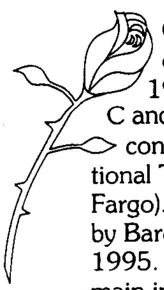
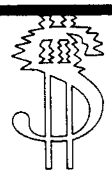
Highlights for Thrift Savings Plan Participants

MAY 1996

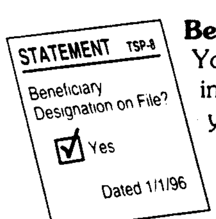
TSP Open Season:
May 15 – July 31



Only the name has changed — In December 1995, the TSP awarded the C and F Fund management contracts to Wells Fargo Institutional Trust Company, N.A. (Wells Fargo). Wells Fargo was bought by Barclays PLC on December 31, 1995. The C and F Funds will remain invested in the same funds — now known as the Barclays Equity Index Fund and the Barclays U.S. Debt Index Fund, respectively.



1996 IRS Limit: $9,500 — If you are a FERS employee who makes more than $95,000 a year, you could reach the IRS limit on your TSP contributions before the end of the year and lose Agency Matching Contributions. Ask your personnel office for the TSP Fact Sheet, "Annual Limit on Elective Deferrals." The Fact Sheet will help you calculate the maximum amount you can contribute each pay period and still receive full Agency Matching Contributions.



Beneficiary Designation — Your Participant Statement indicates whether the TSP has your beneficiary designation on file and, if so, the date you signed it. If this information is incorrect, call the TSP Service Office at (504) 255-6000. To designate a beneficiary or to update information, submit Form TSP-3 directly to the Service Office. (Reminder: Even if the Service Office has your Form TSP-3 on file, its correctness and completeness are your responsibility.)

The Cost of TSP Loans

Although your TSP account is intended for your retirement, you can borrow a portion of it for certain specific purposes: buying a primary residence, paying education and medical expenses, and meeting financial hardship. You can borrow only from your own contributions and earnings. (You cannot borrow from agency funds you have received or their earnings.) You pay interest at the G Fund rate that is in effect when you apply for the loan. Loan payments (including interest) are deducted from each paycheck and deposited in your TSP account.

Sound too good to be true? Maybe it is. Before you take a loan from your TSP account, consider your options and the cost of borrowing from your TSP account. The following examples illustrate some important effects of borrowing which may not be obvious at first glance.

The Cost of Residential TSP Loans. Let's assume that you need to borrow $10,000 to purchase a home, and that a mortgage loan is available from your bank at 7% for 15 years. The monthly loan payments (principal and interest) would be approximately $90, and, over the life of the loan, you would pay about $6,200 in total interest. But mortgage interest is a tax deductible expense on your Federal income tax return, and so, if you are in the 28% Federal tax bracket, the effective interest cost of your loan would be reduced to about $4,500.

The $10,000 that remains in your TSP account — because you borrowed from the bank — would continue earning for the next 15 years. Let's assume that $6,000 of your account is invested in the G Fund and $4,000 in the C Fund. Using the G Fund and C Fund compound annual rates of return of 8% and 15%, respectively (the approximate historical rate for the past 10 years*), your TSP account would earn approximately $41,600 over 15 years. Therefore, your "net earnings" at the end of 15 years would be $37,100 ($41,600 – $4,500) if you borrow from the bank.

Now, let's suppose you borrow the $10,000 from your TSP account instead of the bank. If you do, you will not have to pay the $90 per month to the bank, but you will also lose much of the $41,600 in earnings you otherwise would have received on your TSP account. Also, the "interest" you pay yourself for a TSP loan is not tax deductible.

To illustrate: If the TSP loan rate is 6%, you will have to repay approximately $84 per month to your account for 15 years. (As in the above example, assume that 60% of your account balance is in the G Fund and 40% in the C Fund over the 15-year repayment period, so that your repayments go into the two funds in those proportions.) At the end of 15 years, you will have restored your TSP account balance to $10,000, but — using the same G and C Fund annual rates of return as above — you will have earnings of only about $27,500.

