Thrift Savings Plan: Attempted raid on the G Fund

Ron Watson

The ideologues and oligarchs are at it again. They have previously attempted to legislate reductions in federal retirement benefits for retirees, and increases in federal employee retirement contributions while working. Their recent attempts have included proposals to increase the amount that current employees pay into CSRS and FERS, decrease the amount that employers (such as the Postal Service) pay into CSRS and FERS, terminate the Special Annuity Supplement, terminate the FERS annuity, reduce Social Security benefits, allow the Postal Service to negotiate reductions in TSP matching funds, and change the calculation formulas for CSRS and FERS from high-3 to high-5.

Now they are proposing drastic reductions to the return on the TSP's G Fund. The proposal first appeared in the House Budget Resolution early this year. It reappeared in proposed legislation in the House to finance the Highway Trust Fund. This proposal is so bad on so many levels, it is difficult to understand how it could have been made.

To start, consider that the Thrift Savings Plan has multiple market index funds, life cycle funds, and the G Fund. The index and life cycle funds are invested in the stock and bond markets—they carry market risk but offer the opportunity for higher returns. The G Fund is invested in U.S. government securities—it carries no market risk, but offers much less opportunity for higher returns. In other words, the G Fund is the least risky TSP fund. In its 2013 annual report, the TSP showed the following G Fund returns:

- 1 year average annual 2.3%
- 3 year average annual 1.89%
- 5 year average annual 2.18%
- 10 year average annual 3.19%

If the House proposals had become law, future G Fund returns would be reduced to about 0.02 percent annually. In other words, almost nothing. Less than the inflation rate. Losing money. Proponents of the reduction claim it would save $32 billion, which could be used to finance the Highway Trust Fund. But who would leave money in a G Fund that paid only 0.02 percent annually? Nobody would. Everyone would take their money out of the G Fund. The Highway Trust Fund would get nothing. Retirees would be faced with two choices: continue investing in TSP Market Index funds, with associated higher risks, or withdraw from the TSP and seek lower risk investments sold by bankers, securities merchants and other financial instrument peddlers.

Moving investments from the TSP G Fund to TSP Market Index funds is not a good choice for retirees because it runs counter to a universally accepted basic investment strategy: higher risk investment decisions when young, lower risk investment decisions when approaching and entering retirement.

Withdrawing investments from the TSP and moving them into low-risk instruments sold by bankers and other for-profit vendors is also a bad choice for retirees, for a host of reasons. First, TSP administrators have a fiduciary duty only to TSP investors (while bankers have a fiduciary duty to the company stockholders, not the investors). Second, TSP administration expenses are low compared with the expenses of for-profit bankers. The average net expense ratio for TSP funds is typically about 0.029 percent, compared with the average net expense ratio of for-profit actively managed mutual funds of about 1.5 percent. Third, there are no sales fees, loads or commissions for TSP investments, while for-profit bankers must charge these fees to pay salespeople, advertising expenses, etc. Fourth, TSP administrators are paid normal federal salaries, while bank CEOs and senior managers are paid tens and even hundreds of millions of dollars annually.

Again, with a return rate of 0.02 percent, no one would logically leave money in the G Fund. Ask yourself: Who has a financial interest in federal retirees moving their money out of the TSP and into low-risk financial instruments offered by bankers and other for-profit vendors? The answer is obvious: bankers and other for-profit financial instrument vendors. That obvious answer may go a long way toward providing an explanation of the mystery expressed earlier in this column: This proposal is so bad on so many levels, it is difficult to understand how it could have been made.

Somebody thought it would be a good idea to finance the Highway Trust Fund with the TSP savings of federal retirees and employees.

Happily, the Senate has rejected both proposals.

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