MAY 1995

Highlights for Thrift Savings Plan Participants

TSP Open Season:
May 15 – July 31

Interfund Transfers

Beginning with interfund transfer requests received after July 17, 1995, you can make an interfund transfer in any month you wish, without an annual limit. The most efficient way to request an interfund transfer is by using the ThriftLine, (504) 255-8777.

1995 IRS Limit: $9,240

The 1995 elective deferral limit remains the same as last year due to legislation that changed the way the limit is calculated. FERS employees making more than $92,400 a year may lose out on Agency Matching Contributions if this limit is reached before the end of the year. To avoid this, ask your personnel office for the TSP Fact Sheet, "Annual Limit on Elective Deferrals."

Check Your SCD

The Service Computation Date (SCD) at the top of your Participant Statement is used (when you leave Federal service) to determine whether you are entitled to the Agency Automatic (1%) Contributions in your TSP account. If you are a FERS participant and have recently changed payroll offices, check your SCD to make sure it is accurate.

TSP Video

This animated video makes it easy for you to understand the basics of the TSP. Ask your personnel office for a viewing. The video is also available in a captioned format for hearing-impaired employees.

1994 Returns in Perspective

Because of rising interest rates throughout last year, the G Fund outperformed both the C and F Funds. The steady increase in interest rates also caused the first negative F Fund return since the fund began in 1988. Here's how:

G Fund and F Fund performance. The 1994 returns in the G and F Funds (7.22% and –2.96% respectively) show how interest rates affect the bond market. The interest rate on the G Fund (short-term nonmarketable U.S. Treasury securities) is set once a month. The rate is based on the average of current market interest rates. Therefore, increases in interest rates are reflected in higher G Fund returns. *The G Fund return consists entirely of interest.* On the other hand, the F Fund (which holds bonds contained in the Lehman Brothers Aggregate bond index) has two primary components of return. *The F Fund return consists of interest on the bonds in the fund and price changes in the value of the bonds (capital gain or loss).*

When interest rates rise, as they did in 1994, the prices of bonds in the F Fund fall. This occurs because the coupon rate (the rate at which interest is paid) on new bonds is higher than the coupon rates on the older bonds in the F Fund. The prices of the older bonds with the lower coupon rates decline so that their yields to investors will equal the returns available on the new bonds. In 1994, interest rate increases caused the value of the bonds in the F Fund to drop approximately 10% (capital loss), while the bonds earned approximately 7% in interest income. As a result, the 1994 total return (capital loss + interest income) for the F Fund was –2.96%. In comparison, the G Fund had a total return of 7.22%.

When interest rates fall, as they did in 1993, the opposite happens: the prices of the bonds in the F Fund rise, and the F Fund generally outperforms the G Fund. For example, because interest rates dropped during 1993, the F Fund experienced a capital gain (bond price increase) of approximately 2% and interest income of almost 7.5%, for a 9.52% total return. Lower interest rates produced lower income for the G Fund and a total return of 6.14%. Although gains or losses in the value of bonds resulting from changing interest rates can make up a sizable portion of F Fund earnings in any one year, interest income on the bonds is likely to be the dominant component of earnings. Interest income reduces the effect of declining bond prices on the total return of the F Fund.

C Fund performance. The C Fund return was 1.33% in 1994. Like the F Fund, the C Fund (invested in the stocks in the Standard and Poor's (S&P) 500 index) has *two primary components of return: net price changes on the stocks held in the fund (capital gain or loss) and dividend income.* Dividends represent corporate earnings paid to investors. When companies in the C Fund pay dividends, the dividends are reinvested to buy more stock. Historically, the primary source of

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? Participants Ask

Q **How can I learn more about the TSP?**

A First, you should read the Plan Summary and view the TSP video. A new Plan Summary is being prepared now and will be distributed this summer. In addition, other TSP materials are available from your agency personnel office on these topics:

Fact Sheets/Notices:

