



July 15, 2015

United States Senate  
Washington, D.C. 20510

Dear Senator:

On behalf of the nearly five million Americans – federal and postal workers and annuitants – represented by the national member organizations of the Federal-Postal Coalition, we write with grave concerns over reports that legislation to extend transportation funding will contain cuts in federal retirement benefits to finance the measure. We implore you to oppose any such efforts. This is bad policy, particularly on the heels of a data breach exposing highly personal and sensitive information for millions of federal employees, retirees, their families and friends.

The rumored cuts would come by way of reducing the rate of return on the Thrift Savings Plan (TSP) G Fund – a matter proposed in the House Budget Resolution (see page 69 of the House Committee Report) but ultimately dropped by budget conferees due to the proposal's unworkability, unfairness and likely unrealized cost savings. The change would cut an estimated \$32 billion in retirement funds from the safest TSP investment option available to fund our country's transportation needs.

The substantive reasons for opposing this change are significant and have been summarized by the Federal Retirement Thrift Investment Board (attached), including the effect of such a move on employee investment behavior and civilian and military retiree financial security. Not only is this bad policy and should be rejected on its merit, it has no place in a transportation bill. Should the modest retirement benefits of federal civilian employees and uniformed military personnel and retirees be substantially reduced, to the tune of \$32 billion, to fund a highway bill? Absolutely not.

Make no mistake: Every nickel redirected from the rate of return on the TSP G Fund to finance the highway bill would be money out of the pocket of a retired federal employee or veteran. Any change in the G Fund interest rate will effectively remove the only safe harbor in the TSP and have a chilling effect on the structural integrity of a plan that has provided a stable path to financial security in retirement for uniformed and civilian personnel alike. Members of Congress should know better than to weaken the foundation of the system.

In the past five years alone, federal employees contributed more than \$159 billion toward deficit reduction. These are hardworking Americans who had their pay frozen for three years and who lost \$1 billion in take-home pay in 2013 alone as a result of sequestration-related furloughs. In the past weeks, these same dedicated public servants learned that their personal identities and financial resources were compromised in cyberattacks, causing further anxiety. We find it shameful that Congress, particularly in this environment, would take even more from the nation's civilian and military heroes.



We urge you to reject any proposal that takes from our nation's civil servants, military personnel and retirees to finance unrelated measures. Thank you for your time and consideration of our views.

Sincerely,

American Federation of Government Employees  
American Federation of State, County and Municipal Employees  
American Foreign Service Association  
American Postal Workers Union  
FAA Managers Association  
Federal Managers Association  
Federally Employed Women  
International Association of Fire Fighters  
Laborers' International Union of North America  
National Active and Retired Federal Employees Association  
National Association of Assistant United States Attorneys  
National Association of Federal Veterinarians  
National Association of Government Employees  
National Association of Letter Carriers  
National Association of Postal Supervisors  
National Association of Postmasters of the US  
National Council of Social Security Management Associations  
National Federation of Federal Employees  
National League of Postmasters  
National Postal Mail Handlers Union  
National Rural Letter Carriers' Association  
National Treasury Employees Union  
National Weather Service Employees Organization  
Organization of Professional Employees at the U.S. Dept. of Agriculture  
Patent Office Professional Association  
Professional Aviation Safety Specialists  
Professional Managers Association  
Senior Executives Association

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## OPPOSE ANY CHANGE TO G FUND INTEREST RATE

- If changes are made to the G Fund interest rate, the Federal Retirement Thrift Investment Board will not be able to replace the G Fund with a similar fund (see attached).
- More than 2 million TSP participants (45.10%) hold the G Fund as their sole investment choice. Additional participants can be expected to move into the G Fund at retirement.
- Currently, the average TSP participant has a balance of \$155,579 at age 61, the average retirement age. If that balance was 100% invested in the L Income Fund, and if that participant withdraws \$555 a month, or \$6,660 annually, adjusted for inflation, the account would be depleted at age 92. (The TSP develops its L Funds to provide income to participants until age 92. The L Income Fund is designed for participants at or near retirement.)
- A 10% cut in the G Fund rate, while seemingly small, means that the average participant will run out of money 2 years earlier. This would eliminate an income stream at age 90, when a person is extremely vulnerable and unable to replace that income. The TSP participant who is affected by a G Fund interest rate change is not in a position to meaningfully alter their savings situation at that point.
- While this is harmful for an individual participant, this also opens the door for cuts in the future that keep pushing the depletion age earlier. At some point, further interest rate changes could deplete the participant's account by age 85. Age 85 is the current average life expectancy for a 65-year old individual. Since roughly half the population lives past the average, half of all federal employees will outlast their retirement money and experience hardship.
- Once the G Fund rate is cut, a signal is sent to the TSP participants that their retirement benefits are seen as a source of Federal spending. We would expect that this creates a large impetus for participants to leave the TSP.
  - We feel a fiduciary obligation to point out that they will roll their money into external, more expensive options (expense ratios of about 0.8% per year vs. 0.029% in the TSP). This additional expense will cause the participants to run out of money even sooner and the average participant will expect to run out of money by age 80, well before their life expectancy.

