

**STATEMENT OF CHAIRMAN DANNY K. DAVIS
AT THE SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL
SERVICE, AND THE DISTRICT OF COLUMBIA
HEARINGS ON**

**INVESTING IN THE FUTURE: MINORITY OPPORTUNITIES AND
THE THRIFT SAVINGS PLAN**

July 10, 2008

Today's hearing is intended to examine ways to increase minority participation in the management of Thrift Savings Plan Funds and to explore why the federal government uses passive management strategies versus active management of TSP funds.

The TSP is the federal government's retirement plan, similar to private employer's 401K plans. The TSP has over \$224 billion dollars under its management. The plan is unique because unlike other federal government programs, it does not receive any appropriations of taxpayer money; nor does it have a public purpose and all decisions must be made for the

exclusive benefit of TSP participants, who invest in the program. This gives participants the confidence that the money invested will only be used in their interest and they will not be charged astronomical fees. By law TSP stock and bond funds must be passively-managed index funds. Passive management funds seek to replicate the broad markets, not beat them, often creating savings for participants because of their traditionally lower fees.

The debate over minorities participating in the TSP Funds has been a concern for quite some time, yet the issue came to the forefront during last years Congressional Black Caucus legislative conference. The executive director of the Federal Retirement Thrift Investment Board revealed that there are minority firms with talent in long-term financial management. However, most of these firms gravitate toward the active fund management business, which is not an

investment strategy of the TSP. Research by the TSP indicates that there may be only one minority-owned firm that deals with passive-management of index funds.

Today's hearing will examine ways to increase minority access, and the possibility of increased profitability to members of the plan because of diversification to active management strategies. Several ideas will be discussed today to try to achieve this goal including: 1) minority firms using passive fund strategies so they can participate in the management the TSP Funds; 2) minority firms applying to participate in Barclays minority program; and 3) TSP beginning to operate using active funds to increase profitability and minority access.

The debate about active verse passive management of TSP is not a new concept. Today we will discuss some of the viable options and explain why the TSP operates as

it currently does and why some firms feel that it is time for the TSP to leap into the future and change its management style of TSP funds.

I thank the witnesses in attendance and look forward to your testimony.