STATEMENT OF GREGORY T. LONG
EXECUTIVE DIRECTOR
FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
BEFORE THE
HOUSE SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE
AND LABOR POLICY.

July 27, 2011

Chairman Ross and Members of the Subcommittee, my name is Greg Long and I am the Executive Director of the Federal Retirement Thrift Investment Board. The five members of the Board and I serve as the fiduciaries of the Thrift Savings Plan (TSP) for Federal employees.

The TSP is the largest defined contribution retirement plan in the world. Individual accounts are maintained for nearly 4.5 million Federal and Postal employees, members of the uniformed services, retirees, and spousal beneficiaries. As of June 30, 2011, the TSP held approximately $289 billion in retirement savings.

When I last presented testimony to this Subcommittee on November 3, 2009, those numbers were 4.2 million and $234 billion, respectively. This increase of nearly 300,000 participants and $55 billion in savings in the past 20 months demonstrates the steep growth trajectory of the Plan. When this growth in size is coupled with the growth in complexity contemplated with the addition of a Roth feature as discussed later in my statement, it becomes crystal clear why we are so busy and expect to remain so in the foreseeable future.

Your letter of invitation explained that the purpose of this hearing is to review the Thrift Savings Plan including implementation of the Thrift Savings Plan Enhancement Act of 2009. I am pleased to discuss these matters.

First, I would again like to thank this Committee and Subcommittee for its initiative on the "Enhancement Act." The initial legislative efforts by then-Committee leaders Henry Waxman and Tom Davis, as well as then-Subcommittee Chairman Danny Davis, provided the bipartisan support which led to the President's signature on June 22, 2009. That action helps ensure that the TSP remains current with private sector 401(k) Plan practices.

The Agency began working with the employing agencies of Government toward implementation even before the ink was dry. We devised a plan for an orderly rollout of the new provisions, starting with those which could provide the most immediate value for our participants and their beneficiaries. I will briefly discuss each element.

Immediate Employer Contributions

This very valuable long-sought benefit was first on the list for implementation because it would immediately increase the amounts being contributed to the TSP accounts of participants covered by the Federal Employees Retirement System (FERS). When I last testified just a little more than four months after the law was enacted, however, the best assessment I could provide regarding the immediate employer contribution provision was that all affected employees "should" then be receiving employer contributions. I could only go so far due to the fact that this improvement was given effect via the Government's many payroll systems across all Federal employing agencies. It turns out that there was no need for me to hedge. Hundreds of dedicated payroll and personnel professionals in the employing agencies of Government had again stepped up to the plate and performed admirably. This new benefit had in fact been fully implemented, even though final confirmation was not then possible.

I should also note that the enactment of this provision shows what the Congress can achieve given bipartisan consensus and sufficient time. The 1986 TSP enabling legislation created a waiting period governing participation by new hires as was customary at that time. Over the ensuing years waiting periods for 401(k) participation were virtually eliminated. In 1999, then-Congresswoman Connie Morella introduced bipartisan legislation to totally eliminate the TSP waiting period to reflect the changes which had occurred in the 401(k) world. Her effort succeeded in eliminating the waiting period for employee contributions at that time (P.L. 106-361). Ten years later, the legislative effort which she started was completed.

Beneficiary Participant Accounts

The Beneficiary Participant Account was another provision of the Enhancement Act that fully warranted prompt implementation. Under previous law, surviving spouses were required to withdraw TSP account balances which they inherited as beneficiaries of their deceased spouses. Although we provided as much time as we could administratively, surviving spouses were often confronted with a momentous decision regarding a potentially large amount of money even while some were still in the grieving process.

Our review of this matter found that spousal beneficiary accounts were available in many private sector 401(k) plans. However, implementation was very complex because it involved obtaining important decisions from a largely aging cohort of widows and widowers who, by and large, had never worked in the Government and were unfamiliar with its procedures.

We addressed this by establishing a two-step implementation. First, we simply discontinued requiring that surviving spouses withdraw the funds. We would process their withdrawals if requested, but we also invited these beneficiaries to leave their funds on account in the Government Securities Investment (G) Fund (if they wished to do so) until we could properly and fully implement the Beneficiary Participant Accounts.

That process, which included special communications to the spouse beneficiaries, a welcome package, as well as tailored account maintenance and withdrawal forms, was completed in December 2010. At that time, the accounts for approximately 2,600 surviving spouses were converted to Beneficiary Participant Accounts offering them wider control and the full range of withdrawal options. We have now established over 4,800 beneficiary accounts, and that number continues to grow.