- ☐ C, F, and G Fund Monthly Returns
- ☐ Annual Limit on Elective Deferrals
- ☐ Calculating Participant Earnings on TSP Investments
- ☐ The TSP and IRAs
- ☐ Important Tax Information About Payments from Your TSP Account
- ☐ Tax Treatment of TSP Payments Made Under Qualifying Orders
- ☐ Important Tax Information About TSP Death Benefit Payments
- ☐ Information About Your TSP Required Minimum Distribution
- ☐ Why TSP Contributions Are Capped at 10% for FERS Employees
- ☐ Why TSP Contributions Are Capped at 5% for CSRS Employees
- ☐ Using the ThriftLine
- ☐ Understanding Your Participant Statement (FERS leaflet)

Booklets:

- ☐ Summary of the Thrift Savings Plan for Federal Employees
- ☐ TSP Investments: Options and Operations
- ☐ TSP Loan Program
- ☐ Withdrawing Your TSP Account
- ☐ TSP Annuities
- ☐ Information About Court Orders

1994 Returns *Continued from page 1*

earnings in the S&P 500 index has been capital gain or loss, although dividend income is still a major component of earnings. The C Fund is invested in many companies in many different industries and, therefore, the effect of poor performance in a company or group of companies in one industry is reduced. However, losses occur as the S&P 500 index declines in response to changes in overall economic conditions. In 1994, S&P 500 stock prices dropped 1.5%, with dividend income of approximately 3%, resulting in the C Fund total return of 1.33%.

What should my response/strategy be? Faced with volatile stock and bond markets, participants often ask about the direction of interest rates and likely stock market trends over the coming months. Unfortunately, no one can predict the future. Because saving for retirement is a long-term process, *you should develop an investment strategy that will meet your long-term savings goals, rather than reacting to short-term market conditions.* Your investment decisions depend on your individual financial situation and your willingness to accept the possibility of losses in the C and F Funds.

Large market movements can occur rapidly, particularly in the stock market. If you wish to reduce the impact of declines in the stock and bond markets on your account and still benefit from the potential of higher returns associated with those markets, you may wish to *diversify* your investments among the TSP funds.

Investing in the C and F Funds through regular payroll deductions reduces the risk of making a large investment in stocks and bonds all at one time when prices may be relatively high. This strategy, known as *dollar cost averaging,* results in the purchase of more stock shares or bonds when prices are low and fewer stock shares or bonds when prices are high. Dollar cost averaging does not protect against losses when stock and bond markets are declining; however, the persistent investor who rides out losses and sticks to this strategy will avoid a common investor error — panicking during market losses and reducing investments when prices are low. The investor who tries to "time" the market, moving in and out of funds in an attempt to capture the highest returns, will lose the benefits of dollar cost averaging, and may get lower returns than the average returns on the three TSP funds. (Timing is also difficult with the TSP because interfund transfers are effective as of the end of the month, rather than on the date the transfer request is received.)

As your age and financial circumstances change, you may want to use interfund transfers to *adjust your investment mix.* When changing your investment mix, you should consider making a series of interfund transfers. Making a series of interfund transfers will help reduce the risk of moving a large portion of your account on one day when the stock or bond market might be at a relatively low point.

Before you withdraw your account balance, you also may wish to use interfund transfers during the period prior to your withdrawal to *shift funds gradually* from the C or F Fund to the G Fund to avoid withdrawing your entire C or F Fund balance at relatively low stock or bond market prices.

In summary, a smart approach to investing might include diversifying your investments, using dollar cost averaging, adjusting your investment mix as your circumstances change, and gradually shifting funds to lower-risk investments before withdrawal.

Thrift Savings Plan Investment Information

The Thrift Investment Board manages the G Fund assets. 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 eliminated by the Board's current policy of investing the G Fund in short-term rather than longer-term securities.

Table 1 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. It also shows the actual 1988 – 1994 G Fund rates of return, after deducting administrative expenses of the Plan. Plan expenses reduced the 1994 return by 0.10%, or $1.00 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.

