November 1998

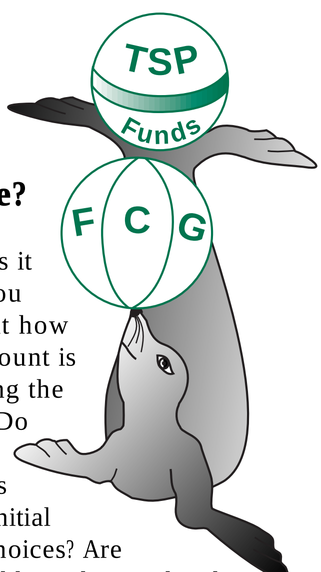
Thrift Savings Plan

HIGHLIGHTS

Open Season: November 15 – January 31

Inside . . .

Are you sure you really need a loan or in-service withdrawal from your TSP account? Over 220,000 TSP loans were issued in 1997 compared to 80,000 in 1996; 1,600 in-service withdrawals were also issued in 1997. Remember, this money is for your retirement, and taking a loan or in-service withdrawal could significantly reduce the ending balance of your account. If you don't really need the money now, let it grow.



Need to Rebalance?

How long has it been since you thought about how your TSP account is divided among the three funds? Do your current fund balances reflect your initial investment choices? Are you comfortable with your level of risk?

If you decide to rebalance your account with an interfund transfer, you can do so most efficiently on the TSP Web site at **www.tsp.gov** or the ThriftLine at **(504) 255-8777**. You will need your SSN and TSP PIN. (You can also use Form TSP-30, Interfund Transfer Request.)

Understanding the F Fund

(Yes, you can!)

Why are only 5% of TSP funds invested in the bond market? Compared to the C Fund (stocks) at 57% and the G Fund (U.S. Treasury securities) at 38%, the Fixed Income Index Investment (F) Fund is relatively small.

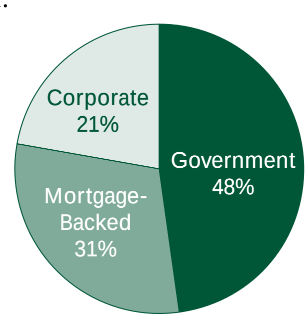
Some participants prefer investing in the "super-safe" G Fund, or — if they are willing to take some risk — in the C Fund, which has had several years of impressive returns. But although F Fund returns have been modest in comparison to the C Fund, they have exceeded the G Fund returns over the past 10 years. *(See page 3.)*

On the other hand, some participants may not have invested in the F Fund because they feel that bonds are just too hard to understand. Nonetheless, many financial planners would say that there is a place for bonds in nearly all individual investment portfolios. Here are some questions and answers that may help you decide whether you should invest in the F Fund.

What is a bond? Unlike a stock, which is a certificate of ownership, a bond is a ***certificate of debt***. When you purchase a bond, you are lending a government or corporation your money for a set period of time. In return, the government or corporation promises to repay the amount it borrowed plus interest. Interest on most bonds is fixed — that means the interest rate is the same for the life of the bond. This is why bonds are called "fixed income" investments. Interest is generally paid twice a year and your original investment (what you paid for the bond) is returned when the bond "matures."

In the TSP, however, you do not buy individual bonds; you buy into a ***bond index fund***. In an index fund, older bonds are continuously maturing or are being sold and new bonds (earning interest at different rates) are being purchased. Therefore, your earnings will vary each month.

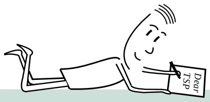
What is the TSP bond index fund (F Fund)? The F Fund is invested in the Barclays U.S. Debt Index Fund which tracks the Lehman Brothers Aggregate (LBA) bond index. The LBA index represents a large and diversified group of U.S. Government, corporate, and mortgage-backed securities. The Barclays index fund is invested in these securities as shown on the right (as of August 31, 1998).



What are the advantages of investing in the F Fund? The F Fund offers a well-diversified portfolio of high-quality (that is, low credit risk) bonds with a broad range of issuers, industries, and maturities. The F Fund also benefits from relatively low management fees and trading costs.

