October 2004

Thrift Savings Plan
HIGHLIGHTS

Open Season
October 15 — December 31, 2004

Year-end Notes for Separated Participants

Minimum Required Distributions (MRDs) — If you are 70½ or older and withdrawals from your TSP account during the year did not satisfy the IRS requirement for 2004, you will receive a supplemental payment for the remaining amount. The TSP will disburse payments to participants in their second or subsequent MRD year by December 30, 2004, and to participants in their first MRD year by March 31, 2005. (Revised 11/04)

Additional Payment in 2004 — If your monthly payment is ordinarily disbursed from your account on the first or second day of the month, your January 2005 payment will arrive early. That payment will be processed on December 30 because of the New Year's holiday and, consequently, it will be reported as income for 2004.

Changes to Your Payment Amount — If you are receiving monthly payments and you wish to change the amount or switch from a computed payment to a specific dollar amount, you must submit your request by December 15 for 2005. You will receive a notice and form in November.

TSP Fund Balances
as of 8/31/2004

G Fund	$ 58.3 billion
F Fund	$ 10.2 billion
C Fund	$ 58.7 billion
S Fund	$ 7.4 billion
I Fund	$ 4.2 billion
Total	**$138.8 billion**
Participants	**3.3 million**

Risk & Time Horizon

The July issue of the *TSP Highlights* addressed how you could estimate the amount you need to save for retirement. Once you determine the amount you need to save, the next step is to think about whether your investment portfolio contains enough risk to achieve the returns you need. The amount of risk you are willing to take is a personal decision. This article will help you think about two key factors that affect that decision: your personal risk tolerance and your time horizon.

Risk — Can you take it?

You need to be comfortable with the amount of risk you expect to take. If your investment strategy causes you anxiety every time the market fluctuates, you should modify your strategy. Your investment comfort zone should allow you to use a "buy and hold" strategy so that you are not chasing market returns during upswings, or fleeing from certain funds during downswings. But keep in mind that investing too conservatively over the long term is also risky because your account may not grow enough to achieve your retirement savings goal, especially when you consider that inflation erodes your purchasing power over time.

Consider your time horizon

Your time horizon directly affects your ability to sustain risk. The more time you have to invest, the more risk you can assume because early losses can be offset by later gains. However, if your time horizon is short and you experience losses, you will not be able to recover from those losses by the time you need the money.

Take a look at the chart, which illustrates how your ability to sustain risk increases as the time horizon of an investment increases. You can see that the ranges of returns (the intervals between the smallest and the largest returns) decrease as the length of the time period increases. A time horizon of 10 years or more gives you a much greater ability to sustain risk because losses can be offset by gains over the longer period. In a very short time period (for example, one year), you are more susceptible to sharp

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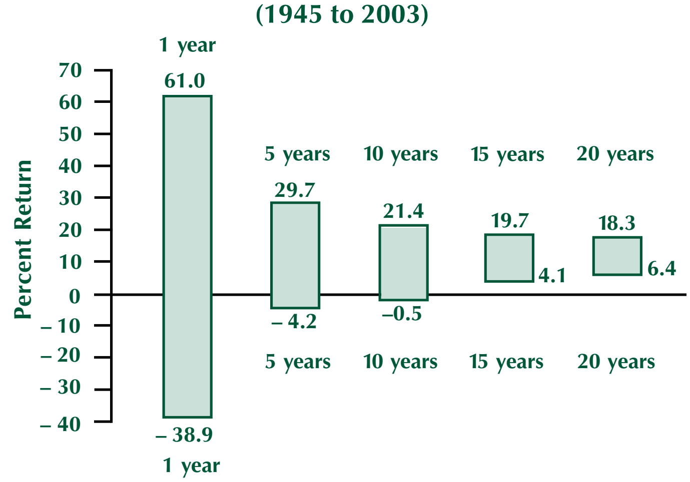
Best and Worst Returns of the S&P 500 for Various Time Horizons
(1945 to 2003)



Source: Ibbotson Associates
There is no assurance that future rates of return will replicate any of these rates.

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swings in the market and you do not have the same ability to recoup your losses.

