United States General Accounting Office

GAO

Report to Congressional Requesters

October 1995

FEDERAL PENSIONS

Thrift Savings Plan Has Key Role in Retirement Benefits

GAO/HEHS-96-1

GAO

United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and Human Services Division

B-260594

October 19, 1995

The Honorable Constance A. Morella
House of Representatives

The Honorable Eleanor Holmes Norton
House of Representatives

In the early 1980s, the Congress began to consider a new retirement system for federal employees in part because it believed the existing Civil Service Retirement System (CSRS) was too costly. As a result, the Congress enacted legislation that extended Social Security coverage to federal employees hired after December 31, 1983, and established the Federal Employees Retirement System (FERS), which it modeled after private sector retirement systems. Unlike CSRS retirees, FERS retirees receive benefits from three sources: Social Security, a federal government annuity, and Thrift Savings Plan (TSP) distributions.[1] Congressional deliberators believed that this combination of benefits would enable employees to maintain roughly their preretirement standard of living in retirement.

Because of your concerns about whether TSP was fulfilling its role in helping FERS-covered employees to save effectively for retirement, in your capacities as ranking minority and chair of the former Subcommittee on Compensation and Employee Benefits, Committee on Post Office and Civil Service, you asked us to develop information on

- the extent to which FERS-covered employees voluntarily contribute to TSP and the percentage of their salaries contributed (the deferral rate);
- how well TSP's educational materials address the importance of employee participation to meet certain retirement income goals; and
- the desirability of having additional TSP investment options.

To develop this information, we reviewed the legislative history of FERS and TSP, and discussed it with Congressional Research Service staff. We also reviewed their studies of the program, updated certain data in their 1986 report comparing CSRS and FERS retirement benefits (see app. I), and analyzed surveys of private sector plans established under Internal Revenue Code section 401(k) that are similar to TSP. In addition, we interviewed TSP staff and officials and obtained and analyzed TSP demographic data from 1987 to 1993, TSP's educational materials, and information on the TSP Board's consideration of additional investment

[1]CSRS employees can also participate in TSP.

options. Our work was performed from January through August 1995 in accordance with generally accepted government auditing standards.

Results in Brief

As of September 1994, some 942,000 FERS-covered employees (about 76 percent) were voluntarily contributing an average of 5.7 percent of their salaries to TSP. Most of the remaining 300,000 FERS-covered employees (24 percent) who were not contributing were in the lower pay ranges. Lower-paid workers who were contributing were doing so at lower rates than higher-paid workers—an average of about 4.4 percent of their salaries.

Although lower-paid workers are deferring at lower rates, we found that it may be less necessary for them to contribute to TSP than it is for workers with higher earnings. A general measure of retirement income needs used by pension professionals is about 60 to 80 percent of preretirement income. Thus, lower-paid workers may achieve retirement income levels within this range even with low deferral rates because Social Security benefits are proportionately greater for them. On the other hand, mid- to higher-pay-level workers need to defer at least 5 percent of their salaries throughout their careers, if not more, to achieve retirement income levels within this range.

Educating FERS workers can play a central role in their making wise preretirement investment decisions. We found that although TSP's educational materials extensively discuss the plan's financial aspects, they are not explicit in discussing how TSP can enable FERS-covered employees to achieve their retirement income goals.

A full range of options can also facilitate sound preretirement investment decisions. More specifically, the TSP Board concluded that a domestic small capitalization stock fund and an international stock fund would give employees more diversity in investment options and the opportunity for potentially higher earnings, although at greater risk. In May 1995, the TSP Board decided to seek legislation that would add these two investment options to the three it currently has. We found that these additions would make TSP's investment options more closely resemble those available in similar private sector plans.

Background

In 1986, the Congress replaced CSRS with FERS[2] for federal employees hired beginning January 1, 1984, in part to (1) recognize the inclusion of federal employees under Social Security and (2) reduce federal pension costs. Among the concerns of congressional deliberators in crafting FERS were that its retirement benefits be comparable with those under CSRS and enable employees to maintain their standard of living in retirement. To accomplish these and other goals, FERS provides a retirement benefit that comprises three components: a basic FERS annuity, Social Security payments, and TSP payments. The total income from these sources is meant to help individuals to receive retirement benefits comparable with CSRS benefits and commensurate with their retirement income goals.

