



July 2017

## **CHANGE TO G FUND INTEREST RATE MEANINGFULLY IMPACTS RETIREMENT SAVINGS**

A proposed change from the existing statutory formula for the G Fund (currently 2.25% annualized) to the 3-month Treasury rate or the 4 week interest rate would drop the current G Fund annualized to 1.03% or 0.84%. Such a change would make the G Fund virtually worthless from an investment standpoint for TSP participants who are saving for retirement. 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.

The Federal Retirement Thrift Investment Board has examined how such a change would affect the length of time a TSP participant could count on income from their savings. The average TSP participant has \$178,737 at age 61, the average retirement age. The Lifecycle Funds are designed to provide income through age 92. Using those averages, we reviewed three scenarios assuming enactment of this proposal (the following charts illustrate each scenario):

- A participant has just retired and is invested 100 percent in the L Income Fund. The cut in the G Fund rate to a 3-month rate causes them to run out of TSP money at age 80 instead of 92. This assumes they have spent \$6,537 per year in real spending.
- A participant has just retired and is invested 100 percent in the G Fund. The cut in the G Fund rate to a 3-month rate causes them to run out of TSP money at age 84 instead of 92. This assumes they spend \$5,929 per year in real spending. (The participant would have reduced spending being invested solely in the G Fund.)
- A newly hired participant – if such a participant saved at the same rate as a current TSP participant, the newly hired participant would be unable to reach the same level of assets (\$178,741). The cut in the G Fund rate to a 3-month rate causes this newly hired participant to run out of money at age 77 and their savings totals \$113,786.
  - This is particularly concerning as all members of the uniformed services will be automatically enrolled in the TSP beginning January 1, 2018.

