



**STATEMENT BY
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**THE SUBCOMMITTEE ON THE FEDERAL
WORKFORCE, THE POSTAL SERVICE AND THE
DISTRICT OF COLUMBIA
COMMITTEE ON OVERSIGHT AND
GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES**

**HEARING ON
“MANAGING THE THRIFT SAVINGS PLAN TO
THRIVE”**

NOVEMBER 3, 2009

Chairman Lynch, Ranking Member Chaffetz, and Members of the subcommittees, 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 federal 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 82.1 percent voluntary contribution rate by Federal Employee Retirement System (FERS) employees. It is the largest 401(k)-type plan in the country, with more than \$234 billion in assets and with an exceptionally low expense ratio of just three one-hundredths of 1 percent, that is, just 30 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 C. Ostergren, 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.

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 in the current volatile financial

market. 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 current 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 market rebounds.

We commend the Thrift Board for trying to mitigate this problem by creating “Lifestyle” funds (L Funds), which reduce a participant’s exposure to investment risks as they age and move closer to retirement.

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 are 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” of the TSP, a smaller-than-Civil Service Retirement System (CSRS) annuity and Social Security benefits.

Several years ago, the former chairman of this subcommittee proposed that the government and FERS worker contributions made to the Civil Service Retirement and Disability Fund be diverted to a significantly altered version of the TSP. We opposed the proposal plan back then, and we would oppose it now because it would remove one of the three legs of the FERS retirement stool, which, as evidenced by the recent market slump, has become an essential safety net for FERS workers.

Still, the FERS annuity lacks the full inflation protection afforded to CSRS workers. FERS retirees have to wait until age 62 to receive a cost-of-living adjustment (COLA). ONCE they reach that age, their COLA is one percentage point less than what CSRS and military retirees and Social Security beneficiaries receive. NARFE supports COLAs for all federally-administered

retirement programs on a regular annual schedule, computed on the same basis and paid at the same time, regardless of age and/or income level.

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. 235, legislation introduced by your colleagues, Howard Berman (D-CA) and Howard "Buck" McKeon (R-CA), which would repeal the WEP and 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 you and your colleagues, Mr. Chairman, and through NARFE's and the federal/postal community's advocacy, several TSP improvements were included in the Tobacco Regulatory legislation signed into law by President Obama on June 22 as P.L. 111-31.

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, it will increase the percentage of federal employees who make use of the TSP to ensure they are 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 use their newly acquired authority to offer a TSP Roth option.

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. 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, representing the Senior Executive Association today, for leading this effort during the past six years and for working

with us 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 new law that gives us pause is the authority given 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 4.059 million federal workers and military personnel who participate in 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. While we recognize that some participants may want to the freedom to invest outside of the TSP, we urge the Thrift Board to consider limitations on the percentage of funds invested in the self-directed option to ensure that federal workers do not put all their eggs in one basket.

Some have said that the self-directed option was added to the new law 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 and created retirement security for participants and beneficiaries. NARFE agrees with this position, and we hope that future fund selection will not be driven by the politics of outside self-interested funds. Instead, we urge Congress and the Thrift Board to work together and to base fund decisions on carefully crafted objective financial analysis and not 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 TSP improvements in the Tobacco law, we continue to be interested in advancing the program further.

For instance, President Obama said in his September 5th radio address that “we’ll make it possible for employees to put payments for unused vacation and sick days into their retirement plan if they wish to. Right now workers don't have that option.” On that same day, the Treasury Department and the Internal Revenue Service followed up on the president's remarks by issuing 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 as of the end of a year to the 401(k) plan and the allocation of the amount to the participant’s account. In response, NARFE and the National Treasury Employees Union asked the Thrift Board to address whether the new ruling would apply to TSP participants. They 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 believes that federal workers should have this savings option if it is offered to private-sector employees.

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

From our TSP legislative and policy recommendations, it is clear that it is NARFE's desire that federal civilian workers and military personnel have the means to maximize their retirement savings. We made progress towards this goal by the provisions in the new law 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 2009 "Retirement Confidence Survey," 53 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, the 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.

Conclusion

Chairman Lynch and Ranking Member Chaffetz, we commend you for your interest in ensuring that the Thrift Savings Plan continues to thrive. 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 recently enacted Tobacco law 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.