The basic FERS annuity is similar to CSRS in that it guarantees a specific monthly retirement benefit based on age, length of creditable service, and the average of the highest 3 consecutive years' salaries.[3] However, the FERS annuity is lower because its benefit formula credits each year of service generally at 1 percent while CSRS service credits range from 1.5 to 2 percent per year of service. In addition, cost-of-living adjustments authorized by FERS are lower and generally are not provided before age 62.

Unlike the FERS basic annuity, the benefit provided under Social Security's benefit formula declines as a proportion of individuals' preretirement earnings as their earnings increase. For example, a person aged 62, with a certain lifetime earnings pattern and earnings of $20,000 in his or her final year of employment, would receive Social Security benefits that represent about 35 percent of those earnings. In contrast, a person aged 62, with a certain lifetime earnings pattern and earnings of $75,000 in his or her final year of employment, would receive a benefit that represents just about 17 percent of those earnings.

Pension professionals believe that to maintain roughly the same living standard in retirement, individuals' income needs generally range from 60 to 80 percent of their preretirement annual pretax earnings. Among other things, retirees typically pay less taxes, do not have work-related expenses such as daily commuting costs and clothing needs, may no longer have dependent children, and may have their mortgages paid.

[2]Employees under CSRS had the option to transfer to FERS.

[3]A detailed discussion of FERS and CSRS benefits is included in the Congressional Research Service's report, Federal Civil Service Retirement: Comparing the Generosity of Federal and Private Sector Retirement Systems (95-687 EPW, June 5, 1995).

TSP is administered by the Federal Retirement Thrift Investment Board, which is an independent agency. The Board consists of five part-time members who are appointed by the President. TSP's daily activities are carried out by a staff headed by an executive director selected by the Board. Retirement benefits from TSP are the flexible component of FERS because they depend on the amount that is in each employee's account at retirement. Thus, TSP can help FERS-covered employees to save toward a total retirement benefit that is commensurate with their retirement income goals.

Employees under FERS are automatically enrolled in TSP because federal agencies are required to contribute an amount equal to 1 percent of their employees' salaries to the plan. In addition, employees can make voluntary contributions up to 10 percent of their salaries: agencies match the first 3 percent on a dollar-for-dollar basis and the next 2 percent at 50 cents to a dollar, for a 5 percent total agency contribution; additional employee contributions are not matched, but all contributions and earnings thereon are tax deferred. CSRS employees may also participate in TSP by contributing up to 5 percent of their salaries; while there is no agency match, the contributions and earnings are tax deferred. However, all employee contributions are limited to a statutory inflation-adjusted cap, which was $8,994 in 1993.

TSP contributions can be invested in a federal government securities fund (G fund), a commercial bond fund (F fund), and a commercial large capitalization stock fund (C fund). The C and F funds are passively managed index funds that track changes in a certain body of securities in the stock and bond markets. These investment options were specified in TSP's statute, which also provided for adding investment options, via amendments, at the request of TSP's Board. In addition, TSP's law restricted the amounts that could be invested in the C and F funds through 1990.[4] With the lifting of the restriction in 1991, employees have increased their contributions to the C and F funds. For example, in January 1991 about 5 percent and 2 percent of contributions were going into the C and F funds, respectively, while in August 1994 the comparable rates were 35 percent and 10 percent. In January 1995, TSP contributions and earnings were invested as shown in table 1.

[4]TSP's statute required all CSRS-covered employees' contributions to be invested in the G fund through 1990. Similarly, all FERS-covered employees' contributions had to be invested in the G fund in 1987; this requirement decreased each year by 20 percent through 1990 and was eliminated in 1991. Also, beginning in 1991, employees could reallocate their past contributions among the three funds.

Table 1: TSP Investments as of January 1995

Dollars in Billions

Investment	Amount	Percent
G fund	$18.9	70
C fund	6.4	24
F fund	1.6	6
Total	**$26.9[a]**	**100**

[a]Separate data for CSRS- and FERS-covered employees are not available.

TSP's three funds have had different average annual rates of return since 1987. The C fund has averaged 12.5 percent, a higher return than the F and G funds' average earnings of about 8.0 percent each over the 7 years of plan experience. The C and F funds also have been more volatile than the G fund as shown in figure 1.