This provision was the initiative of a member of the Employee Thrift Advisory Council (ETAC), and is indicative of our close partnership with the Council. I am appearing today with Cliff Dailing, who was unanimously supported by his fellow Council members earlier this year as their new Chairman. I again thank the Council members for the invaluable advice they provide and the critical statutory role they play in helping us administer the TSP solely in the interest of its participants and their beneficiaries.

Automatic Enrollment

Since last August, all new Federal civilian employees, and most rehired civilian employees are being automatically enrolled in the TSP at an initial contribution rate of 3 percent of basic pay unless they make a positive election regarding the TSP. The employing agencies forward information regarding these employee contributions to the TSP for investment in the G Fund along with additional employer provided amounts equaling 4% of basic pay (Agency Automatic (1%) and 3% Matching Contributions). This occurs each pay period, unless the employee opts out of contributing, elects to contribute a different amount or makes a different investment choice. This effectively "jump-starts" early savings, leading to more agency contributions (if FERS) and potentially greater savings over time as well as greater security during retirement.

I have said in the past, and continue to say, that automatic enrollment is a "game changer" for the TSP. Thus far, the numbers show that to be the case. Over 97 percent of those hired since automatic enrollment began in August 2010 are now contributing their own funds to the TSP.

Attached to this statement is an analysis showing the cumulative results of automatic enrollment. While 10 full months of data is generally insufficient for reliable and valid conclusions, these results are very positive:

- only 2.6% of those automatically enrolled have opted-out and remain non-contributors (although FERS employees in this group do still have TSP accounts which hold their Agency Automatic (1%) Contributions);
- 35.7% of new hires who were automatically enrolled at the 3% level have not changed that enrollment and consequently now have an amount equaling 7% of their basic pay being invested for them in the G Fund; and
- 61.7% of all new hires have taken control of their future by electing a different contribution amount or investment choice.

This last bit of data shows us that a large percentage of new hires are ready to take control of their retirement savings. They will likely be more receptive to our financial education efforts, and better prepared for their eventual retirement. And as you will note in the attachment, this percentage is growing.

We are aware of recent press stories debating whether automatic enrollment is achieving the intended result. While it is still early for us to draw any firm conclusions, the numbers cited on the attachment are all heading in the right direction.

<u>Roth</u>

2012 will be a year of significant change for both the TSP and the FRTIB, marked most notably by the implementation of Roth TSP. With Roth comes sweeping changes, as this new offering touches virtually every element of the Plan:

- The Roth TSP requires changes to 27 of the Plan's record keeping and accounting systems. The implementation of this option generally requires adding the capability to maintain separate participant records of Roth balances, track pre-tax, post-tax and tax-exempt contributions, allow for related investment and loan flexibility, and integration of the Roth balances into the TSP withdrawal options along with the appropriate tax reporting for withdrawals of Roth money. In addition to the changes in our record keeping systems, we are also working with the agency and service payroll offices to incorporate the new Roth requirements into their personnel and payroll systems.
- Participant Service Representatives (PSRs) at our two call centers will have to be trained to answer the wide and increased variety of participant questions, and the systems which support the PSRs will need to be updated.
- More than 145 forms, booklets and notices are being revised to address the addition of the Roth TSP. The public and the secure "My Account" areas of the website will be significantly modified to provide general information, as well as transactional capabilities and detailed participant specific information.
- Roth also brings with it the need to provide appropriate education to our participants. The pre-tax vs. post-tax decision is a more complex decision than the investment allocation decision. We must communicate this new benefit broadly and provide relevant assistance. Consequently, we are planning a two-phase approach of first providing generic educational materials and a web-based calculator. After gaining experience with

participants' issues and questions, we plan to develop a more customized and interactive set of web-based tools during FY 2013.

- Our education program must also provide the agency and service representatives who are responsible for providing information to their employees and members with guidance and materials about the new Roth feature. We have already begun weaving the Roth feature into our ongoing agency/service training programs.

The Agency's legal staff is currently drafting regulations covering all aspects of the Roth project. Our timetable is to obtain pre-publication comments (as is our customary practice) from ETAC early this fall, followed by publication in the Federal Register with a formal comment period. We expect to implement Roth in the second quarter of 2012.

Mutual Fund Window

The Enhancement Act also allows the TSP to offer a mutual fund window in the future. A mutual fund window would allow participants to invest some of their TSP savings in mutual funds outside the TSP. Expenses related to the mutual fund window would be borne solely by those participants who use it. The TSP has not set an implementation target, and will further consider this option in cooperation with the unions and associations of the Employee Thrift Advisory Council.

