

**TSP Open Season:  
November 15 - January 31**



**Change in withholding rules on withdrawals.** The law now requires 20% Federal income tax **withholding** on certain TSP withdrawal payments unless you ask the TSP to transfer your payments **directly** to an IRA or other eligible retirement plan, or you choose a withdrawal option to which different withholding rules apply. **This new law will affect TSP withdrawals beginning January 1, 1993.** It does not affect the amount of tax you must pay, only the amount withheld. The new tax rules are explained in the November 1992 notice, "Important Tax Information About Payments From Your Thrift Savings Plan Account." **Note:** As we go to press, additional legislation may be enacted which would make further changes in these rules; any changes will be explained in the November notice.

TSP contributions and earnings will continue to be tax-deferred until you withdraw your account. When you separate and your agency submits Form TSP-18, Validation of Retirement Information, our recordkeeper will send you withdrawal information that supplements the material that you receive from your agency. The supplementary information will include the new tax withholding rules and transfer information.

If you are planning to leave the Government and withdraw your account soon, ask your agency personnel office for a copy of the November tax notice.

The **Summary of the Thrift Savings Plan for Federal Employees** is now available on braille-labelled audiocassettes for visually impaired employees. Ask your agency personnel office about it.



## Inflation, Taxes, and Your TSP Account

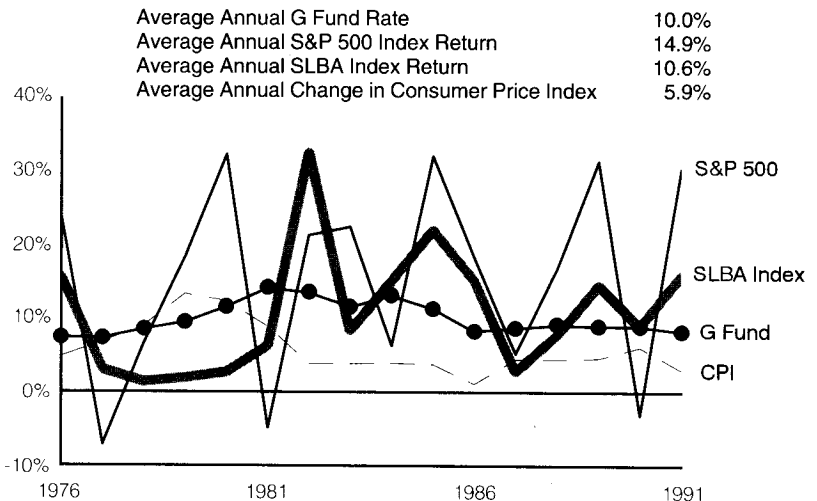
In deciding how much to save for retirement and how your savings should be invested, have you considered the likely effects of inflation and taxes on the purchasing power of your savings?

**Inflation can take a significant bite.** A common measure of the inflation rate is the change in the Consumer Price Index (CPI) from one year to another. The CPI represents the price of an assortment of consumer goods (such as food, housing, clothing, transportation, medical care, entertainment, and personal and educational expenses). The inflation rate for your personal assortment of goods may be higher or lower than the CPI.

The U.S. economy has experienced inflation in every year since 1954. An item that cost \$1 in January 1955 cost \$5.16 in December 1991, based on the increase in the CPI during the period, which averaged 4.5% a year. Thus, a dollar invested throughout this period would have lost some of its purchasing power unless it earned an average rate of return of at least 4.5%.

It is impossible to predict inflation rates, just as it is impossible to predict rates of return on investments. But it is helpful to look at past experience. The chart below compares the rate of change in the CPI since 1976 to the returns on securities like those in the G Fund, and to the S&P 500 stock index and the Shearson Lehman Brothers Aggregate (SLBA) bond index — the indexes that the C and F Funds track.

**G Fund, S&P 500 Index, SLBA Index, and CPI  
1976 - 1991**



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# ? Participants Ask

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**Q** What should I do about my TSP account when I'm ready to leave Federal service?

**A** If you are planning to leave Federal service or have already left, there are several things you can do to help make your withdrawal of your TSP account go smoothly:

- Ask your personnel office for a copy of the TSP Withdrawal Package. However, be aware that new legislation makes obsolete any tax information in the package dated 12/91 or earlier. (See page 1, "Change in withholding rules. . .")
- Make sure your personnel office submits a Separation Code and Form TSP-18, Validation of Retirement Information, to the TSP Service Office when you separate or retire. (Otherwise, you cannot receive your benefits.)
- Before you submit any forms, check the information about you that is printed on the top of your Participant Statement. If any of this information is incorrect, ask your agency to correct it immediately. If you have already separated and your address is not correct, contact the TSP Service Office in writing.
- Submit your forms directly to the TSP Service Office and keep copies for your records.
- If you have a TSP loan, you must repay it in full or wait until a taxable distribution is declared before you can withdraw your account.
- You may check on the status of your withdrawal request by calling the TSP Inquiry Line at (504) 255-8777. The Inquiry

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## Participants Ask *Continued*

Line will tell you whether the appropriate forms have been received to process your withdrawal, whether your withdrawal was approved, and when you should receive a payment from your account.