Figure 1: Growth of a $1,000 Investment in Each TSP Fund, 1987-1994

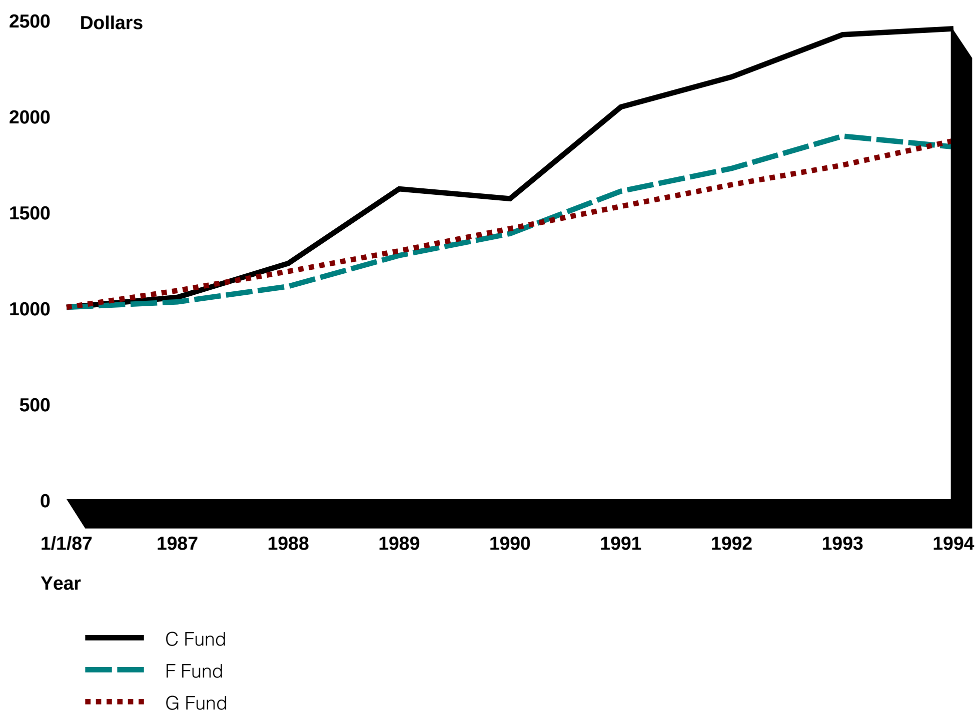

Figure 1 shows that a $1,000 investment in the C fund on January 1, 1987, would grow to $2,452 over the following 7 years based on actual annual rates of return. Similarly, $1,000 investments in the F and G funds would grow to $1,836 and $1,868, respectively, over the same period. The higher returns available from the C fund also connote the somewhat higher risks inherent in a stock portfolio. Thus, the retirement income TSP ultimately provides a participant will depend on how much the individual has contributed and on the rates of return earned on those contributions. Since returns and risks are related, the ability to diversify investments among stocks and bonds is an important factor for participants in a program such as TSP because it allows them to tailor their investment portfolios to reflect the level of risk they are willing to assume.

Extent to Which FERS-Covered Employees Contribute to TSP

The proportion of FERS-covered employees contributing to TSP has steadily increased. For example, in September 1987 some 219,000 FERS-covered employees (about 38 percent) were making voluntary contributions to TSP; whereas, in September 1994 about 942,000 (76 percent) were doing so. However, the degree of voluntary participation in TSP has varied considerably among salary ranges as shown in table 2.

Table 2: Percent of FERS-Covered Employees Making Voluntary Contributions to TSP by Salary Ranges, 1987-1993

Dollars in Thousands

	Salary ranges and percent contributing							All salary
Year	$10-19	$20-29	$30-39	$40-49	$50-59	$60-69	$70+	levels
1987	27%	42%	53%	72%	78%	78%	80%	44%
1988	28	45	63	77	84	85	85	49
1989	30	48	67	78	86	85	86	52
1990	35	54	71	80	85	87	86	57
1991	37	58	75	84	89	89	88	63
1992	41	63	78	87	90	92	90	68
1993	45	69	81	89	93	93	96	73

Source: Latest TSP demographic data available.