Review your risk tolerance

Your ability to tolerate risk may also change over time, and you should take this into account when you predict the growth of your account. Most young participants with a 40-year time horizon are able to invest in funds with higher levels of risk. But all participants should regularly review and modify their assumptions about risk and return as their time horizon shortens, or as other life circumstances make it more important to have a predictable account balance (for example, if they plan to take a TSP loan to cover college tuition or to make a down payment on a house).

You can also reduce the overall risk to your portfolio by choosing TSP funds that react differently under the same market conditions (such as stocks and bonds). This is called **diversification**, and is another key to managing risk. The TSP funds offer five distinct investment opportunities which are broadly diversified and do not overlap. We will discuss the topic of diversification and portfolio risk in the next issue of the *TSP Highlights*.

For more information about your TSP investment options, visit the Rates of Return section at www.tsp.gov, or link to the TSP Fund Information Sheets from the Homepage. You can use the Web site's calculator "Projecting Your Account Balance" to estimate the effect of various rates of return. And to learn more about investing, read our earlier articles in the *TSP Highlights*, also on the Web site.

Processing Interfund Transfers

When will you see the effect of an interfund transfer on your account? It depends.

Requests made before 12:00 noon eastern time on a business day will generally be processed that night using the share prices for that day. The result can be viewed online the next day.

Requests made at 12:00 noon or later eastern time will ordinarily be processed the next business day using that day's share prices. The transfer will be reflected in your account the day after it is processed. For example, requests made late Friday will be processed Monday night using Monday's share prices, and will be reflected in your account online on Tuesday.

Rates of Return

Year	G Fund	F Fund	LBA Bond Index	C Fund	S&P Index	S Fund	Wilshire** 4500 Index	I Fund	EAFE Index
1994	7.2%	– 3.0%	– 2.9%	1.3%	1.3%	–	– 2.7%	–	7.8%
1995	7.0	18.3	18.5	37.4	37.6	–	33.5	–	11.3
1996	6.8	3.7	3.6	22.8	23.0	–	17.2	–	6.1
1997	6.8	9.6	9.7	33.2	33.4	–	25.7	–	1.5
1998	5.7	8.7	8.7	28.4	28.6	–	8.6	–	20.1
1999	6.0	– 0.8	– 0.8	21.0	21.0	–	35.5	–	26.7
2000	6.4	11.7	11.6	– 9.1	– 9.1	–	– 15.8	–	– 14.2
2001	5.4	8.6	8.4	– 11.9	– 11.9	– 2.2*	– 9.3	– 15.4*	– 21.4
2002	5.0	10.3	10.3	– 22.0	– 22.1	– 18.1	– 17.8	– 16.0	– 15.9
2003	4.1	4.1	4.1	28.5	28.7	42.9	43.8	37.9	38.6
Compound Annual Rates of Return 1994 – 2003									
	6.0	6.9	6.9	11.0	11.1	–	9.8	–	4.4
Monthly Returns for 2004									
Jan.	0.3	0.8	0.8	1.8	1.8	3.5	3.6	1.3	1.4
Feb.	0.4	1.1	1.1	1.3	1.4	1.8	1.8	2.2	2.3
Mar.	0.3	0.7	0.7	– 1.5	– 1.5	0.4	0.4	0.6	0.6
Apr.	0.3	– 2.5	– 2.6	– 1.5	– 1.6	– 3.9	– 4.0	– 2.3	– 2.3
May	0.4	– 0.5	– 0.4	1.4	1.4	1.5	1.5	0.3	0.3
Jun.	0.4	0.6	0.6	1.9	1.9	2.7	2.8	2.9	2.2
Jul.	0.4	1.0	1.0	-3.2	-3.3	-5.5	-5.5	-3.8	-3.2
Aug.	0.4	1.9	1.9	0.3	0.4	0.0	0.0	1.0	0.4

The returns for the TSP funds represent net earnings after deduction of accrued administrative expenses and, in the cases of the F, C, S, and I Funds, after deduction of trading costs and accrued investment management fees. The returns for the four indexes shown do not include any deduction for administrative expenses, trading costs, or investment management fees.

* The S and I Funds were implemented in May 2001; therefore, there are no returns for these funds for earlier periods. Returns shown for 2001 are for May through December.

** Through May 2004, the S Fund tracked the Wilshire 4500 stock index. Currently, the S Fund tracks the Dow Jones Wilshire 4500 Completion stock index.

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