**Q** What if I transfer from one agency to another?

**A** Inform your new personnel office that you are a TSP participant and give them a copy of your latest Election Form (TSP-1). Be sure to check your first earnings and leave statement at your new agency to see that your contributions are correct. If you have a TSP loan, inform the TSP Service Office of your transfer so they can send a copy of your Loan Payment Allotment Form to your new payroll office. Also inform your new payroll office that you have a loan and, if your loan payments do not start immediately, contact them for assistance. It is your responsibility to ensure that your loan payments resume. See the January 1990 Thrift Savings Plan Loan Program booklet, page 17.

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## Inflation and Taxes *Continued from page 1*

The CPI increased an average of 5.9% from 1976 through 1991. In the same time period, the average annual returns of the three investment alternatives were greater: 10.0%, 14.9%, and 10.6%. But these are **before-tax** returns. To maintain the purchasing power of your investment, your **after-tax** return must be at least equal to inflation.

**Taxes at retirement will also reduce your savings.** The good news is that the TSP gives you substantial tax advantages compared with most other investment alternatives. Income taxes on TSP contributions and earnings are deferred, reducing your tax bill during the years that you save and providing you with investment earnings on the money you otherwise would have paid in taxes. But remember, when you receive the money from your TSP account, it will be subject to taxes. Unfortunately, just as you cannot predict inflation or investment returns, you do not know what your tax rate will be in retirement. You may need to save more than you think.

**Here** is an example of how inflation and taxes can affect your earnings on a one-year investment. (It does not consider the long-term benefits of tax deferral in the TSP.) If you invest \$100 and earn 10% on your investment during a year in which your marginal tax rate (including Federal, state, and local income taxes) is 40%, the return on your investment is reduced from \$10 to \$6. If the inflation rate for that year is 6%, the purchasing power of your \$100 is reduced by \$6. Your effective return after taxes and inflation will be zero.

**As** indicated in the chart, stock market investments generally did a better job of preserving purchasing power during the 1976 - 1991 period (and over earlier long periods as well) compared with the other two investment alternatives. But, as the chart shows, returns on stocks are relatively volatile. Thus, stocks are riskier, especially for short-term investors. Therefore, before deciding how much of your TSP account to invest in the C Fund, you should consider the number of years your account is likely to be invested.

**Only** you can decide how much risk you are willing to take with your retirement nest egg. But keep in mind that if your investments are too conservative, you may be left with less buying power than you anticipated once your savings have been adjusted for inflation and taxes. ■

# Thrift Savings Plan Investment Information

The Thrift Investment Board manages the G Fund. The Board has contracts with Wells Fargo Institutional Trust Company (Wells Fargo), a company jointly owned by Wells Fargo Nikko Investment Advisors and Wells Fargo and Co., to manage C and F Fund assets.

Following is a brief description of the three TSP Funds. For more information about the G, C, and F Funds, see the *Summary of the Thrift Savings Plan for Federal Employees*.

Government  
Securities  
Investment  
Fund

**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 minimized by the Board's current policy of investing the G Fund in short-term rather than longer-term securities.

The table to the right presents the calendar-year total rates of return for the last ten years for G Fund related securities, based on the monthly rates (compounded) for such securities. The table also shows the actual 1988 - 1991 G Fund rates of return, after deducting administrative expenses of the Plan. Plan expenses reduced the 1991 return by 0.13%, or \$1.30 for every \$1,000 of G Fund account balance. There is no assurance that future rates of return for the G Fund will resemble any of these rates.

Common  
Stock Index  
Investment  
Fund

**The C Fund** is invested in the Wells Fargo 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

| Year                                      | G Fund | Related Securities |
|---|--------|--------------------|
| 1982                                      |        | 13.56%             |
| 1983                                      |        | 11.61%             |
| 1984                                      |        | 13.13%             |
| 1985                                      |        | 11.33%             |
| 1986                                      |        | 8.29%              |
| 1987                                      |        | 8.73%              |
| 1988                                      | 8.81%  | 9.19%              |
| 1989                                      | 8.81%  | 9.01%              |
| 1990                                      | 8.90%  | 8.97%              |
| 1991                                      | 8.15%  | 8.26%              |
| 1982 - 1991 average annual rate of return |        | 10.19%             |

stocks sometimes provide, 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 return on the C Fund could be negative, resulting in a loss.

The table below presents the calendar-year total rates of return for the Wells Fargo Equity Index Fund and the S&P 500 stock index for the last ten years. The table also shows the 1988 - 1991 C Fund rates of return (after deducting expenses). TSP administrative expenses and C Fund investment management fees reduced the 1991 C Fund return by 0.15%, or \$1.50 for every \$1,000 of C Fund account balance. There is no assurance that future rates of return for the C Fund will resemble any of these rates.