Most of the 300,000 (24 percent) FERS-covered employees who did not make any voluntary contributions were lower-paid workers. Historically, such employees have been less likely to make voluntary contributions than have employees in the middle and higher salary ranges. However, as the table shows, the lower salary ranges have shown the greater increase over time in the percentage of individuals who make contributions.

Salary Deferral Rates Have Increased, but Lower-Wage Employees' Rates Remain Lower Than Others

Overall, in 1993 FERS-covered employees making voluntary contributions were deferring an average of 5.7 percent of their salaries compared with 3.7 percent in 1987. The deferral rates varied from 4.4 percent of their salaries for low-wage employees to 7.2 percent for the highest-wage employees as table 3 shows.

Table 3: FERS-Covered Employees' Overall Deferral Rates by Salary Ranges, 1987-1993

Dollars in Thousands

	Salary ranges and deferral rates							
Year	$10-19	$20-29	$30-39	$40-49	$50-59	$60-69	$70+	All salary levels
1987	3.3%	3.6%	3.8%	4.1%	4.4%	4.7%	5.1%	3.7%
1988	3.9	4.6	5.2	5.7	6.4	6.8	7.3	4.9
1989	4.0	4.7	5.3	5.8	6.5	6.9	7.4	5.0
1990	4.1	4.8	5.4	5.8	6.4	6.8	7.4	5.1
1991	4.1	4.9	5.6	6.1	6.5	6.9	7.3	5.3
1992	4.2	5.1	5.8	6.4	6.7	7.0	7.4	5.6
1993	4.4	5.2	6.0	6.5	6.9	7.2	7.2	5.7

Source: Latest TSP demographic data available.

Also, as with the percentage of employees making contributions, deferral rates vary among salary groups. The deferral rate among employees in the lower salary range has also increased the least compared with the rates of the other employees since 1987—about 27 percent compared with over 50 percent for all but the highest salary range. The 41-percent increase in the highest salary range may be partly due to the statutory inflation-adjusted cap on annual contributions, which was $8,994 for 1993.

TSP Contributions Needed to Reach Target Retirement Replacement Rates

Our analysis showed a disparity in the extent to which higher- and lower-paid employees under FERS may need to contribute to TSP to achieve total FERS retirement benefits that would be commensurate with their preretirement standard of living. In general, lower-paid workers may achieve retirement income goals, or total benefits that are in the range of 60 to 80 percent of final annual earnings, with minimal TSP deferral rates, while higher-paid workers need to defer at correspondingly higher rates.

A July 1986 Congressional Research Service report[5] included illustrative comparisons of the replacement rates[6] under FERS and CSRS for various retirement assumptions and TSP benefits from (1) just the mandatory agency 1-percent contribution and (2) employee voluntary contributions of 5 percent. In our analysis, we updated the Congressional Research Service's illustration for employees retiring after 30 years of service at age 62. Our analysis showed that such employees with earnings in the lower salary ranges might achieve a level of FERS benefits that would be within 60 to 80 percent of final annual earnings with just their agencies' mandatory 1-percent contribution but that employees in the higher salary ranges would not. However, using conservative assumptions of TSP returns of 6.1 percent, contributions of 5 percent throughout their careers would also provide higher-paid employees with an overall FERS replacement rate within this range as shown in table 4.

Table 4: Illustrative Final Annual Pay Replacement Rates for FERS-Covered Employees for Retirement at Age 62 With 30 Years of Service

1995 Dollars

	Final year earnings and replacement rate				
FERS income source	**$20,000**	**$30,000**	**$45,000**	**$75,000**	**$100,000**
FERS annuity[a]	32	31	32	31	31
Social Security	35	26	24	17	14
TSP at agency 1%[a]	3	2	3	2	2
TSP at 5% match	29	24	25	20	19
Total replacement rate with TSP at 1%	**70**	**59**	**59**	**50**	**47**
Total replacement rate with TSP at 5% match	**96**	**81**	**81**	**68**	**64**

Note: We developed this table to illustrate the Social Security formula's effects as well as TSP's pivotal role in FERS. It should not be viewed as definitive of specific outcomes. For example, the replacement rates are greater for service over 30 years.