* These rates of return and all others assumed in this discussion are not intended to be projections of future rates; they are used for illustration only.

(Continued on page 2)

? Participants Ask

Q **I read that the Treasury "tapped" the G Fund during the budget and debt limit talks. What happened?**

A *First, some background information:* Contributions to the G Fund are invested with the U.S. Treasury and are, in effect, a loan to the Government which it uses to finance authorized expenditures. In return, the Treasury issues securities to the G Fund, at an interest rate that is set monthly. The interest earned on the Treasury securities is calculated and reinvested in the G Fund each business day.

During the budget/debt limit deliberations: The amount of Treasury securities held by the G Fund is considered part of the national debt, which is subject to a limit, or ceiling. When the debt ceiling was reached last November, the Treasury, as permitted by law, moved part of the G Fund balance out of Treasury securities into a noninterest-bearing account. This made room under the debt ceiling for the Treasury to sell more securities for cash to finance the Government's authorized expenditures. During that time, however, the G Fund money still remained on account with the Treasury, and the interest the G Fund would have earned — had it been invested in Treasury securities — was still credited in full to participants' G Fund accounts.

This was possible because of the retroactive "make-whole" provision in the Federal law governing the TSP, 5 U.S.C. § 8438(g), which ensures that the G Fund loses no interest in this situation. (Congress enacted the "make-whole" provision in 1987, shortly after it created the TSP, to protect G Fund earnings at

Cost of TSP Loans *Continued from page 1*

To offset the diminished TSP earnings somewhat, the $6 savings between the monthly bank loan payment and the monthly TSP payment ($90 – $84), if invested at, say, 5% over 15 years, would be worth approximately $1,500 to you — about $1,100 in savings and about $400 in interest (after Federal taxes of 28%). Therefore, your "net earnings" at the end of 15 years would be $29,000 ($27,500 + $1,500) if you borrow from your TSP account.

The difference between your earnings when you borrow from the bank and your earnings when you borrow from your TSP account is $8,100 ($37,100 – $29,000), which is the cost of borrowing from your TSP account. In this example, you are better off borrowing from the bank and letting your TSP account continue to grow.

The Cost of Other TSP Loans. If you need to borrow money for another purpose — for example, to pay medical bills — it may be less expensive to borrow from your TSP account than to borrow from commercial sources.

For example, assume your best alternative to borrowing from your TSP account is a 4-year personal bank loan of $10,000 with a 15% interest rate, which would require monthly payments of approximately $278. You would pay approximately $3,300 in interest over 4 years on this loan, which is not tax deductible. Your TSP earnings on the $10,000 that remain in your account ($6,000 invested in the G Fund and $4,000 in the C Fund over the term of the loan at 8% and 15% compound annual returns, respectively) would be about $5,200 over the 4 years, for "net earnings" of $1,900 ($5,200 – $3,300).

However, if you borrow $10,000 at 6% from your TSP account for a medical loan to be paid back over 4 years, your monthly payments will be about $235. In 4 years, your account will be restored to $10,000, and you will have earnings of approximately $3,900. In addition, if you invest the $43 difference between the monthly bank loan payment and the monthly TSP payment ($278 – $235) at 5%, over 4 years you would have approximately $2,200 in savings and interest (after Federal tax of 28%). Your "net earnings" after 4 years would therefore be about $6,100 ($3,900 + $2,200).

The difference between your earnings when you borrow from your TSP account and your earnings when you borrow from a bank is $4,200 ($6,100 – $1,900). In this example, borrowing from your TSP account would make more sense, because it costs you less overall.

Summary. Think twice before you take a TSP loan just because "you are only borrowing from yourself." Test the market. The best place to borrow will depend on your TSP investment mix and the expected rates of return on the TSP funds compared to the loan rates available to you. Finally, don't borrow from your TSP account if you don't really need to borrow at all (for example, because you have access to other assets with lower rates of return). Such TSP borrowing is by no means "free"; it will rob you of earnings and decrease your retirement income.