- If the G Fund rate is cut, money will flow into other alternatives, both within the TSP and in the form of money leaving the TSP. The G Fund will therefore fall in size.
  - To the extent that the G Fund is private financing of Federal debt, and to the extent that any reduction in G Fund financing has to be made up through public financing of Federal debt, the transaction will not reduce Federal spending. The G Fund earns the weighted average rate of what it costs the Treasury to fund public debt. New public debt at the same rate will have to be issued to replace the G Fund, to unknown and potentially unfriendly issuers.



## G FUND IRREPLACEABLE FOR TSP PARTICIPANTS

- The Federal Retirement Thrift Investment Board (FRTIB) is an independent Government agency that administers the Thrift Savings Plan (TSP), a retirement savings and investment plan for Federal employees and members of the uniformed services that is similar to 401(k) plans offered to private sector employees.
  - The TSP is established under the Federal Employees' Retirement System Act (FERSA) of 1986. By law, the assets in the TSP are held in trust for each individual participant.
- The Board Members and Executive Director serve as fiduciaries charged with administering the TSP solely in the interest of the participants and beneficiaries of the Plan.
- The FRTIB receives no congressional appropriations. As such, all Plan expenses are paid by participants. The fiduciaries are charged by law to administer the Plan at low costs.
- The hallmark of the TSP is its simple design. It is comprised of five core funds: the G Fund (Government Securities Investment Fund), 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), and five Lifecycle funds. The L Funds are invested in the five individual TSP funds based on professionally determined asset allocations.
- FERSA requires the G Fund to be invested in special non-public interest-bearing Treasury securities obligations. The interest rate of these securities resets monthly and is based on the weighted average yield of all outstanding Treasury notes and bonds with 4 or more years to maturity.
- Interest on the Treasury securities issued to the TSP is calculated using the same formula as the securities issued to the Civil Service Retirement and Disability Fund and the Social Security's Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds.
  - This means every American contributing to Social Security is benefiting from the same interest formula as is available in the G Fund.
- The G Fund currently serves three investment purposes; it acts as a money market fund, a stable value fund, and an inflation protection fund. Other 401(k) plans generally offer one or more of these funds to their participants.
  - 90% of the top 10 public sector 401(k) funds offer stable value funds; 80% of private sector funds offer stable value funds. In both groups, the stable value fund is typically the most widely held fund offered by the plan, illustrating its value to participants.

- Of the \$458.4 billion invested in the TSP as of May, 2015, roughly \$193 billion is invested in the G Fund. Of the 4.7 million TSP participants, more than 4.3 million participants have all or some of their account balance invested in the G Fund.
- If the G Fund interest rate is amended to match a 3 month maturity of a Treasury bill, the interest rate payable on the G Fund would drop precipitously to 0.01%. Such a change would make the G Fund virtually worthless for TSP investors, as account growth would not keep pace with inflation nor be competitive with stable value funds. The G Fund would then only be serving the purpose of a money market account.
- The FRTIB would undoubtedly respond in several ways:
  - First, the FRTIB would have to evaluate whether it is possible for the TSP to offer a stable value or inflation protection fund.
  - Second, the more than \$21 billion currently invested in the G Fund as part of the L Fund allocations would need to be reallocated to the other Funds to properly balance risk and return.
  - Third, the FRTIB would conduct an education campaign alerting TSP participants to the change in the interest rate and purpose of the G Fund.
- Given the size of the G Fund, it may not be possible to create a new TSP stable value fund or an inflation protection fund.
  - The TSP's investment consultant has advised that any asset class in which the TSP invests should have a market value of \$1 trillion or more, to ensure that TSP investors are not in a position to affect market prices.
- Stable value funds generally consist of intermediate corporate bonds with an insurance product guaranteeing a price floor. The total outstanding value for all stable value funds as of December 31, 2014 is roughly \$700 billion.
- If the FRTIB tried to create a TSP stable value fund, it is very possible that the TSP would not be able to purchase sufficient securities or would have such an impact on the price that it would adversely impact both TSP participants and other investors in the market. It is also unlikely that the TSP would find an insurer willing to guarantee a price floor for a TSP stable value fund, as that would be the equivalent of insuring the deposits of the 9<sup>th</sup> largest bank in the United States.
- There is also a size limitation in the Treasury Inflation Protected Securities (TIPS) market, which is roughly \$800 billion.
  - By comparison, the C Fund, with \$145 billion in assets, invests in an \$18.3 trillion market; the S Fund, with \$54 billion in assets, invests in a \$4.5 trillion market; the I Fund, with \$37 billion in assets, invests in a \$13.0 trillion market; and the F Fund with \$25 billion in assets, invests in a \$16.7 trillion market.
- This likely means the TSP would be unable to replace the G Fund with a widely available and highly utilized option that would provide the appropriate risk and return balance.
- Nation-wide attention is being paid to the need to ensure that individuals are saving enough for their retirement. Making this change to the G Fund interest rate does not advance that goal.