STATEMENT OF GREG LONG
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BEFORE THE
EMPLOYEE BENEFITS SECURITY ADMINISTRATION, ADVISORY COUNCIL ON EMPLOYEE WELFARE AND PENSION BENEFIT PLANS
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Good morning, Chairman English and members of the Advisory Council, my name is Greg Long and I am the Executive Director of the Federal Retirement Thrift Investment Board (FRTIB).

The FRTIB administers the Thrift Savings Plan (TSP) for Federal employees. The TSP is not covered by ERISA, but rather was created by the Federal Employees' Retirement System Act of 1986, codified primarily at 5 U.S.C. § 8351 and §§ 8401-8479. The TSP is a retirement savings and investment plan for Federal civilian employees and members of the uniformed services that offers its participants the same type of savings and tax benefits that are offered under private sector 401(k) plans. Individual accounts are maintained for more than 4.6 million Federal and Postal employees, members of the uniformed services, retirees, and spousal beneficiaries. As of May 31, 2014, the TSP held approximately $412.5 billion in retirement savings.

I understand the Council is examining the issues around facilitating lifetime plan participation. I have been asked to comment on several specific questions. I will outline the TSP's view with regard to each topic.

1. *Compare and contrast considerations for participants in deciding whether or not to leave money within the employer based system.*

Participants need to understand how they will use the money they have accumulated in the TSP. The TSP has three different groups of participants: those covered by the Civil Service Retirement System (CSRS); those covered by the Federal Employees' Retirement System (FERS); and members of the uniformed services. Each of these participant groups has different considerations regarding their TSP balances, based on the type of defined benefit available to them and whether they are eligible for Social Security. Based on participant responses to our surveys and initial analysis of participant behavior, issues such as consolidating accounts, withdrawal flexibility, investment choices, plan fees, and investment advice appear to be the primary issues driving participant decision-making.[1]

[1] We do automatically cash-out account balances less than $200.

2. *Gain a better understanding of asset movements out of the employer based system.*

For separated participants, the TSP offers the following withdrawal options:

- Partial withdrawal (one-time-only withdrawal with remainder of your balance remaining in the TSP until a later date);
- Full withdrawal as a Single Payment (sometimes referred to as a "lump sum" payment);
- Full withdrawal as a Series of Monthly Payments as a specific dollar amount or based on your life expectancy;
- Full withdrawal as a life annuity (purchased from MetLife); or
- A combination of any of the available full withdrawal options (single payment, monthly payments, or life annuity).

Participants can request that single and monthly payments that constitute “eligible rollover distributions” under the Internal Revenue Code be transferred directly to another eligible plan or an Individual Retirement Account (IRA), or can roll those amounts over themselves within 60 days of receipt.

Based on our analysis of our data, we know that 45% of our participants who separated from service in 2012 and closed their account by the end of 2013. In 2013, these withdrawals caused nearly $10 billion to leave the TSP. Almost 72% of that amount was transferred to another financial institution or an employer plan, at the participant’s request. We do not know how much of the remaining amount was rolled over into IRAs or other plans by the participants themselves.

To give insight into the choices TSP participants are making, I can tell you that in 2013, the TSP issued 113,357 lump sum payments, 47,836 transfers to IRAs or other plans, and 1,466 annuity purchases. Furthermore, 24,588 participants started receiving monthly payments and 27,160 elected a one-time partial withdrawal. Nearly 20,000 active participants received age-based withdrawals in 2013. Interestingly, while the percent of participants who opt to transfer is relatively small, the amount transferred is large. In 2012, only 3.65% of participants withdrew their accounts as a 100% transfer. But these transfers accounted for 65% of the money withdrawn from the plan.

We conducted a recent survey and learned that, of those participants who said they planned to transfer their TSP accounts, 42 percent stated a reason for doing so would be to consolidate accounts. We plan to place greater emphasis on ensuring participants understand they can transfer their accounts to the TSP even after separation from service.

We have just launched projects to learn why participants leave the TSP and to explore providing additional withdrawal options to participants. We believe that many TSP participants who opt to leave the TSP for IRAs do so to take advantage of the flexibility IRAs offer as far as withdrawal options. Greater investment options and advice may also be factors in such decisions. We expect the project will yield more insight into our hypothesis and guide our next steps toward deciding how to amend the TSP's existing withdrawal options and in considering whether to offer a mutual fund window. These changes, when implemented, are likely to reduce the number of participants who roll their funds out of the TSP to IRAs.

3. *Understand the plan sponsor's perspectives and attitudes towards retaining assets within their plan*.

Our interest in retaining assets in the TSP is in the benefit it provides to our participants. The TSP offers the lowest costs in the industry, and minimizing rollovers to other institutions will frequently be to the benefit of the individual participant. Retaining more assets as a whole will also benefit all participants by minimizing the costs borne by them. We are in the middle of a two year effort to redefine the TSP participant experience. As we work to create a more holistic education message paired with proactive service that anticipates our participants' needs, we expect to create a stronger bond with participants that will lead to a decline in the number that choose to roll funds to IRAs after they separate from Government service.

While we are working on that project, we have not stopped evolving the plan. Over the past several years, we have undertaken several initiatives to improve our service offerings and improved our communications efforts. While these initiatives were often done for specific reasons, they also have the ability to influence participants to leave their assets in the TSP. I will briefly describe some of these activities.

