

The Thrift Savings Plan (TSP)

25 Years Later

FUNPRESPEC CONFERENCE

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DIRECTOR, ENTERPRISE PLANNING
FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

NOVEMBER 10, 2016

Overview

Federal Retirement Thrift Investment Board

- ▶ Federal Retirement Thrift Investment Board (FRTIB) was established under the Federal Employees' Retirement System Act (FERSA) of 1986
- ▶ Federal Employees' Retirement System (FERS) is a hybrid retirement system
 - ▶ TSP
 - ▶ Defined Benefit (annuity administered by the Office of Personnel Management)
 - ▶ Social Security

Thrift Savings Plan (TSP)

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- ▶ FRTIB administers the Thrift Savings Plan (TSP)
 - ▶ Defined contribution plan, similar to private-sector 401(k) plans
 - ▶ Daily-valued
 - ▶ Available to Federal civilian employees on a matched basis and members of the uniformed services on an unmatched (voluntary) basis
- ▶ Our strengths
 - ▶ Simplicity
 - ▶ Passive investment management
 - ▶ Size – economies of scale

WE HELP PEOPLE RETIRE WITH DIGNITY



OUR MISSION

We administer the TSP solely in the interest of Participants and Beneficiaries.

OUR VISION

We achieve flawless operations.

We help participants make smart choices.

We spend participant money wisely.

We make FRTIB a great place to work; and a place where great work gets done.

We create excellent relationships with TSP stakeholders.

OUR CORE VALUES

PARTICIPANT-FOCUSED

We are passionate about delivering services that improve financial outcomes for participants.

We listen, respect, and carefully consider the needs of participants in all we do.

We value the interest of participants above those of all others.

INTEGRITY

We are trustworthy and value individual and organizational honesty, consistency, and credibility.

We ensure the security and financial integrity of the Thrift Savings Fund.

We operate with independence and act ethically to carry out our fiduciary responsibility.

COLLABORATION

We value diversity and respect each other's ideas and contributions.

We encourage open, candid dialogue and foster relationships based on trust and shared objectives.

We build partnerships to achieve greater outcomes than we could alone.

Mission, Vision, Values

FY 2017 – 2021 Strategic Plan

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- ▶ **Cybersecurity**
- ▶ **Blended Retirement**
- ▶ **Target IT Architecture**
- ▶ **Improved Controls & Audit Findings Remediation**
- ▶ **Investment Operations**
 - Multi-Manager
 - Direct Custodial Relationship
- ▶ **Great Place to Work**
- ▶ **TSP 3D**

Governance

- ▶ The FRTIB is an independent Federal Government agency
 - ▶ Reports to the Board
 - ▶ Independent budget authority (not subject to White House control)
 - ▶ No Congressional appropriations (except for small start-up appropriation)

- ▶ The Board is made up of five members appointed by the President (two upon recommendation of Congress) to 4-year fixed, staggered terms
 - ▶ Board Chairman serves a 4-year appointment
 - ▶ Members can be reappointed but serve until they are replaced with a newly appointed board member

- ▶ The Board is required by law to manage the TSP prudently and solely in the interest of the participants and their beneficiaries
 - ▶ Board members and the Executive Director are named fiduciaries
 - ▶ Board approves the FRTIB budget
 - ▶ Board members appoint the Executive Director. The ED can only be removed for “good cause shown”
 - ▶ Board approves policies and reviews performance of the investment and management of the Thrift Savings Funds

Governance

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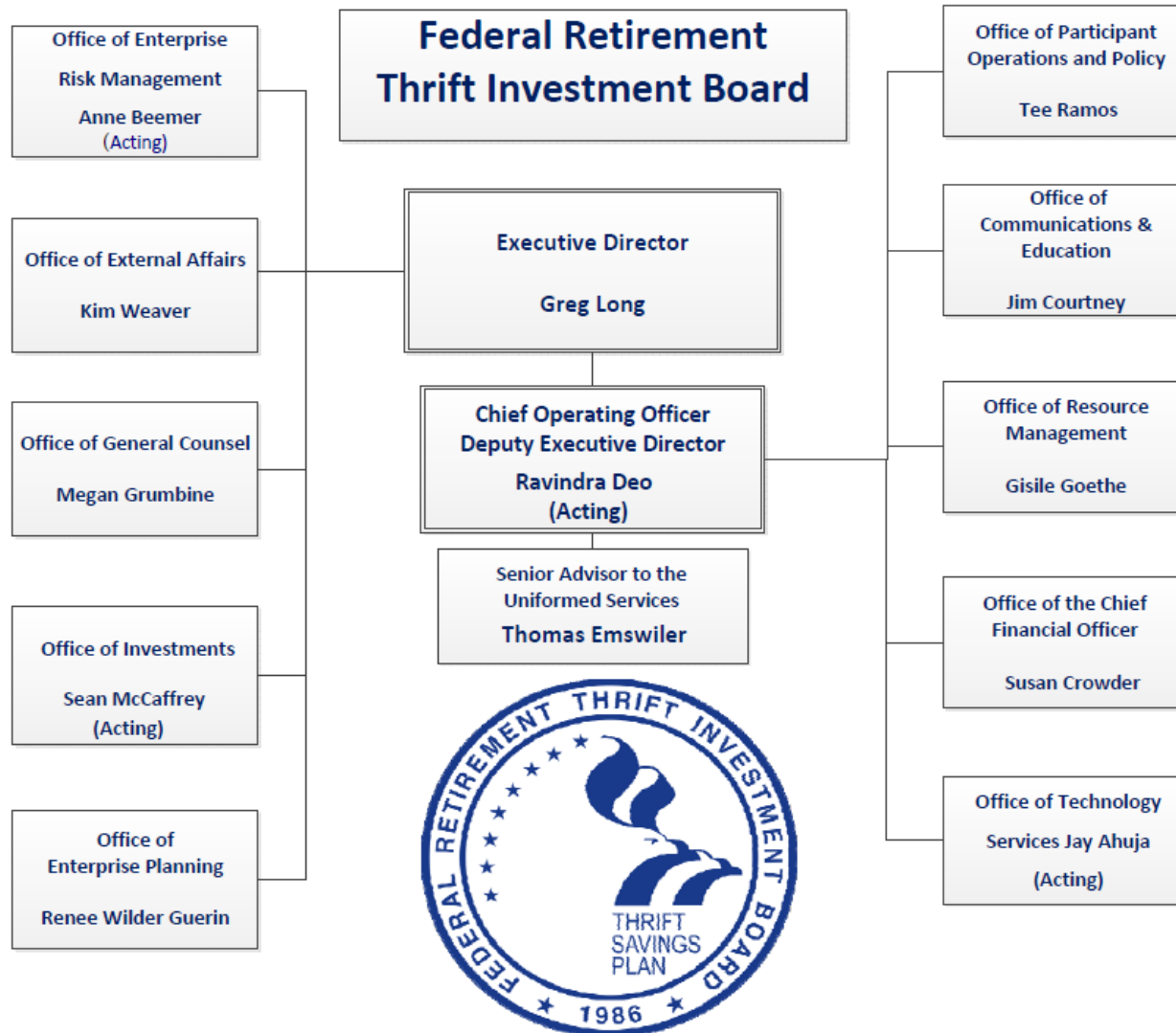
- ▶ Department of Labor (which regulates private sector retirement plans) oversees the TSP
 - ▶ Performs annual series of audits and issues findings and recommendations
 - ▶ Reports to the Board

