

The Federal Thrift Savings Plan: Can It Be Duplicated?

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The TSP Cannot Be Compared with or Duplicated by 401(k) Plans

The federal Thrift Savings Plan (TSP) is a 401(k)-like plan for federal workers. It is often portrayed as a standard for all participant-directed retirement plans. But as testimony by the Government Accountability Office (GAO) makes clear, the TSP is a unique arrangement that cannot be compared with or duplicated by 401(k) plans.¹ While the TSP works similarly to a 401(k) plan, fees charged to TSP participants are considerably lower than the average fees charged to participants in private-sector 401(k) plans.² This cost differential reflects the unique economics of the TSP, which bear little resemblance to those of its private-sector counterparts.

The TSP's low reported costs for investment management and plan administration reflect the facts that the plan is unusually large, only covers employees of a single employer, and enjoys broad relief from the regulations and compliance costs that apply to private-sector plans.³ In addition, other federal agencies perform some portion of the TSP's administrative work, and these costs are subsidized by U.S. taxpayers. The extent of these costs are unknown and are not reflected in the TSP fee structure.

The TSP Benefits from Its Immense Size and Single-Employer Coverage

With about \$440 billion in investment fund assets and 4.7 million participants at year-end 2014,⁴ the TSP is easily the largest single defined contribution (DC) plan in the United States. The largest private-sector DC plan sponsor by assets is IBM, which has total DC plan assets of \$43.7 billion at year-end 2012—about one-tenth the assets of the TSP.⁵ Wal-Mart sponsors the largest private-sector DC plan by number of plan participants. With 1.1 million active participants in 2012, Wal-Mart's plan has less than one-quarter the participants of the TSP.⁶

The immense size of the TSP allows it to achieve tremendous economies of scale.⁷ The TSP offers a limited range of investments,⁸ aggregated and executed centrally, to millions of participants of the same employer (i.e., the federal government), all of whose contributions are made through similar or identical computerized payroll systems.⁹ In contrast, in 2012, the private-sector 401(k) system consisted of more than 516,000 plans serving nearly 75 million participant accounts.¹⁰ About 88 percent of 401(k) plans have fewer than 100 participants, and more than six in 10 401(k) plans have less than \$1 million in plan assets.¹¹ Participants in plans with small amounts of assets tend to pay higher fees per dollar invested than plans with greater assets because of the relatively fixed costs that all plans must incur.¹²

Plans with larger accounts can negotiate lower asset management fees, because management costs do not necessarily rise proportionately as account balances rise. The manager of the TSP's four index-based separate accounts receives payment by charging the TSP a fee for managing the assets.¹³

Federal Thrift Savings Plan Investment Fund Assets

Year-end 2014

	Billions of dollars	Percentage of total
U.S. Government Securities Investment Fund (G Fund) ¹	\$191.3	44%
U.S. Debt Index Fund (F Fund) ²	24.0	5
Equity Index Account (C Fund) ²	140.7	32
Extended Equity Index Fund (S Fund) ²	50.6	12
EAFE Equity Index Fund (I Fund) ^{2, 3}	33.1	8
Total investment funds ⁴	439.7	100
Memo:		
Lifecycle funds ⁵	70.8	16
Other funds	368.9	84

¹ The U.S. Government Securities Investment Fund is invested in nonmarketable U.S. Treasury securities, which are specially issued to the TSP.

² The TSP's C, F, S, and I Funds are invested in separate accounts, not mutual funds.

³ EAFE is an acronym for Europe, Australasia, and Far East; it is an international equity investment.

⁴ Total net assets available for benefits totaled \$428.1 billion at year-end 2014 and include receivables, participant loans, and fixed and other assets, in addition to the investment fund assets.

⁵ The lifecycle funds invest in the investment funds listed in the table. There are no additional fees.

Note: Percentages may not add to 100 percent because of rounding.

Source: *Thrift Savings Fund: Financial Statements, December 31, 2014 and 2013*, audited by CliftonLarsonAllen, LLP (April 3, 2015); available at www.frtib.gov/ReadingRoom/FinStmnts/TSP-FS-Dec2014.pdf.

