

SOCIAL PROTECTION AND JOBS

# 2019 CORE COURSES

OCT. 28–NOV. 8 | WASHINGTON DC



# The Experience of the Thrift Savings Plan

October 31, 2019

Renee Wilder Guerin

Federal Retirement Thrift Investment Board

[Pensions Core Course](#)

# Outline

- Background
  - The Federal Civil Servant Retirement System (CSRS)
  - The Federal Employee Retirement System (FERS)
- Structure of the TSP
  - Legal Framework and Governance Structure
  - TSP Oversight
  - Administration
- Plan Overview

# Civil Service Retirement System (CSRS)

- Traditional defined benefit system
  - Reference wage: highest three years of earnings
  - Years of employment
  - Accrual rates:
    - 1 ½% first 5 years, 1 ¾% years 5 to 10, 2% years above 10
- Employee contribution: about 7%
- Employer contribution: 25%
- Eligibility: 55 with 30 years service, 60 with 20 years and 62 with 5 years
- Price indexation after retirement
- Maximum replacement rate of 80%
- Exempt from the Social Security system

# Federal Pension Reform

- Part of broader Social Security reforms in 1983
  - Needed to include federal workers to enhance solvency
- Viewed as:
  - High cost
  - More generous than private sector
  - Limits mobility and an impediment to downsizing
- Emergence of defined contribution (DC)

# Federal Employees Retirement System (FERS)

- The Federal Employee Retirement System Act (FERSA) was signed in June 1986
- Covered all federal workers beginning January 1984
- Established a hybrid system
  - Reduced defined benefit
  - Brought federal workers into the social security system, and
  - The Thrift Savings Plan provided the defined contribution component

# Contributions to FERS

- Employee contributions
  - DB: Originally 0.8% of pay; raised to 3.1% (2013) and 4.4% (2014 and after)
  - SS: 4.2% of applicable wage base
  - TSP: Voluntary contributions
- Employer contributions
  - DB: 11 - 13% of employee pay
  - SS: 6.2% of applicable wages
  - TSP: 1% automatic and up to 4% matching contributions

# FERS Retirement Conditions

- Five year vesting period
- FERS retirement:
  - Age 55 with 30 years of service (age gradually increased to 57 for employees born in 1970 and after)
  - Age 60 with 20 years of service or
  - 62 with 5 years
- Social Security:
  - Normal retirement at age 65 increasing to 67
- Same conditions for men and women
- Average FERS retirement age is currently 62

# Outcome

Reduced employer contribution to FERS +

Increased employee contribution =

*Similar income replacement to old system*

(TSP makes up the difference for higher income workers)

# The Role of the TSP in FERS

Welcome to the TSP!

<https://www.youtube.com/watch?v=jTA47cJhjFc>

# STRUCTURE OF THE THRIFT SAVINGS PLAN

# Legal Framework and Governance Structure

- Established by FERSA
- Provided basis for independence from political influence
- Independent Board
- Asset segregation:
  - Assets belong to participants – held “in trust” in individual accounts
  - Participants have legal ownership under U.S. law and Constitution

# Legal Framework and Governance Structure

- Fiduciary responsibilities
  - Executive Director and 5 Board members
  - Must act prudently and solely in the interest of the participants and beneficiaries
- Board Independence
  - Five Board members appointed by the President & confirmed by Senate
  - 4-year fixed, staggered terms
  - Cannot be easily removed
  - Do not serve “at the pleasure of” the President or Congress

# Legal Framework and Governance Structure

- Budgetary independence
  - Approved by Board (not subject to White House control)
  - Administrative charges to account balances for all expenses
  - No Congressional appropriations
- Investment structure
  - Index (passive) investment funds
  - No voting shares in portfolio
  - External asset management
  - Board establishes policy

# TSP Oversight

- Department of Labor oversees TSP
  - Performs annual series of audits and issues findings and recommendations
  - Reports to the Board
- Congressional oversight
  - Hearings
  - Government Accountability Office (GAO) audits

# TSP Administration

- Agency managed by Executive Director
- Civil servants administer the Plan
- Approximately 265 employees
  - Policy
  - Legal
  - Accounting
  - Contracting
  - Participant Communications
  - Oversee plan operations (benefits and services), IT systems and security
- Key functions outsourced
  - Investment management
  - Recordkeeping
  - Call centers
  - Benefits processing
  - Participant support (forms processing, notices, etc.)
  - Security operations
  - Agency IT (phones, help desk, etc)

# PLAN OVERVIEW

# The Thrift Savings Plan (TSP)

How the TSP fits into FERS.