- ▶ Congressional oversight
 - ▶ House and Senate authorization Committees
 - ▶ Government Accountability Office audits, if requested by Congress

- ▶ Employee Thrift Advisory Council
 - ▶ Created under FERSA
 - ▶ Comprised of representatives of employee organizations, unions and the uniformed services
 - ▶ Provides advice to the Board and the Executive Director on matters relating to investments and administration of the TSP

FRTIB Organization

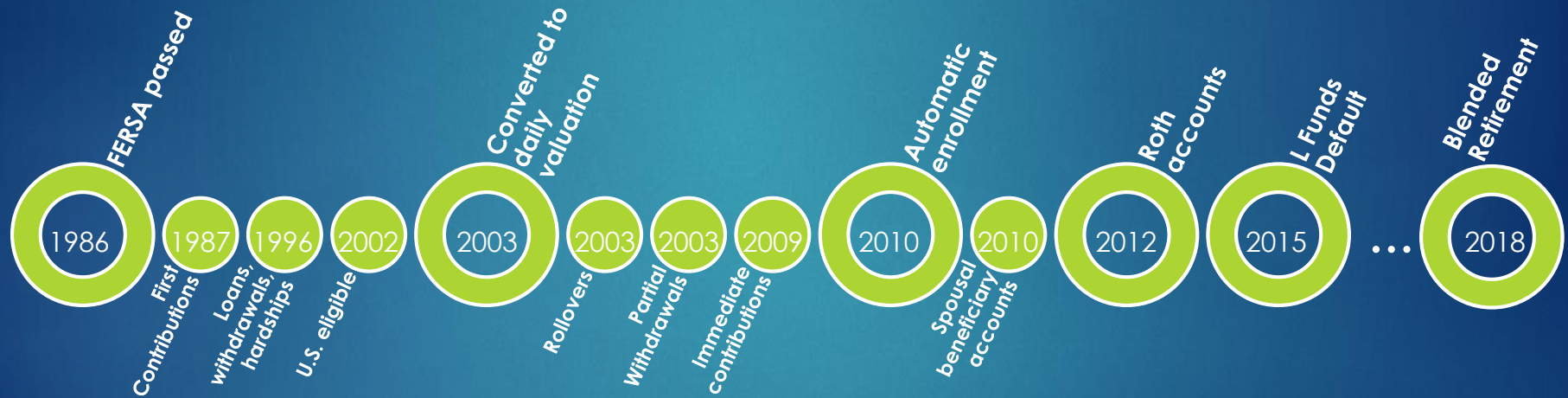
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TSP Administration

History at a Glance

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TSP Administration

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- ▶ Approximately 250 FRTIB employees
 - ▶ Benefits and agency policy
 - ▶ Legal
 - ▶ Accounting
 - ▶ Agency operations
 - ▶ Plan operations
 - ▶ IT systems supporting agency and plan operations
 - ▶ Education and communications

- ▶ Other key functions outsourced through contracts
 - ▶ Investment management
 - ▶ Recordkeeping and supporting technology
 - ▶ Call centers
 - ▶ Benefits processing
 - ▶ Forms processing, mail, notices and statements)
 - ▶ Approximately 700 contractor employees

FRTIB Primary Contract Support

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- ▶ Science Applications International Corporation (SAIC)
 - ▶ Recordkeeping services
- ▶ Serco – provides staff for:
 - ▶ Payroll office data submissions
 - ▶ Legal and death benefit processing
 - ▶ Call center
 - ▶ Forms processing
- ▶ Active Network – second call center
- ▶ BlackRock Institutional Trust Company, N.A. – investment manager for the F, C, S, and I Funds
- ▶ Broadridge– Mailing and (some) printing of TSP materials

Plan Features

TSP Contribution Rules

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- ▶ Automatic enrollment with 3% default contribution rate
- ▶ Immediate agency automatic contribution equal to 1% of salary
- ▶ Government matches first 5% of employee contributions
 - ▶ 100% match on first 3%
 - ▶ 50% match on next 2%
- ▶ All employees can voluntarily contribute up to the annual limit of \$18,000
 - ▶ Over age 50, can contribute an additional \$6,000 annually

Automatic Enrollment

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- ▶ Became effective in 2010
- ▶ All new federal civilian hires automatically enrolled into the TSP
- ▶ 3% automatic contribution amount
- ▶ Auto-enrolled participants can opt out in the first 90 days
- ▶ As of Sept 2015, contributions are invested into the age appropriate Lifecycle Fund
- ▶ Executive Director has the authority to increase the automatic contribution up to 5%
- ▶ No authorization for automatic escalation

Automatic Enrollment

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- ▶ Since 2010 inception
 - ▶ 683,000 elected to participate in TSP
 - ▶ 216,000 automatically enrolled participants
 - ▶ Capturing 96% of new hires
 - ▶ 4% decline TSP or opt-out
- ▶ Auto-enrolled participants tend to remain in the default option, and at the default contribution level

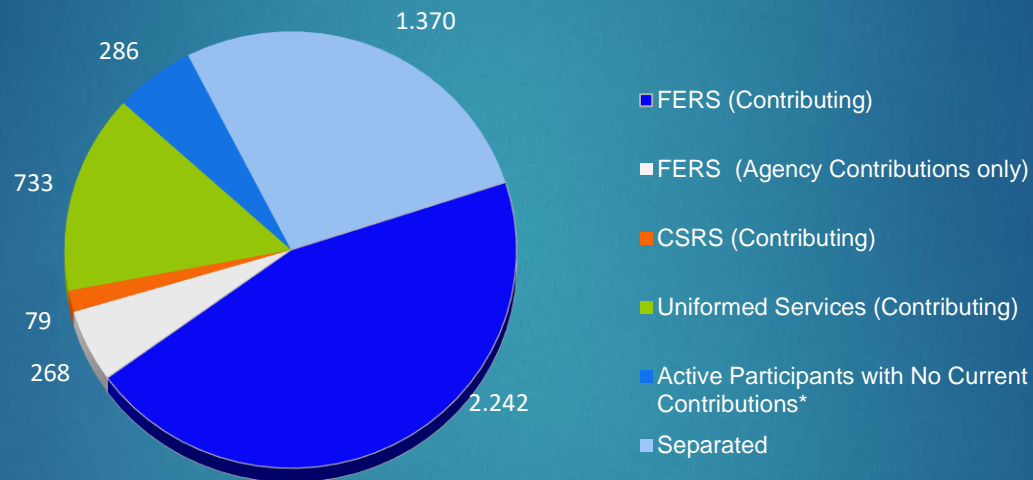
TSP Facts

TSP Demographics

(as of September 2016)