The TSP was authorized to offer Roth TSP accounts in legislation enacted in 2009. In May of 2012, Roth accounts first became available to the TSP population and are now available to all civilian and uniformed service participants. We believed that a Roth TSP account would be particularly attractive to members of the uniformed services as the tax benefits of a Roth TSP account are most advantageous to those in a low tax bracket with a long-term investment horizon. We have been pleased that Roth TSP take-up has been strongest among the uniformed services. Of the 82,480 uniformed service members that made their first TSP contribution in 2013, nearly 38% had Roth contributions only. Many of these participants likely would not have become TSP participants without the Roth TSP feature and they contributed an average of $1,165 for a total of $40.7 million in Roth contributions.

Recent tax law changes permit a participant in a DC plan with a Roth feature to convert existing pre-tax account dollars into Roth accounts. As you know, previously such a change in tax treatment of pre-tax dollars could only be effected through a distribution to a Roth IRA. We have initiated a project to explore the cost/benefit of effecting this change. Enabling in-plan conversions will require some significant changes to TSP systems and our tax reporting procedures. Should we decide to proceed, we expect the Roth in-plan conversion feature to retain participants who would otherwise leave the TSP.

Since 2003, the TSP has allowed but not encouraged participants to roll assets from former 401(k) or IRA accounts to the TSP. While we have not been actively encouraging our participants to roll money into the TSP, this program has grown and accounted for $842.7 million of new cash in 2013. Last year, we altered our approach to roll-ins and have begun actively encouraging participants to consolidate their defined contribution assets (currently in other IRA or DC plans) into their low-cost TSP accounts. We included some targeted material with some of the annual statements that we mailed in late January and early February to share this message with our participants. We are gratified that they have shown some early results. In March we received $94.7 million in roll-ins. This was approximately $20 million greater than our 2013 monthly average. In April, we received $104.5 million in roll-ins, our largest month ever. We plan even more targeted communications and are currently exploring how we can make the roll-in process as easy as possible.

In the last quarter of 2013, we executed a 90-day test initiative where phone center representatives initiated collaborative conversations with participants who requested to transfer money out of their accounts to other plans or accounts. The results of the pilot indicate 82% of callers agreed to discuss the potential benefits of leaving their money in the TSP. At the conclusion of these calls, 59% stated they would leave their money in the TSP. Through this process we learned that these calls require a meaningfully different skill set for our call center staff, but also learned that we have ample opportunity to improve participant outcomes by articulating the benefits of staying with the TSP after separation from service. As we work on defining the changes we want to make to enhance our participants' experience with the TSP, we anticipate that collaborative, post- separation discussions, will play an important role in that new experience.

Federal employees all too often believe that they must remove their assets from the TSP immediately after they separate from their Government employer, or when they reach the age of 59 and a half. We have recently taken several actions to target separated participants and those over age 59 who are still active participants:

- We edited the letter sent to participants when they separate from the government emphasizing the "keeping your money with TSP" option;
- We advised agencies not to provide a withdrawal packet to those about to separate to ensure participants do not believe that they have to take their money out of the TSP upon separation (this also ensures participants use a current version of the form if and when they decide to withdraw their funds);
- Leveraging social media, we launched a "What do you pay to save" YouTube video emphasizing the low cost of the TSP; and
- Our trainers emphasize in their presentations to payroll and personnel office representatives in the employing agencies and to TSP participants that no action is required at separation and that the money can stay right where it is in the TSP.

These communications efforts highlight that participants can leave funds in the TSP long after they have left their Federal job and that the TSP can be the source for a lifetime of future benefit payments.

4. *Examine what information is currently available to participants from DOL and other government sources concerning the pros and cons of rollovers to IRAs, whether the DOL's providing such information on its website would make sense and whether suggesting to DC Plans that they might wish to provide link(s) to such information would be helpful.*

Because the TSP is not covered by ERISA, this is not an appropriate topic upon which to comment.

5. *With respect to hardship and other withdrawals and loans from the DC Plan, examine whether there are educational programs or reasonable plan mechanisms which can serve a positive role in discouraging pre-retirement withdrawals and facilitating return of assets to the fund.*

Our proposed collaborative approach to call center services will enhance our efforts to ensure that participants understand that, when taking a hardship withdrawal, both their contributions and any attributable matching contributions must stop for six months. The goal will be to ensure that participants look to hardships as a last resort and that they only use loans when no other good option is available.

Several years ago we reduced the number of loans TSP participants can take at any one time (one general purpose and one residential loan) and we also impose a 60-day waiting period after a participant pays off a loan before becoming eligible to take a loan of the same type. In an effort to help prevent loan default, we allow participants to make payments directly to the TSP and to reamortize their loans.

Additionally, we are working on a project to automatically reenroll participants at the end of the six-month hardship period. We currently mail the participant a notice when the six month period is complete, but the participant must take affirmative action with their payroll office to restart contributions. In 2012, 116,408 participants received hardship withdrawals. Of this total, 53,813 had not resumed contributions by the end of 2013. This group had average TSP contributions of $2,248 in 2011. If these participants had resumed contributions at the previous rate, they would have had an additional $121 million in their account and even more if they were entitled to matching contributions. .

Summary

All money contributed to the TSP is only temporarily in our care. It will all eventually leave to fund the dignified retirement of our participants. Demographic forces mean that withdrawals for the entire DC industry and the TSP will be higher in the coming years than they were previously. Because our mission is to administer the TSP solely in the interests of participants, and we know that the TSP is the lowest cost investment option available to these participants, we are focused on making changes to our plan that will extend the time participants have their money with TSP rather than higher cost offerings.