Table 1

Year	G Fund*	Related Securities
1985		11.3%
1986		8.3%
1987		8.7%
1988	8.8%	9.2%
1989	8.8%	9.0%
1990	8.9%	9.0%
1991	8.1%	8.3%
1992	7.2%	7.3%
1993	6.1%	6.2%
1994	7.2%	7.3%
1988 – 1994 compound annual rate of return	7.9%	8.0%
1985 – 1994 compound annual rate of return		8.5%

* *The first G Fund investment occurred on April 1, 1987.*

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

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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.

Table 2 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. It also shows the 1988 –1994 C Fund rates of return (after deducting expenses). TSP administrative expenses and C Fund investment management fees reduced the 1994 C Fund return by 0.11%, or $1.10 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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Table 2

Year	C Fund*	Wells Fargo Equity Index Fund	S&P 500 Index**
1985		32.3%	32.0%
1986		18.5%	18.5%
1987		5.2%	5.2%
1988	11.8%	16.6%	16.8%
1989	31.0%	31.6%	31.5%
1990	–3.2%	–3.2%	–3.2%
1991	30.8%	30.4%	30.6%
1992	7.7%	7.6%	7.7%
1993	10.1%	10.1%	10.0%
1994	1.3%	1.3%	1.3%
1988 – 1994 compound annual rate of return	12.1%	12.8%	12.8%
1985 – 1994 compound annual rate of return		14.4%	14.4%

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

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.

Table 3 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. It also shows the 1988 –1994 rates of return for the F Fund (after deducting expenses). TSP administrative expenses and F Fund investment management fees reduced the 1994 F Fund return by 0.12%, or $1.20 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.

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

TSP Accounts as of 3/31/95

G Fund	$ 19.6 billion
C Fund	$ 7.2 billion
F Fund	$ 1.7 billion
Total accounts	$ 28.5 billion
Participants	2.1 million

Table 3

Year	F Fund*	Wells Fargo U.S. Debt Index Fund**	LBA Bond Index***
1985			22.1%
1986			15.3%
1987		2.5%	2.8%
1988	3.6%	7.9%	7.9%
1989	13.9%	14.5%	14.5%
1990	8.0%	8.9%	9.0%
1991	15.7%	16.0%	16.0%
1992	7.2%	7.4%	7.4%
1993	9.5%	9.7%	9.8%
1994	−3.0%	−2.9%	−2.9%
1988 – 1994 compound annual rate of return	7.7%	8.6%	8.6%
1987 – 1994 compound annual rate of return		7.8%	7.9%
1985 – 1994 compound annual rate of return			10.0%

* *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.*

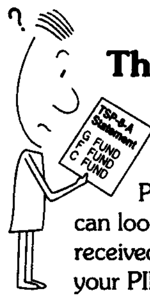
** *Established in July 1986. Prior to January 1990, the Wells Fargo U.S. Debt Index Fund tracked the Salomon Brothers Broad Investment Grade index.*

*** *Calculated by Lehman Brothers.*

Table 4

Month	G Fund	C Fund	F Fund
1994			
April	0.6%	1.3%	−0.8%
May	0.6%	1.7%	−0.0%
June	0.6%	−2.5%	−0.2%
July	0.6%	3.3%	2.0%
August	0.6%	4.1%	0.1%
September	0.6%	−2.4%	−1.5%
October	0.6%	2.2%	−0.1%
November	0.6%	−3.6%	−0.2%
December	0.7%	1.5%	0.7%
1995			
January	0.7%	2.6%	2.0%
February	0.6%	3.9%	2.4%
March	0.6%	2.9%	0.6%
12 months	7.7%	15.5%	4.9%

ThriftLine News



Something's Missing — Your Personal Identification Number (PIN) for the ThriftLine no longer appears on your Participant Statement. If you cannot remember your PIN, you can look on your November 1994 statement. (New participants received their PINs in their new account letters.) If you have lost your PIN, you can request a new one by calling the ThriftLine at (504) 255-8777. Safeguard your PIN.

Since the ThriftLine was initiated in November 1994, it has processed over half of all interfund transfer requests.