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- ▶ 4.978 million participants



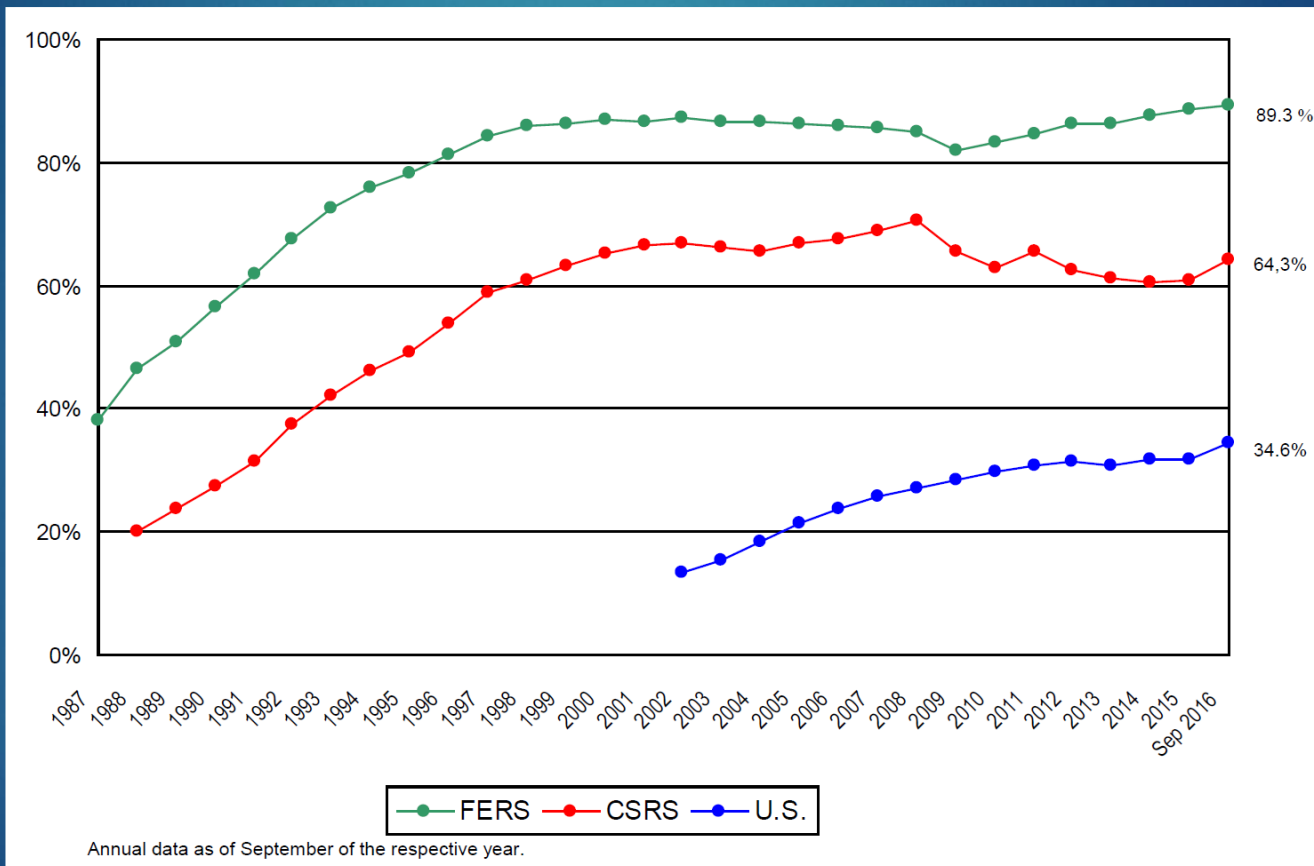
Includes:

- ▶ 373,738 Roth accounts
- ▶ 18,391 beneficiary participants

TSP Participation Rates

(as of September 2016)

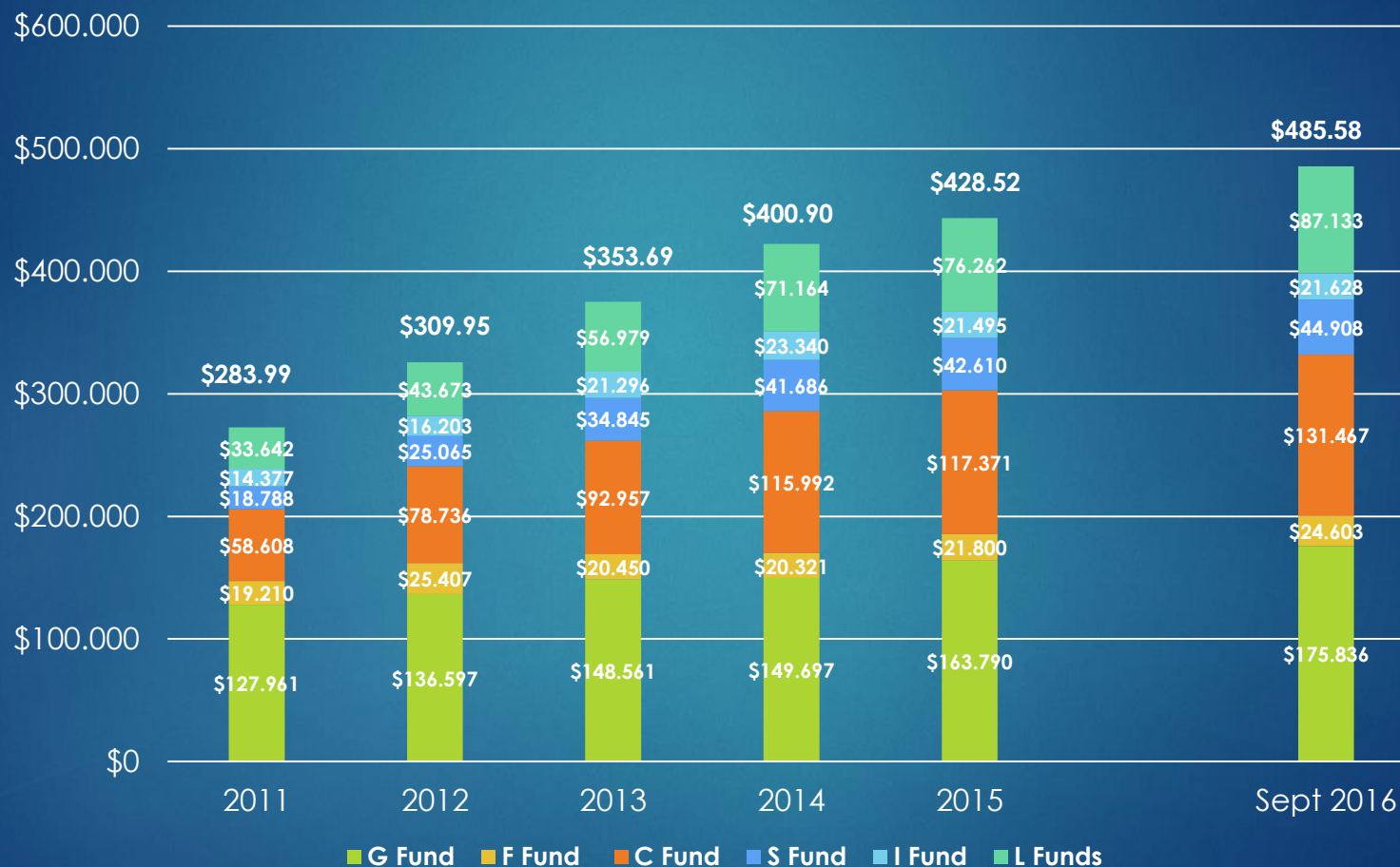
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Fund Balances

