase the size of the TSP significantly in the coming years.
    - All projections made by Congress and the DoD assumed that the G Fund and the L Funds exist as they currently do today. To the extent, the G Fund interest rate is dramatically reduced, impacting the L Fund returns, that adversely affects the retirement readiness and financial well-being of the uniformed services.

- Nationwide attention is being paid to the need to ensure that individuals are saving enough for their retirement. Making this change to the G Fund interest rate does not advance that goal.