Highlights for Thrift Savings Plan Participants

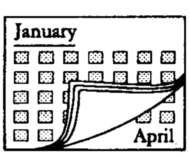
November 1993

TSP Open Season:
November 15 - January 31

Loan Information. You can now use the TSP Inquiry Line to check the status of your loan request: Enter your Social Security and PIN numbers from your statement and then select 3 from the main menu to access the "loan request" module. (The amount available to borrow and the loan interest rate are still located in the "account balance" module.)

If you apply for a loan in the maximum amount available to you and you have investments in the C or F Fund, losses in these funds may cause your pending loan request to exceed the amount available at the time of disbursement. Your loan would be rejected and you would have to reapply.

If you are leaving Federal service, you must prepay your loan to avoid having it reported as a taxable distribution. An outstanding loan may delay a withdrawal.



Plan ahead for withdrawals. The Plan Summary (p. 24) tells you to allow up to 2 months after all forms have been submitted by you and your agency. However, because of the 1992 tax legislation, TSP withdrawals may take somewhat longer. Participants **must** be notified of current tax rules no less than 30 days and no more than 6 months before payment. Disbursements are made, at the earliest, in the second monthly cycle after the notice is sent — if all forms have been received. If your withdrawal is not completed within 6 months, the TSP must renotify you, which will cause additional delay.

We are taking steps to reduce the delays. In any event, don't make financial commitments until your account has been paid out.

Investing for the Long Term: The Benefits of Indexing

The C and F Funds are invested in index funds — large, well-diversified portfolios of securities designed to match the performance of the U.S. stock and bond markets. Indexing is known as "passive investment management," in which a diversified portfolio of securities is bought and held for the long term. In contrast, "active investment management" is a strategy in which securities are bought and sold by investment managers in anticipation of economic trends, or based on the expectation of good growth potential. Essentially, passive investment management follows the market, while active investment management tries to beat the market.

Indexing offers several advantages:

- **Index funds are an easy, low-cost way to invest in a broad and representative group of securities in the U.S. stock and bond markets.** Management fees are low because securities are held solely on the basis of their representation in the markets, requiring no costly research on individual companies or individual securities. And because index fund securities are bought and sold less frequently than those in actively managed funds, trading costs are low.
- **Index funds reduce risk to the investor.** Investors incur risk, and therefore the potential for losses, in both stock and bond market investments. But this risk is reduced in the highly diversified stock and bond portfolios that index funds provide. The securities held in index funds represent many different market sectors and many individual companies. This diversification lessens the effect that the poor performance of individual securities or industries will have on the overall performance of the funds.
- **Index funds, over the long term, generally have done better than most actively managed funds.** The philosophy behind indexing is that over the long term it is difficult to beat the average return of the market. Experience shows that, although actively managed funds may beat the market over one or several years, this performance is difficult to sustain, in part because of trading and other management costs. Over the long term (for example, ten or more years), the steady, market-tracking performance of index funds has generally been stronger than the performance of most actively managed funds.

How are the C and F Funds diversified?

The C Fund is invested in an index fund that tracks the Standard & Poor's (S&P) 500 stock index. This index includes common stocks of 500 companies that are traded in the U.S. stock markets, primarily on the New York Stock Exchange. Because you are investing in hundreds of stocks, you reduce the risk of incurring big losses if any of these stocks suffers a bad year.

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? Participants Ask

Q **Can I choose who will receive my TSP account when I die?**

A **Yes.** To do so, use Form TSP-3, Designation of Beneficiary. If you die without designating a beneficiary, the TSP will pay your account according to the following order of precedence:

- To your widow or widower
- If none, to your child or children and descendants of deceased children
- If none, to your parents or the surviving parent
- If none, to the executor or administrator of your estate
- If none, to your next of kin, as defined by the laws of the state in which you resided at the time of your death

You may want to specify a different order, such as designating a child (or trust fund or guardian for the child) to be the beneficiary, rather than a spouse. Or, you may want someone other than the above beneficiaries to receive all or part of your account. To ensure that your wishes are carried out, submit Form TSP-3 to your personnel office if you are in Federal service, or to the TSP Service Office if you have left Federal service.

If you do file Form TSP-3, remember to update beneficiary information if your family status changes (e.g., marriage, new baby, separation, divorce, death) by submitting a new Form TSP-3. Neglecting to do this may have unanticipated consequences. For example, if you filed Form TSP-3 naming your children as beneficiaries and you later have another child, that child would not share in your

(Continued)

Participants Ask *Continued*

TSP account unless you submitted another Form TSP-3 that included him or her. Or, if you were abandoned by your spouse but not legally divorced, your spouse would be entitled to your account unless you specified otherwise on a Form TSP-3.