(\$B, as of September 30, 2016)

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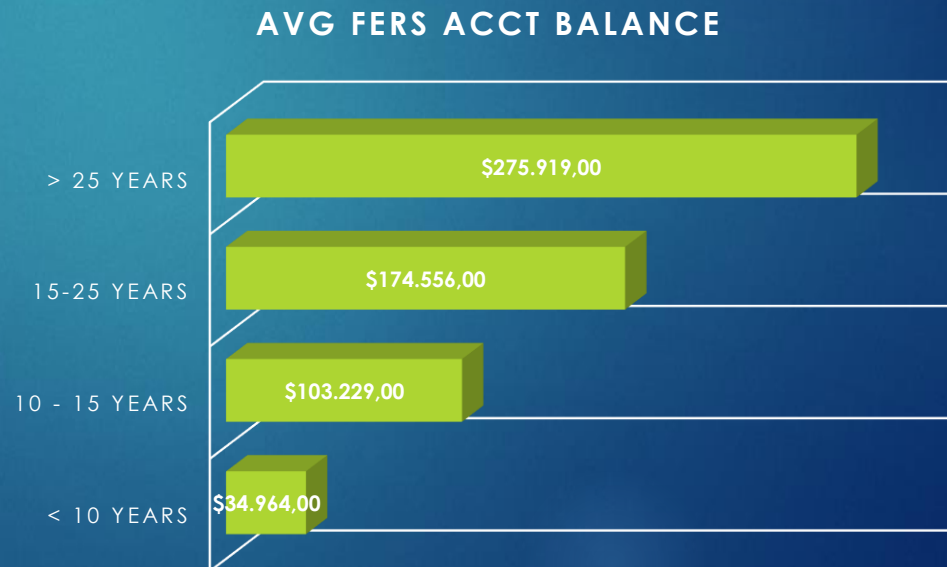


Other TSP Facts

(as of September 2016)

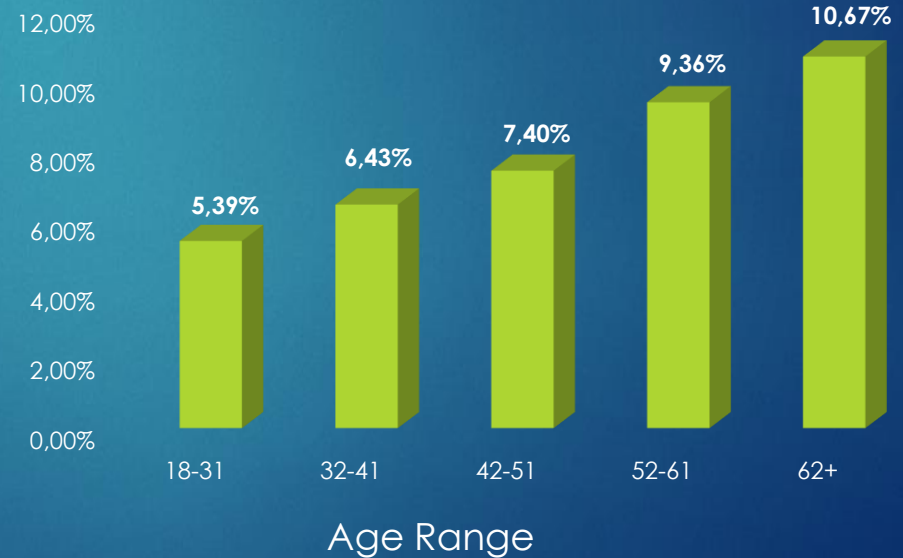
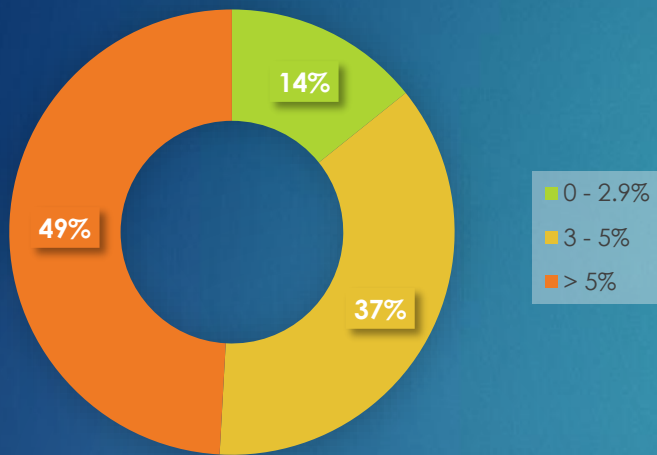
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- ▶ Average account balance (FERS)
 - ▶ Traditional: \$120,511
 - ▶ Roth: \$8,622
- ▶ Average account balance (US)
 - ▶ Traditional: \$19,586
 - ▶ Roth: \$4,862



Average FERS Deferral Rate

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Investments

Key Activities of the Investment Office

- ▶ Investment policy and procedures
- ▶ L Fund asset allocation strategies
- ▶ Oversee investment management services, including securities lending
- ▶ Ensure funds are invested in accordance with the law and applicable policies
- ▶ Provide subject matter expertise

TSP Investment Structure

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- ▶ Law requires use of index funds for equity options
 - ▶ Index funds are designed to follow entire markets or broad slices of markets
 - ▶ Ensures investment management is “passive”
 - ▶ Prevents political manipulation
 - ▶ “Active” decisions could be based on politics
 - ▶ Index funds are low cost
- ▶ Board decided to use indexing for fixed income
- ▶ Prohibition on active FRTIB involvement in corporate governance
 - ▶ Prohibits direct voting of shares (proxies)
 - ▶ Avoids voting shares for political reasons
- ▶ Addition of TSP funds requires legislation

Selection of External Investment Managers

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- ▶ Board chooses selection criteria
 - ▶ Based on staff recommendations (with expert advice)
 - ▶ “Minimum criteria” used to limit competition to firms that have necessary size, experience
- ▶ Board chooses weight to give to technical factors vs. cost
- ▶ In November 2015, the Board approved having more than one investment manager per fund