Unknown Costs

The full costs of TSP administration are not reflected in the TSP expense ratio. The expense ratio does account for most recordkeeping duties, which are performed by the TSP and outside vendors. The TSP's expenses, however, are reduced by forfeitures of non-vested agency contributions and participant loan processing fees, together amounting to approximately 1.1 basis points in 2014.¹⁴ In addition, some administrative functions associated with providing services to participants—including some participant education functions, distribution of enrollment materials, and processing of deferral election changes—are handled by the employing federal agencies with respect to their own employees. The agencies also serve as primary TSP contact points for employees. The cost of this decentralized administration, which is built into each agency's operating budget, is unknown. These costs are not charged to TSP participants, but are borne by the employing agencies.

Also, the U.S. Treasury undertakes certain functions for the TSP without charge, including accounting for the government securities fund,¹⁵ cutting checks, and executing electronic fund transfers, all of which would add costs in private-sector plans.

Other Features Affecting Cost

Limited investment options and services. Offering a limited number of investment options lowers the TSP's administrative costs. In the private sector, many employees value having a wider range of choices available in their retirement savings plans. On average, 401(k) plans with 100 or more participants offered 25 investment options in 2012.¹⁶ If suites of target date funds are counted as one investment option, then on average, 401(k) plans offered 20 investment options.¹⁷ In addition, the TSP does not provide some services that 401(k) plans typically provide. 401(k) plans offer services such as online seminars and automated calculators with more guidance; in contrast, the TSP website has fewer and more basic services.¹⁸

Lower compliance costs. Congress authorized the TSP in the Federal Employees' Retirement System Act of 1986 (FERSA). While the TSP must adhere to certain compliance regulations under FERSA, these regulations are less demanding than those covering private-sector plans. Private-sector plans are subject to extensive requirements under the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code, including nondiscrimination and top-heavy testing, numerous participant disclosure obligations, procedures for correcting operational and other errors, and filing an annual report with the Department of Labor. In addition, TSP quarterly statements are provided electronically unless a participant specifically requests a hard copy, which saves millions of dollars per year.¹⁹ In contrast, electronic delivery rules for plans covered by ERISA are complex and require that many participant communications be provided in hard copy form unless the employee specifically consents to electronic delivery. Without these additional compliance costs, the TSP is able to operate on a lower budget.

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For all of these reasons, it is impossible for private-sector participant-directed plans to achieve TSP-like results. The TSP enjoys efficiencies of size and workforce composition, limitations in investment choices and participant services, defrayal of some plan costs by U.S. taxpayers, fewer regulatory requirements, and lower compliance costs. All of these factors in combination make the TSP unique in the world of employer-sponsored retirement plans.

Notes

- ¹ Oral testimony of Barbara D. Bovbjerg, Director, Health, Education, Human Services Division, Government Accountability Office, before the Committee on Education and Labor, United States House of Representatives (March 6, 2007); available at www.gpo.gov/fdsys/pkg/CHRG-110hhrg33655/pdf/CHRG-110hhrg33655.pdf.
- ² The average asset-weighted expense ratio borne by 401(k) plan participants for investing in equity mutual funds was 0.54 percent (or 54 basis points) in 2014. See Collins, Holden, Chism, and Duvall, “The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2014,” *ICI Research Perspective* (August 2015); available at www.ici.org/pdf/per21-03.pdf. In contrast, the expense ratios for the core TSP funds in 2014 were approximately 0.029 percent (or 2.9 basis points). See *July 2015 Highlights*; available at www.tsp.gov/PDF/formspubs/high15c.pdf and *TSP Annual Review as of December 31, 2013*; available at www.frtib.gov/pdf/minutes/MM-2014Jan-Att6.pdf, which report fees from 2004 through 2013. The 2007 expense ratio of 0.015 percent is the lowest in the entire time series of data. There is no additional fee for investing in the lifecycle funds beyond the fees charged for each of the underlying funds (proportional to the lifecycle fund’s investment in that fund). The allocation percentages of the core funds within the lifecycle funds are determined by the Federal Retirement Thrift Investment Board based on advice received from outside advisers; that cost is spread across all TSP investors.
- ³ Research from the Congressional Budget Office also makes these points. See Congressional Budget Office, “Administrative Costs of Private Accounts in Social Security,” *A CBO Study* (March 2004); available at www.cbo.gov/sites/default/files/cbofiles/ftpdocs/52xx/doc5277/report.pdf.
- ⁴ *Thrift Savings Fund Financial Statements December 31, 2014 and 2013*, audited by CliftonLarsonAllen, LLP (April 3, 2015); available at www.frtib.gov/ReadingRoom/FinStmts/TSP-FS-Dec2014.pdf.
- ⁵ Investment Company Institute tabulation of 2012 Form 5500 Data; available at www.dol.gov/ebsa/foia/foia-5500.html.
- ⁶ Ibid.
- ⁷ Maintaining the large size of the TSP is key to maintaining its low fees. See Federal Retirement Thrift Investment Board, *Update to the 2013–2017 Strategic Plan: Helping People Retire with Dignity*; available at www.frtib.gov/ReadingRoom/StratPlan/FRTIB-Strategic-Plan_2013-2017.pdf.
- ⁸ As shown in the figure, the TSP investment options include four index funds (three stock funds and one bond fund), one fund invested in (nonmarketable) U.S. Treasury securities, and a series of lifecycle funds composed of the other five core funds. The index funds are separate accounts rather than mutual funds and thus are not offered to the general public. The U.S. Government Securities Investment Fund (G Fund), which is invested in Treasury securities, is managed internally by the Federal Retirement Thrift Investment Board.
- ⁹ According to TSP staff, in 2015, there were 104 federal payroll offices; five federal payroll offices handle roughly 95 percent of TSP participant contributions.