[https://www.youtube.com/watch?v=XnIQZa7g\\_d4](https://www.youtube.com/watch?v=XnIQZa7g_d4)

# Contribution Formula

- Match on first 5% of employee contributions
  - 100% match on first 3% employee defers
  - 50% match on next 2% deferred
- Automatic 1% Agency contribution
- Annual employee contribution limit of \$19,000 for 2019
  - Over age 50, can contribute an additional \$6,000 annually
- Automatic enrollment of new employees at 3% (since 2010)
  - Increasing to 5% October 1, 2020

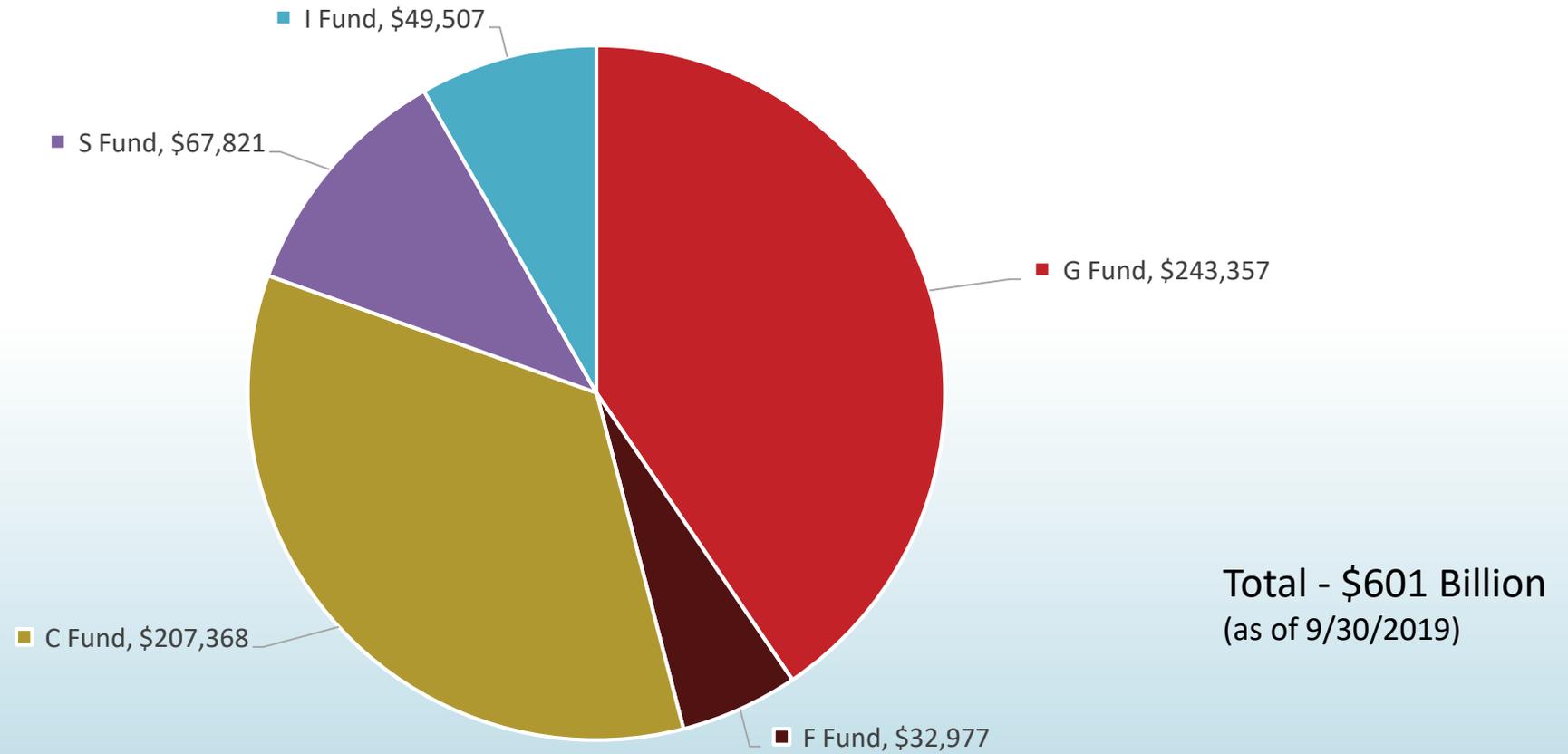
## Loans and Withdrawals

- One general purpose loan (5-year repayment)
- One residential loan (15-year repayment)
- Maximum is higher of 50% of vested account balance or \$10,000 (not to exceed \$50,000)
- Hardship withdrawals
  - Negative cash flow, medical expenses, legal expenses, personal casualty, divorce

# TSP Investment Options

- **G Fund** – Government Securities
  - Specially issued non-marketable US Treasury securities
- **F Fund** – Corporate and government bond index fund
  - Tracks the Bloomberg Barclays U.S. Aggregate Bond index
- **C Fund** – Large capitalization U.S. stocks
  - Tracks the Standard & Poor's 500 index
- **S Fund** – Small to medium capitalization U.S. stocks
  - Tracks the Dow Jones U.S. Completion TSM (Total Stock Market) index