Current G Fund

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- ▶ Interest Rate paid on G Fund is weighted average of market yield on 4 year or longer US Treasury Securities
 - ▶ Rounded to closest 1/8%
 - ▶ Rate resets every month
- ▶ Social Security and CSRS (old retirement program) both get securities with:
 - ▶ Same rate
 - ▶ Ability to choose maturity date
 - ▶ Ability to redeem at PAR
- ▶ TSP was not offered the ability to redeem at PAR
 - ▶ So we choose a short-term maturity date

TSP Investment Funds

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| | |
|---|-----------|
| Government Securities Investment Fund (G Fund) - special non-marketable U.S. Treasuries | 4/1/1987 |
| Fixed Income Index Investment Fund (F Fund) - tracks Bloomberg Barclays U.S. Aggregate bond index | 1/29/1988 |
| Common Stock Index Investment Fund (C Fund) - replicates S&P 500 index | 1/29/1988 |
| U.S. Small-capitalization Stock Index Investment Fund (S Fund) – tracks DJ Total Stock Market (TSM) Completion index | 5/1/2001 |
| International Stock Index Investment Fund (I Fund) – replicates MSCI EAFE index | 5/1/2001 |
| <i>5 Lifecycle Investment Funds</i> (L Funds) - professionally managed investment in above funds targeted towards time remaining to invest for retirement | 8/1/2005 |

L2010 retired in December 2010; L 2050 introduced January 2011; Will move to 5 year interval

Core fund performance

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TSP Funds (as of September 30, 2016)

| | | Annualized (%) | | | |
|--------|------------------------------|----------------|--------|--------|---------|
| | | 1 Year | 3 Year | 5 Year | 10 Year |
| G Fund | | 1.85% | 2.08% | 1.89% | 2.71% |
| F Fund | | 5.46% | 4.51% | 3.44% | 5.03% |
| | Barclays U.S. Agg Bond Index | 5.19% | 4.03% | 3.08% | 4.79% |
| | Tracking Error | 0.27% | 0.48% | 0.36% | 0.24% |
| C Fund | | 15.50% | 11.24% | 16.45% | 7.30% |
| | S&P 500 Index | 15.43% | 11.16% | 16.37% | 7.24% |
| | Tracking Error | 0.07% | 0.08% | 0.08% | 0.06% |
| S Fund | | 13.69% | 7.76% | 16.49% | 8.45% |
| | DJ U.S. Completion TSM Index | 13.03% | 7.36% | 16.02% | 8.26% |
| | Tracking Error | 0.66% | 0.40% | 0.47% | 0.19% |
| I Fund | | 6.90% | 0.80% | 7.99% | 2.09% |
| | MSCI EAFE (Net) Index | 6.52% | 0.48% | 7.39% | 1.82% |
| | Tracking Error | 0.38% | 0.32% | 0.60% | 0.27% |

The Lifecycle (L) Funds

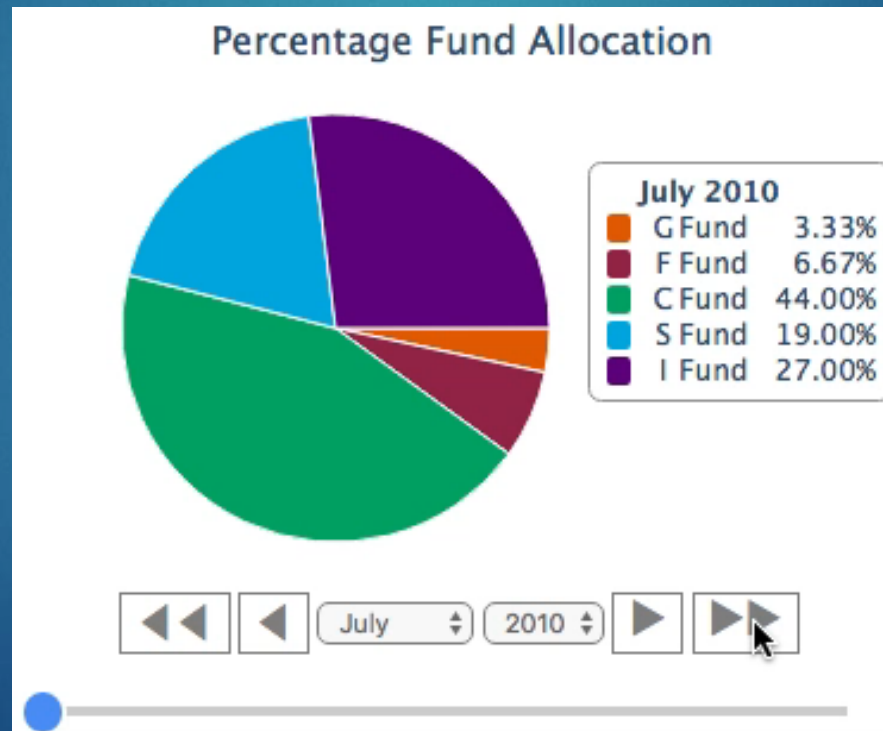
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- ▶ “Lifecycle” or target date asset allocation funds
- ▶ Uses 5 TSP core funds
- ▶ Participants choose fund that matches anticipated withdrawal date
- ▶ Default investment option for automatically enrolled participants (based on participant’s age)
- ▶ Five funds
 - ▶ Income Fund
 - ▶ 2020 Fund
 - ▶ 2030 Fund
 - ▶ 2040 Fund
 - ▶ 2050 Fund

Lifecycle Funds – How They Work

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- Farther out time horizons: more aggressive investments, with more equity
- As horizon date approaches: more conservative investments, with more fixed income



