The Experience of the Thrift Savings Plan

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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)
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=XnlQZa7g_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

Total - $601 Billion
(as of 9/30/2019)
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

<table>
<thead>
<tr>
<th></th>
<th>Total Number of Participants</th>
<th>Average Balance</th>
<th>Number of Roth Participants</th>
<th>Average Roth Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERS</td>
<td>3,474,164</td>
<td>$144,465</td>
<td>595,736</td>
<td>$14,524</td>
</tr>
<tr>
<td>CSRS</td>
<td>302,883</td>
<td>$155,119</td>
<td>10,111</td>
<td>$22,340</td>
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<tr>
<td>Uniformed Services</td>
<td>1,349,406</td>
<td>$27,790</td>
<td>546,994</td>
<td>$9,968</td>
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<tr>
<td>BRS Participants</td>
<td>618,010</td>
<td>$6,389</td>
<td>363,372</td>
<td>$5,752</td>
</tr>
<tr>
<td>Bene Participants</td>
<td>27,246</td>
<td>$116,391</td>
<td>1,122</td>
<td>$9,752</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,771,709</td>
<td>$104,134</td>
<td>1,517,335</td>
<td>$10,642</td>
</tr>
</tbody>
</table>
Net and Gross Administrative Expense Ratios
(in basis points)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Admin Expense</th>
<th>Loan Fees</th>
<th>Forfeitures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>4.2 bps</td>
<td>1.0 bps</td>
<td>0.3 bps</td>
</tr>
<tr>
<td>2015</td>
<td>4.3 bps</td>
<td>1.1 bps</td>
<td>0.3 bps</td>
</tr>
<tr>
<td>2016</td>
<td>5.2 bps</td>
<td>1.0 bps</td>
<td>0.3 bps</td>
</tr>
<tr>
<td>2018</td>
<td>4.6 bps</td>
<td>1.0 bps</td>
<td>0.3 bps</td>
</tr>
<tr>
<td>2018</td>
<td>5.2 bps</td>
<td>1.0 bps</td>
<td>0.2 bps</td>
</tr>
</tbody>
</table>

Legend:
- **Net Admin Expense**
- **Loan Fees**
- **Forfeitures**
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?