Other Issues

During the 111th Congress we worked with the Subcommittee and the ETAC on authorizing TSP contributions from terminal annual leave payments. Such contributions are permissible under Internal Revenue Service revenue rulings, and many private 401(k) plans offer this option. Importantly, such a change would only authorize contributions from a new source.

It would not increase the overall amount that participants may contribute, nor would it increase employing agency contributions to the TSP.

We were very pleased when these efforts resulted in the introduction of H.R. 4865, a bipartisan initiative introduced by then-Subcommittee leaders Stephen Lynch and Jason Chaffetz, along with five other cosponsors.

As this proposal was moving through the legislative process we discussed with staff the possibility of using it as a vehicle for three important administrative amendments to the TSP. Unfortunately, the Congressional Budget Office reported a $317 million cost for the leave proposal, and further progress on the entire matter was simply not possible as a result.

Although we recognize that action on the leave issue cannot proceed at this time, I urge the Subcommittee to remain aware that this proposal would simply keep the TSP comparable to 401(k) plans. I also ask that the Subcommittee continue to consider the three administrative issues we raised last year and which are described in writings provided to the staff.

The first issue concerns language in our authorizing legislation stating that the Thrift Savings Fund is not subject to levy. The Internal Revenue Service has asserted that IRS levies on TSP accounts should be honored; however, we have not done so due to the absence of statutory language in Title 5 of the U.S. Code. Statutory exemptions to the TSP's non-alienation provision have been made in Title 5 with regard to alimony, child support, and most recently Mandatory Victims Restitution Act orders, and we have complied in these matters. I bring this to our authorizing Committee's attention because it is an ongoing matter, and just last week was the subject of an announced amendment to be proposed in the Senate.

Secondly, since 1987 the Board has maintained its standard of acting solely in the interest of Plan participants in all matters including procurement. While the Agency has generally followed Federal contracting protocols as best practices, we have always asserted independence from any requirement that would not produce the best value for our participants. Our position was bolstered by the fact that we receive no annual appropriations from the Congress and our activities are paid for by the participants. Non-appropriated fund instrumentalities (NAFIs) are not required to follow rules that govern procurements which are paid for with taxpayer money.

In a recent court case, a Federal judge held that the Board is not a NAFI. Although that ruling was incorrect (and this same judge was overruled on another virtually identical ruling involving the U.S. Mint which is also a NAFI), the Board settled the instant case and thus that ruling will remain on the books. Our administrative amendment seeks to clarify our status as a NAFI and remove any doubt that we will continue to expend participants' funds solely in their interest and for their exclusive benefit in all situations, including our procurement activities.

The final administrative issue concerns the fact that our law establishes no statute of limitations for benefit claims. Similar private sector plans either establish their own limitations period or function under limits enacted by various state laws. When we discussed this matter with ETAC, we cited a three-year limit suggested in the Uniform Management of Public Employee Retirement Systems Act of 1997. Although there was universal agreement that some limit is needed, some Council members voiced concern that three years might not be long enough. We understand those concerns, and remain flexible with regard to a precise time limit, but strongly believe that a reasonable statute of limitations does need to be established.

G Fund Remains Fully Protected

Although not requested in your letter of invitation, I feel that I should report for the hearing record that Government Securities Investment (G) Fund investors remain fully protected during the current debt issuance suspension period. My comments on this matter today echo information that we have issued in our quarterly *Highlights* newsletter, published on our web site, discussed at our public Board Member meetings as well as with ETAC member organizations, and provided to members of the press.

The TSP began in 1987 with the G Fund as the sole TSP investment fund. Early that year a looming debt limit crisis called into question whether Treasury securities would continue to be issued, including those issued to the G Fund (under the Federal Employees Retirement System Act of 1986). To assure G Fund investments, the Board formally requested legislation which guaranteed G Fund earnings even when G Fund securities could not be issued due to the statutory debt limit. Seventeen days later, the Thrift Savings Plan Investment Act of 1987 was signed into law by then-President Reagan.

The statutory debt limit has been raised 28 times since then, often only after a hiatus in debt issuance. In each of these cases, G Fund investors remained fully protected. There are just two fact-based possibilities regarding the G Fund: either securities will be issued or securities won't be issued. G Fund investors are fully protected in either circumstance. Because of this we are able to update individual account balances each day, and issue loans as well as withdrawals without interruption.