The TSP may become one of your most important investments. Think about whether or not the order of precedence meets your needs.

Indexing *Continued from page 1*

The stocks in the S&P 500 index represent 84 separate industries grouped into four major sectors: industrials (72%), utilities (16%), financial (10%), and transportation (2%).

The weighting of stocks in the S&P 500 index is based on each stock's total market value (number of shares outstanding multiplied by the stock price), relative to the market value of the other stocks in the index. The following are the ten largest companies in the index as of August 31, 1993.

Rank	Company	Percent of Total Value of the S&P 500 Index
1	AT&T	2.6
2	General Electric	2.6
3	Exxon	2.5
4	Wal-Mart Stores	1.8
5	Coca Cola Co.	1.8
6	Royal Dutch Petroleum	1.7
7	Philip Morris	1.3
8	Merck & Co.	1.1
9	GTE Corp.	1.1
10	General Motors	1.0
	Cumulative Percent of S&P 500 Index	17.5

The F Fund is invested in an index fund that tracks the Lehman Brothers Aggregate (LBA) bond index. The LBA was designed to measure the performance of the major bond market sectors in the United States — U.S. Government (U.S. Treasury and Agency sectors), corporate, and mortgage-backed securities. On August 31, 1993 the LBA contained 6,077 notes and bonds. Because it is not feasible to invest in every security in the index, the F Fund holds a representative sample of U.S. Government (53%), corporate (19%), and mortgage-backed securities (28%) included in the index.

Almost half of the F Fund is invested in U.S. Treasury securities. In addition, about one-third of the mortgage-backed securities in the F Fund are backed by the U.S. Government. This means that "credit risk" — the risk that the issuer of the security will fail to pay interest or principal — is eliminated from well over half of the fund.

When considering your investments, remember that although diversified index funds reduce the risk of losses from the poor performance of one or a group of securities, they do not protect you from losses caused by declines in stock or bond values because of changes in general economic conditions.

For more information about the risks and advantages of the C and F Funds, read the *Summary of the Thrift Savings Plan for Federal Employees.* You can also ask your personnel office for *Thrift Savings Plan Investments: Options and Operations,* which explains the TSP investment funds and practices in more detail. See pages 3 – 4 of this Highlights for the performance history of the TSP funds.

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 & 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 - 1992 G Fund rates of return, after deducting administrative expenses of the Plan. Plan expenses reduced the 1992 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.

Year	G Fund	Related Securities
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%
1992	7.23%	7.32%
1983 - 1992 average annual rate of return		9.57%

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 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 - 1992 C Fund rates of return (after deducting expenses). TSP administrative expenses and C Fund investment management fees reduced the 1992 C Fund return by 0.14%, or $1.40 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*
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%
1992	7.70%	7.61%	7.68%
1983 - 1992 average annual rate of return		16.19%	16.16%

* *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 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 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 LBA bond index for the last ten years. The table also shows the 1988 - 1992 rates of return for the F Fund (after deducting expenses). TSP administrative expenses and F Fund investment management fees reduced the 1992 F Fund return by 0.15%, or $1.50 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*	LBA Bond Index**
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%
1992	7.20%	7.37%	7.40%
1987 - 1992 average annual rate of return		9.44%	9.50%
1983 - 1992 average annual rate of return			11.71%

* *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 Lehman Brothers.*

*** *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 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 1993 are presented below. These rates of return are used in crediting earnings to your account each month:

Month	G Fund	C Fund	F Fund
1992			
October	0.55%	0.42%	−1.30%
November	0.56%	3.39%	0.01%
December	0.58%	1.21%	1.54%
1993			
January	0.58%	0.86%	1.88%
February	0.49%	1.35%	1.73%
March	0.52%	2.09%	0.41%
April	0.51%	−2.39%	0.67%
May	0.51%	2.66%	0.10%
June	0.51%	0.32%	1.79%
July	0.49%	−0.38%	0.55%
August	0.49%	3.78%	1.72%
September	0.45%	−0.76%	0.26%
12 months	6.44%	13.11%	9.70%

TSP Accounts
as of 9/30/93

G Fund	$ 14.5 billion
C Fund	$ 3.8 billion
F Fund	$ 1.2 billion
Total accounts	$ 19.5 billion

TSP Tips

- If you need **verification of your TSP account** to receive a loan from another financial institution, have them write to the TSP Service Office, National Finance Center, P.O. Box 61500, New Orleans, LA 70161-1500.
- Keep your **address** up to date so your statements and notices don't go astray (see instructions at the top of your statement).
- Have your **PIN** number (from your statement) handy when you call the TSP Inquiry Line: (504) 255-8777.
- **TDD** for hearing-impaired participants is (504) 255-5113.