[a]The annuity varies generally because of differences in salary growth rates and rounding. See appendix I for the details of our methodology and the assumptions used for this illustration.

Source: GAO analysis.

Again, the disparity in the total replacement rates largely results from the varying level of benefits that Social Security provides to individuals in different earnings brackets. As table 4 shows, the Social Security

[5]A Retirement Plan for Federal Workers Covered by Social Security: An Analysis of the Federal Employees Retirement System (P.L. 99-335) (86-137 EPW, July 21, 1986).

[6]The replacement rate measures the proportion of preretirement earnings that is provided by retirement benefits.

replacement rate is just 14 percent for an employee aged 62 with final pretax wages of $100,000 but over twice as high (35 percent) for someone with final wages of $20,000.

Furthermore, table 4 shows that a 5-percent deferral provides a total FERS replacement rate for higher-paid workers that is in the lower end of the range that pension professionals believe is needed (that is, the 64 and 68 percent shown in table 4). These lower replacement rates may not reflect such individuals' retirement income goals and, consequently, these employees would need to contribute more than 5 percent to TSP to achieve a higher level of total FERS benefits.

In general, the lower TSP's investment earnings are the more an individual would need to contribute in order to reach a certain total FERS replacement rate goal; conversely, higher TSP returns would provide individuals with a higher retirement income than they projected as their goal at a given deferral rate. For example, using TSP's actual average rate of return of 8.95 percent for the period 1988 to 1994 produces TSP replacement rates that are about 50 percent higher than those shown in table 4.

Effect of Preretirement Contributions Not Explained in TSP Educational Materials

The TSP Board produces and provides to federal agencies a variety of educational materials for their employees. Among other things, these leaflets, pamphlets, and brochures emphasize the monetary benefits of TSP, such as the advantages of tax deferral, the effects of compounding, and the higher returns possible from beginning to make contributions early in one's career. In addition, these materials inform employees about the pros and cons, including potential risks, of investing in each of TSP's three funds and the earnings history of each fund.

However, TSP's educational materials are not explicit in discussing the importance of employee TSP contributions in achieving total FERS retirement benefits that would be commensurate with preretirement living standards, that is, benefits in the range of 60 to 80 percent of earnings. For example, the materials do not include illustrative examples of FERS replacement rates at varying TSP deferral rates and their effect on total FERS benefits. Private sector plans have such examples in their educational materials. Were TSP's Board to revise its materials to include that type of example, it would need to do so in collaboration with the federal Office of Personnel Management (OPM), which has some responsibility for overall FERS education, including establishing training programs for agency retirement counselors.

TSP Board to Seek Two Additional Investment Options

In May 1995, TSP's Board decided to seek legislation that would add two investment options: an indexed domestic small capitalization equity fund and an indexed international equity fund. The Board selected these funds because they add diversity and provide the opportunity for greater returns than the current options though at somewhat increased risk. Adding the two funds would make TSP's number of investment options and mix more like those provided under private sector section 401(k) plans.

TSP's Board began looking into the possibility of increasing the number of investment options in 1992 after the statutory restrictions on C and F fund investments expired. Among other things, the Board reviewed the investment options generally available under section 401(k) plans and the returns and risks associated with them. On average, most private sector section 401(k) plans offer four or more investment options that include a number of bond and stock funds of varying risk.

The Board's actions to broaden TSP's investment options are consistent with pension professionals' beliefs that employees should have a variety of investment options encompassing a range of risks and returns to provide the opportunity for higher earnings that would increase their retirement nest eggs. The new options would allow TSP participants to diversify their investments. The new funds would complement the C fund, which has historically outperformed the G and F funds by an average of about 4.5 percentage points since 1987. Proposed legislation to add the options was introduced in the Senate on July 27, 1995, and in the House of Representatives on September 12, 1995.

Conclusions

TSP was designed to provide one source of retirement income for FERS-covered employees. However, unlike the two other FERS components whose benefits are determined by formula and are constant for individuals with the same work histories, TSP's benefits will vary according to the amounts that employees have contributed and the investment returns on those contributions. Because of the effects of Social Security's benefit formula, higher-paid workers will be more dependent on TSP income than lower-paid workers in maintaining their standard of living in retirement. TSP's educational materials, however, are not explicit in making this distinction. These materials should explain and provide examples of contribution rates and their relationship to preretirement earnings and potential retirement income.