Participants seem to understand this quite well at this point. We have received relatively few inquiries on this matter from participants. I would also like to recognize the responsible reporting on this matter by ETAC member organizations. This situation would be easy to demagogue. Rather than do that, however, the unions and associations have used their publications to educate rather than exaggerate. Nevertheless, everyone is dissatisfied with the status quo, and we urge a prompt resolution.

Members of the press have asked us to speculate on many "what-ifs," but we have declined to do this. I fully expect our nation's highest elected officials to resolve the debt limit issue as they must. It would be inappropriate for me as a pension plan manager to make their job more difficult or frighten investors by speculating on doomsday scenarios.

Thrift Savings Plan Review

Attached to my statement is a document entitled "Thrift Savings Plan Statistics." The data displayed on this page provides an excellent overview of the status of the TSP over a moving three-month period. This item is updated and publicly distributed at each monthly Board member meeting.

Plan activities should be and are conducted in full public view in order to maintain the confidence of the participants who pay the costs of Plan administration. We maintain open lines of communication with the members of our statutory advisory council, welcome their questions and act on their recommendations. We involve them in all important TSP decisions, and regularly provide packets of material relating to Plan administration. In order to assist the Committee in its oversight function, copies of these packets are also provided on a regular ongoing basis to key Committee staff on both sides of the aisle and both sides of Capitol Hill. We are audited continuously by the Department of Labor, annually by the Plan's auditor, and periodically by the Government Accountability Office.

Most importantly we work very hard to ensure that neither the participants, nor the Congress, or any other careful observers are surprised by what we do. We function just like a 401(k) plan, and we strive to excel. Our responsibility is to act solely in the interest of the participants and their beneficiaries; our goal is dignity in retirement for those participants who, in their day jobs, secure our nation, develop medical breakthroughs, deliver the mail, and perform countless other necessary functions. In today's world, saving and investing for retirement is essential. Through its actions in 1986, as well as through scores of legislative amendments since then, the Congress has given us a program which can accomplish that goal, and we work very hard, every day, to achieve it.

That concludes my prepared statement. I would be pleased to respond to any questions you may have.

THRIFT SAVINGS PLAN
AUTOMATIC ENROLLMENT [1]

	Auto-Enrolled [2]		Elected TSP [3]		Total Participating		Declined TSP or Opted-Out [4]	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
2010								
Aug [5]	5,606	68.1%	2,506	30.4%	**8,112**	**98.5%**	**120**	**1.5%**
Sep	18,230	58.5%	12,470	40.0%	**30,700**	**98.5%**	**481**	**1.5%**
Oct	27,709	51.2%	25,311	46.8%	**53,020**	**98.0%**	**1,083**	**2.0%**
Nov	33,663	45.8%	38,208	52.0%	**71,871**	**97.8%**	**1,641**	**2.2%**
Dec	37,036	43.0%	47,067	54.6%	**84,103**	**97.6%**	**2,030**	**2.4%**
2011								
Jan	40,556	40.9%	56,229	56.7%	**96,785**	**97.6%**	**2,423**	**2.4%**
Feb	45,442	39.7%	66,107	57.8%	**111,549**	**97.5%**	**2,808**	**2.5%**
Mar	51,214	39.0%	76,810	58.5%	**128,024**	**97.6%**	**3,203**	**2.4%**
Apr	53,531	37.2%	86,821	60.4%	**140,352**	**97.6%**	**3,510**	**2.4%**
May	56,188	36.2%	95,145	61.3%	**151,333**	**97.5%**	**3,906**	**2.5%**
June	59,850	35.7%	103,528	61.7%	**163,378**	**97.4%**	**4,321**	**2.6%**

[1] The counts for each month represent the cumulative total for each category since the implementation of Automatic Enrollment in August 2010.
[2] Automatically-enrolled participants who remain at the default contribution amount and allocation.
[3] Count includes participants who elected TSP immediately upon hiring and, therefore, not auto-enrolled as well as those who were auto-enrolled and then made subsequent investment decisions.
[4] Declined TSP participation immediately upon hiring or opted out of automatic enrollment.
[5] Counts reflect partial month activity.

