Senior Executives Association
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TESTIMONY

of

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SENIOR EXECUTIVES ASSOCIATION

Before the

HOUSE SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

"MANAGING THE THRIFT SAVINGS PLAN TO THRIVE."

November 3, 2009

Chairman Lynch and Distinguished Members of the Subcommittee:

Thank you for the opportunity to testify before this Subcommittee on the perspective of the Senior Executives Association relating to the Thrift Savings Plan. The Senior Executives Association (SEA) is a professional association that for over 28 years has represented the interests of career federal executives in government, including those in Senior Executive Service (SES) and equivalent positions, such as Senior Level (SL) and Scientific and Professional (ST) positions.

For the past ten years I have served as the SEA representative on the Employee Thrift Advisory Council (ETAC). I also served as the chairman of SEA's Task Force on Retirement Issues during the mid-1980s, during the time when both the Federal Employees Retirement System (FERS) and the Thrift Savings Plan (TSP) were created. As chairman, I spearheaded SEA's efforts to ensure that CSRS employees could contribute 5% of their salary to the TSP. SEA has participated as a member of ETAC since its inception and has continually participated in advising the Federal Retirement Thrift Investment Board (FRTIB) on proposals to implement and improve the TSP.

SEA has continued to be active on ETAC and believes that it is important to obtain the input of federal employee groups to ensure that the TSP provides upgraded and necessary services for employees, retirees and their families.

Plan Upgrades to the Thrift Savings Plan

Since its inception, the TSP has not been a static retirement plan. ETAC and the members of the FRTIB have worked together to consider and implement new offerings to upgrade the TSP and make it more useful to those employees whom it serves. Over the last decade, such upgrades include adding the S and I Funds to the original G, C and F Funds; adding the option to invest in a Lifecycle Fund; and, providing online access to TSP participants, assuring that they can easily access information about their plan and access their account to manage their assets and contributions.

Recently, new features that significantly upgrade the TSP were signed into law by President Obama. SEA supported the passage of many of these features and believes that they will provide long-term benefits for participants.

Roth Option
Traditionally, contributions to the TSP are tax-deferred. The new Roth option would allow participants to invest their after-tax salary into an account without tax liability on their future earnings. Therefore, participants would not have to pay taxes regardless of how much their account grows.

Due to the administrative cost and effort to implement this new option, it will likely take two years before it is available to participants. It is important that the FRTIB work to get this option off the ground as soon as possible, while ensuring that payroll and personnel offices are not overburdened by the implementation efforts. This will require significant oversight by the FRTIB and Congress.

Automatic Enrollment of New Employees

SEA is also supportive of the change to automatically enroll new federal employees into the TSP with the 90 day opt-out. With the new provisions that require agencies to immediately begin depositing a 1% contribution to employees' TSP accounts, even if the employee has not yet opened or started contributing to it, the automatic enrollment ensures that employees do not miss out on these funds.

Beneficiary Accounts for Surviving Spouses

Prior to the recent changes to the TSP, spouses of deceased federal employees had the choice of receiving a payout of the TSP account in a lump-sum or transferring the money into a roll-over IRA. Neither of these options was ideal as the lump-sum payout had adverse tax consequences and the roll-over IRAs had higher administrative costs than the TSP. The new law allows spouses who are the beneficiary of an account to keep the funds in the TSP and become the managers of the accounts. It also relieves them from having to make an important financial decision in a time of grief.

As the ETAC member who proposed this addition to the TSP, I was happy to see it become law and am very pleased with the FRTIB's prompt efforts to support its purpose. Director Greg Long reported at the joint meeting of the FRTIB and ETAC on October 19th that it is already being used.

Mutual Fund Window

Although this provision was part of the recent legislation, consensus did not exist among members of ETAC or the FRTIB on the usefulness of providing this option to TSP participants. The compromise that passed into law is the authorization for the FRTIB to create a mutual fund window in the future, not the actual creation of the option itself. Currently, it is not likely that this will be implemented in the near future.

SEA does have concerns with the mutual fund window. Due to the complexity of such a program and the large amount of resources needed to implement it, SEA believes that it is necessary to further study this option to determine whether the cost of implementation is feasible. This is especially appropriate since the mutual fund window is of interest to a limited number of participants (the 2008 Participant Survey found that only 24% of respondents were interested in this option and the number dropped to 10% if an annual usage fee were to be attached). Another concern is whether starting up such an option would overburden already strapped human resource and personnel offices. Furthermore, many participants do not have the investment expertise needed to use a mutual fund window, which can be a riskier investment than the traditional TSP funds. Consideration should be given to providing professional advice to participants interested in using such an option and requiring that they cannot place all of their investments in this high risk fund.

With these concerns in mind, SEA urges the FRTIB to take a cautious approach to opening the newly authorized mutual fund window and ensuring that it is in the best interest of participants.

Suggestions for Future TSP Upgrades

The current changes to the TSP have gone a long way to upgrading the plan to increasing its usefulness to participants. However, there are a number of other changes that would be desirable additions to the TSP that should be considered in the future.

Adding Bonus and Performance Awards on to the List of Permissible Deposits for Civilian Employees

Members of the military may contribute any amount, from 1 to 100 percent, of their bonuses directly into the TSP. Currently, civilian federal employees are not allowed to deposit any bonuses or performance awards directly into the TSP. Bonuses are an important part of compensation, especially for members of the Senior Executive Service (SES). Under the current SES pay system, agencies have complete discretion to set pay and provide bonuses to their Senior Executives. The average SES annual pay adjustment lags behind annual pay adjustments (including locality pay) given employees paid under the General Schedule (GS), although the majority of Senior Executives do receive awards based on their performance. This means that the amount of money that a Senior Executive can contribute to their TSP is greatly reduced, compared to those employees in the GS system.

SEA recommends that bonuses and performance awards be included as allowable deposits for members of the civilian federal service.

Permitting the Deposit of the Lump-Sum Annual Leave Payout

When employees retire from the civil service, they receive lump-sum payments for their unused annual leave. Under current law, employees cannot use this payout to make a deposit into their TSP accounts. This option would be useful to those federal employees who would be subject to higher means testing due to a lump-sum payout.

For example, one federal retiree who retired late in the year received the payout of her annual leave in a lump-sum. When she received the payment it raised her annual income for that year and triggered the means test for Medicare, leading to an increase in her Medicare premiums. Allowing federal retirees to deposit their lump-sum payout into their TSP accounts will ensure that federal employees have options so that they are not unfairly penalized for taking the lump-sum payout.

Conclusion

There are many challenges to managing the Thrift Savings Plan and maintaining its vitality and usefulness to its participants. SEA is supportive of many of the recent changes to the TSP and encourages the FRTIB and Congress to consider the proposed additions to the Plan outlined above.

On behalf of SEA, I look forward to continuing to work with ETAC, the FRTIB, and Members of Congress to thoughtfully implement the newly enacted legislation and to identify future upgrades.