TSP was also designed to be a retirement savings vehicle for federal employees that is similar to section 401(k) plans for workers in the private sector. The addition of the indexed domestic small capitalization equity and indexed international equity funds will provide federal employees the same opportunity that those in the private sector have for tailoring their investment portfolios to reflect the returns they seek and the risks they are willing to undertake.

Recommendation to the Congress

We recommend that to help ensure that TSP participants have investment opportunities similar to those available under comparable private sector plans, the Congress enact legislation adding the two investment options sought by TSP's Board.

Recommendation to the Board

We recommend that the Board, in collaboration with OPM, include in TSP's educational materials (1) an explanation of TSP's pivotal role in enabling employees under FERS to achieve their retirement income goals and (2) explicit illustrations of the effects of TSP deferral rates on total FERS benefits.

Agency Comments and Our Evaluation

The Federal Retirement Thrift Investment Board provided written comments on a draft of this report (see app. II). The Board disagreed with our recommendation that TSP's educational materials include an explanation of TSP's role in FERS and explicit examples of the effect of TSP deferral rates on total FERS benefits. The Board stated that such actions by TSP would constitute employee education about FERS, which is an OPM responsibility under the FERS statute. The Board noted that its educational materials are replete with illustrations that show the dramatic effect of contributions and investment earnings on the size of an employee's TSP account. However, the Board added that the materials do not analyze or explain the impact that employee TSP accounts will have on total FERS retirement income because FERS legislation gave that responsibility to OPM. Also, the Board provided some technical comments that we incorporated in the report as appropriate.

While OPM has some responsibility for FERS education, such as establishing training programs for agency retirement counselors, we do not agree that authority to educate employees on the effects of TSP investments on their total FERS benefits is vested exclusively in OPM. We continue to believe that the Board is in a better position to develop educational materials that include explicit examples of TSP's potential effects on FERS retirement income. Such examples would demonstrate TSP's pivotal role in the context of FERS, particularly given the effect of Social Security's benefit formula. For example, an OPM booklet on FERS includes examples of replacement rates for four individuals retiring at various ages, with differing work histories of federal and nonfederal service, and with TSP deferral rates of 3 and 5 percent. However, while the examples are helpful in showing the increased benefits derived from contributions at 5 percent compared with 3 percent, they are not explicit in demonstrating TSP's significance in overall FERS benefits at retirement.

Without its FERS context, we believe the value of TSP's educational materials to the individual employee is greatly diminished. Furthermore, TSP is the appropriate source for such information because it periodically contacts all employees who participate in the plan—including those not making any voluntary contributions. Accordingly, we believe that TSP should prepare such educational materials. OPM officials stated that the Board could do so in collaboration with OPM.

As arranged with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 5 days after its issue date. At that time, we will send copies of this report to other congressional committees and members with an interest in this matter and to others upon request.

Our review was performed under the direction of Donald C. Snyder, Assistant Director. Other contributors were Endel P. Kaseoru, Evaluator-in-Charge, and evaluators Carolina M. Morgan and Gregory Curtis. If you or your staff have any questions about this report, please call me on (202) 512-7215 or Mr. Snyder on (202) 512-7204.

Jane L. Ross

Jane L. Ross
Director, Income Security Issues

Contents

Abbreviations

CSRS	Civil Service Retirement System
FERS	Federal Employees Retirement System
OPM	Office of Personnel Management
TSP	Thrift Savings Plan

Methodology Used to Calculate FERS Replacement Rates

We calculated illustrative FERS replacement rates for each of the program's three components—the basic FERS annuity, Social Security benefits, and TSP—for employees retiring with 30 years of service at age 62, the average federal retirement age in 1994 for regular retirements. To make our calculations, we simulated the salary histories of five hypothetical federal employees and estimated the annuities they would receive under certain assumptions. The time frame for our analysis was 1986 through 2015.