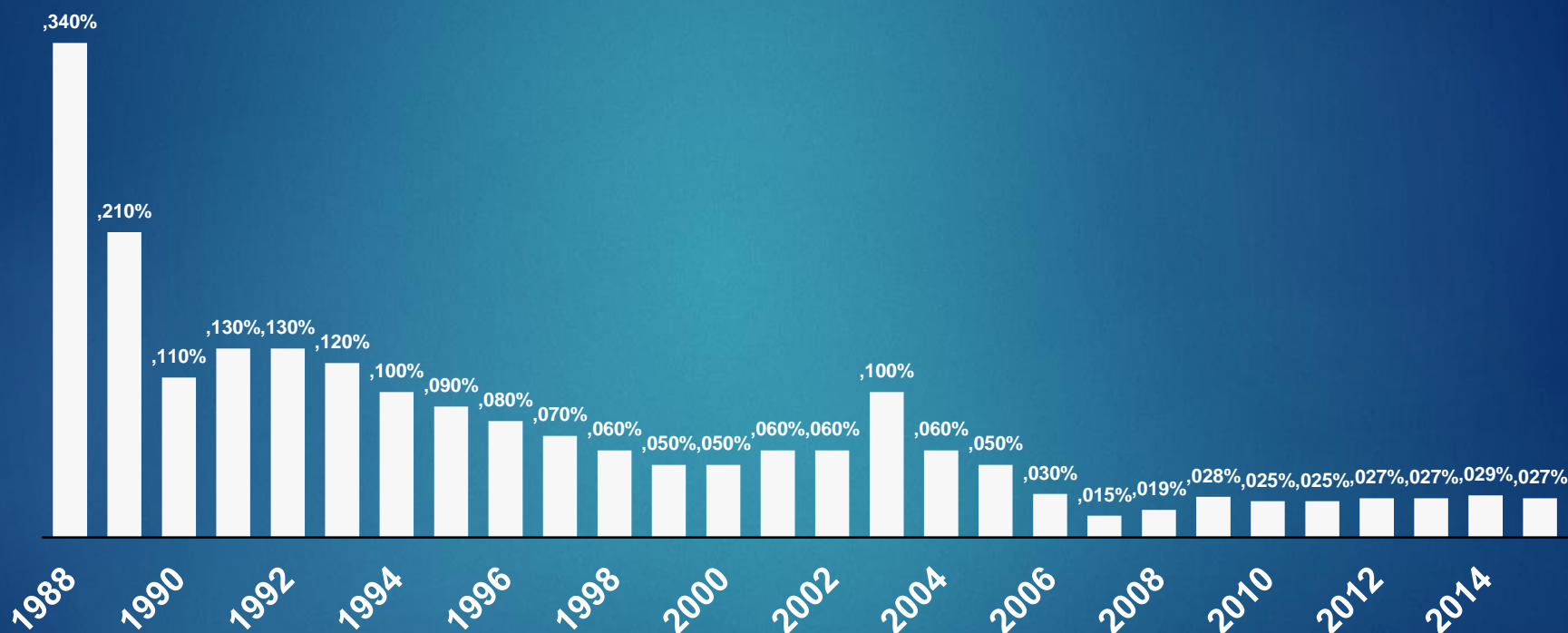
Lifecycle Funds Performance

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| | Annualized (%) | | | |
|------------------------|----------------|--------|--------|---------|
| | 1 Year | 3 Year | 5 Year | 10 Year |
| Lifecycle Funds | | | | |
| L Income | 4.39% | 3.55% | 4.54% | 3.91% |
| L 2020 | 7.22% | 5.14% | 8.52% | 5.06% |
| L 2030 | 9.12% | 6.01% | 10.29% | 5.60% |
| L 2040 | 10.16% | 6.52% | 11.52% | 5.88% |
| L 2050 | 11.08% | 6.87% | 12.59% | NA |

Expenses

Thrift Savings Fund Expense Ratio 1988 - 2015



- In 2015 the average expense ratio for the TSP was 0.027%, or \$0.27 per \$1,000 (Net administrative expenses are investment management fees after forfeitures)
- Administrative expenses after June 2004 are reduced by loan fees (\$50 per loan)

Administrative Fees and other expenses

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- ▶ Asset management
- ▶ Fund accounting
- ▶ Fund administration
- ▶ Custody

Reasons for the Low TSP Costs

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- ▶ 2015 expense ratio - 2.9 basis points (.029% or 29 cents per \$1,000 of account balance)
- ▶ Why costs are low:
 - ▶ Use of low-cost index funds
 - ▶ Simple plan structure
 - ▶ Huge economies of scale
 - ▶ Use of individually managed funds
 - ▶ Investment manager maintains one (omnibus) account
 - ▶ Individual accounts are maintained in TSP recordkeeping system
 - ▶ Competitive procurement of all functions
 - ▶ Agencies provide primary education
 - ▶ Treasury in role of commercial bank

Securities Lending

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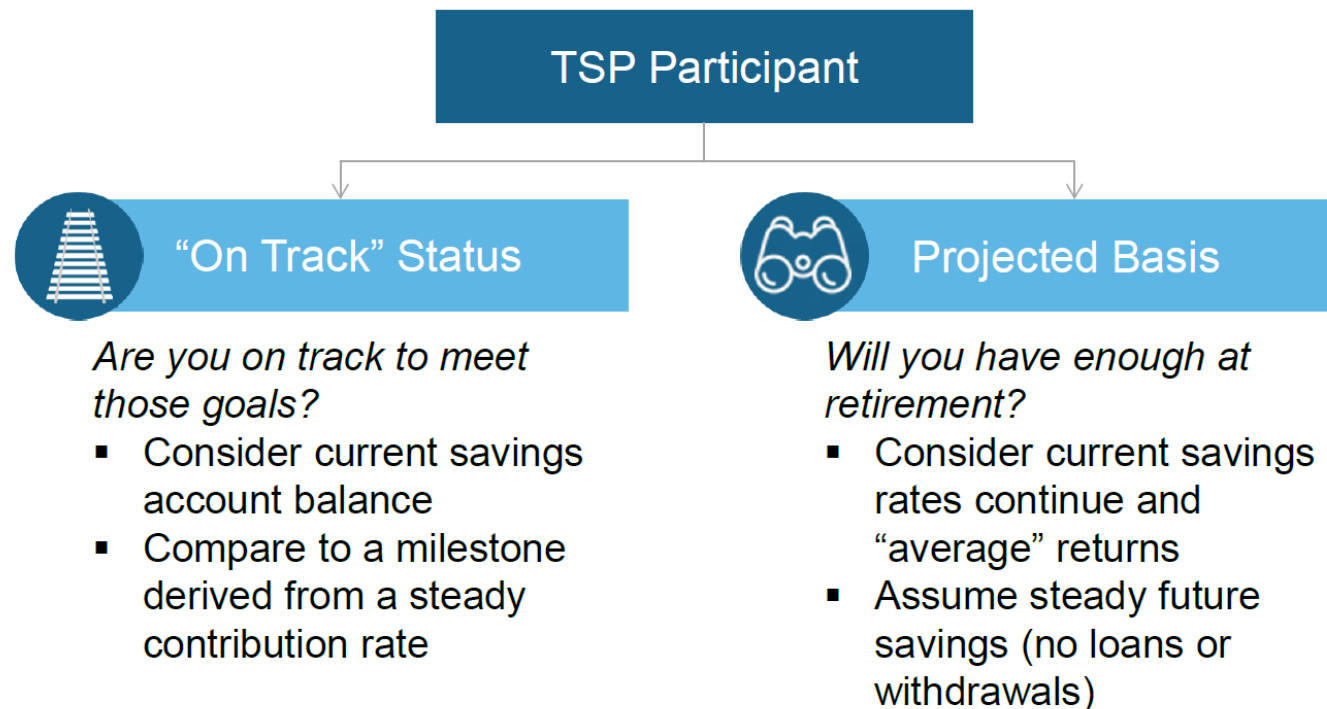
- ▶ Approximately \$33 billion dollar securities lending program
- ▶ Single investment manager - BlackRock
- ▶ Involves C,S, I & F funds
 - C Fund (8%), F Fund (32%), S Fund (30%) and I Fund (4%)
- ▶ Added value for participants