- ¹⁰ U.S. Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin, Abstract of 2012 Form 5500 Annual Reports* (Version 1.2), Washington, DC: U.S. Department of Labor, Employee Benefits Security Administration (January 2015); available at www.dol.gov/ebsa/PDF/2012pensionplanbulletin.pdf.
- ¹¹ Investment Company Institute tabulation of 2012 Form 5500 Data; available at www.dol.gov/ebsa/foia/foia-5500.html.
- ¹² See BrightScope and Investment Company Institute, *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans*, San Diego, CA: BrightScope and Washington, DC: Investment Company Institute (December 2014); available at www.ici.org/pdf/ppr_14_dcplan_profile_401k.pdf. See also, Deloitte Consulting and Investment Company Institute, *Inside the Structure of Defined Contribution/401(k) Fees, 2013: A Study Assessing the Mechanics of the 'All-In' Fee* (August 2014); available at www.ici.org/pdf/rpt_14_dc_401k_fee_study.pdf.
- ¹³ As of year-end 2014, investment management fees were \$3.9 million for the C Fund, \$3.9 million for the F Fund, \$5.8 million for the I Fund, and \$9.7 million for the S Fund. Another benefit to the investment manager, as a lending agent, is the opportunity to retain a portion of the revenue from securities lending activity in the portfolios.
- ¹⁴ The *Thrift Savings Fund Financial Statements, December 31, 2014 and 2013* reports that forfeitures amounted to \$36 million in 2014 and loan fees amounted to \$13 million in 2014; available at www.frtib.gov/ReadingRoom/FinStmts/TSP-FS-Dec2014.pdf.
- ¹⁵ The Government Securities Investment Fund (G Fund) accounts for 44 percent of TSP investment fund assets (see the figure on page 2). The G Fund has been the default investment. The TSP announced in September 2015 that new hires will be defaulted into the age-appropriate lifecycle fund.
- ¹⁶ BrightScope and Investment Company Institute, *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans*, San Diego, CA: BrightScope and Washington, DC: Investment Company Institute (December 2014); available at www.ici.org/pdf/ppr_14_dcplan_profile_401k.pdf.
- ¹⁷ Ibid.
- ¹⁸ United States Government Accountability Office, Report to the Chairman, Committee on Homeland Security and Governmental Affairs, U.S. Senate, *Federal Thrift Savings Plan: Customer Service Practices Adopted by Private Sector Plan Managers Should Be Considered* (January 2005); available at www.gao.gov/assets/250/245097.pdf. The Federal Retirement Thrift Investment Board's strategic plan points out that the TSP needs to catch up to other plans in services offered, benefit solutions, and customer-focused services. See Federal Retirement Thrift Investment Board, *Update to the 2013–2017 Strategic Plan: Helping People Retire with Dignity*; available at www.frtib.gov/ReadingRoom/StratPlan/FRTIB-Strategic-Plan_2013-2017.pdf.
- ¹⁹ Statement for the record of Alan D. Lebowitz, Deputy Assistant Secretary for Program Operations, Employee Benefits Security Administration, U.S. Department of Labor, before the Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, United States House of Representatives (July 27, 2011); available at www.dol.gov/ebsa/pdf/ty072711.pdf.



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