To produce the salary histories for our model, we used wage growth rates that are consistent with federal General Schedule salaries. The workers in our model began their federal careers in 1986 at entry-level salaries for GS-2, –3, –5, –7, and –9 and retired in January 2016 at age 62 with final annual salaries, as measured in 1995 dollars, of $20,000, $30,000, $45,000, $75,000, and $100,000. We first created an inflation-adjusted earnings history for these workers and then converted it to current year earnings using the actual inflation rates from 1986 to 1995 and 3.4 percent thereafter.

To determine employees' FERS annuities, we used the basic FERS annuity formula in the law. However, while the formula computes the benefit at 33 percent of the average of the highest 3 consecutive years' salaries, the replacement rate is less than 33 percent because the estimated wages grow in each of the 3 years prior to retirement; thus, the 3-year average used to calculate the annuity is lower than the final year's wages. To calculate Social Security benefits, we used the "ANYPIA" software program provided by the Social Security Administration's Office of the Actuary. In applying this program, we used the alternative I assumptions of future economic activity from the 1994 report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds. The alternative I assumptions are conservative, and thus they produced replacement rates that were lower by 1 to 5 percentage points than the rates produced by alternatives II and III.

To calculate the TSP replacement rates, we estimated the balance in the individuals' accounts at retirement based on employee and agency contributions of 5 percent each and the agency-only 1-percent contribution. For our baseline analysis, we assumed that the accounts earned a conservative return of 6.1 percent, the same rate the Congressional Research Service used in its analysis. We also calculated replacement rates using a weighted average of actual TSP returns from 1988 to 1994 of 8.95 percent. This higher annual rate of return produced TSP replacement rates that were about 50 percent higher for each salary level. We then calculated an annuity for each account balance using a worksheet in TSP's annuities booklet.[7] We assumed an increasing single life annuity at 6-percent interest, the rate used in TSP's worksheet. The replacement rates we computed, shown in table 4, vary by final year wage because each had a different growth rate over the 30 years we modeled. We also tested different rates of wage growth, returns on TSP, and the FERS annuity and found the results were consistent across the five final salaries we modeled.

[7] Thrift Savings Plan Annuities, Federal Retirement Thrift Investment Board (Washington, D.C.: Jan. 1994).

Comments From the Federal Retirement Thrift Investment Board

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

THRIFT SAVINGS PLAN

August 31, 1995

Ms. Jane L. Ross
Director, Income Security Issues
Health, Education and Human
Services Division
United States General Accounting
Office
Washington, D.C. 20548

Dear Ms. Ross:

This responds to your letter of August 15, 1995, and its invitation to provide written comments on the draft report, General Accounting Office Report No. GAO-HEHS-95-217, Federal Pensions: Thrift Savings Plan Has Key Role In Retirement Benefits (hereinafter cited as the Report).

The Federal Retirement Thrift Investment Board (Board) appreciates the opportunity to provide information regarding the large number of issues raised in the Congressional letter of December 15, 1994, requesting the Report. I am pleased that the areas of concern, which were confined in that letter to the Thrift Savings Plan (TSP) for Federal employees, have been resolved as a result of information provided to the auditors during meetings and discussions with my staff. I am further pleased that all but one of the additional issues raised by the General Accounting Office (GAO) audit staff, including those addressing the entire Federal Employees' Retirement System (FERS), were similarly resolved.

I. Summary of Report and Board Response

The Report examines voluntary participation in the TSP, analyzes demographic data provided by the Board, and reaches certain determinations regarding higher and lower paid employees. The Report notes that Board educational materials extensively discuss TSP's financial aspects, and it endorses the Board's legislative proposal regarding additional TSP investment funds.

The Report examines whether the TSP is "fulfilling its role in helping FERS-covered employees to effectively save for retirement." Report at 1. In defining that role, the Report makes a number of assertions regarding the Federal Employees' Retirement System Act (FERSA) of 1986, Pub. L. No. 99-335, 100 Stat. 514 (codified primarily at 5 U.S.C. §§ 8401-8479 (1994)), which established the Federal Employees' Retirement System (FERS) and the TSP. The Report reaches no conclusion about whether the TSP is fulfilling its role. However, the Report recommends that the scope of Board-issued materials be expanded.

The role of the Board is established by FERSA. The recommendation in the Report that TSP materials educate employees with regard to FERS is misdirected. FERSA assigns this responsibility to the U.S. Office of Personnel Management (OPM).