(Continued on page 2)

Participants Ask . . .



. . . about the Year 2000

Q What has the TSP done to prevent computer-related problems in the year 2000?

A One of the contractual requirements for *the new TSP record keeping system* which is being developed by American Management Systems, Inc., is to ensure that dates in the year 2000 and beyond will be accommodated. The new record keeping system will be implemented in May 2000.

Until then, a “windowing” technique has been used for *the current record keeping system* to identify and modify all dates in the system. All dates of birth are assumed to be 19xx, because no participants could have birthdates in the year 2000.

Transaction dates carried in the system as 1/1/84 and after are assumed to be 19xx. Because there are no TSP transaction years in the current system earlier than January 1984, transaction dates in the system from “00” to “83” are assumed to be 20xx.

No changes are required in agency data transmission for the current record keeping system. When the new system is put into effect, four-digit years are to be submitted.

The F Fund *Continued from page 1*

The F Fund provides the opportunity for higher rates of return than the G Fund, particularly in periods of generally declining interest rates. For the past 10 years, the compound annual rate of return for the F Fund was 8.5%, compared to the G Fund return of 7.6%. (For the past 12 months, *see page 4*.)

Are there risks associated with investing in the F Fund? Yes. There are three risks associated with the F Fund: market risk, credit risk, and prepayment risk. Bonds are not “risk-free” investments.

Market risk is the risk that the value of the bonds in the F Fund may fluctuate with changes in interest rates. When interest rates rise, the prices of the bonds in the F Fund often fall because the higher interest rate on new bonds makes them more attractive than the older bonds. Market risk is reduced by holding bonds with a variety of maturities rather than holding only longer-term bonds.

For example, let’s take the case of a 10-year, $1,000 bond paying an interest rate of 8%. As interest rates go up and down, the value of the bond will also vary. If, for example, interest rates go up to 10%, the owner of that bond may wish to sell it in order to purchase a new bond that would pay 10%. But in order to find a buyer for the bond paying 8%, the owner would have to “discount” the bond’s value by selling it for less than the original price of $1,000. On the other hand, if interest rates fall to 6%, the bond paying 8% would look good to another buyer who might be willing to buy it at a “premium” (pay more than the original price of $1,000). It is this type of buying and selling of bonds as interest rates rise and fall which influences the bond market.

These gains and losses in the value of bonds can make up a sizable portion of F Fund earnings. However, interest income on the bonds is likely to be the dominant component of earnings over time. Interest income reduces the effect of any decline in bond prices on the total return of the F Fund.

Credit risk is the risk that a bond issuer will fail to pay the interest or the principal (that is, the money borrowed). The portion of the F Fund that is invested in U.S. Treasury securities has no credit risk. Credit risk is possible with corporate bonds and some mortgage-backed securities, but is reduced in the F Fund because all bonds are high-quality, investment-grade securities. (There are no “junk bonds” in the F Fund.) Also, the number of bonds from a single corporate issuer make up only a small part of the F Fund, further reducing credit risk.

Prepayment risk is present primarily with mortgage-backed securities. During a period of declining interest rates, homeowners may refinance their high-rate mortgages and prepay the principal. Cash from these prepayments flows through to prepay the mortgage-backed securities, necessitating reinvestment in bonds with lower interest rates, which lowers the return of the fund.

If you wish to invest in the F Fund, you may do so in one of two ways:

- You can submit Form TSP-1, Election Form, to your agency personnel office during a TSP Open Season to have some portion of your ***future*** payroll contributions allocated to the F Fund; or
- You can move some of your ***existing*** TSP account balance into the F Fund by requesting an interfund transfer. The easiest way to do this is by using the TSP Web site at www.tsp.gov or by calling the ThriftLine at (504) 255-8777. You can also mail Form TSP-30, Interfund Transfer Request, to the TSP record keeper at the address on the form.

A brief summary of the TSP funds and their performance is available on pages 3 and 4 of this *Highlights*. For more information, you can obtain a copy of the *Guide to TSP Investments* from your personnel office or the TSP Web site.