Chart 1

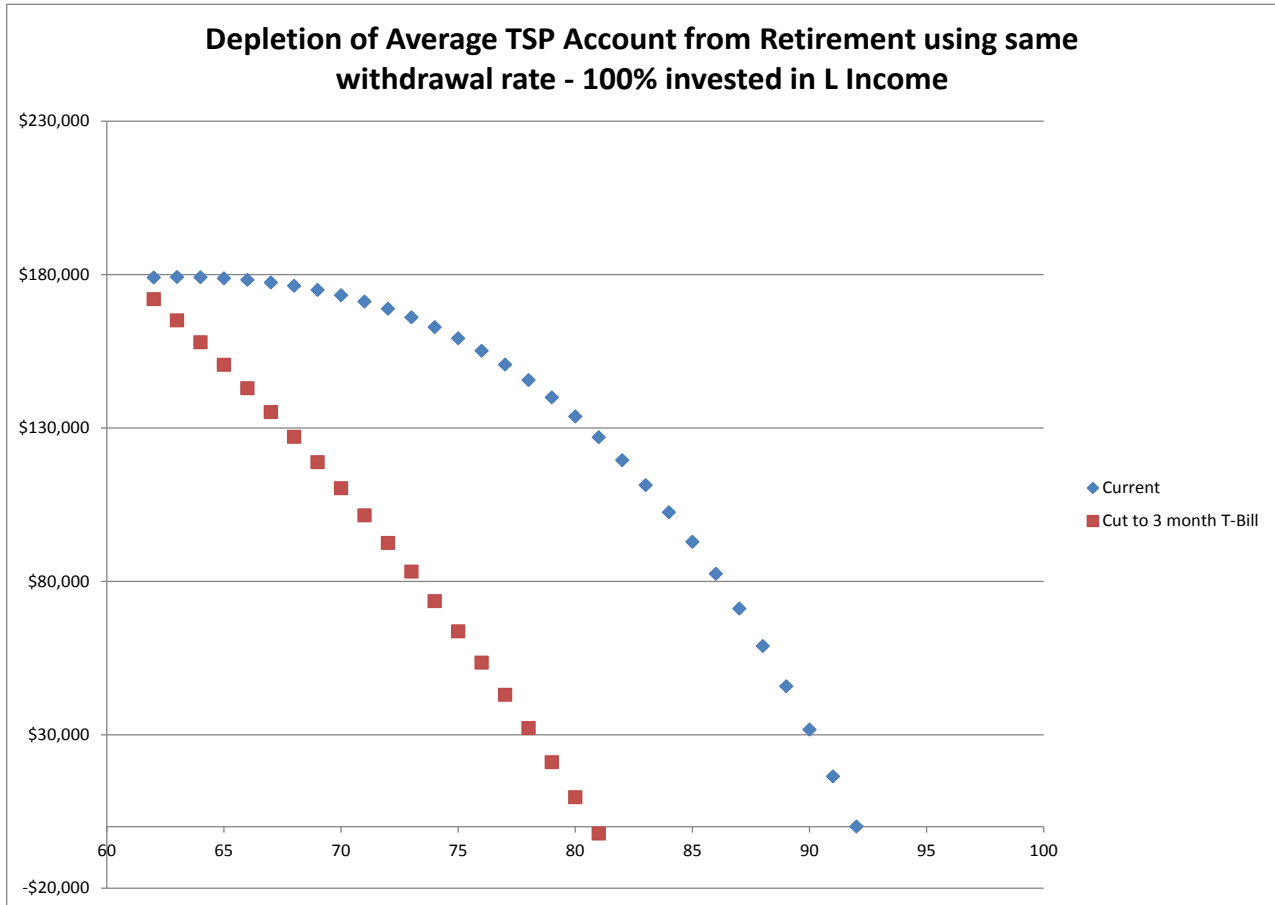


Chart 2

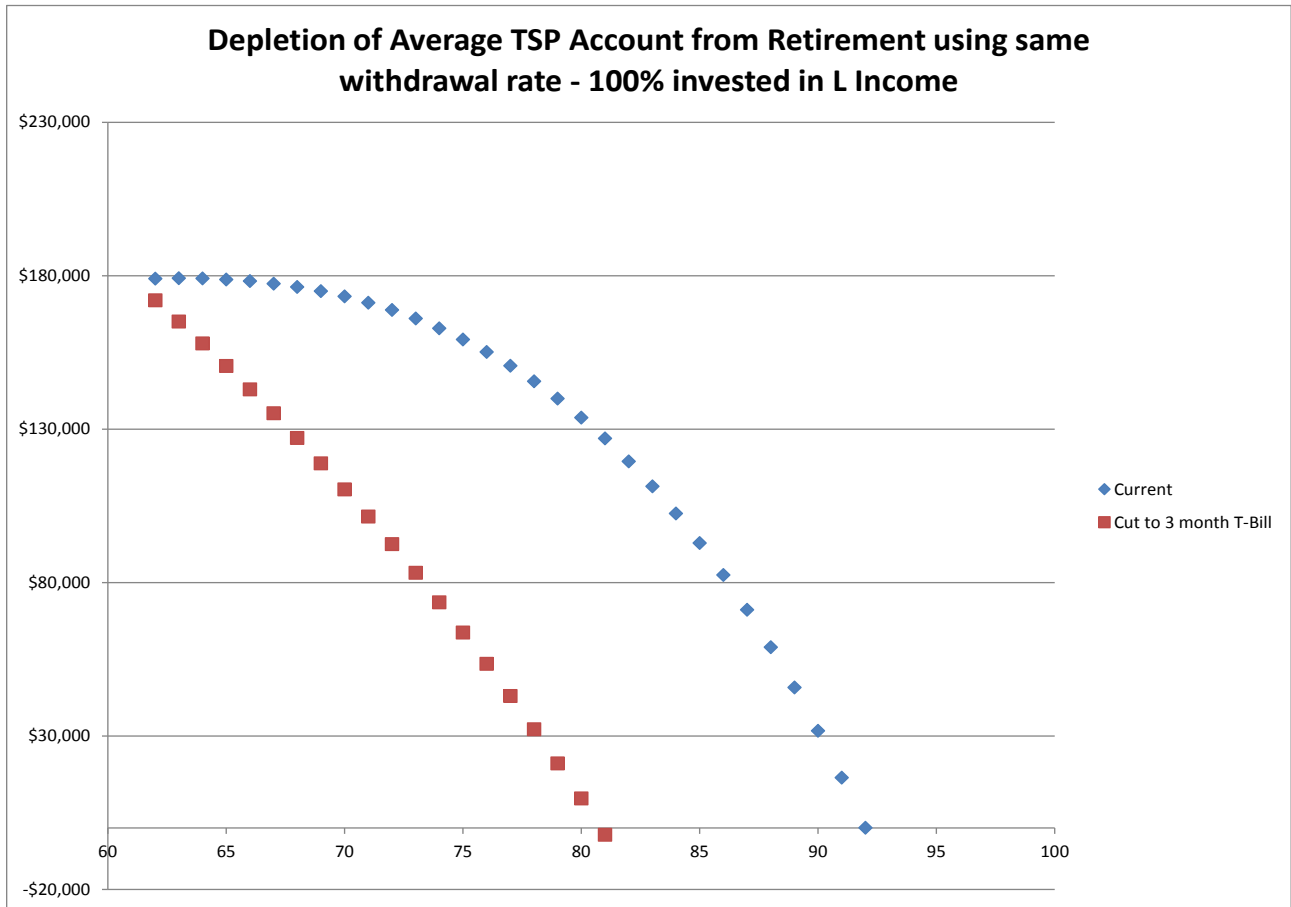


Chart 3