THRIFT SAVINGS FUND STATISTICS

Fund Balances ($ millions)

	June 2011		May 2011		April 2011	
G Fund	119,455	41%	117,183	40%	116,812	40%
F Fund	17,321	6%	16,758	6%	16,183	6%
C Fund	70,018	24%	71,859	25%	72,619	25%
S Fund	25,437	9%	26,801	9%	27,067	9%
I Fund	18,985	7%	19,415	7%	19,823	7%
L Income Fund	5,317	2%	5,357	2%	5,317	2%
L 2020 Fund	14,526	5%	14,688	5%	14,632	5%
L 2030 Fund	10,183	4%	10,237	4%	10,184	4%
L 2040 Fund	7,386	3%	7,441	3%	7,426	3%
L 2050 Fund	703	<1%	707	<1%	661	<1%
Total*	289,330	100%	290,445	100%	290,722	100%

Twelve Month Returns

	June 2011	May 2011	April 2011
G Fund	2.63%	2.66%	2.69%
F Fund	4.03%	5.97%	5.49%
C Fund	30.66%	25.92%	17.19%
S Fund	39.43%	32.93%	24.53%
I Fund	32.26%	31.46%	20.23%
L Income Fund	8.30%	7.83%	6.26%
L 2020 Fund	19.43%	17.62%	12.59%
L 2030 Fund	23.47%	21.12%	14.88%
L 2040 Fund	26.76%	23.97%	16.68%
L 2050 Fund	n.a.**	n.a.**	n.a.**

Number of Participants (000s)

	June 2011	May 2011	April 2011
FERS Contributing with Agency Contributions	2,045	2,043	2,038
FERS Not Contributing with Agency Contributions	348	349	350
FERS Participation Rate	85.5%	85.4%	85.3%
FERS Contributing w/out Agency Contributions	<1	<1	<1
Total FERS with Contributions	2,393	2,392	2,388
CSRS Contributing	213	216	219
Uniformed Services Contributing	695	695	698
Participants with No Current Contributions	1,185	1,174	1,163
Total Plan Participants	4,486	4,477	4,468

Loans Outstanding

	June 2011	May 2011	April 2011
Number	878,441	873,269	868,321
Amount ($ millions)	7,774	7,701	7,648

Admin. Expense	Total	G	F	C	S	I
2007 Gross	**0.0352%**	0.0351%	0.0351%	0.0353%	0.0353%	0.0349%
2007 Net	**0.0146%**	0.0146%	0.0146%	0.0147%	0.0146%	0.0142%
2008 Gross	**0.0432%**	0.0426%	0.0428%	0.0437%	0.0437%	0.0439%
2008 Net	**0.0186%**	0.0184%	0.0183%	0.0188%	0.0187%	0.0188%
2009 Gross	**0.0519%**	0.0523%	0.0521%	0.0516%	0.0511%	0.0512%
2009 Net	**0.0281%**	0.0283%	0.0282%	0.0278%	0.0276%	0.0276%
2010 Gross	**0.0478%**	0.0480%	0.0479%	0.0476%	0.0470%	0.0480%
2010 Net	**0.0246%**	0.0247%	0.0246%	0.0246%	0.0242%	0.0250%
2011 Gross YTD	**0.0241%**	0.0242%	0.0241%	0.0240%	0.0239%	0.0240%
2011 Net YTD	**0.0139%**	0.0139%	0.0139%	0.0139%	0.0138%	0.0138%

*Effective January 2011, the Fund Balances no longer include outstanding loans and other assets in conformance with revisions to the financial statements. **The L 2050 Fund was created on January 31, 2011.

Note: The net expense ratios are the administrative expenses charged to TSP participants per dollar invested in the respective funds after offsettting gross administrative expenses with account forfeitures and loan fees.

BIOGRAPHY FOR GREGORY T. LONG

Greg is the Executive Director of the FRTIB, the Federal Agency that administers the Thrift Savings Plan (TSP). In this role, Greg serves as the Chief Executive Officer and managing fiduciary of the TSP. The TSP services 4.5 million current and former Federal employees and Uniformed Service members with over $289 billion in assets, making it the largest defined contribution plan in the world. Prior to his appointment as Executive Director, Greg was the FRTIB's Director of Product Development, where he was responsible for the Agency's strategic planning functions and its development of new services and products that promote beneficial savings behavior. Additionally, Greg managed all research efforts to understand the attitudes and investment behavior of TSP participants. Before joining the FRTIB, Greg spent seven years with CitiStreet, where he served as the Director of Marketing for the American Bar Association Retirement Funds. In that position, he oversaw all marketing, sales, and product development activity for a program that provides 401(k) services to over 4,000 law firms nationwide. Prior to CitiStreet, Greg spent six years with Putnam Investments, most recently as the Regional 401(k) Director in the southeast U.S. Greg was born in Boston in 1967 and is a graduate of St. Anselm College in Manchester, New Hampshire. He lives in Maryland with his wife and their son.