- **I Fund** – International stocks
  - Tracks the MSCI EAFE (Europe, Australasia, Far East) index
- **L Funds** – Lifecycle funds
  - Target date/asset allocation strategy based on core funds

# Assets under Management



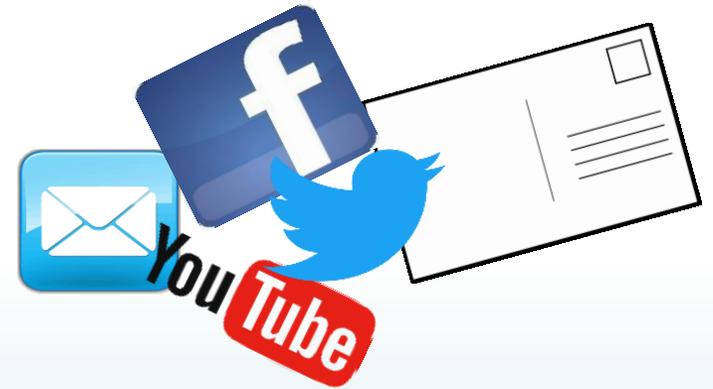
# Additional Plan Features

- Retirement payments
  - Lump-sum payment
  - Monthly payments
  - Life annuity
- Can transfer funds to IRAs or other plans
- Roll funds into TSP from other qualified plans
- Can leave money in TSP after leaving federal employment

# TSP Communications

Engage participants where they are!

- Website
- Annual statements
- Contact Centers
  - Voice response system (ThriftLine)
  - Participant Services Representatives
- Social Presence
  - Facebook/Twitter/YouTube
- Targeted emails
- Group meetings
- TSP Publications & Forms
  - Available for download on the website
- Retirement tools
  - calculators and wizards



# Blended Retirement System

- Change in the military retirement scheme from traditional DB to hybrid program
- Effective January 1, 2018
- Eligible – under 12 years of service
- New uniformed service members contribute to TSP
- Automatic enrollment
  - All new service members entering after 12/31/17
- Same matching formula as FERS
- Future growth population for TSP

