

STATEMENT OF GREGORY T. LONG
EXECUTIVE DIRECTOR
FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
BEFORE THE
HOUSE SUBCOMMITTEE ON THE FEDERAL WORKFORCE, POSTAL SERVICE,
AND
THE DISTRICT OF COLUMBIA

July 10, 2008

Chairman Davis and Members of the Subcommittee, my name is Greg Long and I am the Executive Director of the Federal Retirement Thrift Investment Board. The five members of the Board and I serve as the fiduciaries of the Thrift Savings Plan for Federal employees.

The TSP is the largest defined contribution retirement plan in the world. Individual accounts are maintained for more than 3.9 million Federal employees, members of the uniformed services, and retirees. As of June 30, the TSP totaled approximately \$226 billion in retirement savings.

Your letter of invitation explained that the purpose of this hearing is to examine the passive investment strategy used in the TSP and explore ways to increase minority participation in the management of the TSP. I will address both matters in my statement.

The TSP was created by Congress in the Federal Employees' Retirement System Act of 1986 following three years of study and hearings by the House and Senate committees of jurisdiction. The record of these proceedings shows that the committees received input from pension experts, academics, employee representatives, financial service industry representatives, and the Reagan Administration. Significant assistance was also provided by the Congressional Research Service and the General Accounting Office.

Various investment approaches were considered and, ultimately, the House and Senate decided on a passive investment policy for the TSP. Passive management in the TSP is achieved through the use of index funds. All of the stocks in an index are purchased; there is no “active” attempt to outperform the index through specific stock selection. The following passage from the Joint Explanatory Statement of the Committee of Conference explains how the conferees themselves described the crucial nature of this decision:

Most importantly, the three funds authorized in the legislation are passively managed funds, not subject to political manipulation. A great deal of concern was raised about the possibility of political manipulation of large pools of thrift plan money. This legislation was designed to preclude that possibility.

Concerns over the specter of political involvement in the thrift plan management seem to focus on two distinct issues. One, the Board, composed of Presidential appointees, could be susceptible to pressure from an Administration. Two, the Congress might be tempted to use the large pool of thrift money for political purposes. Neither case would be likely to occur given present legal and constitutional restraints.

The Board members and employees are subject to strict fiduciary rules. They must invest the money and manage the funds solely for the benefit of the participants. A breach of these responsibilities would make the fiduciaries civilly and criminally liable. H.R. REP NO. 99 – 606, at 136 (1986) (Conf. Rep.).

The Conference Report goes on to specifically describe how the passive approach is designed to insulate the TSP from political pressure while allowing Plan participants to benefit from the long term growth available in the broad markets.

Since the initial policy was established by the Congress in 1986, the Board on its own initiative has conducted two major investment policy reviews. Between 1993 and

1995, the Board reaffirmed the passive strategy while asking the Congress to authorize additional passively-managed index funds for investment.

Again in 2006, with the assistance of its investment consultant Ennis Knupp + Associates, the Board undertook a second major review of TSP investment policy. This review again reaffirmed the passive management approach which the Board continues to endorse and pursue.

Surveys of Federal employees by the U.S. Office of Personnel Management have shown that the TSP is very highly regarded. Our own surveys support this finding. Investment legend John Bogle, founder of Vanguard Mutual Funds, has characterized the TSP as “the best single savings vehicle in America today.” The Board members and I are privileged to offer this valuable benefit to the men and woman who serve our nation, and we endorse continuation of this passive investment philosophy which has served the Plan and its participants so well for twenty one years.

With regard to the second matter noted in your letter of invitation, this is the second time in my sixteen months as Executive Director that I have been asked by a member of Congress to publicly discuss why the Board does not specifically seek asset management services from minority (or woman) owned vendors. Last September Congresswoman Maxine Waters invited me to address the same topic at the Congressional Black Caucus Foundation’s Financial Services Issue Forum.

I accepted that invitation even though I knew that many vendors in attendance would not be pleased with my message. Nevertheless, I think it is important to speak openly to all members of the financial services industry so there is a clear understanding of just what the Board is seeking when it goes to the marketplace for investment services.

First, for the reasons discussed above, the TSP offers only passive investments to participants. Consequently, we do not conduct any business with, or seek services from, the very large segment of the financial services industry offering various active asset management products or services. Our goal with regard to investments is to replicate the returns of the broad indexes as our statute requires.

Second, our law requires the Board to develop investment policies which provide for “*low administrative costs*”. I and all of my predecessors determined that the best way to achieve low administrative costs for the participants is to conduct a full and open competition for the asset management services we require. This process of open competition has resulted in the hallmark of the Plan’s success which is its very low administrative costs. In my view this remains the gold standard for ensuring participants that this Plan is being administered exclusively for their benefit as our guiding statute requires.

Some Federal agencies may seek to further social or political goals (such as encouraging small, minority or woman owned business development) when they spend taxpayer dollars to accomplish their missions. The Board, however, does not spend taxpayer dollars. Our administrative expenses are paid first from forfeitures by those who leave service before vesting, and then from the investment earnings of all TSP participants. These expenses reduce the retirement savings of our participants, and thus must be expended solely for their benefit. This highly focused approach governs all of our policy and business decisions, including the procurement of services.

Additionally, by statutory design the financial services we seek are the plainest of plain vanilla. In writing and amending our statute, the Congress clearly intended that TSP funds are invested efficiently, keeping market impact to an absolute minimum.

I hope the testimony I am presenting today helps the Subcommittee in its review of the passive investment and procurement policies of the Thrift Savings Plan for Federal employees. I would be pleased to respond to any questions.