Thrift Savings Plan Investment Information

The Federal Retirement Thrift Investment Board manages the G Fund assets. The Board has contracts with Barclays Global Investors (Barclays) to manage the C and F Fund assets.

Following is a brief description of the three TSP funds.

The G Fund is invested in short-term nonmarketable U.S. Treasury securities that are specially issued to the TSP. The G Fund interest rate equals the average of market rates of return on U.S. Treasury marketable securities outstanding with four or more years to maturity. There is no credit risk (risk of nonpayment of principal or interest) for the Treasury securities in the G Fund. In addition, market risk (the risk that investments may fluctuate in value as interest rates change) is eliminated by the Board's current policy of investing the G Fund in short-term rather than longer-term securities. However, G Fund rates of return may well be lower than those of the C and F Funds over the long term.

Table 1 presents the 1988 – 1997 G Fund total rates of return, after deducting administrative expenses of the Plan. Plan expenses reduced the 1997 return by 0.07%, or $.70 for every $1,000 of G Fund account balance. There is no assurance that future rates of return for the G Fund will replicate any of these rates.

Table 1

Year	G Fund
1988	8.8%
1989	8.8%
1990	8.9%
1991	8.1%
1992	7.2%
1993	6.1%
1994	7.2%
1995	7.0%
1996	6.8%
1997	6.8%
1988 – 1997 compound annual rate of return	7.6%

The C Fund is invested in the Barclays Equity Index Fund, a commingled fund that tracks the Standard & Poor's (S&P) 500 stock index. The C Fund gives participants the opportunity to diversify their investments and to earn the relatively high investment return that stocks can provide over the long term, while lessening the effect that the poor performance of an individual stock or industry will have on overall investment performance. The risk of investing in the C Fund is that the value of stocks can decline sharply. The total C Fund return could be negative, resulting in a loss.

Table 2 shows the 1988 – 1997 total C Fund rates of return (after deducting expenses) and the S&P 500 stock index returns. TSP administrative expenses and C Fund investment management fees reduced the 1997 C Fund return by 0.07%, or $.70 for every $1,000 of C Fund account balance. There is no assurance that future rates of return for the C Fund will replicate any of these rates.

Table 2

Year	C Fund*	S&P 500 Index
1988	11.8%	16.6%
1989	31.0%	31.7%
1990	– 3.2%	– 3.1%
1991	30.8%	30.5%
1992	7.7%	7.6%
1993	10.1%	10.1%
1994	1.3%	1.3%
1995	37.4%	37.6%
1996	22.8%	23.0%
1997	33.2%	33.4%
1988 – 1997 compound annual rate of return	17.5%	18.1%

** The first C Fund investment in the stock market occurred on January 29, 1988.*

The F Fund is invested in the Barclays U.S. Debt Index Fund, a commingled fund that tracks the Lehman Brothers Aggregate (LBA) bond index. This index consists primarily of high-quality fixed-income securities representing the U.S. Government, corporate, and mortgage-backed securities sectors of the U.S. bond market. The F Fund offers the opportunity for increased rates of return relative to the G Fund over the long term, especially in periods of generally declining market interest rates. At such times, the values of the longer-term bonds held in the F Fund should increase, unlike those of the short-term securities held in the G Fund. Unlike the G Fund, the F Fund carries credit risk and market risk. Like the C Fund, the F Fund has the potential for negative returns, which could result in a loss.

Table 3 shows the 1988 – 1997 total rates of return for the F Fund (after deducting expenses) and the LBA bond index. TSP administrative expenses and F Fund investment management fees reduced the 1997 F Fund return by 0.08%, or $.80 for every $1,000 of F Fund account balance. There is no assurance that future F Fund rates of return will replicate any of these rates.