Participants Ask *Continued*

times when the debt limit is reached.) Because of the "make-whole" provision, G Fund accounts were exactly the same from day to day as if the G Fund had been continuously invested in Treasury securities, and there were never any shortfalls of any kind in participants' G Fund accounts.

Thrift Savings Plan Investment Information

The Thrift Investment Board manages the G Fund assets. The Board has contracts with BZW Barclays Global Investors, N.A., (Barclays) to manage the C and F Fund assets. The terms of the contracts are for three years beginning January 1, 1996, with options to extend for an additional two years. (Wells Fargo Institutional Trust Company, which has managed the C and F Funds since their inception in 1988, was acquired by Barclays on December 31, 1995.)

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 10 years for G Fund related securities, based on the monthly rates (compounded) for such securities. It also shows the actual 1988 – 1995 G Fund rates of return, after deducting administrative expenses of the Plan. Plan expenses reduced the 1995 return by 0.09%, or $.90 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
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%
1995	7.0%	7.1%
1988 – 1995 compound annual rate of return	7.8%	7.9%
1986 – 1995 compound annual rate of return		8.0%

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

Table 2

Year	C Fund*	Barclays Equity Index Fund	S&P 500 Index**
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%
1995	37.4%	37.6%	37.5%
1988 – 1995 compound annual rate of return	15.0%	15.6%	15.7%
1986 – 1995 compound annual rate of return		14.8%	14.9%

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

Common Stock Index Investment Fund

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 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.

Table 2 presents the calendar-year total rates of return for the Barclays Equity Index Fund and the S&P 500 stock index for the last 10 years. It also shows the 1988 – 1995 C Fund rates of return (after deducting expenses). TSP administrative expenses and C Fund investment management fees reduced the 1995 C Fund return by 0.10%, or $1.00 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.

(Continued on page 4)

Investment Information

Continued from page 3

Fixed Income Index Investment Fund

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 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 Barclays U.S. Debt Index Fund and the LBA bond index for the last 10 years. It also shows the 1988 – 1995 rates of return for the F Fund (after deducting expenses). TSP administrative expenses and F Fund investment management fees reduced the 1995 F Fund return by 0.11%, or $1.10 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.

Table 3

Year	F Fund*	Barclays U.S. Debt Index Fund**	LBA Bond Index***
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%
1995	18.3%	18.5%	18.5%
1988 – 1995 compound annual rate of return	9.0%	9.8%	9.8%
1986 – 1995 compound annual rate of return			9.6%

* *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 (now Barclays) 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
1995			
April	0.6%	2.9%	1.4%
May	0.6%	4.0%	3.8%
June	0.5%	2.3%	0.7%
July	0.5%	3.3%	–0.2%
August	0.6%	0.3%	1.2%
September	0.5%	4.2%	1.0%
October	0.5%	–0.4%	1.3%
November	0.5%	4.4%	1.5%
December	0.5%	1.9%	1.4%
1996			
January	0.5%	3.4%	0.7%
February	0.5%	0.9%	–1.7%
March	0.5%	1.0%	–0.7%
12 months	6.6%	32.0%	10.6%

TSP Accounts

as of 3/31/96

G Fund	$ 21.9 billion
C Fund	$ 13.1 billion
F Fund	$ 2.3 billion
Total accounts	$ 37.3 billion
Participants	2.2 million

Review Your Participant Statement — You should check your statement carefully to ensure that your personal information is correct and that TSP contributions were accurately reported. FERS employees should also check to see that their agency automatic and matching contributions are reflected on their statements. If you have questions about the information on your statement, contact your agency personnel or payroll office promptly.

ThriftLine (504) 255-8777 — You can call this automated telephone service 24 hours a day, 7 days a week, to hear the most recent rates of return in the G, C, and F Funds and your account balances. You can also use the ThriftLine to request an interfund transfer or to get information on the status of your loan or withdrawal. Have your Personal Identification Number (PIN) and your Social Security number ready when you call. If you have lost your PIN, you can use the ThriftLine to have a new one mailed to you.