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| Year                                      | C Fund   | Wells Fargo Equity Index Fund | S&P 500 Index* |
|---|----------|-------------------------------|----------------|
| 1982                                      |          | 21.52%                        | 21.09%         |
| 1983                                      |          | 22.37%                        | 22.36%         |
| 1984                                      |          | 6.55%                         | 6.12%          |
| 1985                                      |          | 32.32%                        | 32.02%         |
| 1986                                      |          | 18.49%                        | 18.55%         |
| 1987                                      |          | 5.23%                         | 5.23%          |
| 1988                                      | 11.84%** | 16.60%                        | 16.83%         |
| 1989                                      | 31.03%   | 31.61%                        | 31.53%         |
| 1990                                      | -3.15%   | -3.19%                        | -3.18%         |
| 1991                                      | 30.77%   | 30.42%                        | 30.57%         |
| 1982 - 1991 average annual rate of return |          | 17.61%                        | 17.53%         |

\* Calculated by Wilshire Associates.

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

## Investment Information

Continued from page 3

Fixed Income  
Index  
Investment  
Fund

**The F Fund** is invested in the Wells Fargo U.S. Debt Index Fund, a commingled fund that tracks the Shearson Lehman Brothers Aggregate (SLBA) 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 in periods of generally declining market interest rates. At such times, the values of the longer-term securities held in the F Fund should increase, unlike those of the short-term securities held in the G Fund. The F Fund has the potential for negative returns (when market interest rates are increasing), which could result in a loss.

The table to the right presents the calendar-year total rates of return for the Wells Fargo U.S. Debt Index Fund and the SLBA bond index for the last ten years. The table also shows the 1988 - 1991 rates of return for the F Fund (after deducting expenses). TSP administrative expenses and F Fund investment management fees reduced the 1991 F Fund return by 0.16%, or \$1.60 for every \$1,000 of F Fund account balance. There is no assurance that future rates of return for the F Fund will resemble any of these rates.

| Year                                      | F Fund   | Wells Fargo U.S. Debt Index Fund* | SLBA Bond Index** |
|---|----------|-----------------------------------|-------------------|
| 1982                                      |          |                                   | 32.62%            |
| 1983                                      |          |                                   | 8.35%             |
| 1984                                      |          |                                   | 15.15%            |
| 1985                                      |          |                                   | 22.11%            |
| 1986                                      |          |                                   | 15.26%            |
| 1987                                      |          | 2.52%                             | 2.76%             |
| 1988                                      | 3.63%*** | 7.93%                             | 7.89%             |
| 1989                                      | 13.89%   | 14.45%                            | 14.53%            |
| 1990                                      | 8.00%    | 8.89%                             | 8.96%             |
| 1991                                      | 15.75%   | 16.03%                            | 16.00%            |
| 1987 - 1991 average annual rate of return |          |                                   |                   |
|   |          |                                   | 9.86%             |
| 1982 - 1991 average annual rate of return |          |                                   |                   |
|   |          |                                   | 14.09%            |

\* Established in July 1986. Prior to January 1990, the Wells Fargo U.S. Debt Index Fund tracked the Salomon Brothers Broad Investment Grade index.

\*\* Calculated by Shearson Lehman Brothers, Inc.

\*\*\* The first F Fund investment in the bond market occurred on January 29, 1988. Through December 1990, the F Fund was invested in the Wells Fargo Bond Index Fund, which tracked the Shearson Lehman Brothers Government/Corporate bond index.

**Recent performance of the TSP Funds.** The monthly rates of return (after expenses) for the 12 months through September 1992 are presented below. These rates of return are used in crediting earnings to your account each month:

| Month            | G Fund       | C Fund        | F Fund        |
|------------------|--------------|---------------|---------------|
| <b>1991</b>      |              |               |               |
| October          | 0.62%        | 1.39%         | 1.09%         |
| November         | 0.61%        | -3.96%        | 0.89%         |
| December         | 0.62%        | 11.41%        | 2.96%         |
| <b>1992</b>      |              |               |               |
| January          | 0.57%        | -1.89%        | -1.35%        |
| February         | 0.56%        | 1.29%         | 0.66%         |
| March            | 0.62%        | -1.91%        | -0.53%        |
| April            | 0.62%        | 2.91%         | 0.67%         |
| May              | 0.64%        | 0.49%         | 1.84%         |
| June             | 0.60%        | -1.45%        | 1.36%         |
| July             | 0.60%        | 4.11%         | 2.00%         |
| August           | 0.57%        | -2.02%        | 1.00%         |
| September        | 0.54%        | 1.15%         | 1.15%         |
| <b>12 months</b> | <b>7.40%</b> | <b>11.19%</b> | <b>12.31%</b> |

## TSP Accounts

as of 9/30/92

G Fund ..... \$ 11,775 million  
C Fund ..... \$ 2,001 million  
F Fund ..... \$ 644 million

Total accounts ... \$ 14,420 million



The volume of calls to the **TSP Inquiry Line (504) 255-8777** has nearly doubled since this time last year. Monday is the busiest day. The highest volume occurs between 8 a.m. and 3 p.m. (central time), although the line is available 24 hours a day.

With the PIN from your Participant Statement, you can call for your account balance, rates of return, the amount you may be eligible to borrow, and current loan interest rates. You can also ask for an Interfund Transfer Request form (TSP-30) or for the status of your withdrawal request (if separated).