Table 3

Year	F Fund*	LBA Bond Index**
1988	3.6%	7.9%
1989	13.9%	14.5%
1990	8.0%	9.0%
1991	15.7%	16.0%
1992	7.2%	7.4%
1993	9.5%	9.8%
1994	– 3.0%	– 2.9%
1995	18.3%	18.5%
1996	3.7%	3.6%
1997	9.6%	9.7%
1988 – 1997 compound annual rate of return	8.5%	9.2%

** The first F Fund investment in the bond market occurred on January 29, 1988.*

*** Through December 1990, the F Fund was invested in the Barclays Bond Index Fund, which tracked the Lehman Brothers Government/Corporate bond index.*

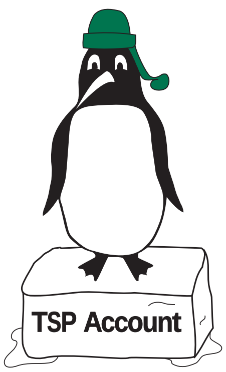
For more information about the G, C, and F Funds, see the *Summary of the Thrift Savings Plan for Federal Employees.*

(Continued on page 4)

Of Interest

If your TSP account has been frozen because of a decree of divorce, annulment, legal separation, court-approved property settlement, or the enforcement of back payment of alimony or child support, you will not be able to obtain a loan or withdrawal until the court action is completed.

The payment process and the unfreezing of your account will be faster if the information in the court order submitted to the TSP is correct, complete, and clear.



To find out more about how court orders affect your TSP account, read the booklet *Information About Court Orders* and the notice “Tax Treatment of TSP Payments Made Under Qualifying Orders,” available from your personnel office or the TSP Web site (www.tsp.gov).

Has your address changed? Keep the address in your TSP account record up-to-date. Notify your agency personnel office of your change of address (if you are employed) or the TSP Service Office (if you are separated from Federal service).

★ TSP Fund Balances ★
as of 9/30/98

G Fund	$ 27.6 billion
C Fund	$ 36.4 billion
F Fund	$ 3.8 billion
Total	$ 67.8 billion
Participants	2.3 million

Investment Information *Continued from page 3*

Recent performance of the TSP funds. Table 4 presents monthly rates of return (after expenses), which are used in crediting earnings to your account.

Table 4

Month	G Fund	C Fund	F Fund
1997			
October	0.5%	– 3.4%	1.5%
November	0.5%	4.6%	0.5%
December	0.5%	1.7%	1.0%
1998			
January	0.5%	1.1%	1.3%
February	0.4%	7.2%	– 0.1%
March	0.5%	5.1%	0.3%
April	0.5%	1.0%	0.5%
May	0.5%	– 1.7%	0.9%
June	0.5%	4.0%	0.8%
July	0.5%	– 1.1%	0.2%
August	0.5%	– 14.5%	1.7%
September	0.4%	6.3%	2.4%
12 months	6.1%	8.8%	11.5%

What’s New on www.tsp.gov?

Account Access Enhancements — Now, in addition to obtaining your account balance, you can request an interfund transfer, customize or replace your lost PIN, find out how much you are eligible to borrow, or check the status of your loan or withdrawal application. You will need your SSN and your PIN to get access to your account information.

Annuity Calculator — If you are considering a TSP annuity, you can project how much you will receive each month by using the new annuity calculator. If you aren’t interested in a TSP annuity, you may still find the calculator useful to get a rough idea of the income stream your final TSP account balance could generate. If it translates to less monthly income than you would like, you may want to act now to save more. (The Account Projection Calculator can help you see how large your account could grow at various contribution levels.)

Trouble-Shooting Tips — If you are having trouble getting current information from our Web site, the problem may be your cache. A cache temporarily stores information in your browser’s memory so you can recall Web pages faster once you have already seen them. But your cache may be storing old information for too long and calling it up, rather than retrieving the most recent version from the Internet.

To solve this problem, use your browser’s options to clear your Memory Cache and Disk Cache. Another option is to click on the Reload button. Your browser will then download a more recent version of the information from the Internet, if there is one.

Overseas Internet Users — If you are stationed overseas and have been unable to get to your account information on the secure area of the TSP Web site, try again. The site now has upgraded encryption that provides overseas participants with the capability to access account information if they have recent versions of browsers (for example, Microsoft Internet Explorer 4.0 or Netscape Communicator 4.0).