



FRTIB Opposes the RESPOND Act

The RESPOND Act (S. 606 and H.R. 1618) would require:

- the Board of Governors of the Federal Reserve System and the Securities and Exchange Commission to jointly submit to Congress an annual report that projects and accounts for the economic costs directly and indirectly caused by the impacts of climate change;
- the FRTIB to establish an advisory panel to review the financial risks of climate change and implement low carbon investment strategies, if consistent with the FRTIB's fiduciary responsibilities; and
- if the FRTIB determines it is not consistent with its fiduciary duties to implement low-carbon investment strategies, the Board must create a Thrift Savings Plan (TSP) Climate Choice Stock Index Fund which excludes investments in any fossil fuel entity (any entity with proven carbon reserves; or that explores for, extracts, processes, refines, or transmits coal, oil, gas, oil shale, or tar sands).

The FRTIB (the independent federal agency responsible for administering the TSP) opposes the RESPOND Act for the following reasons:

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- Violating the basic concept of passively managed investing would gut four of the TSP's Funds - the F Fund (Fixed Income Index Investment Fund), C Fund (Common Stock Index Investment Fund), S Fund (Small Cap Stock Index Investment Fund) and I Fund (International Stock Index Investment Fund) -- by *requiring* the Board to pick winners and losers.
- Removing individual companies or specific segments of the market from the Funds or their benchmark indices is highly likely to result in lower risk-adjusted returns to participants over the long term.

The RESPOND Act violates one founding principle of the FRTIB's mission to provide federal workers and retirees passively managed investing based on broad market indices.

- All decisions regarding TSP administration are made exclusively by statutory fiduciaries at the FRTIB. The fiduciaries are legally obligated to act "solely in the interest of the [TSP] participants and beneficiaries" and for the "exclusive purpose of providing benefits to participants and their beneficiaries." The law requires the Board to develop investment policies which provide for "prudent investments suitable for accumulating funds for payment of retirement income," and specifically allocates the responsibility for benchmark selection to the Board and investment selection to the participants.
- Congress directly addressed the issues of non-financial investment considerations and the use of TSP funds for political purposes when it created the TSP. The legislative history of the TSP clearly demonstrates there was concern that neither the FRTIB, the Congress, nor the Administration be able to manipulate the assets of the TSP for

purposes other than furtherance of the financial interests of the participants and beneficiaries.

The RESPOND Act is the latest assault on the carefully crafted mission of the TSP and could, if enacted, be the first of a cascading number of debilitating changes to federal retirees' investment opportunities.

- Creating an advisory committee on climate change within the FRTIB will make it nearly impossible to limit additional changes or restrictions to the TSP funds, given the many highly focused issue advocacy groups with organized representation. If Congress were to enact any social or political fund limitations or proposals, it is unclear how further legislation creating additional restrictions on the investments of the TSP Funds, or even legislation creating additional funds, could be prevented.
- The complications and limitations of creating this advisory committee would be devastating for the TSP, which for more than thirty years has been highly successful. The TSP has become a model for the 401(k) industry by offering a very limited menu of broadly diversified, non-overlapping, index funds designed solely to advance the financial interests of TSP participants and their beneficiaries.

The RESPOND Act ignores the fact that all the funds within the TSP belong to individual plan participants, not the federal government.

- In 2017, the Board conducted a routine review of the landscape of possible investment options. The review determined that no new funds should be added. The FRTIB regularly conducts these reviews with investment consultants to determine whether funds should be added to ensure the TSP's investment options comply with Congressional intent and the law and offer a sufficient range of choice to allow participants to form well-diversified portfolios. The TSP is currently composed of five core funds: the G Fund (Government Securities Investment Fund), F Fund, C Fund, S Fund, and I Fund. There are also ten Lifecycle Funds, each made up of the five core funds. The Board reviewed the most recent consultant's report at a public meeting and concurred with the recommendation.
- In the past, the Board has recommended legislative changes to fund offerings where gaps in the investment opportunity existed. This led to the addition of the S Fund and the I Fund to provide participants with options for greater diversification of investments in the small cap and international markets.
- The Board approved the addition of a mutual fund window (MFW) to provide options outside of the core TSP Funds to participants. This will give the participants opportunities to invest a portion of their TSP retirement savings in a wide variety of different types of mutual funds. In November 2020, the FRTIB awarded a recordkeeping contract which will also provide a MFW platform. The new recordkeeper will begin providing services in the summer of 2022 and the MFW will then be available to TSP participants. If individual participants want a climate choice fund, the MFW will give participants the ability to invest in the available mutual fund choices starting in the summer of 2022.

The RESPOND Act would require the FRTIB to make decisions that are not within its jurisdiction.

- Among other requirements, the advisory panel that the RESPOND Act would create must advise the FRTIB on how, "consistent with the fiduciary duties of the Board," the FRTIB can make investments in a manner that helps ensure that the United States achieves net zero greenhouse gas emissions not later than 2050. This will require the

advisory panel and the FRTIB to adopt conclusions of law that are under the Department of Labor's (DOL) jurisdiction.

- To the extent real change is desired, directing the DOL to create a national standard for all retirement investments will accomplish the bill's purported goal and result in a more consistent approach.

By targeting TSP funds, the RESPOND Act focuses only on a small share of the overall universe of investors, making the U.S. civilian and military workforce and retirees second class investors.

- The TSP offers Funds that invest in the U.S. stock market, the U.S. bond market, and large-cap international stocks with a total portfolio of \$455.4 billion as of February 28, 2021. To put this amount in context, as of February 28, 2021, the total market capitalization of the U.S. stock market was \$39.682 trillion; the total market capitalization of the developed nation large cap international stock market was \$16.450 trillion; and the total value of the U.S. investment grade bond market was \$24.949 trillion. The combined total market capitalization of these markets is roughly \$81.081 trillion.
- The TSP represents less than 0.6% of the total stock and investment grade bond market capitalization.