Measuring Success

Zone of Confidence

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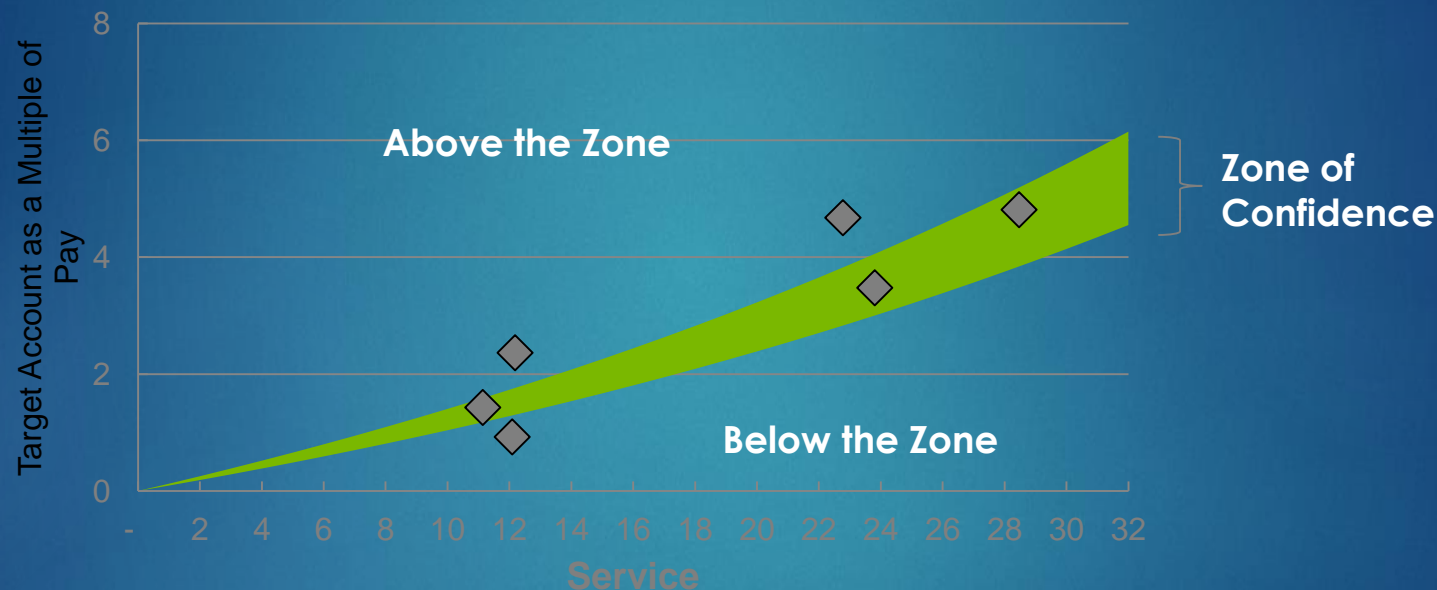
Consider an individual's retirement readiness from two perspectives:



Zone of Confidence (ZOC)

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Measures the accumulation of savings over time, to determine if an individual is above, in, or below the ZoC, at any point during their career



- Helps participant understand how the pieces fit together
- Plan to design the ZoC tool to assist participants in determining their retirement goals

Retirement Income Illustration

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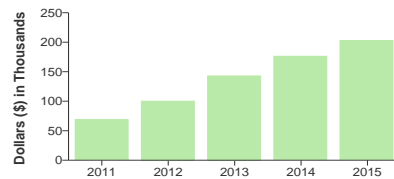
Thrift Savings Plan

Mary Smith
123 Main Street
Any City, VA 22315-0000

How your account value changed in 2015

| | |
|-----------------------------------|---------------------|
| Value on January 1, 2015 | \$176,215.35 |
| Change in value this year | 26,763.68 |
| Value on December 31, 2015 | \$202,979.03 |

Your 5-Year Account Balance History



A MESSAGE FOR YOU

Did you know that the TSP offers you professionally designed funds that help take the guesswork out of investing? They're called the Lifecycle (L) Funds—L 2050, L 2040, L 2030, L 2020, and L Income. They balance the expected risk and return associated with each of the five funds (G, F, C, S, and I). All you have to do is choose the L Fund most closely associated with the year you plan to need your money. To invest in an L Fund, log into the My Account section of tsp.gov and choose "Contribution Allocations" or "Interfund Transfers" on the left.

Your 2015 Annual Statement

Account Number:
0000 0000 00000

Date of Birth: mm/dd/yyyy
Retirement Coverage: FERS
Employment Status: Active
Service Required for Vesting: 3 years
from 11/23/2008

Will you be ready for retirement?

Your 12/31/2015 TSP account balance would provide you a lifetime monthly amount of **\$987***

*This estimate:

- Assumes that you are age 62 (or your current age if you are older);
- Uses an annuity interest rate index of 2.125% and
- Assumes that you took a single life annuity with level payments and no additional features.

Note: The above annuity estimate is not a guarantee. You can use the Retirement Income Calculator on the TSP.gov website to learn more about your available annuity options.

Questions? Visit tsp.gov

ThriftLine: 1-TSP-YOU-FRST (1-877-968-3778)
Outside the U.S. and Canada: 404-233-4400
TDD: 1-TSP-THRIFT5 (1-877-847-4385)
YouTube: youtube.com/tsp4gov
Twitter: @tsp4gov

To correct any of your personal information, contact your agency.



Keep your account secure — review your account profile.

Custom ID Created: Not Established
Web Password Date: 07/30/2014
ThriftLine PIN Date: 12/22/2008
Quarterly Statements: Electronic
Annual Statements: Mailed

Future Actions

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Later

- ▶ Greater withdrawal flexibility
- ▶ Outreach prior to retirement
- ▶ Zone of Confidence
- ▶ Re-engineer withdrawal election forms



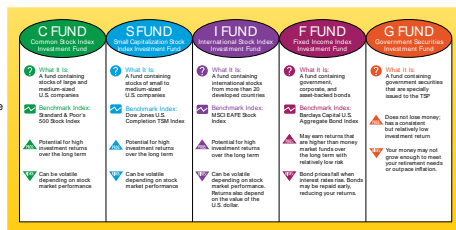
Participant Communications

How We Do It: The Communications Team



Removing the Mystery from the TSP Core Funds

Some mysteries are entertaining, but playing detective when it comes to your investments can be stressful. That's why the TSP's strength is its simplicity. We offer 5 core funds you can mix and match, and 5 Lifecycle (L) Funds (L 2050, L 2040, L 2030, L 2020, and L Income) that are professionally designed based on when you'll need your money.



While our Lifecycle funds are a great option if you want investment strategy without the stress, this article will focus on our core funds.

Investigate Your Investments

With our 5 core funds (C, S, I, F, and G), you can invest in everything from short-term government securities to domestic and international stocks. Our core funds are designed to match the performance of certain benchmark indexes¹ and for the past 10 years, thanks to our low fees and expenses², our funds have outperformed these benchmarks.