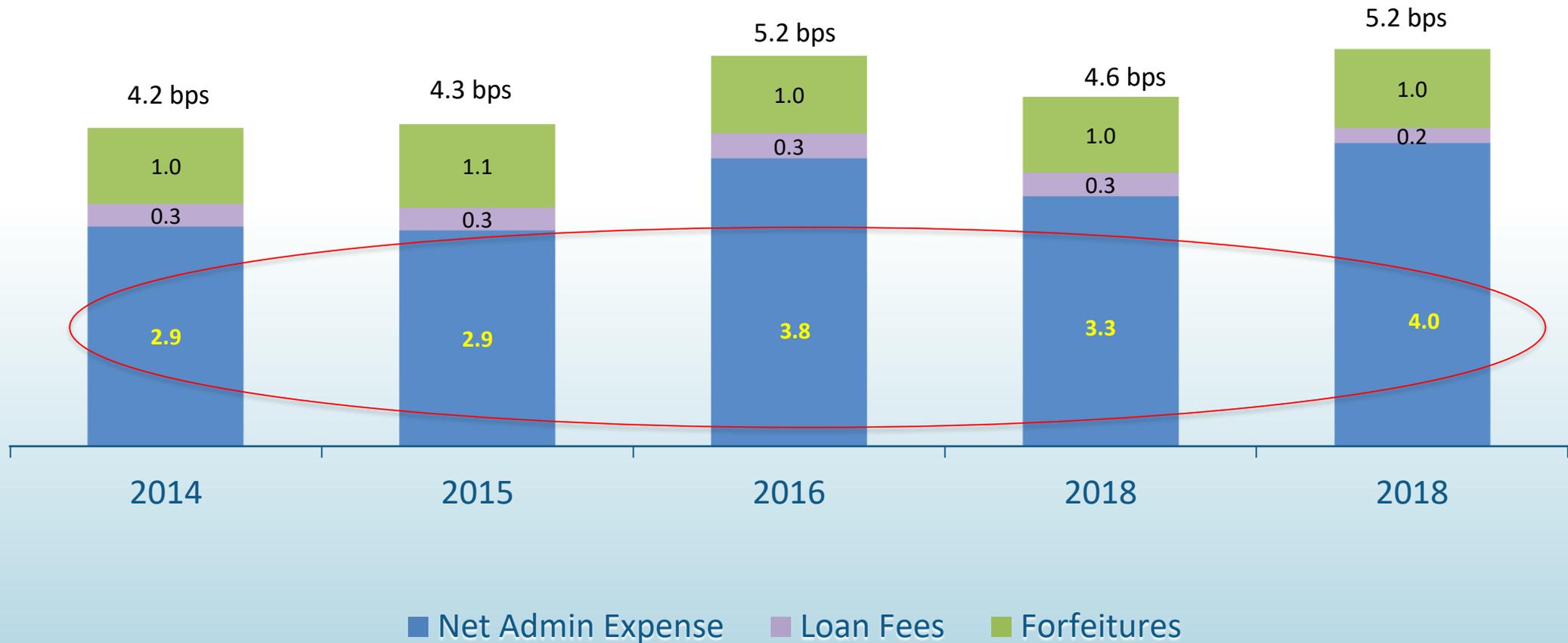
## Recent and Coming Changes

- Increased withdrawal flexibility (Sept. 15)
- 5-Year Lifecycle Funds (July 2020)
- 5% deferral for automatic enrollment (Oct 2020)
- Spillover – automatic contribution of excess for participants over age 50 (Jan 2021)

# TSP Snapshot

Participants and Average Balance (current month)				
	Total Number of Participants	Average Balance	Number of Roth Participants	Average Roth Balance
FERS	3,474,164	\$144,465	595,736	\$14,524
CSRS	302,883	\$155,119	10,111	\$22,340
Uniformed Services	1,349,406	\$27,790	546,994	\$9,968
BRS Participants	618,010	\$6,389	363,372	\$5,752
Bene Participants	27,246	\$116,391	1,122	\$9,752
Total	5,771,709	\$104,134	1,517,335	\$10,642

# Net and Gross Administrative Expense Ratios (in basis points)



# Reasons for the Low TSP Costs

- Administrative expense ratio includes costs of operating the plan
- Why costs are low:
  - Simple plan structure (only 5 investment funds)
  - Index funds
  - Huge economies of scale
  - Use of separate accounts instead of mutual funds
    - Investment manager maintains only one TSP account; not 5.8 million accounts
    - Individual accounts are maintained in TSP recordkeeping system
  - Securities lending
  - Competitive procurement

# TSP Performance

- FY2017 – 2021 Strategic Plan
  - A: IT infrastructure that optimizes plan administration, operation and the participant experience
  - B: Ensure the Agency has the right skills, competencies and leadership at all levels
  - C: Optimize business processes to allow continuous improvement
  - D: Develop a participant experience that enables the targeted retirement outcome

## Key Lessons

- Independent structure has provided resilience
- Passive investing has delivered market returns at low cost
- Insulated the plan from external forces



Questions?

THRIFT  
SAVINGS  
PLAN