II. Discussion

The Report recommends that the Board adopt the role of educating FERS employees on the pivotal role the TSP plays in determining their retirement income. The role of the TSP would be described by the Board in relation to the other features of FERSA, i.e., the OPM annuity and social security.

Board education materials are replete with illustrations that show the dramatic effect of contributions and investment earnings on the size of an employee's TSP account. Board materials do not analyze or explain the impact that employee TSP accounts will have on total FERS retirement income. FERSA gave that responsibility to OPM.

FERSA provides that the Board shall be responsible for establishing policies for "the investment and management of the Thrift Savings Fund; and the administration" of the TSP. 5 U.S.C. § 8473(f). FERSA assigned to OPM the responsibility for all provisions of the Act "not specifically required to be administered by the Board, the Executive Director, the Secretary of Labor, or any other office or agency." Id. § 8461(b). Specifically, FERSA requires the Director of OPM to establish a program for "comprehensive training in the provisions and administration of this subchapter and chapter 84, . . . designed to promote fully informed retirement decisions by employees . . . ." Id. § 8350(c)(1) (emphasis added).

This statutory arrangement was described in a report issued to the Chairman, Committee on Post Office and Civil Service, House of Representatives, entitled, General Accounting Office Report No. GAO/GGD-88-107, Federal Retirement: Implementation Of The Federal Employees Retirement System (1988), which states in relevant part:

> The agencies principally involved in the implementation of FERS were the Office of Personnel Management (OPM), which is responsible for administering the pension plan component of FERS and educating employees about the new system; the Social Security Administration (SSA), which assisted OPM in educating employees about Social Security and informing employees how much Social Security credit they

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had earned from previous employment; and the Federal Retirement Thrift Investment Board, established by the act to administer the thrift savings plan.

Id. at 9 (emphasis added).

Subsequent to that report, in 1989 the GAO reviewed the preparation of information materials for employees, General Accounting Office Report No. GAO/GGD-89-29, Federal Retirement: Use of Contractors to Implement the Federal Employees' Retirement System (1989). It again noted that "The act made the Office of Personnel Management (OPM) responsible for . . . educating employees about the new system." Id. at 6.

I am enclosing a copy of the most recent OPM booklet on FERS (Office of Personnel Management Booklet No. RI90-1, Federal Employees Retirement System (rev. July 1994)). The booklet provides a FERS overview, discussion of the various components, and illustrative examples of replacement rates by source, including the TSP.

We worked closely with OPM in the past regarding its statutorily mandated retirement counseling program and provided technical assistance on those OPM materials that relate to the TSP component of the retirement system. We are not aware of any need to educate employees about the new system that has not been addressed by OPM.*

*The Board takes no position regarding the assertions in the Report that the purpose of FERSA was to "enable employees to maintain their preretirement standard of living in retirement" or the statements attributed to "pension plan professionals" regarding replacement rates. We note, however, that the measures consistently applied throughout the legislative consideration of FERSA were comparability of design with the features of non-Federal retirement programs, see generally General Accounting Office Report No. GAO/OCG-84-2, Features of Nonfederal Retirement Programs (1984), and comparability of FERS benefits with benefits available under the Civil Service Retirement System, see Civil Service Retirement Team, Education and Public Welfare Division, Congressional Research Service Report No. 86-137 EPW, A Retirement Plan for Federal Workers Covered by Social Security: An Analysis of the Federal Employees['] Retirement System (P.L. 99-335) (1986) 35-50.

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III. Conclusion

The recommendation for the Board contained in the Report should be deleted. A number of Federal agencies are charged with specific responsibilities by FERSA. In my experience the level of cooperation and coordination by these agencies has been extraordinary. The recommendation in the Report that the Board expand the scope of its materials to address the interrelationship of the FERS components would encroach on OPM's statutorily mandated responsibility to perform that function.

Again, the Board has appreciated the opportunity to resolve all of the issues discussed in the December 15, 1994, Congressional request letter and to provide our comments on the Report. In addition to these comments, we have reviewed and marked up the Report to clarify a number of technical issues and historical references. This marked-up version is enclosed for your further use.

Sincerely,

Roger W. Mehle

Roger W. Mehle
Executive Director

Enclosures

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