Learn more about each core fund in the chart at the top of the page.

Follow Your Leads

If you want to select your own personal mix of our core funds, here are some questions to ask yourself.

How Much Time Do I Have Until Retirement? T amount of risk you can sustain depends on the future date at which you plan to start withdrawing your money. The longer you have until you plan on needing your money, the more risk you might be able to handle.

What Is My Required Rate of Return? Your required rate of return is the percentage you need to earn from your investments each year in order to reach

your retirement goals. Determining your required rate of return can be a challenge because you have to think about your ability to take risk, reflect on when you need the money from your TSP account, and consider prevailing market conditions. Visit tsp.gov and use our "How Much Will My Savings Grow?" calculator to see how different rates of return could impact the future value of your TSP account.

What Kind of Retirement Do I Want to Have? Think about the kind of life you expect to have in retirement, how long you expect to be in retirement, and what

TSP Website: tsp.gov
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Outside the U.S. and Canada: 404-233-4400
TDD: 1-TSP-HEARST (1-877-647-4300)
YouTube: tsp.gov @tsp.gov

¹ Most of our core funds have a benchmark that they track. For example, our C Fund, which contains stocks of large and medium-sized U.S. companies, aims to match the performance of the Standard & Poor's 500 Stock Index.

² See the "Rates of Return and Expenses" chart on the reverse page of this issue for more information.

your income needs might be. Start by estimating a percentage of your current annual income that you think might sustain you in your retirement years. Then determine the extent to which you expect to rely on your TSP account for that income.

Remember: If you don't feel comfortable choosing how to invest in the core funds, consider our Lifecycle (L) Funds. They're professionally designed based on your target retirement date.

Crack Your Investment Case

Do you want to change the funds that you've invested in?

1) Log into My Account at tsp.gov. If you've forgotten your password, you may call our ThriftLine at 1-877-968-3778 and choose option 3 to reset it.

2) To change the way *new* money is invested, choose "Contribution Allocations" from the Online Transactions menu on the left side of the screen.

3) To change the way money that is *already* in your account is invested, choose "Interfund Transfers" from the Online Transactions menu.

4) You can also call the ThriftLine to complete these transactions.

Visit the "Investment Funds" section of tsp.gov to learn more about the TSP funds. You can also watch our series of informational videos about our funds, "TSP Investment Options," at youtube.com/tsp4gov.

Why Are There Limits on Interfund Transfers?

An interfund transfer (IFT) allows you to redistribute the money you already have in your TSP account among our funds. You're allowed unlimited transfers to the G Fund as a safe haven, but for all other IFT requests, you can make up to 2 per month. Why?

One of the best qualities of the TSP is its extraordinarily low cost to you. Allowing unlimited transfers has been shown to increase our expenses, resulting in your keeping less of what you save. Plus, since there's a time lapse between your IFT request and its going into effect—requests made after noon Eastern time are generally processed the next business day—efforts to "time the market" may not have the desired results.

Rates of Return and Expenses

| | L 2050 | L 2040 | L 2030 | L 2020 | L Income | G Fund | F Fund | C Fund | S Fund | I Fund |
|-------------------------------------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|
| Rates of Return | | | | | | | | | | |
| Year-to-Date | -4.86% | -4.21% | -3.58% | -2.55% | -0.91% | 0.19% | 1.49% | -4.96% | -8.72% | -5.62% |
| 1-Year | -3.29 | -2.52 | -1.76 | 1.01 | 2.06 | 0.28 | -0.59 | -0.22 | -0.22 | -7.21 |
| 3-Year | 7.03 | 6.65 | 6.13 | 5.40 | 3.48 | 2.10 | 2.62 | 11.38 | 7.31 | 1.32 |
| 5-Year | 7.41 | 7.03 | 6.47 | 5.66 | 3.58 | 2.02 | 3.85 | 10.97 | 8.38 | 2.11 |
| 2015 Administrative Expenses | | | | | | | | | | |
| Gross | .043% | .043% | .043% | .043% | .043% | .043% | .043% | .043% | .043% | .043% |
| Net¹ | .029% | .029% | .029% | .029% | .029% | .029% | .029% | .029% | .029% | .029% |
| Other Expenses² | | | | | | | | | | |
| | .013% | .012% | .010% | .007% | .003% | .000% | .016% | .004% | .038% | .015% |

The returns for the TSP funds represent net earnings after the deduction of administrative expenses and, in the case of the F, C, S, L, and I Funds, after deduction of trading costs and investment management fees as of January 31, 2016. Additional information about the TSP funds, their related indexes, and their respective monthly, annual, and 10-year returns can be found in the "TSP Fund Information" sheets and by visiting "Fund Performance" at tsp.gov.

With the exception of L 2050, the Lifecycle Funds, which are invested in the individual TSP funds—G, F, C, S, and I—were implemented on August 1, 2005. Therefore, their first annual returns are for 2006. Since L 2050 was implemented on January 31, 2011, its first annual return is for 2012.

¹ Net administrative expenses are the expenses charged to TSP participants per dollar invested in the respective funds after offsetting gross administrative expenses with account forfeitures and loan fees.

² Fees associated with securities lending are not included in 2015 administrative expenses. Consistent with standard practice in the industry, they are charged in addition to administrative expenses. The other expenses represent fees paid to the investment manager for administering securities lending programs. Income earned from these programs improved the returns of the funds.

³ The Government Securities Investment (G) Fund contains government securities; the Fixed Income Index Investment (F) Fund contains government, corporate, and asset-backed bonds; the Common Stock Index Investment (C) Fund contains stocks of large and medium-sized U.S. companies; the Small Capitalization Stock Index Investment (S) Fund contains stocks of small to medium-sized U.S. companies; and the International Stock Index Investment (I) Fund contains stocks from more than 20 developed countries.

How We Do It: The Design Team

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Website – TSP.gov



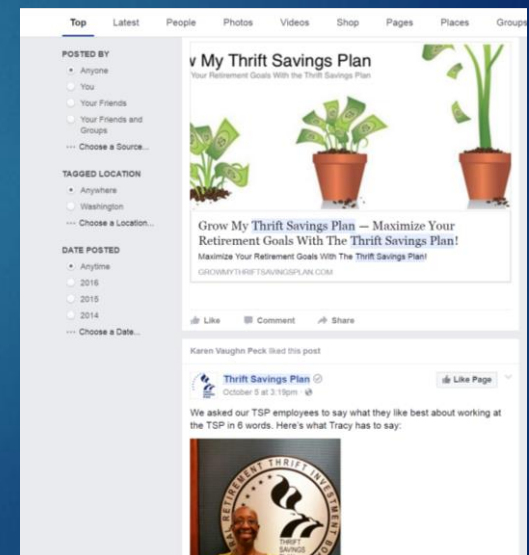
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How We Do It: The TSP Training Team

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Questions?